

# **Increasing the Rural Livelihood Benefits from Natural Plant Product Ventures in Southern Africa: Case Studies and Business Models**



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<sup>1</sup> Cover page photo: Women selling baobab seed to EcoProducts at a central collection point.

## **Abstract**

Natural plant processing enterprises provide an opportunity for rural development in southern Africa. Rural people can assist such enterprises in raw material procurement, processing activities and also as business partners. These enterprises serve as a link between the rural poor and affluent consumers looking for new and exciting natural products. Natural product enterprises function in a complex business environment and often fail due to various reasons such as poor management and marketing.

This project investigated seven natural product enterprises as case studies between 2007 and 2008. The information gathered during the study was used to understand the complexities of the natural product business environment better. From the study it was possible to develop a southern African natural products enterprise model, as well as advise on the management of such enterprises.

Some of the aspects highlighted in this study are: The very important role of a strong entrepreneur in making business work; the importance of flexible supply and demand relationships between natural product enterprises and communities; the role of product certification in accessing niche product markets and the need for training related to management and marketing of such enterprises.

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# 1 Introduction

Natural plant products (NPPs) are an integral and crucial component of rural livelihoods in southern Africa. Most of these wild, indigenous and naturally occurring products<sup>2</sup> are collected from woodlands. The economic potential of these products to generate income, and thereby alleviate poverty and improve rural livelihoods is well-documented. Many rural communities and households are highly dependent on NPPs due mainly to a lack of suitable agricultural land, declining farm income, more acute food security needs and limited employment opportunities. This dependency is increasing in the face of widespread HIV/AIDS infection and the devastating effect that this has on rural livelihoods. The collection and trading of these products provides a 'safety net' in times of hardship, is sometimes the only source of income for landless rural poor, and has a beneficial role in mitigating HIV/AIDS livelihood impacts; while the natural products themselves provide important nutrients and cash income.

Surprisingly little research or even acknowledgement by government agencies is given to this 'hidden' or 'invisible' rural sector. Concerns have been raised about lack of policy implementation and government apathy toward pro-poor indigenous product entrepreneurship, and existing efforts are typically piecemeal where NGO or donor projects target certain communities and support different activities, which often fail after the money runs out. To date, even with donor-funded investment, the degree of success has been mixed, with a wide range of returns per unit investment.

There is a huge pool of value presently not captured, as shown in a 2003 CPWild survey ([www.cpwild.co.za](http://www.cpwild.co.za)) (sponsored by the Ford Foundation) which found approximately 300 NPP commercialising enterprises in Namibia, Botswana, Zimbabwe, Malawi, Mozambique and South Africa. The study also found that many of the enterprises have a strong community development focus. Community members play different roles and partnerships are created in the supply of raw materials and in the processing of the products. In summary, some of the benefits of these enterprises and partnerships for communities are:

- Enhances food security and livelihoods of communities.
- Creates new employment opportunities.
- Diversifies rural revenue generating opportunities.
- Improves entrepreneurial skills in communities.
- Improves management and conservation of natural resources.
- Benefits women, children, and HIV/AIDS affected households.
- Builds social capital and networks.

NPP processing ventures could present excellent opportunities for rural livelihood improvement through various community and business partnerships. These ventures and partnerships could provide direct financial benefits in rural areas (through employment and income generation) and contribute towards the empowerment of rural people and the building of social networks and associated social capital. Limited information is however available to guide new entrepreneurs and community partners in setting up NPP ventures that would benefit all stakeholders. As a result, such ventures could fail or not fully achieve the potential benefits to community partners. Typical barriers to success, such as a lack of inclusion and equitability of women and the poorest households in the process, transaction costs in market access, and lack of transportation corridors, must be addressed. Equally critical are questions such as how external cash infusions or credit could best be applied, and what public/donor expenditures and methods will assist rural communities to improve natural resource processing and expand market opportunities.

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<sup>2</sup> In southern Africa, natural products (also referred to as wild, indigenous or non-timber forest products) consist of all the products from woodlands, other than commercial timber and fuelwood, and include medicinal plants, indigenous fruits, edible plants, edible insects, honey, bees wax, exudates and mushrooms.

The basic principle of this project was to study existing NPP processing ventures in South Africa and Mozambique and to learn from their successes and failures. This information can be used by:

- New entrepreneurs to manage their enterprises more sustainably and to ensure equitable distribution of benefits to community partners.
- Communities to negotiate better arrangements with business partners.
- NGOs to enhance their development efforts.
- Donors to direct efficient and effective use of funding.
- Governments to create an enabling environment for indigenous products enterprises.

The project aimed to improve the success and sustainability of NPP processing ventures and associated community partnerships in southern Africa. This could have a direct positive impact on the livelihoods of rural people who are involved in such enterprises.

The following section discusses the natural products enterprise environment in which these case study enterprises function.

## **2 Natural products and enterprises in southern Africa**

### ***2.1 Background***

Despite the large number of natural plant products available in southern Africa, commercial use of these is still limited. Natural products are mostly traded informally on the southern African domestic markets. Movements of products are restricted to the supply chains that link the raw material supply areas to fresh produce markets in cities and towns. Very few products are traded between countries in the region. The conditions related to these domestic markets can be summarised as follow:

- Markets are largely informal.
- Women and children dominate production and retail; men dominate transport and wholesale.
- Fruit production is characterised by a mass fruiting season that lasts for a couple of months only.
- Local markets are characterised by limited value adding (largely fresh/unprocessed fruits).
- Low ability to compete with imported products due to poor or variable product quality, no certification and sanitary requirements.
- Poor storage, labelling and packaging.
- Limited economies of scale.
- Common property systems result in over-harvesting and extinction of sources.
- Profit alone does not measure contribution of indigenous forest trees to household incomes.
- Indigenous forest trees shifted from being a snack to main food in years of famine, e.g. in Zimbabwe.
- Buyers are varied in their needs and therefore mass marketing is not feasible.

## **2.2 Current commercialisation efforts**

Relatively little success has been achieved with the commercialisation of natural products in southern Africa. Only a few natural products are being sold on the international market. Amarula Cream, made from the fruits of *Sclerocarya birrea* (Marula) by the Distell Corporation in South Africa is probably the best-known example.

There is, however, a growing interest in natural products among European and American consumers who are becoming increasingly health and environmentally conscious. A small but growing number of natural products are traded as Fair Trade products on these developed world markets. The success of these products can be directly linked to active marketing efforts by trade networks such as PhytoTrade Africa (<http://www.phytotradeafrica.com/>).

Most of these processing enterprises have a very strong community development focus. Communities are involved in the supply of raw materials and in the primary processing of the products. Some of the benefits that these partnerships hold for communities include:

- Enhanced food security and livelihoods of communities.
- Diversified rural revenue generating opportunities.
- Decentralisation of business opportunities to villagers. Creation of rural employment in processing and marketing. Participatory bottom-up and grass-root training. Rural communities are empowered to optimise and manage the natural resources.
- Creation of new agricultural commodities (high value tree crops). Potential to benefit women and children, and HIV/AIDS affected households. The enterprise approach enhances entrepreneurial skills in communities.

Private enterprises benefit from the relationship with communities through improved access to raw materials and labour. Community benefit can also be used in the marketing of products where labels, such as Fair Trade, assure consumers that communities benefit from the sale of the products.

## **2.3 Problems associated with the commercialisation of natural products**

Despite the growing global market, there is a fundamental gap between rural African producers and the market. Some of the main reasons why the natural products industry has not taken off in southern Africa are:

- Lack of a champion
  - The development sector has a strong traditional bias towards agriculture.
  - Community Based Natural Resource movement emerged from the conservation sector, and has always favoured conservation of biodiversity over sustainable natural products development.
- Inertia, resistance to change
  - Aid and donor organisations supported Non-Timber Forest Product networks in other parts of the world (e.g. South-East Asia), but not in southern Africa.
- Product development
  - Lack of co-ordinated investment in developing natural products suitable for production by small-scale southern African producers, in volumes needed to sustain export markets, and with a high enough value to offset the transaction costs of a geographically dispersed production system.



- Economies of scale
  - Buyers need continued and assured supply of reliable and consistent quality but there are perceptions that the levels of production in any one country are too small to guarantee this.
  - Buyers do not want to deal with many small-scale and scattered rural producers.
  - Market access and marketing.
  - Markets for African natural products need to be cultivated and developed, but rural producers cannot do this alone (De Kock, 2004).

Preliminary studies have shown that there is limited scope for entering export markets with finished products and that southern African entrepreneurs would have a better chance if they supplied ingredients/raw materials (preferably with as much local value added as possible) to American and European processors. In dealing with the international market, entrepreneurs will have to consider the following aspects:

- Need to be thoroughly business-like and professional in the way they do business.
- Will have to compete with the rest of the world on merit, i.e. without special favours.
- Need to be realistic about what can be achieved, and the time-frame for achievement.
- Realise it is futile to develop hundreds of small products and then try to find a market for each one. It is much better to focus on a few products produced in large quantities, and develop sustainable market opportunities for them.
- Need to collaborate on a regional level.
- Co-ordinated strategies for product development, production and market penetration (learn from experience of other sectors, e.g. tourism).
- Develop partnerships with companies in export markets that have something to offer in terms of product development, guaranteed market opportunities, etc.
- Need to ensure that regional regulators and trade promotion bodies are supporting them.
- Need to engage the private sector on a large scale (De Kock, 2004).

## ***2.4 Trends in the Natural Products Industry***

Globally, consumers are becoming more health and environmentally conscious. This has sparked a huge demand for natural products. It is projected that:

- Natural component of personal care market will continue to grow.
- Herbal remedies market will decline, because of tighter regulation. However, the demand for appetite suppressants and aphrodisiacs will continue.
- An increase in the demand for proven plant-derived pharmaceutical ingredients (especially for HIV, cancer and other high-profile ailments).
- Continued growth in niche markets for plant-derived substitutes for synthetic (or animal-derived) materials, e.g. cosmetics (lanolin), stationery (glues, paper), etc.
- Steady growth in nutraceuticals and natural food products, with strong emphasis on organic certification.
- Possible opening up of Far Eastern (and possibly Latin American) markets to African producers.
- Snack market will continue to grow in Europe (De Kock, 2004).

### 3 Case studies

Despite the above-mentioned lack of commercialisation efforts and problems that natural products enterprises experience in southern Africa, there are some very successful natural products enterprises in the region that can be used as case studies. The seven selected cases represent a range of natural plant products and also a variety of business structures. The products cover food, oils, medicinal plants, ecotourism, timber processing and weaving crafts. The enterprises represent a spectrum from single person start-up enterprises to well established medium scale enterprises and co-operatives. Table 1 summarises the enterprises and reasons for selection, and Figures 1 and 2 indicate their geographic location.

**Table 1:** Reasons for selecting case studies

| <b>Enterprise</b>   | <b>Country</b> | <b>Reason for selection</b>   |
|---|----------------|---|
| EcoProducts<br><a href="http://www.ecoproducts.co.za">www.ecoproducts.co.za</a>   | South Africa   | Individual entrepreneur who established an extensive community based network of raw material suppliers. A young business with unique, organically certified products. |
| Ilala Weavers<br><a href="http://www.ilala.co.za">www.ilala.co.za</a>   | South Africa   | Family business with an extensive network of community producers. Well established 30 year old export business.   |
| Fordoun Spa<br><a href="http://www.fordoun.com">www.fordoun.com</a>   | South Africa   | Unique combination of a well developed commercial business with community linkages. Use of indigenous knowledge as investment capital.                                |
| Heiveld Co-operative<br><a href="http://www.heiveld.co.za">www.heiveld.co.za</a>  | South Africa   | Young co-operative established to improve the conditions of local producers. Focus on organic and fair trade certification.   |
| TCT Industrias Florestais LDA<br><a href="http://www.dalmann.com">www.dalmann.com</a>   | Mozambique     | Well established family owned forestry, sawmilling and furniture manufacturing business based on the sustainable management of a timber concession area.              |
| Mel de Mozambique   | Mozambique     | Producers co-operative established by Government and NGOs.  |
| Community lodges–<br>Helvetas/LUPA <ul style="list-style-type: none"> <li>• Tinti Gala Community Lodge</li> <li>• Covane Community Lodge</li> <li>• Madjadjane Community Lodge</li> </ul> | Mozambique     | Community based enterprises established by NGOs with the objective to conserve the environment.   |

The seven cases are discussed in more detail below.



Figure 1: Geographic location of South African case studies<sup>3</sup>



Figure 2: Geographic location of the Mozambican case studies<sup>3</sup>

<sup>3</sup> <https://www.cia.gov/library/publications/the-world-factbook/>

### **3.1 EcoProducts**

EcoProducts is a Closed Corporation (CC) specialising in the production of organic certified baobab (*Adansonia digitata*) oil and fruit pulp. It is located in the town of Louis Trichardt, in the Limpopo Province of South Africa (one of the poorest provinces of South Africa). Sarah Venter, who founded the business in 2005, owns the CC.

Ms. Venter has a very good relationship with rural communities in the Venda area of the Limpopo Province and has a strong background in natural resource management and the running of community based projects. These technical skills enabled her to establish an enterprise that is largely based on the collection of raw material by rural communities.

Her business idea originated from an enquiry about the possibilities of manufacturing baobab oil. She started the business with her own savings and money borrowed from her family. To date she has not utilised outside capital.

EcoProducts buys baobab seeds and pods from rural people who collect the fruits when they fall from wild growing baobab trees. At the end of the baobab fruiting season (which lasts from June to August) a contract manufacturer processes the seeds into baobab oil. EcoProducts employs four people part-time, with Ms. Venter managing the full value chain from organising seed collectors to the contract manufacturing of the oil and the selling of the oil. A critical element of the business is annual resources assessments which Ms. Venter undertakes to ensure the sustainability of the supply. She estimates that EcoProducts is currently harvesting pods from 30% of the available resource.

EcoProducts assisted in the formation of 15 “baobab collectors associations”, each with a constitution, a code of conduct and a membership agreement. These agreements stipulate that EcoProducts will buy seed only from the collector groups. Approximately 300 collectors, of which 99% are women, belong to these groups. During the collection season the generated income supplements social grant income, on which the majority of the collectors depend. The volumes vary from one or two kg to nearly 500 kg per collector. Thus seasonal income varies from R50 to R1,000 per person, with an average of R200 p/p per season.

One of the biggest challenges for the business is the marketing and selling of outputs. EcoProducts sells about 80% of its oil supply (during 2006 it was 1,200 litre of oil) to bulk buyers who use the oil in the cosmetics industry. EcoProducts’ oil is also used in up-market bath oils, soap, body lotions and face moisturizers. The remaining oil is bottled into smaller containers of 30 to 100 ml, labeled and sold at pharmacies, health shops, game farms and curio outlets. Baobab oil functions as a good quality natural skin moisturiser. It is a natural product that is not abundantly available on the world market. What adds to the uniqueness of EcoProducts oil is that it is sustainably collected by community groups and is certified as “organic”. The community groups are paid a higher than normal price for the seed, which would also make it possible to certify the venture as “Fairly Traded”.

Most of the oil is sold in bulk, at a very low profit margin. Ms. Venter is trying to build a retail network for smaller volume deliveries at higher profit margins. This includes display stands at pharmacies as well as agents who market these products to pharmacies and health shops. Ms. Venter recognises that she developed the business based on her strong social development skills, but that she lacks skills in marketing.

EcoProducts is a good example of a fairly young South African business based on linkages between a single entrepreneur and community members. Through innovative linkages and structures, these rural communities contribute to the development of a high value cosmetic

product and enable the enterprise to deliver a unique and innovative product to the world market.

### **3.2 Heiveld Rooibos Tea Co-operative**

For many years small-scale subsistence farmers in the Nieuwoudtville area of the Northern Cape Province sold their limited quantities of rooibos (*Aspalathus linearis*) tea to large commercial co-operatives at very low prices. Some of the farmers even had to pay in on their deliveries to these co-operatives as processing was more expensive than what their product was worth. Through the intervention of a local development NGO, they established their own co-operative with the objective of creating better opportunities for its members. As a result, Heiveld Co-operative Ltd was established in 2002.

Start-up funding was contributed by members (fees) and limited finance for the establishment of infrastructure was obtained from a variety of donors. The local NGO also helped with the attraction of donor funding and gave advice on management aspects.

Currently there are 52 co-operative members and a democratically elected board governs activities. Farmers cultivate rooibos tea on their own land or on rented or communal land. They also cut rooibos tea that grows wild. Heiveld Co-operative employs a marketing manager who is responsible for the marketing of the tea and who ensures that the chain-of-custody (CoC) documentation, associated with the various certification standards is accurate and up-to-date. The tea is certified to be organic by ECOCERT and also carries the Fair Trade stamp.

Rooibos is a niche commodity product with very little differentiation. Heiveld differentiate their product on the basis of Organic and Fair Trade certification and the “Heiveld story” (the story of how a group of small scale, resource poor farmers organised themselves in a co-operative). The slow and careful processing of the tea by hand gives the Heiveld tea a sought after dark-red colour. Another unique aspect is the wild harvested tea that Heiveld offers, although these volumes only make up about 10% of the annual production.

Clients are mostly international buyers (95%) who package the tea under their own private labels. They may use the Organic and Fair Trade certification claims on the products, provided that all the CoC requirements of the certification bodies are complied with. They may also use the “Heiveld story” in their promotions. Heiveld also sells their tea directly to South African consumers through the Internet as well as smaller retail outlets. Heiveld is furthermore part of a Fair Trade suppliers’ network, where retailers can find supply partners.

The Board of the Co-op determines prices of final product tea. They consider costs and competitor prices in their decision. Prices are based on input costs, which are accurately recorded. The Board also decides on the price that members of the Co-op will receive for deliveries. Heiveld is a relatively small producer of rooibos tea and is thus largely a “price taker”. The price the Co-op is able to obtain from its customers determines what the Co-op can pay its members for their tea.

External constraints include a lack of market access and market share. There is currently an over-production of rooibos tea in South Africa, since new large-scale commercial growers started producing rooibos tea, exacerbated by good rains in 2006 which increased average yields. The over-supply decreased prices which will also affect Heiveld’s suppliers.

Heiveld is an example of a co-operative where producers at the base of the pyramid organised themselves into a collective unit from where they can negotiate for better prices for their products. They rely strongly on organic and fair trade certification to differentiate themselves from most of the other producers and to negotiate better prices.

### **3.3 Fordoun Spa**

Fordoun Leisure is a Hotel, Spa and Restaurant located near Nottingham Road in the KwaZulu-Natal Midlands that has been in operation for the past three years. It offers boutique hotel accommodation, conference facilities and a range of spa treatments, including a range of alternative forms of energy healing / treatment. The inclusion of genuine African traditional healing methods, products and services sets this enterprise apart from most, if not all, other spas in South Africa. This unique approach towards spa treatment is based on a partnership between the owner of Fordoun, Jon Bates, and a local traditional healer Tr.Dr Elliott Ndlovu.

The partnership extends beyond the spa, including the development and trading of a jointly owned signature range of commercial “traditional African healing products”. These products are used and traded at the spa, but are also sold externally through a company called Emerald Green (Pty) Ltd. This company, which has until very recently been owned in equal shares by the two partners, was established to develop and trade traditional African healing products. The owners share a common philosophy in the belief that African traditional healing and medicinal plants have an important role to play in South Africa and that this could be promoted through the spa. Recently, 10% of the shareholding of this company has been released to a pharmaceutical engineer, in order to boost the technical skills of the enterprise.

This process also helped Tr.Dr Ndlovu to mainstream traditional African healing products, which has been his passion for many years. Part of this passion was to create products that are appealing to people to use, thereby increasing people’s choice of using these products as opposed to those based on Western medicines. Within the partnership arrangement Tr.Dr Ndlovu is a director at Fordoun and is also paid a retainer by Fordoun to be available at least 50% of the time for consultations with spa clients. He also receives commission on Emerald Green products that he or any of the other therapists at Fordoun prescribe to the clients. Profits of Emerald Green are being used to pay back the substantial loan account of Mr. Bates, from which the R&D for Tr.Dr Ndlovu’s products was funded.

Fordoun attracts predominantly high-end earners in the domestic market as well as international tourists. Many clients specifically visit the spa to consult with Tr.Dr Ndlovu, and 80% of his clients are not regular users of African traditional medicines.

The indigenous plants used for the signature product range are produced mainly on Fordoun Farm. Plant extracts are made from Tr.Dr Ndlovu’s own plants and products are then contract-manufactured by a Johannesburg based cosmetics manufacturer.

The spa services at Fordoun are marketed through the Fordoun website and other tourist-based promotional outlets. The Emerald Green products are promoted at trade shows, through active networking and other marketing channels.

Fordoun Leisure and Emerald Green products are an example of how local people can use their intellectual knowledge as a source of capital to invest in commercial business ventures. These arrangements enable the ventures to offer unique and innovative products and services in a commercial, highly developed service industry such as the spa industry.

### **3.4 Ilala Weavers**

Ilala Weavers is a family-owned Closed Corporation situated in the town of Hluhluwe in north-eastern KwaZulu-Natal. The business trades a range of African fiber products, beaded products and other locally produced handicrafts. It is best known for trading hand-woven Zulu baskets made from Ilala Palm (*Hyphaene coriacea*) fibers, produced traditionally by women in the Zululand and Maputaland regions of northern KZN. The business was established in 1978, as a result of Carol Sutton's interest in traditional Zulu crafts.

Ilala Weavers commissions and buys handmade products from a range of communities in the region, either wholesaling these products or retailing them through its own shop at Hluhluwe. Ilala Weavers is currently the largest wholesaler of hand-woven crafts in South Africa. It provides income-generation opportunities for more than 2,000 people living in this predominantly rural region that has very few other employment opportunities. In supplying traditional Zulu handicrafts to overseas markets, Ilala Weavers has furthermore played an important role in profiling South African products and cultural artifacts.

Despite the fact that Ilala Weavers buys from many rural weavers, its ability to maintain outstanding product quality exceeds that of most other basket or woven product traders in South Africa. In addition, its supply chain is large and well-established enough to enable it to supply large volumes in a short space of time when others cannot. It also carries large quantities of stock (often up to R1 million worth), which ensures supply continuity despite a fluctuating supply of products from crafters.

At present, Ilala Weavers sells about 60% retail and the rest wholesale to about 150 outlets in the country. Of the wholesale trade, about 15% was exported in 2000.

The export component of the business declined substantially from 15% in 2000 to about 6% in 2007 due to the stronger rand and its effect on US buyers. In contrast, the local market for natural and traditional home décor products has increased significantly.

Sustainability of raw material supply has always been an issue of concern to Ilala Weavers. They work very closely with the local conservation authorities to ensure sustainable harvesting of the raw material and to encourage local palm leaf harvesters to protect the resource from over-harvesting. After all, deterioration in the quality of the raw material due to over-harvesting will impact substantially on the quality of their products.

Products are marketed through a website, trade shows, a catalogue and flyers as well as sales agents and a retail shop. The company actively focuses on product development, trying to increase its market share through new products.

Ilala Weavers have provided a significant source of income to rural households in the Maputaland region for more than 30 years. In many instances, this income was earned by women with little or no education, who are remotely located and would have little or no other means to generate an income. Effectively, Ilala Weavers acts as a link between rural handicraft producers and buyers (either retailers or consumers). This role has been critically important to create opportunities for rural producers who otherwise would not have had the capacity to access these markets.

### **3.5 TCT Industrias Florestais LDA**

TCT Industrias Florestais (Dalmann Furniture) is a nationally registered Mozambican company based in Beira. TCT was established in 1990 to specialise in the production of quality hand-crafted furniture produced by local craftsmen. TCT comprises of a concession area and sawmill in the district of Cheringoma, Province of Sofala, a furniture factory in Beira and a retail outlet in Maputo. The managing director of the business is Graeme White. He and his father manage the full value chain from organising the harvesting operations to selling of the products.

The forest concession covers an area of 24,821.50 ha and has an annual allowable cut of 3,000 m<sup>3</sup> per annum. The concession area has been divided into 27 blocks, and a 27 year harvest cycle has been planned, based on the assumption that each block will provide 3,000 m<sup>3</sup> per year. The vegetation type is described as Zambebian undifferentiated woodland. The principle species harvested are Panga-panga (*Millettia stuhlmannii*), Chanfuta (*Azelia quanzensis*) and Mutondo (*Cordyla africana*).

TCT Dalmann produces sawn timber, parquet flooring, furniture and wooden products (curios, beehives, and furniture). The company policy is not to sell round logs. Clients are mostly national buyers (95%). According to White the domestic market prices for furniture are higher than the international prices. What makes the TCT products unique is that they are sustainably harvested and certified by the Forest Stewardship Council (FSC). The company does not, however, sell certified timber but uses certification merely as a way to ensure sustainable management.

TCT employs 183 permanent workers: 108 in the forest and sawmill, 70 at the Beira factory and five in the Maputo furniture store. Employees are paid a fair wage and receive other benefits. Inducements promote productivity, e.g. the company offers double time for overtime worked and a weekly bonus system for key personnel and machine operators. The local community is largely dependent on TCT for their investments in fishing, road maintenance and school improvements.

The company's strategy is to fully engage in a long term plan that will provide a monetary return to fuel the economic unit, promote responsible management and enrich the natural resources of the concession area. It fully realises that its commercial endeavour is intricately linked to the socio-economic well-being of its employees and the neighbouring local communities. It also recognises the fact that all stakeholders (Government, NGO's, private commercial enterprises and the local population) are responsible for rural social development and the alleviation of poverty.

Based on the above, TCT Dalmann has evolved a rural development policy whereby all stakeholders are involved. However, most emphasis is placed on the relationship between the recipient communities in the concession area and the company. The company strictly adheres to the principle of willing participation, i.e. participation by recipient communities is a primary pre-requisite for development assistance. For example, the company was instrumental in opening 24 km roads to the rural Zangue and Pungue communities, who previously have been totally isolated in terms of road access.



### **3.6 Mel de Mozambique**

Mel de Mozambique (MdM) is an association of ten members (six women and four men) specializing in the collection, processing and marketing of honey in Manica and Sofala Provinces. It operates from Sussundega District in Manica Province and was registered as a community project under the laws of Mozambique in 1989.

MdM started as a government project promoting honey production in the country. When the government project ended, interested participants were asked to find ways of sustaining the project. Three members decided to form an association and then co-opted seven other members in 2006. Membership contributions range from 10,000 MtN to 20,000 MtN in cash and in kind per member. Ford Foundation also provided initial funding of 100,000 USD as well as technical support and training.

All members of the association act as the governing body, but the day to day running is co-ordinated by one of the members, Clara Davide, on a full-time basis. Other members provide part-time services to the project. The shareholdings of the ten members of the association are in proportion to their contributions to the association either in cash or in kind. Contributions by way of equipment or expertise are valued in monetary terms and profits are distributed proportionately.

MdM purchases honey from the community where traditional beekeeping is mostly practised. This is then processed at the association's factory, before being packaged and delivered to the customers. Supply of honey depends on weather conditions: In dry seasons the supply is low and gradually increases at the onset of the spring and summer seasons. Although the enterprise tries to buy all available honey, consignments containing too much water or impurities are rejected. The honey is graded so that an appropriate price is paid to the supplier.

Knowledgeable people were identified in the communities and the association trained them to collect, store and process honey. They supervise other collectors in the field to ensure that the community collectors deliver a quality product. To ensure quality control, the beekeepers and other collectors are given clean containers in which to put the raw honey.

The major customer is Shoprite, who currently orders 1,500 500g-bottles per month. SOMEL, which distributes honey in the south of Mozambique, is also a relatively big customer, while the rest is sold to small retailers on an *ad hoc* basis. Buying and selling prices are determined by board members.

MdM has a 30 ton truck with which they deliver their product to major clients. However, the enterprise does not provide any merchandising or marketing support to the customers. The honey is of a better quality than that sold on roadside, but no unique features have been developed to differentiate it from other honey in the formal market. Therefore, MdM has not yet developed a sustainable competitive advantage in the marketplace.

Although there is currently no supply problem with the raw material, sustainability is affected by heavy reliance on one key customer and a distributor who mainly relies on that customer in southern Mozambique. Profitability is also affected by the fact that the product lacks market differentiation and customers thus tend to dictate the price they are willing to pay.

The community benefits from the income they earn by supplying the honey to the enterprise. Generally, each beekeeper supplies 10 to 200 kg of honey at an average price of 30 MTn per kg. In comparison with other community activities, e.g. cropping or animal husbandry, honey collection is said to be more profitable. Although MdM has provided a viable form of income generation for the community members, they are not solely dependent on it, but also involved in other activities, mainly related to agriculture and commerce.

The current premises are in a residential area, next to a busy dusty road, that impacts negatively on the quality of the final product. The long term vision of MdM is to acquire bigger premises in a better environment for honey processing. The association also intends to acquire more modern equipment to enhance the productivity and quality of their product. Their other vision is to avoid reliance on one key customer (Shoprite) by entering the export market. Members plan to undertake management training programs to capacitate themselves with the skills to run the enterprise more efficiently and effectively.

### **3.7 Community Lodges**

Three enterprises, namely Community Lodge (TGCL), Covane Community Lodge (CCL) and Madjadjane Community Lodge (MCL), all in the south of Mozambique, were selected for this study. TGCL and CCL were created with support of a NGO called Helvetas<sup>4</sup>. This NGO was initially responsible for the community lodge design, development and management. MCL was established with support from the Ford Foundation and IUCN Mozambique. All lodges were established under Community Based Tourism projects, benefiting from funds from international organisations and were created without appropriate market analysis and viability studies before establishment.

MCL is one of the first community lodges to be developed and started in 2001. TGCL was inaugurated in 2004 and TGCL in 2006. MCL is owned by the Madjadjane community of approximately 200 people, while TGCL is owned by the Gala community of 500 inhabitants and CCL is owned by the Canhane community of 1,000 inhabitants.

The main goal related to the establishment of these lodges was to establish suitable conditions for the community to implement Community Based Natural Resources Management (CBNRM) and to drive local development and conservation.

TGCL and CCL are managed by a Social Management Community (SMC) and the lodge manager. The SMC has ten members who are elected by the community (the General Assembly) to act on its behalf. This committee has a legal structure that permits it to have a bank account, deal with partners, and contract with other parties. The General Assembly decides at public meetings how benefits should be used within the community, and the SMC audits lodge activities with the assistance of Helvetas. Currently Helvetas concentrates its activities in the northern part of the country and has created a new Mozambican NGO called LUPA, to assist with the management of the lodges. TGCL and CCL have Articles of Association, which stipulate that all the staff must preferably be local. All net benefits are distributed between the lodge and the community, with 50% going to social investments in the community, 20% to a reserve fund for the lodge (to finance depreciated equipment), 20% towards investments in the lodge and maintenance; and a 10% honorarium for members of the SMC.

The main clients for the three community lodges are local tourists. Since 2004, MCL has received 850 tourists, of which 98.5% were Mozambicans. TGCL and CCL have received more than 1,500 tourists, of which 60% were Mozambicans. TGCL and CCL provide tourism services, such as community visits, traditional dance performances, game viewing (using visitor's vehicles), hiking with interpretation of plants, and boat tours. MCL provides a variety of activities for its visitors, i.e. community tours and picnics; cultural events such as dancing, music and community theatre; local food; bird, butterfly and medicinal plant walks in the sand forest.

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<sup>4</sup> **Helvetas** Swiss Association for International Co-operation.

The three lodges are not financially sustainable. TGCL and CCL are not yet managed on a sustainable basis as revenue is less than running costs. The number of tourists has declined over time. MCL is not financially sustainable, does not have enough customers and is badly managed. There is deep concern within the lodge organisation, the community and Helvetas about lack of managerial and marketing capacity of TGCL and CCL. There is a lack of commercial tourism knowledge in general and the lodge staff believe that they need training in tourism, marketing and managerial skills.

MCL has not established benefit sharing agreements with the community, and is not receiving tourists regularly. The location of the lodge is not appropriate and the community is not happy with the *status quo*. In the case of TGCL and CCL the initial marketing of the lodges was successful. They produced magazines, attended tourism meetings and used travel agencies for marketing purposes. The community in CCL has realized that they are not able to manage the lodge and they are planning to lease it to a private operator. The community members depend on revenue from the lodges to improve the social infrastructure and services and want them to operate properly.

TGCL employs a temporary manager and four others (two women and three men). All of the staff members live in the Gala community or the surrounding area. Other families and members of the community receive benefits from the lodge income and activities (mainly supplying agricultural products). Staff members of CCL live in either Canhane or Massingir (four were born in the area, and four settled there during the war period). In addition, there are at least 25 people indirectly employed by the project, i.e. two women who cook traditional food on request; two fishermen running boat tours; one tourism guide; 20 dancers for performances by request. There are also many informal suppliers of agriculture and farming products. The Canhane community is very interested to build local capacity to manage and work in the lodge. Thirty people are involved in MCL operations. All staff members are senior in age, and they experience difficulties with hospitality, marketing and financial managerial skills. More women are involved in the project than men (18 women and seven men).

## **4 Discussion of case studies**

In this section we discuss the similarities and differences between the above-mentioned case studies, highlight relevant points, and compliment this with our own ideas and literature. The objective is to learn from these case studies and to develop a generic African natural products enterprise business model. We will discuss the following aspects:

- Background to the case studies
- Starting a business and entrepreneurs
- Business operations
- Marketing and sales
- Business environment
- Training and skills

### **4.1 Background**

#### **4.1.1 General business and product description**

The four South African case studies (EcoProducts, Heiveld, Fordourn, and Ilala Weavers) produce unique, high quality natural products aimed at the top end consumer market. They all depend on community members/groups/farmers to gather raw material and process products. The enterprises provide a means of moving natural products from the rural producers/raw material gatherers along the value chain to high end consumers.

EcoProducts, Fourdoun and Ilala were established not so much from a need to earn an income, but more from the interest of an entrepreneur to establish something new and different that would benefit other people. Heiveld was established to improve the socio-economic conditions of a group of farmers, thus addressing a clearly identifiable need for change/improvement.

The Mozambican enterprises (TCT, MEL de Mozambique and Community Lodges) differ considerably in their product scope and include commercial timber products such as furniture, services related to ecotourism and quality honey. Only TCT was established for commercial gain while the lodges were established as development initiatives to promote Community Based Natural Resource Management and MEL de Mozambique was established to promote honey production.

While TCT and the South African enterprises were established by individual entrepreneurs, the Community Lodges and Mel de Mozambique were established by NGOs and the Mozambican Government respectively.

#### **4.1.2 Number of years in business**

EcoProducts, Fordoun, Heiveld, Community Lodges and Mel de Mozambique are all younger than ten years. Ilala Weavers is the oldest enterprise with nearly 30 years of business experience; while TCT is already 18 years old. These age differences are apparent in the sustainability and management of the enterprises. The younger businesses are typically struggling with aspects such as selling their products (low sales volumes), quality control, securing markets and general management. The older businesses such as TCT and Ilala Weavers focus more on developing new products and new markets while maintaining dependable supplies. For them quality control and general management is less of a problem.

Typically during the introductory stages of a new product or enterprise, sales volumes are low and the enterprises need to focus on reaching the “innovator” type customers who are those willing to try new products. At this stage quality and performance of products are very important. As a business matures, the focus is more on product range and dependable supply becomes more important (Pycraft *et al.*, 2002)

In South Africa, 80% of small or medium enterprises die or go out of business within the first year of operation. Of the remaining enterprises, 40 to 60% will disappear in the second year of operation. It was found that new small and medium enterprises in South Africa are least likely of all developing countries (with the exception of Mexico) to mature to the new firm stage (3-42 months). The reasons for the high failure rate include: lack of management skills, finance, mentoring, coaching, marketing and business development. It has also been noted that many small or medium enterprises fail because they have to operate in an economic environment built for big business (Von Broembsen *et al.*, 2005).

The main barrier to entry for small or medium enterprises is access to financial resources. Many entrepreneurs identify their lack of business management skills as an obstacle to business growth (MoneyBiz, 2009). A survey undertaken by the Umsobomvu Youth Fund found that no young entrepreneurs (< 30 years) from the rural areas had tertiary education and that most of the entrepreneurs had no management qualifications or management experience (Umsobomvu Youth Fund, 2002).

AsgiSA identified several challenges which constrain the growth of small and medium enterprises in South Africa, of which the following are the most important:

- Shortage of suitably skilled labour (e.g. skilled professionals, managers and artisans).

- Barriers to entry, limits to competition and limited new investment opportunities – the economy remains relatively concentrated in upstream production sectors (e.g. iron and steel) which influences the possibilities of downstream production.
- Regulatory environment and the burden on small and medium businesses – regulation (e.g. tax, labour law, planning) unnecessarily hampers the development of businesses.
- Deficiencies in state organisation, capacity and leadership constrain the country's growth potential (AsgiSA, 2009).

## **4.2 Starting a business and entrepreneurs**

In the South African case studies the business ideas were closely related to what the entrepreneurs had been involved in at the time of establishing the business and were not radically different from their operations at that time. It was thus easy for the entrepreneurs to apply their technical skills in developing new enterprises. In the Mozambican case studies this application of technical skills in a new venture is less apparent and there is a stronger focus on outside intervention by donors or government in the initial establishment process of an enterprise. This section will focus on different start-up models, legal business entities and start-up funding.

### **4.2.1 Entrepreneurial start-ups**

In all four South African cases, as well as TCT, an individual entrepreneur/leader initiated the business. People such as Ms. Venter from EcoProducts, Mr. Bates and Tr.Dr Ndlovu from Fordoun, Ms. Sutton from Ilala Weavers and Mr. White from TCT are typically energetic, enthusiastic and entrepreneurial, and they know how to operate at the grassroots level. They are the type of people who make things happen and inspire loyalty from the people working with them (Chambers, 1983). Such entrepreneurs start their own businesses for various reasons. These are to make money, to work for themselves and control their lives, to create something new, to prove they can do it, not feeling rewarded in their previous jobs, being retrenched, and a variety of miscellaneous reasons. Some do it for the sheer excitement of starting something new and they often become serial entrepreneurs who establish and operate multiple companies during the course of their careers (e.g. Richard Branson) (Hellriegel *et al.*, 2001).

Entrepreneurs play an important role in South Africa in terms of economic growth through competitiveness, employment generation and income redistribution. The growth and development of the micro-enterprise and small business sector is acknowledged by most interest groups and policymakers as being of critical importance to South Africa's ability to address the serious problems of unemployment. Small or medium enterprises contribute to the South African Gross Domestic Product (GDP) and equates to jobs, distribution of wealth, more companies and healthy economic growth. Small businesses are also the fastest growing economic sector in South Africa and the largest job provider world wide (MoneyBiz, 2009).

Most of the big companies of today have started in the same way that these case study businesses were established. Somebody saw an opportunity to create something new and had the courage to establish a business venture. Some of the great entrepreneurs of the 20th century, including Richard Branson (Virgin Group of Companies), Bill Hewlett and Dave Packard (Hewlett Packard) and Michael Dell (Dell Computers), started their companies in a back room or garage.

It is important to recognise that these business owners all have certain entrepreneurial characteristics such as a need for achievement, a desire for independence, self-confidence and self-sacrifice. They also have strong technical skills and are able to fulfill various

management functions effectively. Successful entrepreneurs share some of the following personality traits:

- Identify an opportunity and take action: The one factor separating a success from failure is action that leads to results.
  - Self confident and multi-skilled. The people who can make the product, also market it and count the money, but above all they have the confidence that enable them to move comfortably through uncharted waters.
  - Perseverance: "Tough times never last, but tough people do". Entrepreneurs are confident in facing of difficulties and discouraging circumstances.
  - Innovative skills: Entrepreneurs are able to carve out a new niche in the market place, often invisible to others.
  - Results-orientated: To be successful requires the drive that only comes from setting goals and targets and experiencing pleasure from achieving them.
  - Takes measured risks: Successful entrepreneurs often exhibit an incremental approach to risk taking, at each stage exposing themselves to only a limited, measured amount of personal risk and moving from one stage to another as each decision is implemented They are not afraid of making mistakes.
  - Total commitment. Hard work, energy and single-mindedness: A determination and the undying willingness to make a business venture a success. Entrepreneurs generally believe in being hands on.
  - Ability to accept change: Change occurs frequently when people own their own businesses. Entrepreneurs thrive on changes and their businesses grow.
  - A sense of urgency: Entrepreneurs thrive on activity, and inactivity makes them impatient, tense and uneasy.
  - Realist: Entrepreneurs accept things as they are and deal with them accordingly. They identify problems and begin working on their solutions faster than other people.
  - Emotional stability: Entrepreneurs possess the ability to identify relationships quickly and are more concerned with people's accomplishments than with their feelings. They generally avoid becoming personally involved and will not hesitate to sever relationships that could hinder the progress of their business.
  - Ability to network and communicate: Networking is the cornerstone of an effective business. Entrepreneurs have the ability to communicate effectively with potential clients and can motivate and influence their employees.
- (MoneyBiz, 2009; Di-Mashi, 2009; Businesstown.com, 2009; Smallfishbigmoney, 2009.)

However, it is not only personal characteristics that make these entrepreneurs successful. Ownership is another important aspect. Hart (2005) points to the fact that large corporations can never mimic the creative and innovative behavior of small enterprises due to the lack of ownership among those making key decisions. The owner of a small enterprise has the right to residual returns on what it generates and, if these returns are unexpectedly high, the owner gets the windfall. Not being a business owner, and thus lacking the right to residual returns, dampens the motivation to invest creatively and to take risks.

#### **4.2.2 Institutional start-ups**

The Community Lodges were set up by NGOs but owned by the community and managed by community members. Mel de Mozambique was established by government and supported by grant funding (Ford) while it is currently managed by an association. In these case studies the lack of business "spark" brought about by a motivated entrepreneur was apparent.

This is often the case in NGO or government driven projects where a project or enterprise is established on behalf of a community group but without full support and participation by the group. While the NGO or government agency is actively involved and the community group

receives benefits, the project functions fairly well. However, once the outside agent hands control over to the group and leaves, the problems appear that reduce the enterprise's efficiency, ultimately leading to failure.

This shows how important it is to make community groups realise that they have the power to solve their own problems. The development of self reliance and less dependency on outside forces should be the primary goal in setting up community enterprises (Burkey, 1993).

The ultimate test for participatory development is whether or not the people become self-reliant in the sense that they are able to maintain and advance their socio-economic development without outside assistance. This means that at some stage they have to be left to themselves to get on with it. If participatory groups are left on their own before having had time to consolidate their work and build links to similar groups, they will often not be able to sustain what has so far been achieved. As a rule of thumb groups should be left alone as soon as they show capacity to manage their own collective funds and have established workable credit relationships with formal credit institutions and contacts with external sources of technical assistance (Burkey, 1993).

This is not to say that all community based enterprises or projects will fail when the external driver moves away. They can be successful when community members with entrepreneurial skills take over from the external agent. For example, the Amaso Masotsheni Bead Project in KwaZulu-Natal is a successful business because of a rare combination of community commitment and ownership, passion, vision and faith and the commitment of an experienced driver who is a member of the community, a communicator and representative of enterprise and business thinking (Assig and Hadingham, 2009).

Based on case studies, the Masakhane Campaign (established by Nelson Mandela) has identified the following features of communities who work:

- Building bridges – communities need to connect themselves to external resources and enable these resources when necessary.
- Partnerships – communities must realise they need support in some areas and that they have to form formal partnerships (more formal than building bridges).
- Business plan – communities have to formulate a clear and articulate business plan which includes the objective, method for achieving objective, and cost.
- Record of work – communities have to assign responsibilities and constantly monitor the progress of the project.
- Expertise – communities have to recognise they need to draw on expertise to achieve their goals.
- Use of limited resources – communities should not wait for funding, but start with what capital is available.
- Training – communities often lack the capacity to achieve their objectives and it is vital that they improve their ability and skills.
- Financial control – communities need strict financial control with simple, transparent, and regularly updated financial records.
- A leading light – successful community projects require a special person who is the driving force behind the development. These people have to be supported when there are challenges.
- Stable team – communities have to elect a stable management team with good leadership skills. A rapid turnover of staff must be avoided.
- Community support – projects need the support of the whole community through labor, funds, or attending meetings.
- Overcoming lethargy – communities should be more interested in getting things done than discussing what needs to be done (Palmer Development Group, 2009).

### **4.2.3 Business entity**

EcoProducts and Ilala Weavers are both Closed Corporations within the South African legal framework. Heiveld is an established Co-operative while Fourdoun is a registered limited liability company. TCT is a registered private company (LDA) while the Community Lodges and Mel de Mozambique are registered community development projects under Mozambican law.

Considering these different business types, the question is which will be best for natural products enterprises in South Africa and Mozambique. There are a range of options available and the one selected should be based on: the number of people involved and the ownership scenario required (i.e. all equal owners or not, the desire to have shareholders etc.); the likely scale of trade and profits generated (i.e. the higher profits the more able the business will be to cover auditing and reporting requirements of companies).

One of the fundamental problems associated with natural products marketing is the lack of “critical mass” with regard to any of the products as a result of the small volumes produced. A popular option is for a number of smaller producers to pool their resources in such a way that the end result of the group effort will be more beneficial to the individual members than if they had addressed their needs individually. To fill this need the co-operative is a well suited and frequently used option (Keyworth, 2000).

Co-operatives are an ideal vehicle for emerging business people to establish themselves in a competitive market. Due to the democratic nature of representation, in simple terms one member one vote, it is difficult for a co-operative to be dominated by a minority of members. This can also be a drawback in that it can slow down decision-making, which can be a major disadvantage in competitive markets (Keyworth, 2000).

Co-operatives are, however, not the best vehicles to promote good business practice in all members – and unless all members have a high level of commitment, the free-rider syndrome can creep in and destroy the business. Generally, it seems to be the smaller co-operatives that last the longest. By setting up the co-operative in such a way as to ensure that profit sharing and payment for work done is set according to contributions made to the business (in terms of work or profits generated), seems to help (this is referred to as a New Generation Co-op).

Sole proprietors and voluntary associations work only where the business ownership structure can remain simple and profit sharing is not likely to be a contested issue. These entities do not protect the individuals from the business’s liability and so are only appropriate where the levels of financial risk and other forms of liability associated with the business operations are low.

The best business options in Mozambique are closely held limited liability company (Sociedades por Quotas de Responsabilidade Limitada (LDA)), and joint ventures between local communities and the private sector. The first option is the best for natural products enterprises if the company owners are really committed with local community development. For the second option to be successful the number of people involved, and the ownership scenario have to be taken into consideration carefully.

Appendix A provides a summary of the different business options available in South Africa and Mozambique.

### **4.2.4 Start-up funding**

One of the biggest problems faced by small business owners is access to capital. Often business owners start their businesses with their own savings or with money borrowed from family and friends. In the case study examples most of the business owners provided their



own start-up funding, from own savings or from their family investments. Capital investment range between R100,000 for EcoProducts to R300,000 for Fordoun. Nhancale *et al.* (2009) confirm this observation amongst small scale forestry based enterprises in Mozambique, where most of these enterprises are started with personal capital or money borrowed from relatives and friends. In the case of Heiveld, Community Lodges and Mel de Mozambique donor funding was also procured and used for capital projects as well as cash and in kind contributions from members. Mel de Mozambique also received a grant of US\$100,000 from Ford Foundation.

Newly established small businesses find it difficult to borrow money. As they do not have a credit record and statistics, banks regard them as a high risk and are concerned that they will not be able to repay them. This is even more so in Mozambique than in South Africa. Mozambican capital markets are poorly developed and the commercial banking system highly constrained. There are, however, a number of development programs that support small scale business in Mozambique. These include:

- Projecto para o Desenvolvimento Empresarial (PoDe-CAT)
- Gabinete de Promoção para Pequena Indústria
- Enterprise Mozambique
- Co-operative League of the United States of America
- Technoserve
- Malonda Foundation
- Aid to Artisans
- Fundo de Fomento a Pequena Indústria
- Fundo de Fomento Agrário
- Conselho de Aconselhamento para Desenvolvimento Industrial
- Fundo Comunitário de Crédito
- Iniciativa de Terras Comunitárias (Nhancale *et al.*, 2009).

### **4.3 Business operations**

The case study enterprises are mostly based on fairly unique business operations that involve the use of naturally grown raw material, harvested by extensive networks of community contractors. Often the enterprises do not have their own processing facilities but rely on contract processors. Within the business operations it is then often the unique skill of the entrepreneur in forming linkages with or between communities, or processing interesting natural products that differentiate these enterprises from other small scale enterprises. This section will explore these community linkages, the use of naturally grown raw material and processing. It will also consider the management, profitability and long term vision of the case study enterprises.

#### **4.3.1 Community linkages**

Central to the successful operation of the case study enterprises are well-developed linkages between communities and the enterprise based on the exchange of cash or raw material. In the case of EcoProducts and Ilala Weavers, supply networks were established whereby between 300 and 2,000 rural producers can supply their goods directly to the enterprise. Heiveld and Mel de Mozambique are based on the collective production of tea and honey by their members.

Community based processors and collectors are paid for the delivery of raw material to central collection points. This allows for the enterprise to reduce fixed salary costs and allow a level of flexibility for the community processors in the amount of work they want to invest in the venture. The assets of the community partners in these enterprises are not always clearly circumscribed, nor can they be easily turned into capital or used as collateral for loans

or investments (De Soto, 2000). This increases the vulnerability of the arrangements between the enterprise and community partners since conventional legal arrangements would be impossible. Trust and social capital, rather than legal contracts, form the real basis for sustainable business within these enterprise arrangements (Hart, 2005). It is then also said that Africa is all about relationships and that business is based on relationships and not commercial contracts (Economist, 2008). A good example of such a trust relationship can be found between Mr Bates and Tr.Dr Ndlovu in the Fordoun case study, where their business concept is built on mutual trust and respect.

The potential exists for the community partner to be marginalised in this arrangement, for example if the enterprise should decide to cut back on procurement of raw material. It seems, however, that the community partners value the flexibility of the arrangement over being employed full time by the ventures. In the case of Mel de Mozambique, honey production is only a small component of the income generated by the honey collectors, who are also involved in agriculture and commerce. At EcoProducts and Mel de Mozambique, suppliers are not overly dependent on the enterprises for income and regard the relationship with them as generating bonus income during some months of the year.

There is a higher level of dependency from members at Heiveld, while at Fordoun the two business partners are dependent on each other for business skills and traditional knowledge required by the enterprise. At TCT, workers and communities are very dependent on this enterprise for an income. Communities related to the Community Lodges are less dependent and can get income from agriculture.

At EcoProducts, Heiveld, Mel de Mozambique and Ilala Weavers, it is up to the raw material producers to decide how much they want to produce and sell. There is a fair level of flexibility in these supply arrangements as producers are only paid for what they produce. At Fordoun and Heiveld these arrangements are more formal, while at TCT and the Community Lodges people have to work according to normal business hours.

The impact on community livelihoods from the community contracting arrangements can be divided between direct financial income and social organisation. In terms of direct financial gains, some of the Ilala weavers could for instance educate their children with the money they earned weaving baskets. In terms of social organisation at Heiveld, EcoProducts, Ilala Weavers, Mel de Mozambique and the Community Lodges, groups of people were organised together that helped them to address business and social issues collectively. At Fordoun the business relationship between the two partners helped them to fulfill their dreams.

In the cases of the Heiveld and the Community Lodges, NGOs played an important role in facilitating the formation of the enterprises. The benefit of involving NGOs as business partners or facilitators is that they often employ participatory, bottom-up approaches in project planning and implementation. They are effective in assisting communities to participate in matters affecting them and form an integral part of the market-based ecosystem aimed at creating wealth in poverty-stricken areas (Prahalad, 2006). NGOs have, however, also limited self-sustainability because their activities are financed mainly by grants from donors, making it difficult to include them as long-term business partners (Davids, 2005).

Remuneration systems for community contractors differ between the case study enterprises. At EcoProducts, seed collectors receive a delivery note during weekly seed collection visits and are paid monthly, based on the mass of seed supplied. At Heiveld and Fordoun, subcontractors are paid per invoice for work done. Ilala Weavers either pay weavers when work is commissioned or money is deposited into their bank accounts when products are received. At TCT and the Community Lodges, subcontractors submit invoices. At EcoProducts and Heiveld, members and collectors have limited, if any, ability to influence the prices they receive. At Ilala Weavers, Mel de Mozambique and Fordoun, prices are dictated

by the market. The supply arrangements do not enable raw material suppliers to demand or negotiate prices.

In the case of TCT and the Community Lodges in Mozambique, the community linkages go further than the supply of raw material to the enterprises. Local communities are also benefiting from the enterprises through profit share arrangements (in the case of the Community Lodges) and a strong social responsibility programme (at TCT).

While these community partnership arrangements appear to be loosely formed, they are one of the key success factors of these enterprises. It is estimated that between R400,000 and R1,5 million per case study flows back to the communities. Formalisation of these arrangements and payment of fixed benefits might restrict the viability of the arrangements. Prahalad (2006) describes these linkages as part of a market-based ecosystem that allows corporations in the private sector and social actors, often with quite different traditions and motivations, to act together and create wealth in a symbiotic relationship. These actors depend on each other, the system adapts and evolves and will often be both resilient and flexible.

### **4.3.2 Employees**

The case study enterprises employ a fairly small number of people (between four and 183) on various contract arrangements. Very few staff members are actually full time employees. TCT employs by far the largest number of staff of all the case studies (183 workers). It is interesting to note the diversity of people employed by the Community Lodges: people with different skills such as dancers, fishermen, etc. are employed to offer a total service to tourists.

There is a variety of payment options employed, but it seems that most of the enterprises pay fixed monthly salaries to only a small number of staff, while employing various forms of commission for raw material collectors and market agents. Salaries are also kept low but topped up with profit bonuses. TCT pays fair wages and also employs an incentive scheme. At Mel de Mozambique, only one staff member is paid a salary, while the association members are paid for honey delivery and receive profit shares. Although fixed monthly salaries provide security to employees, this could affect the feasibility of the enterprises negatively. The case study enterprises are seasonal by nature and during low production season a high percentage of fixed salary costs could reduce cash flow and sustainability.

All the enterprises invest in staff/supplier capacity development. Training focuses mostly on aspects related to the improvement of the supply chain. Other ventures include organic gardens and assisting transport contractors (Ilala bought a truck for a contractor and EcoProducts sponsored the costs of a driver's license). TCT has active training programmes for workers and adjoining communities, while the Community Lodges and associated communities have received training in hospitality from NGOs. Mel de Mozambique provides some informal training on quality control while its co-ordinator has received formal business training.

At EcoProducts and Ilala Weavers, more than 95% of raw material suppliers are women. All the enterprises employ women while EcoProducts and Ilala Weavers were established by female entrepreneurs. At the Community Lodges, more women than men are employed and a high percentage of honey suppliers at Mel de Mozambique are women.

### **4.3.3 Raw material**

At Fordoun and Heiveld, raw material is cultivated. EcoProducts, Ilala Weavers, Mel de Mozambique and TCT use material harvested from the natural environment. Unsustainable wild harvesting could impact on the future of these enterprises and the resource base. In the case of Ilala Weavers, scarcity of raw material is becoming a problem but the company is

looking at conservation options. EcoProducts conducts annual resource inventories and it is estimated that the enterprise uses less than 5% of the available baobab resources in the Venda area.

The supply of raw material is also very dependent on climatic factors and sustainable forestry practices. Drought and poor management would cause feasible supplies of raw material to diminish drastically. This would result in a feasible enterprise becoming unfeasible overnight.

Though concerns can be raised about the availability of raw material from wild populations, commercial cultivation could supplement the raw material supply from wild populations and benefit the continued existence and distribution of the indigenous trees. It has also been noted that once communities become aware that there is money to be made from the fruits of indigenous trees and that the survival of the trees would ensure future income, effort is made to cherish and conserve the trees (Jordaan and Ham, 2004).

The quality of the raw material that can be sourced from the communities in which the resources are located can also be highly variable. In the absence of a strictly controlled production process that ensures a constant supply of high quality raw material, it is to be expected that the raw material quality would be variable. Factors affecting the quality of the raw material are: timing of harvest, harvesting methods, handling of the raw material, transportation and storage conditions (Ham and Jordaan, 2004).

The harvesting of wild fruits presents a good example of how quality can be affected by harvesting practices. Wild fruits are, for instance, collected from the ground after abscission or crude methods of harvesting fruits such as shaking trees or throwing objects into trees are used to dislodge the fruits. Such crude methods not only damage the trees but also cause excessive bruising of the fruit, thus reducing the shelf life, quality and market value. The time of harvesting can also be critical. Fruit collectors in some countries such as Tanzania only collect fruits that have fallen to the ground after abscission. The harvesting of such fully ripe fruits would leave only a limited consumption period and increase the chances of mechanical damage during the transport process (Ham *et al.*, 2008).

#### **4.3.4 Processing and infrastructure**

The value chains of the various case study enterprises differ, but for every one except the Community Lodges there is a process of raw material collection, basic primary processing and more advanced secondary processing (often by a sub-contractor). Products are then sold to wholesalers or agents supply them to the final consumers. Fordoun and the Community Lodges focus strongly on service delivery, where the product is an experience that the customer has.

The processing equipment used by the case study enterprises is mostly fairly basic, consisting of either second-hand or custom made equipment. At Mel de Mozambique, equipment is actually one of the constraining factors in quality control. Often when a new business is established, limited capital forces entrepreneurs into acquiring equipment that will service their basic processing needs. This could, however, cost them dearly in the long run, when they find that the limited equipment restricts expansion of the business. One way of solving the problem of limited capital is to consider outsourcing the processing operations.

Heiveld, Fordoun and EcoProducts are outsourcing some of their processing operations. Through outsourcing they can obtain the benefit of economies of scale from commercial processors and they do not have to invest in expensive processing equipment. From a capital point of view, outsourcing also makes sense. These businesses are very seasonal in nature and a large investment in equipment would have to be carried as fixed costs even during the months where production is low or non-existent.

Although the enterprises may relinquish some control over the processing operations by outsourcing, they gain in flexibility. By outsourcing, enterprises only pay for work done. This could buffer years in which raw material is scarce or markets are in recession.

#### **4.3.5 Management**

The different case study enterprises also use very different management and control systems. At EcoProducts, the owner is responsible for all operations; while at Heiveld, Community Lodges and Mel de Mozambique, a manager, appointed by the co-operative board, is responsible for operations. At TCT and Ilala Weavers, operations are managed by the White and Sutton families respectively. At Fordoun, operations are managed by the owner of Fordoun Spa.

Most of these enterprises were established by entrepreneurs with limited management experience, but with the technical skills for processing products and/or organising value chains. Business owners often become so involved in these technical aspects that they do not have enough time to manage the marketing and develop the business. Owners often do not recognise that their role must change as their enterprise changes. The owner should start as a creator, become an operator and manager and gradually evolve into a leader (Hellriegel *et al.*, 2001).

#### **4.3.6 Financial analysis and profitability**

At Heiveld, Fordoun, TCT, Ilala and EcoProducts, detailed records of costs are maintained and a markup is added to breakeven price. EcoProducts is functioning at breakeven while the others are making a profit. Heiveld, TCT and Ilala have profit share arrangements with their raw material suppliers. At Heiveld, profit is paid out as dividends to co-operative members and at Ilala 10% of the value of products sold by any group of crafters is returned to those crafters as an annual bonus.

The Community Lodges are not operating at a profit. They are currently struggling to survive and recognize the need to restructure the business. At the Community Lodges and Mel de Mozambique there is no proper accounting for costs. If records are not properly kept, it is impossible to determine breakeven and profitability. A similar situation was observed in Uganda where organic coffee farmers receive a price premium for certified coffee, but do not maintain adequate cost records to determine if the premium offsets the increase in production costs due to organic farming (Ham and Jordaan, 2007). Such poor money management can cripple an organization from the start, causing cash flow and credit management problems (Hellriegel *et al.*, 2001).

#### **4.3.7 Vision and growth**

Heiveld, Fordoun and Ilala are all planning to expand their local markets and extend their product offering. At EcoProducts, the owner wants to eventually hand over the business to staff and start something new. TCT focuses on pursuing a sustainable supply of timber through enrichment planting in their concession area, while also trying to minimise residue and to add more value to timber. The Community Lodges are recognising their management problems and are looking at outsourcing operations to private operators. Mel de Mozambique wants to improve their production activities to produce higher quality products.

In new enterprises such as EcoProducts, strategic planning might not be a formal part of operations but rather part of daily operations. Making decisions that support growth is an ongoing activity that occurs daily. Thus a good approach to strategic planning is to treat the venture as an experiment. Decisions on how to achieve goals should be based on trying various approaches and learning by observing (Hellriegel *et al.*, 2001). In more mature businesses, such as TCT and Ilala, strategic actions might be less of an experiment and

more focused on specific aspects such as procuring new markets or minimising residue material.

## **4.4 Marketing and sales**

### **4.4.1 Products and markets**

All the South African case study enterprises provide the opportunity for wholesalers and retailers to supply unique high-quality products to more affluent health-/environment-conscious consumers who want to buy distinct, original products such as wild-grown, organically produced, fair-traded, rooibos tea, natural oils, medicinal products and high-quality, uniquely woven crafts.

All the products from these enterprises are targeted at so-called 'green consumers' or 'new consumers' who live in economies where their basic needs are quickly and easily satisfied and where they are more concerned with satisfying their wants, which focus on original, innovative and distinct products and services. They tend to reject mass-produced and mass-marketed commodities in favour of products and services that can be claimed as 'authentic' (Lewis and Bridger, 2001). The inherent feeling of goodwill and satisfaction that these consumers experience from buying a product that they want and the perceived social status coupled to these products, outweigh the functional benefits of such products (Cant *et al.*, 2002).

The case study enterprises are selling their products to small and medium-sized trade organisations that buy organic and/or fair-traded high-quality niche products. These trade organisations such as Equal Exchange, Café Direct and Global Crafts specialise in building economically and environmentally sound trade partnerships with small-scale producers, farmers and communities in developing countries. Products from these producers are sold directly through internet-based retail websites to consumers or to retail outlets such as large supermarket chains.

These trade organisations do business with small-scale producers from across the world. Café Direct, for instance, buys products from 39 grower organisations across 13 developing countries reaching in total nearly 265,000 farmers (Café Direct, 2008). One of the requirements of this trade relationship is Organic or Fair Trade certification. The trade organisations need this certification to prove to 'green' or 'new' consumers that they support pro-poor enterprises through responsible and equitable business practices. In strengthening this message, background information about the pro-poor enterprise is often used in marketing. The Heiveld name and story is, for instance, used by Equal Exchange on its rooibos tea packaging (Equal Exchange, 2008), and Ilala Weavers is listed as a supplier on the Global Craft's website (Global Crafts, 2008). Such marketing efforts not only assist the trade organisation in selling a product with a 'story', but also provide market exposure to the pro-poor enterprises.

An important requirement of these trade organisations is some form of product certification. Certification is becoming very important in the natural products sector. Companies want to be able to trace the whole chain of natural products to be absolutely sure that products claimed to be natural, organic or fairly traded are indeed what they claim to be. Currently Fair Trade and Organic certification are most relevant for commercial companies working in the natural products sector (Ham *et al.*, 2008).

Organic agriculture is presently consumer-driven. With various food and health scares such as mad cow disease, 'green' consumers want more control over the origin of products. They are willing to pay more for organically produced products but are also skeptical that the produce they are buying is really what it claims to be, and need to be assured of the veracity

of these claims. The best way to do this is to have the produce certified by a reputable food-certification organisation (Kupka, 2003).

Fair Trade certification focuses on promoting workers' rights, and the ability of local producers to meet community needs. It aims to secure a better deal for producers in the developing world through setting stable product prices that cover both their production costs and a premium that their organisation can reinvest either in the business or social and environmental schemes in the wider community. The fair trade system has been established to give small-scale rural producers in Third-World countries the opportunity to be supported to the point where they can sustainably and equitably engage First-World markets (Ham *et al.*, 2008).

The Fair Trade brand has now become an important marketing tool, as many consumers (particularly in the First World) will pay a price premium for a product branded as socially and environmentally sustainable – in much the same way as the “organic” food branding works. Fair Trade Organisations (FTOs) have been established to work with and represent Fair Trade producers, supporting them and linking them directly with their markets – thus cutting out middlemen and securing a better share of the profits for the producers (Diederichs and Mander, 2003). The Fair Trade market in the UK, for instance, increased from £2.75 million to £100 million between 1994 and 2004, with supermarkets launching their own Fair Trade brands, covering products such as tea, coffee and chocolate (Thorpe, 2004).

EcoProducts and Heiveld Co-operative are both certified Organic and Heiveld is also Fair Trade certified. TCT is certified according to the requirements of the Forestry Stewardship Council (FSC). Both of the South African companies have received market benefits from the sale of certified products, with Heiveld also receiving a price premium from Fair Trade certification. Currently TCT is not selling its products as certified and thus do not receive any price premiums. Certification has helped Heiveld and EcoProducts to differentiate their products from those of uncertified competitors and to charge premium prices. Certification is an expensive undertaking but the costs should be weighed against the benefits of access to trade organisations specialising in the sale of Organic and Fair Trade products to affluent consumers. It is possible to offset the costs of certification against an increased demand and premium prices, if adequate volumes can be supplied to trade organisations.

It should however be cautioned that certification is an expensive process and that producers should be careful to be lured by price premiums alone. Premiums could be offset by higher production costs due to increased certification standards. For instance, there would be little economic rationale for adopting organic certification if an organic product could sell for 10% more than an uncertified product, but the cost of obtaining organic certification is 15% higher. It is thus necessary to differentiate between a price premium and a profit premium (UNEP, 2005).

While the South African case study enterprises aim at selling their products on the international market, the Mozambican ones are focused on the domestic market. TCT sells mostly to clients in Mozambique and is not considering a major export focus at this stage. The Community Lodges attract mostly local tourists and Mel de Mozambique focuses on selling to large retailers such as Shoprite. Mel de Mozambique tried to sell honey to the United Kingdom but due to problems with import documentation, a consignment of honey was destroyed in the UK. The South African enterprises engage the international market through marketing agents. Such an approach could also help the Mozambican enterprises to sell their products internationally.

#### **4.4.2 Market information**

One of the critical constraints observed in the case studies was the broader access to markets. Most of the entrepreneurs were technically well versed in developing excellent products, forming community linkages and managing the operations of their enterprises. The

marketing of their products, however, was one of the biggest concerns in their businesses. Reasons for this include a stronger focus on technical skills vs. marketing skills, a lack of market information and lack of experience with modern marketing practices. Compounding the challenge is the fact that for many of the natural products (particularly those which are not commodities), there are no established markets, and thus there is a need to actually develop a market for the product, which requires much investment and specialist skill.

These are typical problems experienced by producers of natural and agroforestry products. Major gaps in agroforestry development in southern Africa have been identified as a lack of formal market research on agroforestry and natural forest products and the development of formal markets for such products (Shumba *et al.*, 2000). Studies have shown that the proportion of the final sale price which small-scale collectors, producers or processors receive, is extremely small. The main reason why agroforestry enterprises are not more profitable is the lack of an organised information system to help individual producers organise production and distribution, determine appropriate prices, select markets and promote merchandise (Banana, 1996).

One way of addressing the problem is the development of a marketing information system that would assist producers to increase the income they derive from their small scale agroforestry enterprises, while at the same time learning about marketing, the production chain, simple accounting and new production processes. Such a marketing information system should address the following factors:

- Prices for products.
- Price differences – retail, wholesale, farm gate.
- Explanations for changes in price or demand.
- The names and locations of traders.
- The volume, quality and packaging requirements of various markets and traders for different products.
- Price variations by market for products.
- Sales and marketing channel alternatives (direct sales, middlemen, co-operatives, wholesalers, retailers, marketing boards).
- Distribution channels that exist (transportation alternatives, storage facilities).
- Promotional opportunities (product shows, advertisements, incentives, packaging).
- Terms of payment alternatives (barter, credit, cash, labour) (Banana, 1996).

#### **4.4.3 Service**

All the South African enterprises present more than just a single product to customers. EcoProducts has a display stand and technical information about the product and list retailers on its website. Heiveld allows the use of the Heiveld story and customers are allowed to package tea under their own labels. Some of Heiveld's members have visited, together with market agents, shops in Europe to tell the 'Heiveld story' to consumers. Fordoun provides a product and consulting service at the spa, and Ilala has a cultural village, museum and restaurant at their shop. All these enterprises aim to support their clients in selling products to the final consumer.

The Mozambican enterprises also offer customer services. TCT provides various timber products to national and international customers as well as tourism accommodation and community benefits. Currently TCT does not use its FSC labeling to promote its sales, but can provide FSC certified timber to those customers that demand it. The Community Lodges have a variety of entertainment options available to customers. Mel de Mozambique focuses on business to business relationships with its clients and transports honey to them.

Service is becoming an increasingly important component of the product offering. With more and more similar products available to consumers, service becomes the differentiating factor.



Consumers do not want to buy a product that they can obtain at any of a hundred different stores. They want a product and service experience (Peters, 2003). This is also epitomised in the concept of green labeling. Consumers that live in economies where their basic needs are quickly and easily satisfied are more concerned with satisfying their wants, which focus on original, innovative and distinct products and services that can be claimed as authentic (Lewis and Bridger, 2001).

## **4.5 Business environment**

The case study enterprises provided an interesting glimpse of their internal and external business environments through a Strength, Weaknesses, Opportunities and Threats analysis that was conducted for each enterprise. The section below summarises the internal strengths and weaknesses and external opportunities and threats experienced by the enterprises.

### **4.5.1 Internal business environment**

Within the internal business environment of each business, a number of similar issues were identified. The following were seen as **strengths** of the enterprises that contribute to their success:

- Passion and vision of owners
- Unique, quality products
- Certified products, i.e. organic and fair trade
- Well-developed supply chains with strong community linkages
- Fascinating, human story
- Trust relationships with communities
- Focus on different markets (one enterprise providing products for wholesale/bulk and retail)
- Pride in the enterprise
- Geographic location

There were also a number of **weaknesses** identified amongst the case study enterprises. These include:

- Success of the enterprise linked to individuals (who might leave the business resulting in failure)
- Limited marketing resources and skills
- Relatively high production costs (some reasons include cost of certification, high fees to raw material suppliers, specialised products)
- Raw material influenced by climate
- Old and poor production processes
- Over-reliance on single customers
- Long distances to markets
- Amateurish approach towards marketing and exports
- Lack of capital
- Lack of business mentors
- NGO/Government dominance of projects in Mozambique
- Weak emerging private sector in Mozambique

Strengths revolve around the entrepreneur and relationships with the community suppliers. This strong involvement of the entrepreneur is listed as a potential weakness. If such a person were to lose business focus or sell the enterprise, it could lead to complete failure of the enterprise. These strong relationships also make it very difficult for others to duplicate

the business or to buy such a business from the entrepreneur. The other weaknesses are mostly related to problems with processing and marketing. Some of the entrepreneurs indicated that although they are technically proficient in running the business, they lack marketing skills.

#### **4.5.2 External business environment**

The case study enterprises identified a number of factors in their external business environment that impacts on their operations. **Opportunities** that they see fit to explore include:

- Product diversification (considering similar products from different species or different products from the same species they work with)
- New markets internationally as well as extension of their domestic market
- Increased interest and consumer awareness of natural products
- Relatively friendly business environment
- Foreign direct investment in South Africa and Mozambique
- Economic growth in both countries
- Relatively low labour costs
- Regional interest and reduction in trade barriers between southern African countries
- Simplified import tax in Mozambique

The enterprises also identified a number of potential **threats** to their existence. These external threats include:

- Competition from low cost providers (for instance cheap imports from China)
- Commoditisation of niche markets by large commercial producers
- Climate change, especially increase in drought conditions
- Replication of business idea by competitors
- Legislation and bureaucracy that could stifle business operations
- Supply not meeting demand, especially if the demand for natural products increases
- Rising fuel prices and transport costs
- Global financial instability
- Tenure security in Mozambique
- Social pressure and loss of processing skills brought about by poverty and HIV/AIDS

Within the external business environment the interest amongst consumers in new and innovative products was highlighted as a business opportunity. If such interest becomes too big it could, however, erode the niche market value of natural plant products and open the market for low cost commodity producers of natural products. Climate change was also listed as a threat as most of the enterprises depend on wild harvested resources. Emerging legislation that aims to regulate the natural products sector is also seen as a threat. Interventions by government such as the proposed South African bioprospecting legislation could discourage entrepreneurs from entering the natural products sector.

#### **4.6 Training and skills**

Most of the case study entrepreneurs indicated that they are confident in their abilities to manage the technical and community aspects of their businesses. Some however felt that they lack the necessary business management and marketing skills. It was especially in the field of marketing where entrepreneurs indicated a need for further training. They also indicated that information on business and strategy development could help them to align their enterprises with future trends.

Priority-setting surveys amongst fruit processing groups in Malawi and Zambia, as well as a survey amongst natural product enterprises in southern Africa, highlighted the need for marketing training (Ham and Jordaan, 2004). Often entrepreneurs develop good quality products but are unable to sell their products. Because of limited market information they also accept lower prices from large wholesale buyers and in return receive less money than what they could have received if they were more proficient in marketing and sales.

## 5 A business model for natural products enterprises in southern Africa

A comparison of the case studies conducted on natural products enterprises in southern Africa shows that there are a number of factors that are fundamental to the success of these enterprises. In addition, most of these enterprises face similar risks. Natural Products small businesses that have failed, all seem to have done so for similar reasons. These factors of success, risk and failure are described in this section, and have been used to develop an ideal 'Business Model' for Natural Products Enterprises in southern Africa. This Model draws on the key factors of success, most effective means of addressing risk and avoiding failure.

### 5.1 Common success factors

From the review of the case studies and literature the following common success factors can be listed for a successful, sustainable natural product enterprise:

|   |   |
|---|---|
| <p>At least one strong entrepreneur starts and leads the business</p>             | <ul style="list-style-type: none"> <li>• The entrepreneur already has good business skills – sufficient to establish and operate the entire value chain of the business, including the co-ordination of multiple community producers, quality control, transport and storage of perishable materials / products, accessing and responding to sophisticated and competitive markets.</li> <li>• Has a special interest in natural products and high levels of passion for the natural products business.</li> <li>• Key driver for starting the business is not necessarily financial gain – special interests may be more important (to start with at least).</li> <li>• Has philanthropic traits, but also uses community involvement / social upliftment message to maximum advantage in marketing.</li> <li>• Able to access capital for business start-up.</li> <li>• Often simply operates as a “middle man” / wholesaler – co-ordinating community partners in production, taking the product to market and feeding market trends back to producers.</li> </ul> |
| <p>Community partners are not salaried, but work on incentive payment schemes</p> | <ul style="list-style-type: none"> <li>• The community is willing to participate, it is not just a job for them but includes a measure of passion for the natural products business as well (sometimes linked to cultural pride). Involvement may represent important opportunity for participating in social interactions / events in the community (e.g. baobab trading days, weaver training days, etc.).</li> </ul>   |

|  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>• It is a trade arrangement between the Entrepreneur and Community rather than employer-employee relationship. Create incentives for productivity in community partners and minimises certain kinds of risk for the Entrepreneur (associated with labour laws, unions, etc.). It avoids the “western business model” and is more respectful of African culture (e.g. rural women can work at home with their families and be only as productive as they wish to be at any given time).</li> <li>• As the relationship is voluntary, the community partner model only works if the communities are being paid a fair price for their products. This minimises the risk of exploitation.</li> <li>• They often do not have other income generating opportunities nearby. Therefore, the relationship with the Entrepreneur is very important for local rural livelihoods (particularly women).</li> <li>• The community partners, not being salaried, retain ownership of their component of the production chain. This represents equity in the business, as the Entrepreneur remains dependent on the community partners.</li> </ul> |
| <p>The context of the business is often quite different to most commercial enterprises</p> | <ul style="list-style-type: none"> <li>• At least one part of the production chain must remain rural and far from urban markets (most commonly the natural resource production / harvesting area). This creates a unique opportunity for an Entrepreneur to establish the spatial link between the rural production area and urban markets.</li> </ul>  |
| <p>The product is unique and this is a strong message in the marketing</p>                 | <ul style="list-style-type: none"> <li>• Owing to the complex logistics and high risks in the value chain, the products are usually not price-competitive with subsidised imports or synthetic / commercial alternatives. The successful products are those that have no direct competitors in the target market.</li> <li>• Fair trade, organic certification, FSC certification and the “community story” message is successfully used to offset the price premium associated with the complex value chain.</li> </ul>  |

## 5.2 Common risks

A number of common risks were also identified. These include:

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|---|--|
| <p>Must compete with products manufactured through more efficient commercial production systems</p> | <ul style="list-style-type: none"> <li>• The economics of natural product enterprises is quite different from most businesses, with particularly complex logistics and risks that are less easily controlled.</li> <li>• There is consequently a price premium on the product (i.e. higher production costs) but not a profit premium.</li> <li>• The use of Fair Trade, organic or FSC certification, or the community upliftment message in marketing may not be enough to keep a more expensive product competitive in the market.</li> <li>• Have to be able to respond to specialised market niche through an innovative marketing and sales strategy, and may need to actually invest in creating a market for the product where none previously existed.</li> </ul> |
| <p>Business based on natural products – usually harvested from the wild</p>                         | <ul style="list-style-type: none"> <li>• Harvesting of natural products from the wild is limiting as supply is variable and cannot be controlled. This poses a significant threat to business sustainability and creates difficulty in regulating production costs.</li> <li>• Emerging legislation and the global environmental lobby places greater control over the development and trade of natural products, and protection of intellectual property rights over natural resources, which may create impassable barriers that prevent businesses from operating or remaining competitive.</li> </ul>  |
| <p>Trading novel products that have not been properly tested</p>                                    | <ul style="list-style-type: none"> <li>• The high cost of clinical trials or proper levels of product testing are usually beyond the means of small business. This not only threatens the sustainability of the business but poses a significant liability to the Entrepreneur.</li> </ul>   |

## 5.3 Common reasons for failure

A number of commonalities in failed businesses were also identified. These include:

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| <p>The wrong people are involved, or they are not committed to developing the business</p> | <ul style="list-style-type: none"> <li>• Project developers (e.g. NGO's, Government) focus on wanting to establish a business in a particular area and look for beneficiaries for the project rather than seek and support existing entrepreneurs (wherever they may be) with the right set of characteristics and skills to make a business work. In many cases the project does not even include a strong entrepreneur or genuinely willing community partners.</li> <li>• Community members are eager to participate in the "project", waiting to see what they can gain from it, but never internalise their roles.</li> <li>• If entrepreneurs are involved, they may not have the full set of skills or level of experience for making a complex</li> </ul> |
|--|---|

|  |   |
|--|---|
|  | and challenging natural products enterprise succeed.  |
| Business establishment is a project, with a limited funding cycle and unrealistic / inflexible goals | <ul style="list-style-type: none"> <li>• When the funding ends, the business fails because insufficient capacity, trade, market penetration/development or production has been established for the business to run sustainably without a support framework.</li> <li>• In some cases the business is not feasible and was only operational under conditions of subsidy.</li> <li>• The project developers and implementers are not involved in the business going forward and are therefore not committed to ensure that the business is sustainable at the end of the project term.</li> </ul>                         |
| Relationship breakdown between business partners   | <ul style="list-style-type: none"> <li>• In many cases, rural community partners have a low level of literacy and little or no business experience. Unless appropriate capacity is built in this group to ensure that they properly understand how the business works, suspicions and jealousies may arise and cause the relationship between the community partners and entrepreneur to fail.</li> <li>• Business entities that do not differentiate remuneration for members of the business that work harder than others may cause dissent to arise between members and ultimate failure of the business.</li> </ul> |
| Logistical issues  | <ul style="list-style-type: none"> <li>• Lack of ability to access capital for critical business expansions to meet changing market demand and pricing. New credit control laws in South Africa are making it more difficult for people and small business to access finance.</li> <li>• Increasing costs of production or transportation may render the products too expensive for the market.</li> <li>• Loss of skilled community partners or entrepreneur to sickness or death (HIV/AIDS is a significant issue in many areas).</li> </ul>  |

#### **5.4 Ideal natural products business**

Various key factors determine the success of natural product businesses in southern Africa. These factors should be considered when new business ventures are established. They include the people involved in the business, the role of the business, and markets and access to raw material. Table 2 at the end of this section summarises these aspects.

### **5.4.1 The people in the business**

For any business, including natural products businesses, to be successful and sustainable, the most important prerequisite is to ensure that the right people are on board. Of these people, the business leader / driver is the most important, because without a good leader the other members of the business are unlikely to be able to make a success of the business.

Natural products enterprises are usually not the easiest of businesses, because of highly complex logistics, economics and marketing issues. Therefore, it is essential to have the right person / people leading the business. Experience has shown that a successful natural products enterprise must have at least one strong entrepreneur on board that is driving the business. The business is thus entrepreneur-led.

However, the natural products enterprise will, as its core business, require the entrepreneur to partner with a community for either obtaining raw materials or for the production process. The community partners may have shares in the business, but may not become employees of the enterprise, as this will promote the following positive outcomes:

- They maintain ownership of their component of the value chain.
- They are paid on an incentive scheme, which maximises productivity.
- They work on a voluntary basis, and can thus continue with their daily chores / responsibilities of running a rural home.
- They are not exploited by the entrepreneur (if they are underpaid they will simply not participate).
- The entrepreneur limits his / her labour risk in minimising formal employment contracts.

#### **5.4.1.1 Identifying the entrepreneur(s)**

Much literature is available that defines the common characteristics of successful business entrepreneurs (see section 4.2.1). These characteristics usually include:

- Self-driven
- Persistent and determined
- Passionate about their ideas
- Charismatic / able to motivate and inspire others
- Good business sense (i.e. see opportunities where others don't)
- Good organisers
- Competitive
- Prepared to learn
- Prepared to take risks / try new things despite risk of failure

Owing to the special nature of natural products enterprises, the entrepreneurs that lead these businesses should have the following additional characteristics and skills:

- Good business skills: supply chain management, production management, quality control, marketing, financial management.
- A philanthropic focus (i.e. wants to work with community partners and / or help people)
- A high level of passion for the natural products business idea

The above list is a tall order because very few strong entrepreneurs are available. Probably very few, or even none, of one's own circle of friends and acquaintances are really good entrepreneurs. Therefore, it is highly unrealistic to expect that such a person could be easily found to lead a new business enterprise, or that a development project might make an entrepreneur out of an ordinary person. The proof of this phenomenon is that many natural

products SMMEs (and other economic development projects in southern Africa) have failed because they did not have an appropriate entrepreneur to lead them.

Therefore it should be recommended that any development project that aims to establish a natural products SMME starts by either:

- Finding an existing business enterprise and supporting the growth of this to expand the number of people involved, the product range, and / or the profitability of the enterprise.
- Or supports an entrepreneur (regardless of whether he / she is located in the spatial zone where the project is “supposed” to take place) with the appropriate characteristics (even if this entrepreneur does not meet other criteria, such as “previously or historically disadvantaged”) in such a way as to create a viable and sustainable business that creates maximum benefit for the community partners involved.

#### **5.4.1.2 Identifying the community partner(s)**

Natural products enterprises are unlikely to succeed without community partners in some portion of the value chain, because the formal or informal property rights for production of the product will probably reside with a community. These property rights may cover the intellectual property for the natural products, or the natural resources may physically be on community land in a rural area.

The first step in identifying the community partner(s) is thus to identify which communities hold the property rights to the natural resources or use / processing thereof that are needed for the natural products business. There may be some options around this, and the selection of which community partners to engage with should be based on the following:

- There are few alternative income generating opportunities in the area, so the need for engagement with the business / entrepreneur is high.
- The community should be willing to participate on an incentive payment scheme rather than being employed.
- The community should have access to sufficient natural resources, and / or have sufficient members with good processing skills to ensure that the value chain can be operated consistently and sustainably.
- The community should exhibit willingness to be part of the business and accept any conditions that are mandatory to the functioning of the business (for example not being able to sell the products through any other channels).
- Where possible, the group should include a fair mix of age groups, as well as males and females.
- The community should be located in an area which is politically stable and the group should not be politically tied in any significant way.

#### **5.4.2 The role of the enterprise**

The core business of the enterprise is to transform raw natural materials into a quality product that can be sold to high income consumers. It thus creates a conduit for money to flow from higher income developed areas to poor rural households. Ideally the enterprise should play a facilitating role in this process, focusing on linking raw material collectors with contract processors and eventually marketing agents. In such a system the enterprise could function with a minimum of fixed costs that are tied to expensive equipment and large quantities of stock.



The above scenario limits the risk associated with running a costly retail facility, and allows the entrepreneur to fill the unique niche opportunity of linking rural producer communities with the market in one way or another. However, the enterprise must represent the communities who collect raw material and as such the enterprise should serve as the guardian against exploitation as well as being the voice for these communities.

### **5.4.3 Products and marketing**

In order to ensure that the business is competitive and sustainable, the products should be unique with few (or no) direct competitors in the commercial production or cheap imports sector. Alternatively the products could be simple commodities with easy access to markets where alternative products sell at a higher cost because they are imported. Charcoal and honey are good examples of natural products that can often be produced cheaper by communities than by commercial enterprises.

All possible legal issues regarding the safety of the products should be addressed. Similarly the intellectual property rights issues over the products must be dealt with in the community partnership arrangements.

The marketing of products from these enterprises should capitalise on “Fair Trade”, organic or FSC certification or branding (as appropriate), and on the “community partnership” message, particularly where the product is not price-competitive.

Marketing has been highlighted as one of the key constraints to business success. Entrepreneurs often do not have the skills and know-how to market their products effectively. This problem could be addressed through the appointment of responsible marketing agents who can promote and sell the products, leaving entrepreneurs free to focus on the technical aspects they are good at. In addition, where the products are so unique that no ready market exists for them, the entrepreneur may need to invest in developing and implementing a marketing and advertising strategy to create the market for the product.

### **5.4.4 Raw materials supply**

The raw materials may be harvested from the wild where this can be done sustainably and in sufficient volumes to support the enterprise. This should be supplemented or substituted with farmed products where there are legal issues pertaining to the harvesting of these plants, or risks in respect of supply volumes or seasonality of supply. Resource assessments that will help to determine the viability of the raw material resource should form part of the business process. All legal issues in respect of natural resource harvesting and intellectual property rights should be clarified before commencing with an enterprise.

**Table 2:** Summary of the aspects required for a successful enterprise

|                        |  |
|------------------------|--|
| Who is in the business | <ul style="list-style-type: none"> <li>• The business should be entrepreneur-led. Entrepreneurs have special traits that predispose them to wanting to work with people and natural resources.</li> <li>• The core business requires a partnership with a community / communities that supply raw materials or manufacture products.</li> <li>• Agencies supporting business development should select a going concern and assist it to scale up and increase the number of community partners benefiting, rather than try to start from scratch and find appropriate entrepreneurs and community partners.</li> </ul>   |
| Ownership              | <ul style="list-style-type: none"> <li>• The entrepreneur should have at least an equal ownership of the business relative to the community partners, but preferably this should be a majority share.</li> <li>• The community partners may have shares in the business or they may not. They may have only equity shares in terms of owning the intellectual or resource property rights to part of the value chain.</li> <li>• Community partners should be remunerated on an incentive basis where possible, such that the relationship is a trade relationship rather than an employer-employee relationship.</li> </ul>   |
| Business structure     | <ul style="list-style-type: none"> <li>• Business can use any legal mechanism, but structure should allow different shareholdings of members, and should allow profits to be shared on the basis of productivity / achievements in business performance.</li> </ul>  |
| Business role          | <ul style="list-style-type: none"> <li>• The business should be focused on co-ordinating and facilitating the complex value chain, acting as the link between community producers and the market, and may have to focus on wholesale activities (depending on the scale of trade and the kind of target market for the products).</li> <li>• The business should invest in the development of the capacity of the community partners. This needs to be focused on building skills and understanding to ensure that the partners remain comfortable with the business partnership, and that their production skills are expanded to meet changing needs in the market for innovative products.</li> </ul> |
| Products and marketing | <ul style="list-style-type: none"> <li>• Products should be unique, with few commercial competitors. Or</li> <li>• Commodities that can be produced cheaper than commercial alternatives (e.g. honey).</li> <li>• There should be a high level of confidence that the products are safe. Any potentially unsafe products should not be traded.</li> <li>• Marketing should capitalise on the involvement of the communities in the production system to help offset possible price premiums. Various forms of certification can be considered in this regard, but the cost of achieving and maintaining the certification should be included in the cost modelling.</li> </ul>                           |
| Raw materials          | <ul style="list-style-type: none"> <li>• Raw materials can be wild harvested if this is legal, a sustainable harvesting programme should be in place and supply consistent enough to sustain production.</li> <li>• Raw materials may ultimately be commercially farmed to improve</li> </ul>  |

|                   |  |
|-------------------|--|
|                   | security of supply or address other legal issues.  |
| Physical location | <ul style="list-style-type: none"> <li>The production area should preferably be rural and the markets mainly urban.</li> </ul> |

## 6 Role of outside agents in supporting natural product enterprises

The above-mentioned business model calls for an independent entrepreneur to facilitate the transformation of raw material into high quality products. In this process, communities who are involved in the raw material supply and processing activities are independent business partners who receive payment for their services. This enterprise is not owned, regulated or managed by outside agents and it functions within the open market, driven by supply and demand for specialist natural products. The question is how can such an enterprise be assisted? Our case studies have shown that community-based enterprises established by outside agents do not necessarily succeed because the community may lack a sense of ownership. Large investments on the side of donors in equipment and subsidised production also do not ensure sustainability. Table 3 summarises recommendations to outside agents who want to assist natural product enterprises.

**Table 3:** Recommendations to outside agents

|                                 |  |
|---------------------------------|--|
| Focus on entrepreneurs          | <ul style="list-style-type: none"> <li>Instead of focussing on community based projects, focus on identifying entrepreneurs who can partner with larger community groups in business.</li> <li>Develop a framework for the identification of entrepreneurs in rural areas.</li> <li>Be open to project ideas from entrepreneurs. Instead of offering grant money to community projects, rather invest in something such as a competition for natural product enterprises where the entrepreneur with the best business plan receives start-up support.</li> </ul>  |
| Support existing business       | <ul style="list-style-type: none"> <li>There are numerous small scale natural product enterprises in southern Africa. Instead of focussing on new development projects, consider assisting existing enterprises to become more successful. If these enterprises grow, they can assist more community partners and more money will flow into rural areas from markets in developed countries.</li> <li>Support should focus on improving the effectiveness and efficiency of the value chains of such enterprises.</li> <li>Partner with skilled entrepreneurs who can assist such enterprises in improving aspects of their operations.</li> <li>Become a “business angel” to such enterprises, providing guidance and support to them.</li> </ul> |
| Training and management support | <ul style="list-style-type: none"> <li>Entrepreneurs make a success of their businesses due to their technical and community interaction skills. Often they lack the management and marketing skills to develop their businesses. A simple business assessment can identify those knowledge gaps that could be addressed through training or exposure at trade shows, etc.</li> </ul>  |

|                          |  |
|--------------------------|--|
|                          | <ul style="list-style-type: none"> <li>• A training programme that focuses on aspects related to management and marketing could be beneficial to entrepreneurs.</li> <li>• Entrepreneurs could also benefit from a system of business mentors who could help them with their individual training needs. A mentor could for instance be assigned to an entrepreneur to guide and assist him/her in expanding an existing business or starting a new one.</li> <li>• Training of community partners can also help to align with business processes. This will make it easier for entrepreneurs and communities to work together in business ventures.</li> </ul> |
| Measure business success | <ul style="list-style-type: none"> <li>• Develop an evaluation system to assess the effectiveness of support to natural products enterprises. Not all projects will succeed and outside support agents should recognise this risk of failure. By developing an assessment system to measure the effectiveness of support to enterprises, such agents could minimise their risk and rather allocate resources to enterprises with a better chance of success.</li> </ul>  |

## 7 Conclusion

The natural products sector in southern Africa is waiting to be explored. Local people have been using natural products for centuries and they are informally traded throughout the region with little value addition taking place. The global demand for new natural products is, however, growing and export opportunities are increasing.

There is a distinct absence of entrepreneurs making use of the opportunities presented by southern Africa's rich botanical resources. The sustainable use of botanical resources by new entrepreneurs could provide excellent opportunities for rural development in this region. New enterprises would create more job opportunities and the trade in processed natural products (especially internationally) would bring much needed revenue into some of the poorest areas in the region.

Although there are some examples of successful natural products enterprises in southern Africa, these examples are scarce, and correspondingly the rate of failure of new ventures in this sector is extremely high. Many millions of dollars, pounds and euros have been pumped into southern Africa in support of such enterprises. However, much of these investments have achieved very little. The reasons for this are becoming clearer, with the fundamental one being that natural products enterprises are extremely challenging to develop successfully because the value chain is significantly more complex than that of most other businesses, and the risks associated with it are difficult to manage.

In order to achieve the extensive benefits of creating successful natural products enterprises in southern Africa, a business model is proposed which maximises the factors related to success, and addresses the most effective means of managing risk and avoiding failure.

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# Appendix A

## Business options in South Africa and Mozambique

### South Africa

There is a range of legal vehicles for conducting business in South Africa. Some of these are regulated by laws (e.g. the Companies Act of 1973), and others are legal in terms of common law. These are outlined below ([www.cipro.co.za](http://www.cipro.co.za)):

#### Companies

A company is a legal person which has capacity and powers to act on its own (i.e. the law regards a company in the same light as a natural person). It is created by the Companies Act 61 of 1973, as amended, which is the machinery that enables the company to be formed for lawful purposes. There are generally five types of companies:

- Private Companies are generally referred to as "Pty companies" (Proprietary Limited companies).
- Public companies are companies that offer shares to the public.
- Companies not for "gain" are commonly referred to as Section 21 companies.
- External companies are companies set up in SA by foreigners.

#### Closed Corporations

Although closed corporations have been a common tool for smaller businesses in the past, mainly because the accounting and reporting requirements are less onerous than companies, government in South Africa appears to be phasing these out. In the future, only Pty Ltd companies will be registered by the South African government, and their intention is to create different scales / grades of these depending on the number of shareholders and the annual turnover. The smaller Pty companies will have reduced requirements in terms of auditing and reporting.

Comparison between a Private Company and a Closed Corporation

| Private Company  | Closed Corporation                        |
|--|---|
| Juristic Person  | Juristic Person                           |
| Enjoys Perpetual Succession                            | Enjoys Perpetual Succession               |
| Can Have A Maximum Of 50 Members                       | Can Have A Maximum Of 10 Members          |
| Companies Can Be Share Holders                         | Companies Cannot Hold A Member's Interest |
| Comprise Of Directors And Shareholders                 | Comprise Of Members                       |
| Has A Memorandum                                       | Has A Founding Statement                  |
| Registered Articles Of Association                     | Articles Of Association Are Not Required  |
| Compulsory Annual Return To Be Lodged                  | No Annual Return To Be Lodged             |
| Has A Share Capital                                    | Has Member's Contributions                |
| Has An Auditor   | Has An Accounting Officer                 |
| Convenes An Annual General Meeting                     | Annual General Meeting Not Required       |
| Certificate Of Incorporation                           | Certificate Of Incorporation              |
| Members Hold Shares                                    | Members Hold Member's Interest            |
| Can Acquire Its Own Shares Under Certain Circumstances | Can Purchase A Member's Interest          |
| Directors Are Responsible For The Day To               | Members Are Responsible For The Day To    |

|  |   |
|--|---|
| Day Management Of The Company  | Day Management Of The CC  |
| Register Of Members  | No Register Of Members  |
| Limited Liability  | Limited Liability   |
| Audited Financial Statements   | No Financial Statements Needed  |
| Prohibition On A Company To Provide Financial Assistance For The Acquisition Of Its Own Shares | No Prohibition On A CC To Provide Financial Assistance For The Acquisition Of A Member's Interest |

### **Co-operatives**

A co-operative is an autonomous association of persons united voluntarily to meet their mutual economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise organised and operated on co-operative principles.

A co-operative is a distinct form of enterprise that provides services and products to its members. Profits are divided among members in relation to the amount of the business each member did with the co-operative.

The characteristics of a co-operative:

- Association of persons
- Voluntary basis
- Mutual or common economic, social and cultural needs
- Jointly owned and democratically controlled enterprise
- Co-operative principles

The principles of the co-operative:

- Democratic member control
- Voluntary and open membership
- Autonomy and independence
- Educational training and information
- Co-operation among co-operatives
- Concern for community
- Member economic participation

What are the benefits of co-operatives?

- Achieve what one person cannot achieve on his / her own
- Provide easy access to needed services
- Pay less for inputs, marketing, distribution and selling of produce
- Process products if necessary

Who can be a member?

- Anyone who has completed a membership application form
- Anyone who shares the same interests in the group (co-operative)
- Any person above the age of eighteen

### **Trusts**

A Trust can be established in terms of the South African Trust Property Control Act (57 of 1988). Trustees are designated who will manage the entity, the purpose of which is to bring advantage to the beneficiaries of the trust (the beneficiaries must be named in the Deed of Trust). A trust may have no less than four and no more than 14 trustees, but there is no limit on the number of trust beneficiaries.

Trusts are required to submit tax returns and must be audited annually. The tax rates on trusts can be higher than other legal entities as they are taxed at a fixed rate.



### ***Sole Proprietorship***

Any individual person may trade as a sole proprietor. This means is that the person is taxed on his / her income from the trade, and is allowed to claim certain business expenses in terms of these tax returns. It is a relatively cheap and efficient way of running a small business, however the business risk is directly tied to the individual (so if the business gets into debt, the person's personal possessions can be attached).

### ***Voluntary Associations***

A voluntary association is like a club. They can open a bank account and trade together. Each person in the association is taxed, and the association is required to submit a tax return if its profits exceed the minimum annual earnings set by the South African Revenue Services. This entity is one of the least onerous to establish and run, however the liability associated with the business would also revert to the individuals involved.

## **Mozambique**

The legal entities for businesses in Mozambique are the same as in South Africa, namely sole proprietorship, Limited liability company (Sociedades Anónimas de Responsabilidade Limitada (SA)), closely held limited liability company (Sociedades por Quotas de Responsabilidade Limitada (LDA)), public companies, a co-operative association or as a membership association, private limited companies (PTY Ltd Companies), joint venture, trust, voluntary associations and branch of foreign company. These entities are regulated by the following legislative instruments: Health Law (Ministerial Diploma No. 51/80 No. 51/84), Investment Law (1993); Forestry and Wildlife Law (1999); Decree Law of Administrative Decentralization (Decree Law No. 15/2000), Fiscal Law No. 15/2002, Commerce Law (Decree Law No. 15/2006), Labour Law No. 23/2007, Social Security Law No. 4/2007 (Decree Law No. 53/2007). These are outlined at [www.mozlegal.mz](http://www.mozlegal.mz)