USAID EAST AFRICA TRADE AND INVESTMENT HUB TRANSACTION ADVISORY CASE STUDY

How private equity is growing businesses and driving transaction-based development in East Africa

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DISCLAIMER
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This case study presents a summary of a private equity investment in the Kenya agricultural sector and the USAID East Africa Trade and Investment Hub transaction advisory support that facilitated it. The investment demonstrates the effectiveness of transaction-based advisory support to deploy private capital into frontier markets.

The USAID East Africa Trade and Investment Hub (the Hub) is the U.S. Government’s flagship program under the presidential Trade Africa initiative, launched in 2013 to boost trade and investment with and within Africa.

The Hub partners with CrossBoundary LLC (financial advisors in frontier market investing) to provide no-cost transaction support services for private equity funds, commercial banks, impact funds, and development finance institutions seeking to invest in high-impact sectors of eastern Africa, specifically ICT, agribusiness, financial services, health innovation, and cotton, textile and apparel. The Hub’s support services address the challenges that investors may have in completing transactions or that businesses may confront in raising capital. Services include due diligence, financial analysis, market intelligence, and deal structuring. The Hub prioritizes transactions that contribute to employment, regional trade, technology acquisition, and gender inclusion. Its goal is to facilitate $100 million in new investments and create 10,000 jobs by August 2019. Since its launch in 2014 the Hub has facilitated $31 million in new investments in the technology, dairy and financial services sectors.

For more information on the Hub and the transaction team’s advisory services
email: info@eatradehub.org or visit our website www.eatradehub.org.

The case study was researched and prepared by an independent consulting firm, Alternative Prosperity, which provides sustainability advisory services to companies, institutional investors and government. Their mission is to enable organisations to make decisions that will create wealth for its stakeholders, and help shape sustainable organisations that contribute to a prosperous society.

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CASE STUDY

Transaction Summary

The Blue Link ("TBL") acquired a leading dairy processing company to expand the company’s market share in the high quality milk and dairy products segments.

Key facts:

- **Company name:** Bio Food Products Ltd
- **Strategic Investor:** TBL
- **Sector:** Dairy processing
- **Investment range:** USD 5 - 10 million
- **Type of investment:** Expansion
- **Shareholding:** Majority shareholding through management buy-out
- **Increase in sales 2015-2016:** 20%
- **Number of employees:** 141
- **Investment close:** September 2016

**Additionality of the Transaction Team**

The USAID East Africa Trade and Investment Hub’s Transaction Team provided valuable operational due diligence, including product and competitor analyses, which informed a robust growth strategy and the final decision to invest.

“The Transaction Team’s analysis has covered a very important part of the DD, in good detail. For this we did not have the resources to do it ourselves.”

Jacco Brink, Founder, TBL

“It gave great insights into the consumer perception on BIO, the company and its products and the main competition which is essential for our business case. It gave many tangible interventions that we can focus on post-investment”

Joachim Westerveld, MD, Bio Food Products

**Investment Impact highlights**

With the investment completed at the end of summer 2016, the investor and the company management had already started the preparations for some of the improvement plans a year earlier, in part based on the recommendations of the Transaction Team. The impacts of the investment to date include:

- Launching sales of fresh milk in August 2016 as new high-end modern production machinery was commissioned in July 2016, significantly increasing the weekly production.
- Improvements in cold truck technology have reduced bottlenecks in product distribution and coupled with more efficient and streamlined sales system have already resulted in a 20% increase in sales compared to the previous year.
- Investment in upgrading the state of the art milk testing lab, in addition to plans for supporting establishment of an animal feed testing lab, will be a first in Kenya for small scale farmers.
- Approximately 100 new jobs are expected to be created within the company, in addition to a number of indirect jobs in testing facilities and for smallholder farmers, within 2 years due to projected company growth.
- Consumer awareness campaigns to be launched on food safety, milk quality and harmful contaminations of milk in Kenya.
- Migration from its current plastic packaging to biodegradable packaging is planned over the coming year.
- Gender inclusion: Out of the 141 employees, 30% (42 staff) are women. Women also make up the majority (70%) of the management team in sales, marketing, production, administration, and human resources.

“We don’t view corporate responsibility as a ‘responsibility.' It is imperative for business success. When we care for our stakeholders, our staff, our farmers and for our customers by giving them a product they can trust, when we delight our customers and fulfill our promise, then we will grow. This is the business of the future.”

Joachim Westerveld, MD, Bio Food Products

**The company**

Dairy producer Bio Food Products Ltd produces and sells top quality yoghurt and milk products predominantly in Kenya, but also exports to Rwanda and Tanzania. The company was established in 1991 by Binoy Zachariah. His vision was to provide premium products of the highest standard to consumers, something that was not available in the Kenyan market.

The production facility in Nairobi is a state of the art facility with some newly installed machines, and a robust art laboratory. The company produces significant volumes of yoghurt, milk and allied products with the new production machinery commissioned in July 2016, but has the capacity to produce even more. Present in all major retail outlets throughout Kenya, Bio products are also the product of choice in many luxury hotels and lodges, as well as international airlines. The company currently employs 141 staff.

Although a minor player in terms of market share in Kenya, Bio is an innovator and market leader in terms of dairy quality and safety. The company provides a high-end product to a niche, but growing, segment of the population.
The company as an investment opportunity

When the founder and TBL met, there was a unique alignment of vision for the company and the passion to run an environmentally, socially and economically sustainable operation that provided a superior quality product to the consumer. As a result, planning for retirement, the founder felt confident his vision would continue to flourish by entering into a strategic partnership with TBL, to whom he relinquished a majority of Bio’s shares.

In turn, the investor acquired a strong brand, with significant growth potential due to the:

• opportunity to consolidate niche yoghurt production in the Kenyan market. Apart from the top three dairy producers, which dominate the market share of milk and yoghurt production in Kenya, the industry is very fragmented;
• existing market gap in terms of premium quality and food safety standards, driven by demand from a growing and increasingly aware middle class; and
• future regional growth opportunities for its premium product in the rest of East Africa and in West Africa.

The role of the strategic investor

In addition to providing the necessary capital, TBL also brought:

Sector experience, expertise and business management best-practice

TBL brought both extensive operational experience in dairy farming from other emerging markets, as well as management best-practice. Extensive market research identified areas for improvement and a growth strategy for the business. Underpinning that strategy is the philosophy of delighting customers with a product that is great, enjoyable and consistently available.

Innovation and market leadership in food safety standards: Bio’s hallmark is the safety of the product provided to consumers. Bio products have by far the lowest levels of bacteria and aflatoxin, a recognized carcinogen, in the Kenyan and the East African markets. Aflatoxin levels are within global food safety standards and bacterial count is so low that a packed of milk can stay fresh in the fridge for over 14 days, compared to its competitors’ average of 3 to 4 days.

Support to farmers in the supply chain: Quality dairy starts with the farmers and the raw milk. Bio therefore works closely with farmers to produce the highest quality product possible. Bio currently sources its raw milk from three farms located in Embu, Kiambu and Rongai. The farm in Rongai, which is a new supplier since the investment, also collects milk from roughly 70 small holder farmers in the surrounding area. The quality and volume of milk is dependent on the wellbeing and feeding such contaminated feed to the cows results in the presence of aflatoxins in the milk. One oft-cited urban study found that 99% of pasteurized milk tested negative for aflatoxin. Private sector leadership is critical in markets where implementation of food standard regulation is sub-optimal. TBL therefore plans to launch an extensive consumer education program on the importance of milk quality, the first undertaking of its kind in Kenya. Bio believes this will have a ripple effect in the market as consumers gain awareness and start demanding and hence, selecting, safer dairy products.

Staff development: Bio has a strong commitment to staff development and empowerment which it deems necessary to create a more efficient company in which people take responsibility for their areas of specialization. A training budget has been established for each staff member and a performance-based reward system has been implemented. Such performance indicators help monitor team efficiency based on autonomy, responsibility and appreciation. As a result, staff are also very loyal to the company, such as the so-called “Langata 9,” the nickname for the nine staff that have been with the company for 25 years, since its inception in the Nairobi suburb of Langata in 1991.

Job creation and gender Inclusion: Approximately 100 new jobs are expected to be created within the company, in addition to an unquantified number of indirect jobs in testing facilities and for smallholder farmers, within 2 years due to projected company growth.

The company sees the contribution of their female employees as critically important to the business. Currently 1/3 of total workforce is women and the majority of those in managerial positions. An upward trend for gender inclusion can be expected as the company believes strongly in the advantage of an evenly balanced workforce.

Technology acquisition

Significant technology acquisition has taken place with the investment:

Extended shelf life: In July 2016 the company completed the installation of Extended Shelf Life (ESL) technology, unique in the Kenyan market, significantly increasing the weekly production of fresh milk and also extending its shelf life without altering its taste. As a result, Bio will be able to further widen its distribution and export market.

Offering competitive pricing: Bio’s yoghurt, which currently represents the majority of the company’s revenue, sells at the same price as many mid-range competitors at approximately Kshs 295 per 500 ml, without sacrificing its premium quality standards. Bio’s drinking yoghurt even sells at a lower price than the competitors, although Bio milk sells at a higher price (milk 130 Kshs per litre) than the market average (Kshs 100 per litre). This pricing scheme allows Bio’s most popular products to reach a wider consumer base, while affording those who can pay a higher price, a premium milk product.

Ensuring product time to market. A more efficient and streamlined sales and delivery system was implemented, largely based on improved team work. This has already resulted in a reduction of returned product (now less than 1% of total product supplied) and a 20% increase in sales in the short timespan since TBL’s investment.

Socio-economic Impacts

Building consumer awareness: Aflatoxin is a serious problem in Kenya where it is present in high concentrations in some of the most widely consumed foods, such as maize and milk. Aflatoxin is a toxin produced by moulds growing on grains, maize and cattle feed. Feeding such contaminated feed to the cows results in the presence of aflatoxins in the milk. One oft-cited urban study found that 99% of pasteurized milk tested positive for aflatoxin. Private sector leadership is critical in markets where implementation of food standard regulation is sub-optimal. TBL therefore plans to launch an extensive consumer education program on the importance of milk quality, the first undertaking of its kind in Kenya. Bio believes this will have a ripple effect in the market as consumers gain awareness and start demanding and hence, selecting, safer dairy products.

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Improved cooling systems and pioneering feed testing labs: Milk quality is greatly improved by early and effective chilling of the milk at farm level. As part of the investment, Bio is supporting new milk collection and cooling tanks in milk catchment areas. New cold-trucks have also been purchased which has significantly reduced returned product (now less than 1% of total product supplied).

In bringing technology to the supply chain, Bio is also helping to establish feed testing labs available to the smallholder farmers that are supplying milk to Bio, currently unavailable in the Kenyan or East African markets. This will enable farmers to learn the nutritional value and safety of the feeds they use.

Resource efficient and environmentally conscious: Use of modern production equipment and other measures will make Bio’s production process more energy efficient which saves an estimated 15% off the electricity bill.

Bio will also install a state of the art effluent treatment plant so that effluent stays within legally required limits. In the coming years, the company is also migrating from its current plastic packaging to biodegradable packaging, another market first in Kenya. Taken together these initiatives are expected to reduce operational costs (relative to unit of product produced) allowing Bio’s product to be as competitive as possible in terms of pricing.

Cross-border Trade

Although Bio’s current export is minimal with some export to Tanzania and Rwanda of yoghurt and UHT milk, a dedicated team will be established with the view to ramp up export to the East Africa region. The team is currently identifying the right distributors and new markets for the newly launched fresh milk, as this market-unique 14 day shelf-life fresh milk is well suited for export. Bio is targeting a significant double digit growth in export over the coming 2 years.

In conclusion

Bio has identified a growing niche in food safety and sustainability. Their ethos encompasses all of the company’s initiatives from supporting dairy farmers in the supply chain to maintaining a resource efficient production process, empowering staff, and satisfying consumer preferences for healthy and delicious dairy products.

The company believes that commercial success and sustainability go hand in hand. As a commercially successful company, with an increase in sales of 20% in the past year alone, it is contributing to long-term socio-economic development by bringing best-practice technology to the supply chain, job creation and gender inclusion.

Bio’s strong brand recognition, in addition to its superior and safe product line, will help it continue to appeal to an increasingly aware and loyal customer base for years to come.

Hamish Grant, Gogar Farm, Rongai

Bio milk supplier, Gogar Farm, currently has 200 cows, 150 employees and collects milk from about 70 local smallholder farmers for a combined daily production of 5,000 litres per day. Over the next 15-20 years, Gogar Farm aims to increase its capacity to 3,000 cows.

Gogar Farm produces very good quality raw milk, considering various milk quality parameters like total bacterial count and aflatoxin levels, exceptionally rare in Kenya. Extensive knowledge and experience in dairy processing; a focus on simple, but effective hygiene and cooling methods in the milk handling process; and most importantly, production of their own animal feed, have helped attain this level of quality.

The farm provides training, quality feed, suitable breeds of dairy cows, and access to credit for such items. As a result, farmers are able to achieve a higher quality output and a higher than average market price for their milk.

Hamish Grant, owner of Gogar Farm believes their business success is due to environmentally sustainable farming practices and lasting partnerships with the surrounding farmers and community. Mr. Grant believes in doing business in a way that adds value to the socio-economic development of the country. Production of high quality milk is also seen as a business imperative for the future.

“In order to remain relevant in an increasingly saturated dairy processing and manufacturing market, it is critical to be able to provide a superior quality product.” Hamish Grant, owner, Gogar Farm.

Additional examples of how Gogar Farm implements its belief in community empowerment environmental and social sustainability: Together with the Vanessa Grant Foundation, Gogar Farm runs community schools which enrol 1500 students in total. The Farm is also at the forefront of clean energy technology with a plan to install a solar panel capable of supplying 10MW of power to the grid.
Hemingways Hotel is a boutique hotel with operations in Nairobi (Karen), Mombasa and Maasai Mara. The hotel in Karen was built and started operating in 2012. It serves a clientele of international and local tourists and corporates.

Hemingway’s Executive Chief, Archie Athanasius, has achieved SGS Excellence Certification in Food Safety at the Hemingway Hotel and is a loyal customer of Bio Food Products. During his 20 years as a top chef for some of the 5-star hotels in Nairobi, he has used Bio’s products. The reasons for this are most importantly its quality and taste, but Hemingway’s guests are also preferring organic and locally produced products, and Bio products provides that.

Hemingway’s General Manager Katy Whitfield adds that sustainable sourcing and procurement is part of Hemingway’s way of doing business. Also all of the Hotel’s staff are Kenyans. “It is the right thing to do, our guests demand it, and being a boutique hotel, we have a more direct contact with our supply chain.”

Bio production facilities and staff:

“With our focused efforts and improved team work culture we have become a more efficient team. That and the production technology upgrades have been the biggest change since the strategic investor came in” says Mr. Gerald Mwangi, the Production Manager at Bio Food Products Ltd.