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The Journey from Subsistence to Commercial Viability: The Case of Meru Herbs, Kenya

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Abstract

The genesis of Meru Herbs, Kenya is traced to a decision to grow plants as a means of providing an alternative source of revenue to pay for a balance due on a water-project about 14 years ago. Such a modest initiative has enabled 600 families to move from subsistence to commercial farming. As a cooperative, Meru Herbs has made significant improvements to their products by moving up the value-chain through processing organic certified ingredients into gourmet foods. Critical factors contributing to the success of Meru Herbs include a creative product-mix designed to overcome logistics costs, customer focused, and strategic partnerships with *Friends of Meru Italy* and *Value Added in Africa* which provided provisions for investment and market brand development respectively. The performance of Meru’s own branded tomato sauces, which are the first to bear the *Proudly Made in Africa* label, enter international markets provide new opportunities and challenges going forward.

Keywords: Meru herbs, ethical supply chain, value-added in Africa, Commercial viability, international markets

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Company Background

Meru Herbs is the trade name of herbal teas grown and packaged in the Meru region of Kenya, on the eastern slopes of Mount Kenya. All produce is grown along a stretch of the Kithino River (a tributary of Kenya's largest river, the Tana) in Tharaka-Nithi District of Kenya. Originally this area was semi-arid, but in 1989, the Catholic Diocese of Meru (DOM) in collaboration with the Italian government formed the Nguuru Gakirwe Water Project (NGWP) to provide water for domestic and irrigation use for a group of 430 families in a three phase process. A major result of this irrigation resulted in increased agricultural production and higher food-crop yields. In addition to this, the supply of domestic water direct to households precluded the need for valuable time and labor to be diverted into collecting and carrying water from other rivers and boreholes—a burden normally incumbent on women and children.

After the completion of Phase 1, it became clear that NGWP beneficiaries were going to have to contribute towards the water project's operational and maintenance costs, by paying a fee for the water they were receiving. The nominal fee, originally set at KSh 100 per household, per year (amounting to KSh 1,350 in 2003), fell well short of covering the project's costs, so alternative ways of raising funds to cover the costs had to be considered. At the same time, both the DOM and the Project Coordinator were interested in stimulating agricultural production within the area. In particular, they wanted to establish a commercial venture that would increase incomes from irrigated agriculture, while providing an alternative source of revenue for meeting the balance of the water project's costs.

After much deliberation, it was agreed that growing Hibiscus, Lemongrass and Chamomile organically (using no inorganic pesticides or fertilizers) for export as herbal teas might be worth a try. So, in 1991 a commercial venture known as Meru Herbs was established as part of the NGWP. Today, they produce an assortment of herbal teas and jams from locally found tropical fruits and more recently tomato based sauces which are processed and packed in a factory built on the site of the original NGWP base camp. This factory implements an entire food safety quality assurance system, using skilled quality assurance managers.

Meru Herbs currently operates in the Fair trade market for herbal teas, jams and sauces, exporting 90% of their produce through Fair trade outlets in various export markets, with 10% of their produce being sold domestically. Currently, products are sold in Japan, Italy, France, Austria and Germany, and more recently the UK. This is a competitive market but one in which Meru Herbs feels it is accommodating as they have created long-term relationships with various Fair trade market outlets. In the beginning, all Meru Herb's produce was sent in bulk but later machines were purchased to add value so they could export finished high-quality gourmet products to Europe and Japan. Meru Herbs now turns a reasonable profit on a turnover of roughly KSh 15-million per annum (approx. USD \$ 140,000), and is able to finance more than 50% of the NGWP's costs. As such, Meru Herbs has become an integral part of the NGWP, with whom it currently shares the same management.

Current Management Structure

The farmers of Meru Herbs are geographically bound by the irrigation system. These farmers are members and owners of the cooperative. The business is held by a Project Manager in a Trustee for the Diocese of Meru. The Project Manager is responsible for a quarterly report to the Diocese, but typically the Diocese does not interfere with the day-to-day running of the company. Instead these decisions are taken up collectively with

an Executive Committee comprised of the Project Manager and the respective department heads from the tea and jam factories. The Executive Committee manages the planning for the entire year: coordinating the orders (supply and demand) between markets and farmers, development and marketing of product packaging, as well as human resource decisions. Typically logistics and communications are managed by the Meru Herbs head office located in Nairobi, Kenya about 250km from the Meru farming area.

In addition to a shared management structure, Meru Herbs has created strong strategic partners with Friends of Meru Italy and Value Added in Africa (VAA), for investment and the provision of market information for brand development respectively. The first strategic partnership started over 20 years ago with Friends of Meru Italy, who helped build the jam factory where the fruit is processed. Additionally, they have facilitated numerous projects for the benefit of the workers. The farmers of Meru Herbs have benefitted from such projects as: school bursaries for the children of Meru Herbs' workers and community farmers, bicycle schemes, and irrigation kits sold to the farmers for half price while the project pays the remaining half.

A second central and strategic partner to Meru Herbs is VAA, who has been integral in connecting them to potential new international buyers for the last five years. In addition to networking opportunities, VAA provided support for new packaging and formulation of Meru Herb's international marketing strategy. This assistance has been a major advancement for Meru Herbs who until this point had no structured strategy for market expansion.

Key Success Factors

Meru Herb's vision is to become a successful and dynamic Fairtrade organization that creates employment and provides sustainable livelihoods for people in the local community. This vision supports the businesses mission to:

- (1) Empower women
- (2) Alleviate poverty
- (3) Improve living standards

A significant achievement of Meru Herbs is women empowerment. Most of the people working in Meru Herbs are women. Initially women in this society were not given a say in the decision making at home and it was more important to educate the boy child as opposed to the girl child. This has changed tremendously and the need to educate children equally is seen as very important. The women working for Meru Herbs have a source of income that allows them to make financial decisions for their families and even have bank accounts where they can save their earnings.

Consequently, the financial success of Meru Herbs has allowed them to achieve the following objectives: provide sustainable income for employees and farmers; contribute towards eradicating poverty in the area and educate the community on organic farming methods. This is possible due to the number of ongoing activities within the company which include: production, processing and packaging of teas, jams and sauces; product marketing and sales to enable both domestic sales and export; irrigation, education, best farming practices and the introduction of the MH Rural Saving Sacco (a bank for Farmers), a microcredit union. In 2005, Meru Herbs



Sacco was started as a saving and credit cooperative (mini local bank). It has over 600 members consisting of Meru Herbs workers and farmers/water users.

Success has largely been achieved through good leadership. Key decision makers include Italian, Andrew Botta, coordinator for Meru Herbs who arrived in Kenya as a missionary, married and ended up making Kenya his home. Through his Italian network, he instigated funding support from the Italian Government. Andrew is supported by Sally Kimotho Sawaya, the assistant general manager of Meru Herbs Cooperative Kenya. She is responsible for international marketing and logistics. She first started working with Meru Herbs as an intern and was subsequently offered a full-time position working with the cooperative in July 1997. She chose to work with Meru Herbs because of the impressive story behind the farmers at the cooperative. These two decision makers are integral to Meru Herbs core management team. This team enabled the vision and mission to be achieved, by navigating through the Fair trade system and by also efficiently and effectively managing the economics of Meru Herbs products. For example, the higher the fruit content in the jams, the less sugar is required to be purchased. The company prides themselves on producing a 65% fruit concentrate whilst also reaping more revenue from the product. Essentially this quality enables the company, to command a price premium – and so overcome the distance from market. The farmers are incentivized to produce high quality as a result of the time invested in achieving water and organic certification. The farmers receive a small financial bonus on the chamomile produce. The remainder of any additional profit is reinvested into the factories to purchase any equipment necessary to ensure the efficiency and effectiveness in running the two factories.

Through efficient sales and marketing, a successfully formulated product mix was designed to overcome logistics costs—illustrating Meru’s creativity in overcoming challenges. Unique product offerings include high-quality, Fair trade, gourmet-food produce which have been created to stream-line costs, promoted using pro bono assistance – with packaging design and marketing strategies supported by VAA and delivered straight to consumers through Fair trade distribution channels. Ultimately this has eliminated the ‘middle man’, making the products price-competitive, resulting in higher return on margin for farmers which ultimately is a key motivating factor for growth and continued development of the product from the ground level.

Strategic Issues

Presently within sub-Saharan Africa, Meru Herbs is one of just two farmer-owned companies that are successfully selling high value-added agri- processed goods to export markets under their own brand. Based on the dedication of the core management, the company has worked hard to establish itself as number one in this very niche market, creating good long-term relationships with Fair trade partners in Europe and Japan. For example Meru Herb’s Fair trade partner, the People Tree Japan, have assisted with day-to-day production efficiency, facilitating Fair trade workshops at the Meru Herbs base camp. In addition to this support, the People Tree have also assisted in the development of a particular type of Jam- Hibiscus and Papaya to sell to Japan as well as opening up this new variety to other export markets as part of a wider jam range. Meru Herbs is recognized as not compromising on quality and this brand value has been supported recently with the redesign of the packaging of Meru Herbs produce with the assistance of VAA and Zeus Creative, an Irish design company. Through this redesign Meru Herbs has been able to see their potential as an export capable brand which aligns their internal brand values with the external marketing of the produce to ensure competitiveness in the international market.

Going forward Meru Herbs are continuously planning for the future. These plans include the desire to increase Fair Trade partners in various new export markets, in particular the Irish and UK markets. There is also a

desire to spend more time on the development of Meru Herb's dried tomato produce to satisfy Japanese and Italian market demands. In recent years the company has been impacted as a result of the economic downturn, but management view the option for new tomato product range, new assortment of herbs and new Fair Trade contacts as efficient and effective ways in which they can strategically negate against the downturn in orders in recent years.

Looking Ahead

The current challenge facing Meru Herbs directly links to their desire and need for relevant and marketable certification. At present they possess organic certification with the 'Soil Association of the UK', but they are currently in the process of navigating through HACCP certification which is costly but a necessary cost for the future of the business to show that they have a top quality food safety management system in place within their factory.

They recognize that they have lost potential contracts based on the fact that their competitors possess these costly certifications. One such opportunity and challenge for Meru going forward, is that Meru's own branded tomato sauces, is the first to bear the 'Proudly Made in Africa' label to enter international markets. This is a trademarked copyrighted logo which must receive VAA Board approval to companies who can demonstrate the following four criteria:

1. The product(s) they are producing are African made.
2. The product(s) are finished consumer ready goods.
3. The product(s) are produced through an ethical supply chain.
4. The quality of the product(s) is to hold a confident offering in the marketplace.

On the creation of this trademark, VAA carried out consumer research which highlighted consumer confidence in the label and the strong association with quality produce. This label provides an opportunity for companies across the continent of Africa to strive for this trademark which will receive strong global recognition as opposed to a country specific label.

This approved trademark received by Meru Herbs essentially will provide the potential target market with some confidence in buying the Meru Herbs produce. This does excite the Executive Committee as they try to advance the company in the international domain, establishing potential new partners and identifying opportunities. However, like any company, the Executive Committee does concern themselves with ensuring that Meru Herbs keeps afloat as a business, and finds ways they can recoup the money lost on the downturn of orders of containers during the recession.

In terms of scalability, Meru Herbs processes a portion of the farmers' produce into jams, teas and sauces. The bulk of their produce still goes for export as fresh fruit. So the company has the supply available to expand. Extra investment in HACCP, equipment, and marketing will be necessary to do this on a significant scale. Because Meru is the first to succeed in this, it has the first entrant advantage. Its story will command a listenership in the market. Buyers who see the success of Meru have specifically asked VAA to help them source other products from equivalent cooperatives in other parts of Africa.

The models of how cooperatives have grown internationally may provide Meru Herbs lessons on how cooperatives can grow from local farmer groups into larger networks that enhance the lives of many more farm

families. If the company is to achieve such scale it would benefit farmers in the wider region or county, they will at some point need to consider how to integrate other farmers. With time, the need for economies of scale will increase pressure on Meru to do this.

The other aspect of scalability is not just Meru's growth, but that others will replicate their model. The market will not bear 100 brands like Meru, but Meru's model of progressively moving up the value chain in small steps, and within their ability, has lessons for many others throughout Africa in different product areas.