

GHANA

Strategy Support Program



Blue Skies: How One Firm Overcame “Binding” Constraints

Margaret McMillan

DISCUSSION NOTE # 021

INTRODUCTION

By just about any measure, Blue Skies Limited is a financial and economic success story. Over the past decade, sales have grown by an average of 28 percent per year, the company now employs close to 3,000 workers, and it works with hundreds of farmers in Brazil, Egypt, Ghana, South Africa, and the United Kingdom. In short, Blue Skies has become a large multinational firm in West Africa. It has also won numerous awards for its business model, and particularly the way it treats its employees and its partner farmers across the globe.

It might surprise you to learn that Blue Skies is a manufacturing firm with an arm of its business based on the outskirts of Accra, the capital of Ghana. Countless articles and indices indicate that doing business in Africa is extremely difficult. Limited growth of the manufacturing sector is at least in part a vindication of these studies. Some of the more important obstacles to doing business in Africa have been identified as power failures, lack access to credit, lack of inputs, low skill levels in the labor force, lack of access to markets, poor land tenure, and inability to enforce contracts. And according to the World Bank’s *Doing Business Indicators 2013*, Ghana ranks 112 out of 188 countries based on the level of difficulty in starting a business.

Most of what is written about the poor state of doing business in Africa places the blame on the problems on African governments. Some of this is justified. But African governments are short of resources and skilled manpower. Viewed from this perspective, it makes sense to turn to successes in the private sector for clues about how to alleviate some of the constraints. This policy brief aims to shed light on this issue by documenting the ways in which one very successful, large agribusiness start-up managed to grow in Ghana. Ultimately our hope is that case studies like this one can facilitate the dialogue between entrepreneurs and government so that other “growth miracles” can be encouraged.

BLUE SKIES HISTORY

Blue Skies was founded in the late 1990s by a British entrepreneur named Anthony Pile. Pile had worked his way up the ladder in the

food industry and so was intimately familiar with all of the technologies that Blue Skies would use.

The Blue Skies primary line of business is exporting freshly cut fruits—pineapple, mango, papaya, pomegranate, coconut, melon, grapes, and berries—to supermarkets in Europe. Blue Skies also produces items for the local market such as fresh juice. The company has built its reputation by sending produce “fresh from the source” within 48 hours of harvesting. The company philosophy is based on adding value at the country of origin, which makes for a better product since the fruit is picked only when it is naturally ripe. Other companies ship fruit by boat, then cut and package it once it arrives in Europe. Blue Skies’ largest operation is in Ghana, but it also has operations in Brazil, Egypt, South Africa, and the UK.

Blue Skies sees itself as a sophisticated alternative to fair trade. Fair trade was intended to change the balance of trade between the north and the south. But in many ways, fair trade reinforces the balance of trade. It encourages farmers to sell unprocessed products to the north rather than encouraging local processing. By shipping a value-added product, Blue Skies generates revenues and employment for Ghana that would have otherwise gone to labor and governments in Europe.

As for the spillovers from this type of investment, Pile has a favorite analogy: “If you have a watering can you can only pour it on a single bush, and get one; but if you can get a drizzle then everything will grow.” In this way more outside investment will be attracted to Ghana. This value-added proposition is a central part of Blue Skies’ Joint Effort Enterprise (JEE) model. As Pile says, “Adding value is the only way you return the value back to Africa”.

Pile’s business philosophy comes from his days in the military. While stationed in Kenya, he had a front row seat to post-colonial political unrest. His time there overlapped with the final throes of Britain’s colonial administration, as England was in the last stages of disentangling itself from the region.¹ Having dealt with people

¹www.just-food.com/interview/the-just-food-interview-anthony-pile-blue-skies_id100213.aspx

from different cultures during his military service, Pile saw value in diversity. He firmly believed that bringing people together from diverse backgrounds creates a healthier, more innovative approach to problem solving. JEE is based on the philosophy of working together to solve problems. Put simply, JEE espouses the idea that a successful business in Africa works best if it is inclusive, and is grounded in social equality and profitability.

OVERCOMING CONSTRAINTS

Credit constraints

Initially, financing was a problem. Although Pile approached several banks with his project idea, none of them were interested. Banks considered the fruit industry extremely volatile and his idea for pre-cut produce untested. To finance the original operations, Pile took out a mortgage on his home in the UK, sought out funding from family members and private investors, and even sold his car.²

Credit again became an issue during the Icelandic volcanic eruption in 2010. Blue Skies lost close to 1 million dollars in a period of 6 days. Airports were closed and Blue Skies could not get their product to market. Naturally, this caused a financial hardship for the firm. Blue Skies reportedly sought bank financing to cover operations but commercial banks in Ghana were charging up to 32 percent and some of the other potential lenders were also not attractive since they wanted to impose several conditions on Blue Skies. In the end, the company managed to scrape together sufficient resources to keep the company afloat.

Access to markets

Before investing in the business, Pile arranged several meetings with potential customers such as Marks and Spencer, Sainsbury's, and British Airways. He had spent enough time in business to know that investing without a guaranteed market would be foolish. In 1998, Blue Skies exported its first products to Sainsbury's in the UK on a very small scale.

Blue Skies is expanding its business to local and regional markets. The company produces fresh juice for the local market with no added preservatives or sweeteners added. Without additives, the shelf life of refrigerated juice is seven days. Due to import restrictions, Blue Skies sells primarily to Accra markets. When Blue Skies started selling fresh juice to the local market, many people were skeptical.

Property rights

Despite some government oversight by the Regional Lands Commissioner, the buying and selling of land in Ghana is generally unregulated. Oversight is further complicated in Ghana by the lack

of a computerized system, making it almost impossible to tell whether someone else also has a title to the land one wishes to purchase. Blue Skies has been involved in considerable litigation around land simply because past technology used for surveying land was not very accurate. Years ago, compasses were the primary surveying instruments, but now the work is accomplished using GPS. The problem occurs when the GPS survey reveals that the land you thought was yours is technically someone else's. Sometimes these cases can be settled amicably, but many end up in Ghanaian courts.

Leasing laws have also changed considerably. Four years ago, a law was passed in Ghana prohibiting the purchase of land. Currently land can only be leased. Foreigners are allowed leaseholds for up to 50 years, while Ghanaians can lease land for 99 years at a time. Further, the government requires an indenture and a site plan to register the land. This can take 6 months to a year, adding further costs to acquiring land. Additionally, land in urban areas—particularly Accra—is prohibitively expensive.

The estates manager is charged with purchasing land for projects, organizing building on the newly acquired land, and then monitoring the status of the land over time. According to the estates manager, the process is complicated.

In Ghana, there are roughly two types of land: stools land and family-owned. The purchase of land is not straightforward in either case. Stools lands are typically owned and allocated by chiefs. To purchase stools lands, one must enter into dialogue with a chief. However, this is not enough. It is also important to talk to elders in the villages to verify the chief's account of who owns the land. The simplest explanation for this redundancy is that many tribal chiefs are quite young and inexperienced. They have not been around long enough to understand the verbal agreements that have taken place between the chief's father and the villagers. Thus, it is imperative to ascertain that no other person has a title and signed plan for the land. Stools lands also present other challenges. Since the government technically owns all land (even locals cannot purchase land), it is possible that chiefs may lay claim to land not explicitly surrendered to them by the government. This creates an unfortunate case of double ownership.³

Input supply

To comply with standards in Europe, Blue Skies has to be very selective about its suppliers. The company deploys a team of agronomists to assess the farmers' capacity to adhere to international safety standards and also to produce high-quality fruits reliably. Ernest Abloh, who has been with Blue Skies for 12 years, leads a team of 11 agronomists that manage the company's rela-

²http://www.just-food.com/interview/the-just-food-interview-anthony-pile-blue-skies_id100213.aspx

³<http://www.ghanaweb.com/GhanaHomePage/features/artikel.php?ID=200791>

tionships with the 146 farmers who supply them. His team travels to all of the existing farms to assess them on a weekly basis and also aids in evaluating prospective Blue Skies suppliers.

Importantly, all Blue Skies farmers have contracts with the company. This is one of the requirements of GlobalGap, the leading international certifier of the production processes of agricultural products. GlobalGap certifies more than 112,600 different producers, evaluating them on four main areas:

- Integrated Farm Assurance (IFA)
- Plant Propagation Material (PPM)
- Risk Assessment on Social Practice (GRASP)
- Chain of Custody (CoC)

Thus, the principle of traceability is paramount to GlobalGap—Blue Skies needs to be able to trace every piece of fruit back to the source in case something goes wrong. All together, GlobalGap assesses 234 distinct control points in the fruit production chain.

The quality of the produce depends heavily on farm inputs such as fertilizer and pesticides. A recurring problem is the lack of credit available to local farmers. Traditional banks in the country see fruit production as high risk and are not willing to lend. When farmers cannot get loans, their input use suffers—especially pesticides. Blue Skies has written to the Ministry of Food and Agriculture about implementing fertilizer subsidies. According to senior management at Blue Skies, the current government subsidy system is severely broken. As a result, Blue Skies has shifted its focus towards promoting the use of local compost.

Blue Skies lent interest-free to farmers for 8 years in return for a slightly lower price at harvest, but this presented problems. Ironically, it was the larger farms that most often failed to repay. These farmers routinely sold the produce to exporters who were offering a higher price, instead of selling to Blue Skies as originally promised. Blue Skies has taken some of these farmers to court. While they do not expect to get any money back from the farmers, they do want some of their produce.

Despite their bad experiences, the company still assists some farmers with loans for business expansion. Instead of providing credit for free, Blue Skies now lends to farmers at the subsidized rate of 10 percent. The market rate is considerably higher at around 32 percent. For example, we visited one farmer who now owns a 25-acre farm after starting with a plot of land less than 5 acres. This farmer was doing so well in his first endeavor that Blue Skies subsidized him on several occasions so that he could purchase additional land to expand his business. And this farmer has even bigger plans—he hopes to acquire more land in the near future.

Even with all this oversight, a lack of local inputs can still sometimes be a problem. To get around this, Blue Skies has pack houses in the Gambia and Senegal, primarily for mangos because input supply in Ghana can sometimes be erratic and insufficient.

Labor productivity

According to senior management, labor in Ghana is extremely productive. Wages are comparatively low, absenteeism is rare, employees work hard and they are good at what they do. Senior management credits this at least in part to its business philosophy.

Blue Skies factories are designed so that operations and administrative personnel sit in the center of the factory floor. The idea is that the Operations room is in the middle of the factory rather than above the factory floor as is typical in other facilities. The room is also occupied by junior-level staffers, not just senior management. Pile knows first-hand what it is like to work on a factory floor and he believes in treating all people with dignity. His goal is to create a seamless society where people show respect for others regardless of their background. In fact, he does not use the term “worker”. People who cut the fruit are equally as important as supervisors—you could not run a factory without them both.

Blue Skies won the 2012 World Business Development Award (WBDA) in Rio de Janeiro for inclusive development. Economic self-determination is a driving principle for Pile, and he feels strongly about empowering—rather than dictating to—local populations. Blue Skies also won the Waitrose Way Award for treating people fairly in 2012, and the Queen’s Award for Enterprise in the Sustainable Development category in both 2008 and 2011. These awards acknowledge Blue Skies’ JEE model for promoting a sustainable buyer and seller business relationship that emphasizes diversity and cultural respect.

Managing Director George Hutton, who accepted the Waitrose Way award on behalf of the company, remarked that the award confirms “...that treating people fairly within the supply chain makes commercial sense and helps us to deliver the best quality products.” If you are exploiting people, Pile explains to all his staff, eventually everything comes to an end.

Blue Skies employees are relatively skilled. Permanent employees of Blue Skies must be able to read and write English and should be at least 18 years old. The lowest paid employees earn around 200 Ghana cedis per week. When accounting for holidays, weekend entitlements, and company benefits, permanent employees are extraordinarily well compensated. For instance, permanent employees get social security, meals, access to an internet café and library, a health facility, and a crèche. Some of the Blue Skies senior managers—including the general manager herself—were educated and trained in Cuba. As part of their educa-

tion, they gained hands-on experience working on local farms and in local companies. In many cases, the training lasted over 10 years.

Transportation costs

One of Blue Skies' biggest selling points—harvesting fruit when it is perfectly ripe and then delivering it within 48 hours—is also the most difficult to implement. Air transportation is extremely costly and susceptible to unexpected delays. In the past decade, airlines have routinely dropped or changed the timing of their routes with little to no notice. Few direct daily routes from Ghana to Europe are available, and the situation for the United States is far worse. Further, air transportation costs are on top of the already high costs that Ghana's fairly poor infrastructure imposes. Poor roads necessitate frequent vehicle maintenance and inconsistent fuel supplies result in higher costs. These inefficiencies are borne in every step of the supply chain.

Risk management

Blue Skies exports of fresh cut fruit average around US\$30 million a year. But except for 2010, when the volcanic ash disruptions occurred, Blue Skies has made a profit every year. However, the company has no formal contracts with its purchasers in Europe. While there are usually basic terms and conditions or verbal agreements, such things are difficult to enforce. The groceries

code of conduct in the UK is rarely policed in practice. These market realities are especially problematic for fresh fruit companies like Blue Skies that are already extremely prone to the whims of Mother Nature. To mitigate this risk, Blue Skies sells to several supermarkets and sources in a variety of countries.

WHAT HAVE WE LEARNED?

The story of Blue Skies Ghana offers a number of important lessons. First and foremost, it is an illustration of the importance of the way in which diversity can enhance productivity. It is also a reminder that one man's business philosophy can play a critical role in bringing workers together in an environment that allows people to feel engaged and almost as if they were part of a well functioning family. It is also a reminder that the constraints to the expansion of agribusiness in Ghana, and perhaps elsewhere in Africa, are real, and it is always difficult for small indigenous firms to overcome these constraints.

Importantly, it is difficult for the government to impart some of these intangibles to other businesses. It can, however, facilitate dialogue between Ghanaian entrepreneurs and foreign partners. Moreover, the government can and should do something about property rights, input supply and transportation costs.

The author wishes to thank Ethan Eberle and Gerardo Zampaglione for excellent research assistance.

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

2033 K Street, NW • Washington, DC 20006-1002 USA
T: +1.202.862.5600 • F: +1.202.467.4439
Skype: ifprihomeoffice • Email: ifpri@cgiar.org

GSSP – IFPRI

Contact: Shashi Kolavalli - Senior Research Fellow and Program Coordinator
c/o IWMI, PMB CT 112 • Cantonments, Accra, Ghana
Martin Odei Block • CSIR Campus • Airport Residential Area
T: +233-(0)-21-780716 • F: +233-(0)-21-784752
gssp.ifpri.info

This publication has been prepared as an output of the Ghana Strategy Support Program, which is funded by USAID and facilitated by The International Water Management Institute (IWMI) headquarters. It has not been peer reviewed. Any opinions stated herein are those of the author(s) and do not necessarily reflect the policies of the International Food Policy Research Institute (www.ifpri.org), its partners, or its collaborators.

Copyright © 2013 International Food Policy Research Institute. All rights reserved. To obtain permission to republish, contact ifpri-copyright@cgiar.org