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Entrepreneurship: A Case Study in African Enterprise Growth

Ghana's Pioneering Food-Processing Enterprise and Its Philanthropist CEO: Esther Ocloo and Nkulenu Industries

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A SUCCESSFUL BUSINESSWOMAN AND PHILANTHROPIST who was widely admired in Ghana, her home country, Dr. Esther Afua Ocloo was a role model for women entrepreneurs around the world. She passed away on February 8, 2002, at the age of 82. This paper describes the challenges she confronted late last year as the head of Nkulenu Industries, the food-processing company she had founded as a young woman.

1. Introduction

It was early September 2001 and the start of Hamatan, the dry season in Ghana. Dr. Esther Afua Ocloo took a few minutes to rest after a long day that had begun at 4 A.M. At 82 years of age, she was still going strong. Much of her time was taken up by philanthropic work with the six nonprofit organizations she had founded. Last year, however, with the help of her husband and children, Dr. Ocloo was shifting her focus to her profitable food-processing enterprise, Nkulenu Industries.

Dr. Ocloo was concerned first about the difficulty her managers were facing in sourcing palm fruit, the main ingredient in Nkulenu's primary export product, palm soup base. The company was not able to meet current export-market demands for the product, a traditional Ghanaian sauce. Relocating the factory from Accra, the capital city, to the western region where the fruit is grown, was one option that would provide a steady supply of palm fruit and also reduce transportation and shrinkage costs.

Dr. Ocloo knew she also needed new equipment to meet the demands of the U.S. and European export markets. Her factory still used the same equipment she had purchased in 1961, and as a result the production process was labor intensive and probably would not meet FDA and USDA production standards.

Consumer demand for the product was not an issue, since customers in the United States and Europe had placed more orders than Nkulenu was able to produce. Instead, the biggest problem Dr. Ocloo faced was figuring out how to finance the relocation of the food-processing factory and the purchase of new equipment.

With the increased production capacity the new equipment would bring, Dr. Ocloo also wanted to explore opportunities to introduce such new products as Ghanaian ground nut soup, garden egg (eggplant) stew and palm wine. Her vision was to offer an entire line of traditional Ghanaian prepared foods to the U.S. and European specialty foods markets. In light of recent trade liberalization and African Growth and Opportunity Act legislation, Dr. Ocloo also wanted to explore opportunities to expand exports to the United States, which currently represented less than 20 percent of her total business.

2. Background

The story of how Dr. Ocloo started her business with six shillings and made it grow into a successful enterprise is well known in Ghana. In fact, she is something of a celebrity in her native land, and her success has inspired many other Ghanaian entrepreneurs to launch their own ventures. Dr. Ocloo was a passionate advocate for the rights of women entrepreneurs in Africa and around the world, but she first became an entrepreneur simply to put food on the table. “I didn’t start to help women, I started to survive,” she said.

As a teenager, Esther Nkulenu left her small village of Peki-Dzake in Ghana’s Volta region to attend boarding school in Accra. She endured ridicule and relentless teasing from other students because of her rural accent and traditional way of dressing—until age 14 she was not accustomed to wearing shoes or Western-style clothing. After graduating from school, she had difficulty finding work because of discrimination and a tight labor market. To support herself, she started making and selling marmalade to British colonial troops.

In 1942, Dr. Ocloo established Nkulenu Industries, the first food-processing company in Ghana. “When I started, they had not invented any machines for what I was doing, so I was improvising,” she said. As a result, the company relied on low-tech, labor-intensive manufacturing techniques. To remain competitive, the company purchased its first food-processing equipment in 1961.

Throughout her career, Dr. Ocloo focused much of her energy on nonprofit ventures, including a foundation she started that trains low-income Ghanaian women to start their own food-processing and textile-manufacturing businesses. Through her foundation and her ties to Women’s World Banking—she was the organization’s first chairperson—Dr. Ocloo assisted women in launching their own ventures even though she knew that they would ultimately compete against her own for-profit enterprise. Her philanthropic ventures were as important to Dr. Ocloo, if not more important, than Nkulenu. “If other women were not to suffer the humiliation I suffered,” she said, “then women must be given economic power.”

3. Nkulenu Today

Today there are more than 70 food-processing companies in Ghana, including several focused exclusively on the export market. Despite Dr. Ocloo’s first-mover advantage, Nkulenu Industries has been eclipsed in recent decades by larger, better-funded competitors. Nkulenu’s product line has remained simple, as have its production techniques. The company still uses the original food-processing equipment that Dr. Ocloo and her husband, Stephen, purchased in 1961. As a result, Nkulenu has remained small, while the food-processing industry in Ghana has grown at a phenomenal rate, leaving room for competitors to capture market share.

Nkulenu currently manufactures two primary products: palm soup base for the export market and orange marmalade for domestic consumption. Most of the firm's revenues are generated by exports of palm soup base. For the domestic market, Nkulenu sells its product directly to retailers. For the export market, the firm works through two primary distributors, one in the United Kingdom and another in the United States.

For a number of reasons, including its larger and more concentrated base of potential customers, the U.K. market currently represents more than 80 percent of Nkulenu's total export revenues. The company's distributors have shared only limited information about the firm's end consumers, but based on the information available, Stephen has determined that the current market appears to be limited to Ghanaians living abroad. He believes that there is a large opportunity to expand the target market to other customer segments and that the U.S. export market represents a largely untapped opportunity.

3.1 Ghana's Export Market to the United States

Traditionally, Ghana's heaviest exports have been cocoa, timber and gold. Over the past few years, the prices of these commodity items have been declining. This has forced the country to explore new export markets to supplement its revenue from these declining export sectors. Ghana has been fairly successful with the export of pineapple and cashew nuts and is increasing exports of handicraft items and textiles. On a much smaller scale, a few microenterprises have been exporting processed, traditional Ghanaian food to various countries in western Europe, as well as to the United States. Nkulenu Industries is one such firm.

U.S. exports of palm soup base have remained considerably smaller than U.K. exports, but Nkulenu is now exploring the idea of exporting a whole line of traditional foods to the United States. Nkulenu would like to increase U.S. exports in order to take full advantage of the African Growth Opportunity Act (AGOA) that was signed by President Clinton on May 18, 2000.

The AGOA agreement is Title I of the Trade and Development Act of 2000. This agreement between the United States and sub-Saharan Africa entitles eligible countries to export more than 6,000 tariff- and quota-free items to the United States. The AGOA agreement extends the General System of Preferences agreement with Africa to September 30, 2008, seven years longer than with the rest of the world. It also provides a great opportunity for African businesses to export to the United States by allowing greater access to U.S. markets, credit and technical expertise.

A country is eligible to receive AGOA benefits if it has established, or is making continual progress toward establishing, "a market-based economy; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of

intellectual property; efforts to combat corruption; policies to reduce poverty; increasing availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices.” Ghana has been deemed eligible, and therefore Nkulenu can take full advantage of the opportunities provided by this agreement to increase its exports to the United States.

The FDA, however, requires that imported foods be in compliance with specific regulations set by the agency. The products must be examined and approved by the FDA before being allowed into the United States. Nkulenu has already submitted and registered its palm soup base with the FDA. To export its traditional-foods product line in the United States, Nkulenu will have to register each item with the FDA.

3.2 Target Market and Distribution

There is a potentially large niche market for traditional Ghanaian foods in the United States that could easily be tapped into by Nkulenu Industries. In addition to the large Ghanaian communities in New York, Atlanta and Chicago, potential markets exist in other West African and West Indian communities across the United States. Ghanaian foods would appeal to these communities because they share similar characteristics with the food products from these regions. Nkulenu can also target the general U.S. market because it produces certain products that would appeal to the American palate. For instance, Nkulenu makes a ground peanut sauce and a garden egg (eggplant) stew. These items are more familiar to the general U.S. market, and they would be easier to market than palm soup base, which is not a common product in the Western Hemisphere.

Distribution is the key for this potential market. Nkulenu currently has a distributor in New Jersey that markets its products to Ghanaian stores. The company needs to focus on lining up more distributors to tap into other potential markets. It could also distribute its products to specialty-food stores that sell products to the general U.S. market, such as Trader Joe’s, Bread & Circus, Citarella and Agatta & Valentina.

To take advantage of this potential market, Nkulenu would also need to improve the packaging of its products. U.S. consumers are accustomed to very creative and effective packaging and often use this as an important criterion in purchasing products. Therefore, Nkulenu would have to make additional investments in both its packaging and labeling in order to appeal to the very appearance-oriented general U.S. market.

Nkulenu also needs to consider various advertising options for its products to increase awareness among the general public. One option would be to advertise in specialty-food magazines that appeal to an eclectic audience as well as in various West African and West Indian publications that are distributed in the United States.

4. Secondary Issues Affecting Nkulenu Industries

4.1 Factory Relocation

One major decision affecting Nkulenu Industries is whether or not to relocate its processing factory to Takoradi, an area in the western region of Ghana where palm fruit is cultivated and also sourced by Nkulenu. With its factory currently in Accra, Nkulenu incurs very high transportation costs as well as additional costs to dispose of the palm fruit waste after the initial extraction process. It also faces difficulties in getting a steady supply of palm fruit to meet its demands because of the distance between the factory and the palm fruit farms.

By relocating its factory, the company could avoid or significantly reduce these costs and establish a reliable and steady supply of palm fruit. Takoradi is also an industrial area with a shipping port, so Nkulenu would be able to ship its containers of palm soup base directly from that region to the United States and the United Kingdom.

There are, however, a few drawbacks to relocating the factory to the western region. The company would incur substantial relocation costs and would also have to disrupt operations until the move was complete. In addition, the Ocloo family members, who have no intention of moving to the western region themselves, would have to recruit someone to take over the management of the factory in Takoradi. They would also potentially have to train and hire new factory workers, as it is not certain that their current staff would be willing to move to the region. Another drawback to moving the factory is that Nkulenu would incur additional distribution costs for the products that are sold only in Accra, such as orange marmalade and pineapple jam.

One option would be to move the palm fruit operations to Takoradi and leave the other operations in Accra. Nkulenu has hired a consultant to assess through cost-benefit analysis whether it would be more beneficial to move the factory to Takoradi or to keep it in Accra.

4.2 Corporate Governance

For the past decade, Esther and Stephen had managed Nkulenu Industries together. At 82, Dr. Ocloo would have liked to reduce her involvement in the management of the company. Stephen, who is close to the same age, felt he needed to do the same. The issue they had been confronting was how to decide who would take over the general management of the factory if they both decided to retire.

There are three Ocloo children: two sons and one daughter. Both sons help with the management of the company on a part-time basis. They also have businesses of their own, and they would like to focus on these businesses rather than manage Nkulenu Industries full-time. The daughter is a professor at the University of Legon and had intended to resign

from her position in the spring to assist Dr. Ocloo full-time with philanthropic interests. The Ocloos would therefore have to hire an outsider to manage the business in order to retire.

Many Ghanaians are less willing to hire outsiders to manage a family business because of general feelings of distrust and skepticism, and the Ocloos share this concern. Since this is, however, the only clear alternative, they now need to evaluate their hiring options.

The cheapest option is to hire a recent university graduate and train that person in all aspects of the food-processing business. The drawback to this option is that it would take a few years before this employee acquired all of the necessary skills to manage a business. Another alternative is to hire an experienced food-processing manager who works at one of the large multinational firms in Ghana, such as Nestlé or Unilever. This person would already have the skills necessary to manage a factory but would also require a salary commensurate with both his or her experience and with what a manager of this caliber would receive at a multinational firm.

The final management option available to the Ocloos is to solicit outside investment and have the investors take over the management of the company. The family has already identified two potential investors: both Ghanaian, one lives in the United Kingdom and the other in the United States. They are both willing to invest in Nkulenu and manage the company, but with this option, the Ocloos would not only lose management of the company to a non-family member but also relinquish some ownership as well. They would, however, gain another source of capital, which is necessary if they do decide to relocate and purchase new equipment. They would also acquire experienced managers able to handle the additional demands of an expanded product line for export.

4.3 Purchase of New Equipment

With the equipment currently used at Nkulenu Industries having been in place for 30 years, the Ocloos decided they need to invest in new equipment—specifically, in new closing and labeling machines, a steam boiler, sterilizing equipment and a vacuum boiler. This new machinery would allow Nkulenu to increase the capacity of its factory and to also increase production. Both would be necessary for increasing exports and expanding the export product line. The new equipment would allow more efficient production as well, thereby lowering production costs. Also, the factory would now be more likely to meet the relevant FDA health and sanitary regulations (sanitary and phytosanitary standards).

The main challenge facing the Ocloos is the availability of financing options. They would need to borrow funds in order to purchase new equipment, and the ideal arrangement would be a long-term loan. There are, however, basically no avenues for

long-term borrowing in Ghana for small businesses. The Ocloos would therefore have to evaluate their short- to medium-term options. They could capitalize on financing options in the United States as described earlier or alleviate the need to find a financing source by taking on an outside investor.

The Ocloos could also make use of the Global Technology Network (GTN), a U.S.-based nonprofit organization partially funded by the United States Agency for International Development (USAID). The GTN's goal is to get entrepreneurs in touch with the technology and equipment available in the United States, which they do by assisting entrepreneurs with operational design and selection of the new equipment.

The main disadvantage to purchasing new equipment is that it may be less versatile than the machinery the factory uses to produce a variety of products. Modern machinery may be tailored more specifically to each product and so may not have the advantage of being multifunctional. This new machinery would also require factory employees to undergo specialized training. Nkulenu Industries would therefore incur additional costs in excess of the cost of the equipment. There would also be new maintenance needs, and Nkulenu may have to hire a specialized maintenance worker, thereby further increasing costs.