International Food and Agribusiness Management Review
Volume 17 Special Issue B

The Export Trading Group: Unlocking Africa's Agricultural Potential

Disha Maheshkumar Patel

P. O. Box 10295, Dar es Salaam, Tanzania

Abstract

Export Trading Group (ETG), is an agricultural supply chain manager with operations along the value chain ranging from procurement of cereals, pulses and oilseeds; storage; processing; transportation, distribution and marketing. ETG is present in 41 countries globally and generated a turnover of $1.8 billion USD in 2012.

ETG has built this business by linking small-holder African farmers to a diverse pool of global buyers and efficiently managing this value chain. Their success is also attributed to their ability to adapt themselves and operations to each new country, making the necessary infrastructure and logistics investments to support a commodity trading business and sound financial and risk management.

The impact ETG has had in the African agricultural sector is phenomenal. Not only have they created value for farmers by enabling them to earn consistent incomes from agriculture but more importantly, instilled in them, a renewed optimism about the viability of farming and agriculture as a business.

Keywords: Agribusiness,trading, small-holder, commodity, Africa

Corresponding author: Tel: + 255-787-225225
Email: D.M. Patel: disha.etg@gmail.com

Introduction

Agriculture is the key economic activity in a majority of African countries, employing a significant proportion of the population and contributing around 12% to the continent's GDP (Mckinsey Global Institute). With the limited economic diversity in most countries, agriculture provides a livelihood for individuals by allowing them to grow food for consumption and the option of producing surplus for sale to generate income. It is important to analyze businesses which operate in this sector, particularly in Africa, as the economic and developmental impact they can have is substantial.

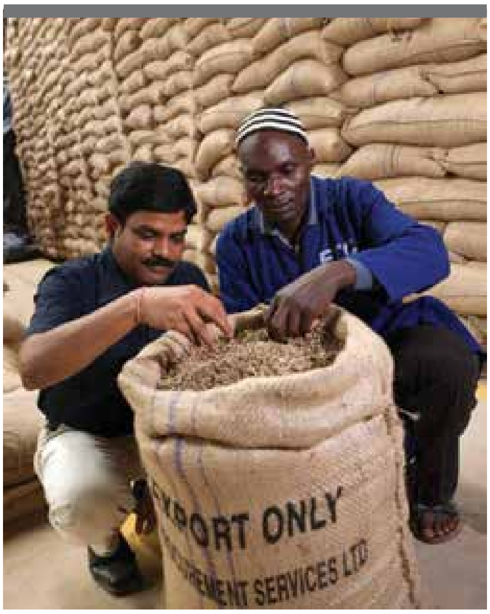
Export Trading Group (ETG) is one such example. ETG has built a successful agribusiness by efficiently linking small-holder African producers to a diverse pool of global buyers and becoming efficient managers of the agricultural value chain. In the process, they have created value for farmers by enabling them to earn consistent incomes from agriculture and instilled in them, a renewed optimism about the viability of farming and agriculture as a business.

The impact has been phenomenal both for farmers and for ETG. In ETGs countries of operation, such as Malawi and Mozambique, farmers have shifted from subsistence to commercial farming, to cultivation of higher value crops such as pulses, lentils and oilseeds and to continuously improve their productivity and profitability by investing in seed, fertilizer and engaging with extension services. African Farmers are now playing an active role in the global food supply. For ETG, what started off as a small trading company is now a multinational agribusiness operating in 41 countries globally and generating a turnover of $1.8 billion USD (FYE 2012).

Company Background

ETG is an agricultural supply chain manager with operations along the value chain ranging from procurement of various cereals, pulses and oilseeds; storage; processing; transportation, distribution and marketing. ETG is present in 41 countries globally and in the financial year ending 2012, generated a turnover of $1.8 billion USD. The company is owned by its founders and management and since most recently, 3 private equity groups; Standard Chartered, Carlyle and Pembani Remgro who in aggregate invested around $284 million USD of growth equity between 2011 and 2012.

ETG has its origins in Kenya since 1967 and was initially focused on distributing and marketing products manufactured by multinational in Kenya such as Colgate-Palmolive and Del Monte to neighboring African countries. In doing so, the company developed strength in logistics. Moving goods from origin to destination was not so simple at the time given the limited and dilapidated road infrastructure, rudimentary communication and ongoing civil unrest.



The change of focus to agriculture came in the late 1980s. Competition in the distribution business was increasing and there was a need for ETG to look for new opportunities with higher margins where their strength in logistics could be leveraged. The opportunity was presented in competing for international food aid tenders. International organizations such as UNDP WFP, FAO, UNHCR, UNICEF were increasingly using their cash endowments to source food (mainly white maize and kidney beans which are a staple for East/Southern Africa) for relief efforts at the cheapest possible prices.

ETG competed for these tenders by sourcing produce locally from rural agriculture-producing areas. Warehouses were rented in these areas and acted as proxy markets. Staffed by employees, commodity was actively procured at the warehouse from farmers in varying quantities. The aggregated commodity was then cleaned, sorted and re-bagged, ready for delivery. When a contract was awarded, delivery would begin, but until then the commodity would remain in the remote warehouse to prevent unnecessary logistics. Local sourcing offered the advantage of being cheaper than imports, with lower transport costs and timely deliveries. This model was perfected and replicated in other African countries as the scope for food aid was regional and the ability to source locally would continue providing a competitive advantage in competing for tenders. Eventually, there was a rationale to invest in permanent warehousing infrastructure to support the procurement activities.

It is important to mention that the expansion of ETG also coincided with the deregulation of the agricultural sector in many countries. Earlier, government-managed farming cooperatives served as the traditional crop marketing mechanism for farmers. With their disintegration, farmers were responsible for themselves. This provided a gap in the market which ETG was able to fulfil.

Beyond food aid, there were opportunities for participation in government tenders as well as regional trade opportunities both centered on correcting disparities in production and consumption levels. As the reputation of ETG was established, they attracted opportunities for joint ventures with global partners who would contribute finance and access to global customers.

As staple food demand stabilized ETG started encouraging farmers to cultivate higher value crops. These crops are now being exported globally: pulses and lentils to India and the Middle East, and sesame seed to China, Japan and Turkey and cashew nuts to Europe, US, Asia and Middle East. To further increase the value of these commodities, ETG invested in agricultural processing facilities to enable export of high-value finished goods. ETG also processes soybeans into “soya chunks” and markets this final product in Malawi and Zambia as an affordable and alternative source of protein.

The work that ETG is doing in agriculture has been recognized and commended by Government. The company is held in high regard by many African Presidents for its role in empowering small-holder farmers as well as contributing to food stability and security.

Current Management Structure

ETG is managed by its Founder, Maheshkumar Raojibhai Patel, including directors and key senior managers who have been with ETG for over 15 years.

Each key individual was selected by Mr. Patel based on their ability and willingness to learn and grow with the company. Mr. Patel believes in on-the-job training: each individual recruited was groomed into their respective role through mentor-mentee style relationship with constant feedback. Further, most of the new recruits at managerial level had never been to the rural areas of Africa. So not only did they need to learn about agribusiness, but also learn the social skills to manage relationships with farmers, village community and government officials. They needed to be mentally strong to operate in difficult terrains. Hence new hires had to be molded and be adaptable to the new working environment.

There were three employees working with the founder when the company started. A start-up culture was naturally inculcated whereby each individual managed not only their respective responsibility area but other areas. Key individuals had a sense of ownership of the company in the absence of owning any equity and shared in the founders' vision of the growth of the business.

Today, ETG is restructured in a more corporate way to suit the needs of a growing business. The company has well-defined positions and key responsibility areas for all employees including a board with a balance of executive and non-executive directors. The company is also attracting top talent from traders formerly working with multinational companies and MBA students from the best schools. As ETG grows their human capital strength, a more formal training and management development program has been put in place to suit the needs of the business.

Key Success Factors

Growth Potential

ETG operates in a sector which is fairly similar across most of Africa: small-holder farming accounts for 90% of the way in which farming is done. The business model of procuring from small-holder farmers and trading was therefore scalable across the continent. Furthermore, the failure of government-owned cooperatives left a storage and marketing gap in the market which was filled by ETG. Moreover, the expansion and continuous procurement of unhedged commodity positions was not done on an ad hoc basis, rather, it was a function of experience built over the years. ETG found that there was always a market for the food they procured. Adverse weather conditions, civil unrest, were amongst the common reasons which would allow ETG to correct the disparity. Thus ETG continued to buy crop and store for future sale.

The continued success of ETG is attributed to evolving as a business to capture opportunities beyond just food aid. Today global food demand patterns are changing, creating opportunities for ETG to participate. The infrastructure of ETG allows them to continue buying diverse crops and market them globally.

Relations

Each country in Africa presents different challenges to the business environment. ETG takes the time to understand the culture by interacting with farmers, exploring the country to determine the available infrastructure and the political landscape. Accordingly, ETG has adapted its operations to each new country of operation.

Optimal Investments

ETGs success is also attributed to its ability to manage the agriculture value chain and make the necessary investments to manage the value chain optimally:

ETG owns or rents a network of warehouses in rural, agriculture-producing areas. Various types of commodity are produced and warehouse use is further optimized by selling fertilizer through the same warehouses to farmers. The rationale for investment in warehouse was that from the onset, the agriculture trade business was never intended for opportunistic trade. It had a vision and focus of being a link between farmers and consumers. The advantage was that there was no competition in the market. No other company had the vision of "going into the bush and building infrastructure". What was common at the time was externalizing excess profits rather than reinvesting into the country.

i. ETG continues to leverage on its strength in logistics by sourcing the right modes of transport and providers. For some routes, they have also invested in their own logistics capacity.

ii. ETG is reputed for paying fair prices to farmer's such that they are incentivized to produce annually and not just for subsistence. This is because ETG operates with the motto, "If farmers grow, we can grow too". Today, farmers wait to sell to ETG because they know they can achieve higher prices. Earlier, middle-men and small traders underpaid farmers and captured most of the value. Farmers were kept poor and continue to drift further into poverty. ETG's procurement model allowed them to by-pass middle-men and offer higher prices to farmer.

iii. ETG has built its own network of global customers which allows them to move beyond food aid into supply of other commodities.

iv. Finally, ETG has integrated vertically as the trading industry matured and attracted more competitors. Investments in agricultural processing units to produce supermarket value goods allows ETG to pay higher prices to farmers and secure commodity and capture more value. At the same time, they are creating jobs in industry.

Management of Finance

Any profits generated by the business were reinvested in growing the business or to provide finance for trading. ETG has always repaid bank loans diligently.

As their strength in sourcing commodity expanded, ETG entered into join ventures with multinationals. These ventures provided finance and access to end markets, whilst ETG focused on its ability to source locally. Eventually ETG was able to build a reputation and track record strong enough to sign trade-finance loans from commercial banks in Africa.

Looking Ahead

Looking ahead, ETG will continue to strengthen their business along all areas of the agriculture value chain. This includes strengthening procurement of commodity within existing countries of operation and expanding this model to new countries, covering new commodities and setting up a greater number of processing facilities. The eventual aim is to cover farm to fork – to buy, process and package a range of supermarket ready products. ETGs origination, processing and distribution capabilities will help them deliver on their growth strategy to a large extent. However, they will need to develop their marketing capabilities to build consumer brands.

Parallel to executing this strategy, ETG will be adapting their management and operating style to suit the needs of the growing business.