



*International Food and Agribusiness Management Review
Volume 17 Special Issue B*

Rooibos Ltd: Turning Indigenous Products into Business Opportunities

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Abstract

Rooibos Ltd is the largest processor of Rooibos tea, and currently has a turnover of more than R250 million per year, experiencing strong turnover and export growth over the past few years. The production of the tea is a cyclical process, which creates unique challenges to the company. Key success factors include strong upstream and downstream contractual relationships, ethical stewardship of the product, employees and the environment, and technological leadership. Because production is cyclical, success requires a long term vision, while finances need to be managed within the constraints of this long term cycle. Key lessons are to protect your intellectual property; decide whether you have the potential to be a large business or to remain a medium sized business; understand your industry and your strengths and weaknesses; and strive to be the best supplier of product and the best service provider.

Keywords: Indigenous products, Rooibos tea, cyclical production, intellectual property

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Introduction

The Rooibos plant (Anglicized pronunciation ROY-bos) is found only in the Cederberg Mountains, in an area 250 km north of Cape Town centered on the town of Clanwilliam, and only in higher altitudes. Rooibos Ltd is the largest processor of the herbal tea made from the plant, and was established in 1993. The company currently has a turnover in excess of R250 million per year, and has seen strong turnover and export growth over the past few years. Industry exports were in the vicinity of 7 000 tons in 2013, while domestic sales were 7500 tons. The CEO is Martin Bergh who is a Stellenbosch University trained horticulturalist and a producer of rooibos in his own right.

In 1904 Benjamin Ginsberg, a Russian immigrant from a family of tea merchants in Europe, started to market the tea. By 1930 the local medical doctor, Dr P le Fras Nortier, showed how to germinate the seeds, while together with Olof Bergh, a local commercial farmer, new cultivation methods were developed, setting the stage for the commercial development of the industry. These technical breakthroughs were followed by institutional change: in 1948 producers formed the Clanwilliam Tea Cooperative and in 1954 the Rooibos Tea Control Board was established under the Marketing Act, 1937. This allowed the majority of producers to implement a compulsory single-channel pool Scheme whereby the entire harvest was handled by the Board, and the proceeds from domestic and export sales distributed back to the farmers. In 1993, however, the Board was converted to the fully privatized Rooibos Ltd (an unlisted public company) as part of the broader process of deregulation of agricultural marketing in South Africa. While still the largest supplier of rooibos tea to the trade, the company now has to be competitive in order to survive.

The rooibos plant is a legume of the genus *Aspalathus*, which is indigenous to South Africa, and has over 200 species, of which only Rooibos (*Aspalathus linearis*) is economically exploited. Rooibos has many uses: it is a health-enhancing tea; a flavourant for other drinks (concentrates, blends, and alcoholic drinks); a food supplement that adds nutritional, health, color and flavor attributes to foods and beverages; and a key ingredient in skin care products, among others.

The Rooibos industry has twice been rocked by attempts over the past decade to register the name Rooibos and its derivatives for exclusive use, first in the USA and then in France. Fortunately, the industry body, the South African Rooibos Council, has succeeded in averting these challenges, and is in the process of getting the product registered as a Geographic Indicator.



Company Background

The main business of Rooibos Ltd is to purchase raw tea from the producers and to process the tea. Some processed tea is also bought from producers. Once the tea has been processed, it is then either placed in storage (in order to manage the flow of product to the market); sold as processed tea to tea packers who will brand the product and sell it into the domestic or overseas market; or the essence is extracted and sold into the flavourant or food supplement market; or the tea is packaged and sold into the retail market under its own name. The last two of these represent only a small portion of the turnover of the company, which is mainly a processor of the raw tea.

The current success of the company in the domestic market rests on three pillars. First, when producer prices were low because of surplus production, the consumer price of Rooibos brands in the domestic market was below that of premium branded teas. Second, the industry enjoys a favorable press which emphasizes the health benefits of the product and celebrates successes in export markets. Third, sales of Rooibos in the rest of Africa are also reflected as domestic sales, as the product is bought in South Africa by South African supermarket groups for sale in their non-South African outlets. The rapid expansion of these supermarkets across the continent therefore adds to the demand for the product.

However, the higher producer prices currently being experienced foreshadow lower growth in domestic sales, while export volumes and returns are largely dependent on exchange rate movements, especially in the traditional markets in Europe. This regular cycle of peaks and troughs in the price of the product is a key feature of the industry, as will be seen below.

Rooibos Limited is the global market leader in this unique product, and has been the preferred supplier to the industry since 1954, with a global market share in the supply of Rooibos tea and extracts and derivatives of about 70%.

Current Management Structure

The company is focused on two things: expanding domestic and export markets, and bringing technological innovation to the production and processing of the product. The vision of the company is to establish Rooibos as a global winner. In this regard, the mission is the goal-directed enhancement of the production, processing and international marketing of unique Rooibos products and services for the benefit of all supportive stakeholders, with special reference to:

- Satisfying consumers' expectations
- Facilitating realistic returns on shareholders' investment
- Honoring commitments made to producers, suppliers and buyers
- Creating a pleasant working environment for the motivation of dedicated employees
- Contributing to the development of South Africa's economy and its people

To put this into operation, Rooibos Ltd operates a lean organization, with a small but high-powered Board and a lean management structure. The Board consists of 10 members, three of whom are Executive Directors, four are producers who deliver to the company and three (including the Chair) are not attached to the company in any manner. The seven division heads all report to the Managing Director, as do three staff functions. This

flat structure is seen as ideal for a medium-sized enterprise and is maintained with a hands-on and open door management style. Line managers have maximum freedom to execute policy, with minimal interference, but they have the responsibility to ask when support is needed, while the CEO engages with managers as necessary, rather than waiting until the end of the month.

The Company employs just over 250 people: 35 serving in management or professional positions, all on permanent appointment, while 114 people are employed on contract, mostly on a seasonal part time basis.

Key Success Factors

There are three things that the Company believes it needs to do right if it is to maintain its competitive edge.

First, the business model is strongly based on contractual relationships with the more than 200 suppliers (farmers) and with clients (buyers). As a result, a lot of time and effort goes into maintaining and building these relationships. So for example the Company has dedicated and professional staff who are available to provide technical and other advice farmers. Furthermore, the company focused strongly on providing extra services to its clients, including bulk packaging, blending, flavoring, extraction, contract packaging under private label, management of inventory to ensure continuous supply, on time delivery and customized product development.



Second, this strong belief in partnering with suppliers and clients is reflected in the Company's emphasis on food safety, fair employment practices and environmental stewardship. For example, the entire factory is HACCP certified and working towards ISO 22000 and Food Safety Systems Certification (FSSC), and certifications have been obtained for organic production and processing (from the EU, the USA, Japan and Korea), and also for Kosher, Halaal, Fairtrade, Rainforest, UTZ and Heart Mark. Furthermore, while the company is committed to observing environmental laws and regulations, it is also committed to going further, as it has shown with the recent installation of a 500 kW system of solar energy at the processing plant that provides 40% of the Company's energy needs, allowing it to provide its suppliers with a product that has a smaller carbon footprint.

Third, Rooibos Ltd focuses strongly on technology development and transfer throughout the industry value chain. Examples include the launching of green or unfermented Rooibos in 2003, the inclusion of Honeybush tea in the product line-up and the production of extracts with a wide range of applications that commenced in 2011. This focus on product development is seen as a necessary service to most of the Company's clients, who are essentially brand marketers who don't always know enough about the technical properties of the product to enable them to develop new products. In this way the Company can also build its reputation as a provider of solutions to its clients.

Strategic Issues

The Rooibos plant grows best in a semi-desert environment, which makes production cyclical and extensive: because the producer farms on an extensive basis and relies on the harsh environment, production is cyclical. This has some benefits, as diseases are easier to control, per unit production costs at the farm level are lower, and, if stored properly, the product is not perishable. However, it has one major disadvantage, as the processor needs the wherewithal to be able to buy stock in years of surplus production and to carry the costs of storage for the lean years so that supply to the market is maintained. As a result, the vision of a successful operator in this market needs to be long term, and the financial management of the enterprise needs to be managed within the constraints of this long term cycle. On the sales side, the enterprise must always be in a position to supply, as there is no more severe penalty for a brand than to run out of supply; hence the successful processor must be a solution provider to the brand owner, e.g. by providing new products, new specifications, new packaging, etc.

Looking Ahead

The vision of Rooibos Ltd is to ensure that Rooibos tea is sold in all corners of the world, in order to increase both the volume and the value per kg of the product. The biggest concern of the management of the Company in fulfilling this vision is to keep the balance in managing the cycle of availability of the product as described earlier. The Company is not a brand manager but a processor that does not compete with those who do manage brands. The concern is, therefore, with staying ahead of the pack as far as the products and the concomitant services delivered by the Company are concerned. This is particularly important because the technology exists for any newcomer to enter the market, and technical and financial entry barriers are not very high. Competitiveness and the ability to keep new entrants at bay are therefore dependent on the customized service offered, the industry know-how and intelligence embedded in these services and the intellectual property and human capacities that the Company controls.

Conclusion

There are a number of lessons for African agribusinesses from the experience of Rooibos:

1. Protect your intellectual property at all costs, especially indigenous products. These are becoming more and more valuable over time as more and more people earn enough to start enjoying unique experiences.
2. Decide whether you have the potential to be a large business, or whether you will remain in the ranks of medium sized businesses, and tailor your management structures and style accordingly.
3. Understand your industry and your strengths and weaknesses, and decide on the optimal business model to follow. This may change over time, so that flexibility is required, but a clear understanding of the optimal model is vital to success. In the case of Rooibos Ltd. this means in the first instance being a product and service provider, and not a brand manager.
4. Strive to be the best supplier of product and the best service provider. For Rooibos Ltd this means having the patience and the financial means to manage the cycles of production inherent to the industry, and investing in human capital and industry know-how