Defining De Fynne: A Small Wholesale Nursery

Edward Mabaya, Aleksandra Janjie, Toniqua Hay, Tamara Struk

Jacky Goliath's expert eyes quickly looked over the expanse of blueberry plantings in the propagation tunnel, checking them for growth irregularities. A gentle smile tugged the corner of her mouth as she watched a frog nestle itself at the base of one of the plants, but faded when her mind shifted to the tasks still looming ahead of her. It was Sunday afternoon in early January of 2011, and she was visiting De Fynne Nursery grounds in Simondium, South Africa. Jacky was expecting her business partner, Elton Jefthas, to arrive at any moment and help her tend to the plants. Attending to the nursery was an activity they left for weekends due to lack of time during the work week.

The journey of De Fynne started back in the early 1990's, when as horticulture specialists, Jacky and Elton's thoughts turned to future security and long term goals through enterprise. They decided to channel their passion and expertise into establishing their own nursery, and thus De Fynne Nursery sprouted as a backyard venture on Elton's property and began to grow indigenous ornamental plants called fynbos (refer to the box #1) .

However, what started as a passion had now gown into something bigger and they found themselves competing with other well established indigenous plants growers in this emerging niche market. In addition to ornamentals, their business had now grown to include a highly lucrative blueberry plant contract, which took copious amounts of time and resources away from their focus on indigenous plants. They faced new challenges both in managing the current growth and figuring out how to expand their presence in the horticulture industry. Jacky and Elton realized that the blueberry contract was their "bread and butter crop," but they also wanted to discover a path to increase production of the fynbos plants, the namesake of their nursery.

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SHADOW BOX #1: *(Adopted from safarinow.com and encounter.co.za)*

FYNBOS *is an Afrikaans word meaning "fine bush". Fynbos makes up 4/5 of the Cape Floral Kingdom, which covers an area of less than 90,000 square kilometers. The Cape Floral Kingdom has been designated as one of the earth's six plant kingdom. These plants have learned to thrive in nutrient poor soils, long dry summers, lots of wind and frequent fires. Some of these plants date back to over 60 million years ago!*

Fynbos is primarily used as an ornamental, fresh, cut or dry, plant. One of the most common pot plants around the globe, the sunny geranium, has been hybridized from the pelargonium. Other fynbos hybrids common to gardeners are daisies, freesias, gladioli, lilies and irises. The plant abounds with many ***herbaceous aromatics*** *and the recently launched Estee Lauder fragrance, Beyond Paradise, contains floral and herbaceous notes inspired by fynbos plants. Some of the fynbos species as roobois and honeybush are used in the tea production.*

Fynbos have evolved into four distinct groups; ***proteas***, ***ericas***, ***restios*** *and* ***geophytes****.*

PROTEAS *are tall shrubs (1~3 meters) with big, feathery or leathery leaves and impressive blooms. The King Protea is South Africa's national flower and can easily be spotted in Table Mountain National Park. They include Aulas, Leucadendron, Leucospermum, Mimetes, Orothamnus, Paranomus, Protea and Vexatorella species.*

ERICAS: *The heath-like bushes with minute leaves and dainty bell-shaped blossoms.*

RESTIOS *are the reed-like grasses, which are the oldest plants in the region.) They comprise all 310 species in the Restionaceae, a family closely related to the grasses.*

GEOPHYTES *are the beautiful flowering bulbous plants that can be seen in the rainy season or after a fire.*

INDUSTRY BACKGROUND

Biodiversity

South Africa is regarded as a "hotspot" for biodiversity with more than 22,000 plant species within its boundaries. This figure represents 10% of the world's species, although South Africa encompasses less than 1% of the earth's surface (Coetzee, 1999). The biodiversity of the Western Cape, home of De Fynne Nursery, is even more remarkable. The 470 km2 of the Cape Peninsula, including Table Mountain, is home to 2,256 different plant species - more than all of Great Britain, an area 5,000 times bigger (Maneveldt, 2010). It is also the only country in the world that contains an entire plant kingdom. South Africa's dominant vegetation type that contributes most of the species to the flora in the Cape Floristic Region is fynbos (Cowling 1992). At the moment, demand is growing for the cultivation and use of indigenous plants in South Africa.

Floriculture Market

Total world exports and imports of floriculture products both exceed US $9 billion, with Europe as the largest importer and exporter (Matthee, Naude & Viviers, 2005). The largest markets for these floriculture products are Europe, the United States and Asia (Van Rooyen, 2005) (refer to the figure 4). South Africa's floriculture exports include: cut flowers, foliage, bulbs and plants (refer to the figure 3). Although the floriculture industry in South Africa is small; it forms an important part of the country's agricultural sector. There is plenty of opportunity for South Africa to further grow this market (refer to the figure 2 and table 3). Although South Africa only has a small market

share (0.44%) of the world's import floriculture market, it has the potential to increase it to between 2.5 and 3% by 2010 (Kaiser Associates, 2000). The government is interested in developing both the market and product in the floriculture industry. Although funding is difficult for crops not identified as meeting food security needs, the successful growth of this sector will assist with poverty alleviation with the addition of rural jobs. A study showed a potential growth of employment from the 17,500 people to over 80,000 people in the floriculture industry over the next ten year period (Kaiser Associates, 2000).

Local floriculture sales were valued at R260 million (±US$37 million) and the export revenue amounted to approximately R371 million (±US$53 million) in 2005 (Boshoff & Coetzee, 2007). The export revenue is low because the large domestic market draws many of the producers to focus their efforts at home. Well known industry boards such as the Dutch Floriculture Wholesale Board, feel this view is too narrow for South African producers and causing them to miss out on the larger international market. The international market provides great opportunities for growth, especially the European export market where the seasons are opposite from South Africa's seasons (refer to the table 2 and figure 1).

Blueberries

South African producers have an attractive market for the provision of blueberries to Europe during the early season. Export quality blueberries are produced on the eastern Highveld of South Africa. These areas as well as the Eastern and Western Cape mountain areas accumulate ample winter chill units for rabbiteye and southern highbush blueberry production (Meyer, Prinsloo, 2003). With berry production declining in the UK and Europe due to poor weather conditions, the cost of labor and production, limited availability of agricultural land, and strict pesticide control, South African growers have gained significant export opportunities. Demand for berry fruit in the UK and Europe far outstrips supply, and given South Africa's strategic advantages and ideal berry-growing climate, the country is well placed to tap into these markets (southafrica.info).

Economic Impact

In economic terms, the agriculture industry in South Africa contributes nearly 3% of GDP but accounts for almost 8% of employment (South African Government Information, 2010). From 2002 to 2007, South Africa's gross farming income from horticulture increased by almost 34% The Western Cape region contributed nearly 41% of this total horticulture income. The share of horticultural production in the value of total agricultural output increased from 21% in 1990 to 29% in 2004 (OECD Observer, 2006). This was largely due to South Africa's export reforms and the opening up of other countries' markets to South African exports (Bagherzadeh, 2007).

Since the end of apartheid in 1994, land reform has been a major issue and possible opportunity for many blacks in the agriculture industry. The black population in rural areas is the target of land reform policies, but it is clear that adequate support infrastructure must also be in place if these new entrepreneurs are to survive (Bagherzadeh, 2007). The government has set a target of handing over 30 percent of commercial farmland to black bourgeoning farmers by 2014 as part of a plan to correct racial imbalances in land distribution. Black owned businesses like De Fynne, that are well networked and focused on quality products and services could rise to the top of the list of businesses bidding for these land opportunities. In order to empower black-owned firms, the government now also incentivizes companies and people that conduct business with black-

owned enterprises. This action is governed by the Broad-Based Black Economic Empowerment (B-BBEE) Act in an effort to distribute wealth among black South Africans.

DE FYNNE COMPANY ANALYSIS

Background:

De Fynne turned from a dream to reality the moment Jacky and Elton's partnership formed in 2001 (refer to the figure 6). Together, Jacky and Elton have over 25 years of experience in the horticulture and agriculture sectors. Further, Elton holds a Master of Philosophy in Agriculture Management, Bachelor of Technology in Horticulture, and National Diploma in Horticulture, while Jacky holds a Bachelor of Technology in Horticulture, National Diploma in Horticulture, and is currently working on her Master's degree in horticulture.

They were both employed at the Agricultural Resource Council (ARC) – with a specialized focus on indigenous plants of the fynbos biome. Both dedicated the majority of their time to training other workers on how to grow these species. With their unique knowledge and skills in plant science coupled with experience in agri-business, the two colleagues decided to open their own nursery. They opted to grow three fynbos varieties that no one else produced at that time. This was a calculated business move since not many nurseries grew indigenous plants at the time, yet native plant landscaping was growing ever more popular given a water conservations movement. In 2010, almost a decade later, Jacky recalled rushing home from their 'day jobs' to spray the plants and tend to them. It was a challenge to maintain the business while working full-time, but their enthusiasm kept them going. Elton remembers: "We started by growing three plant varieties, and with one purchase they were gone! Our first season we sold everything as fast as we could produce it. It was then I realized 'this could be a very lucrative business."

Their careers diverged from ARC a few years later when Elton joined the Agribusiness in Sustainable African Plants Production (ASNAPP) which he co-founded and acts as a CEO (refer to the shadow box #2). Jacky joined him at ASNAPP not long after, but the backyard venture remained their true passion. Exceptional network connection through ASNAPP has proven lucrative for De Fynne. These connections brought some of their first customers, including their most lucrative contract. As the business continued to grow, they realized that it needed the full-time attention of at least one of the partners, so in 2007 Jacky left ASNAPP to run the nursery full time and focused all her energy on growing the business.

Jacky and Elton's combined expertise and zeal contributed to the early success of the business illustrated the revenue growth. Exceeding the capacity of the backyard venture, De Fynne Nursery needed to expand. They moved to the town of Kylemore where they rented two tunnels (refer to the glossary). With this initial success under their belts, Jacky and Elton registered De Fynne Nursery in 2003 as a black-owned business making them eligible for government incentives.

SHADOW BOX #2: *(Adopted from asnapp.org)*

Agribusiness in Sustainable African Plants Production (*ASNAPP) is a non-profit organization that works to create and develop successful African agribusiness in the natural products sector. They uplift and sustain communities by providing income and employment which produce high quality natural products for local, regional and overseas markets.*

ASNAPP provides supply chain services to accelerate poverty reduction as specified in the AU/NEPAD action plan by addressing market accessibility; increasing food supply for hunger reduction; and promoting agricultural research, technology dissemination and adoption.

ASNAPP drives its services directly towards the achievement of the Millennium Development Goal of eradicating extreme poverty and hunger, by providing various farm-to-fork services including.

From the offset, De Fynne earned the reputation of a quality wholesaler of fynbos plants. Quality is precisely what landed them a contract to grow blueberries for Amathola Farms in 2007, a farming enterprise located in the Eastern Cape. Amathola offered De Fynne a contract for 500,000 blueberry plants per year for the next five years. It was a deal too large to pass up because of the financial growth it offered the small business. Among the many challenges of undertaking such a large contract by such a small firm was the need to move quickly and accommodate the production volume of the blueberry plants. They relocated to Nu Cellar in Simondium where the nursery remains today. Nu Cellar was once a leading nursery growing citrus trees but closed its operations after 40 years and now rents its tunnels and equipment to other nurseries. It was at this point that Jacky started working full-time for the nursery in order to grow company's operations. Once Jacky dedicated all of her time to the nursery, the business grew substantially. "We realized that if we want to grow and expand, we need a jockey - someone to take it to the next level. When Jacky started working full-time, we expanded three-fold within a year. That was a valuable lesson on the importance of having a full-time manager," stated Elton.

Present day:

The current business model provides a diverse product range: indigenous and ornamental plants, herbs, fruit seedlings and the blueberry plants De Fynne grows ornamental and herbal plants for Woolworths (a retail company), provides blueberry seedlings to Amathola Farms, and supplies plants to a number of landscapers and other retailers including: Stodels, Starke Ayres, Superplants, Rademachers, Cape Garden Centre, Garden Pavilion and Van Den Bergh Garden Centre. The fruit seedlings include pears, apples, pomegranates and apricots, and are sold to different companies such as Citrogold and Callus Fruit exports.

De Fynne currently runs its operations on 1.5 hectares of land in Simondium, Western Cape, located in the upper point of a triangle with Stellenbosch and Franschhoek on the highway R45. The small village of Simondium is nestled in a picturesque valley surrounded on three sides by mountains. To the east lie the Klein-Drakensteinberg, to the north the Paarl Mountain and Nature Reserve, and immediately behind the village, is the Simonsberg with its lower slopes dotted with vineyards. This small out-of-the-way village is found in the very heart of the finest wine lands. The nursery is secluded from the main road and 800 meters of maze-like road leads to the nursery grounds. Although the location is not accessible by the typical retail consumer, it is accessible by truck and as such, within reach of wholesale customers.

De Fynne rents eight tunnels, shaded areas, a full sun area and an office building from NuCellar. The land-lease agreement is only for one-year and is renewable at the end of each year with both parties' consent. The short term lease causes challenges for De Fynne because it makes the company appear unstable in the eyes of conventional money lenders. The grounds are fully equipped with relevant infrastructure including an existing irrigation system. NuCellar facilities include 52 tunnels that are rented to two other nurseries apart from De Fynne. Due to the economic recession of 2008 from which South Africa, did not escape unscathed one of the nursery tenants will be closing down operations and De Fynne plans on seizing the opportunity to rent three additional tunnels.

De Fynne is a socially responsible company that engages with the local schools and churches. Jacky and Elton provide educational toys to the elementary school students, and organize Christmas parties for disadvantaged children. They also use the nursery as an outdoor classroom and give tours to the students and elderly community. Currently they are heavily involved with school environmental projects and helping beautify school grounds. At the local churches, they conduct educational workshops on plant care as well as supply plants for community faith-based festivals. "We've received so much that we feel the need to give back, "Jacky says. -The tradition of giving back to the community has been part of the organization since inception and inspires a new generation of horticulturalists.

Marketing

In an effort to increase their overall industry presence, the company engaged a marketing agency to help with its branding strategy. Outside of the business cards, De Fynne previously had no marketing materials. The new branding includes new plant tags with bolder green and yellow logos set against close-up shots of their plant varieties, new business cards and logo stationary. The premium quality branding materials will serve the company in its effort to stand out on the shelves and to create a strong, memorable image that is easily recognizable by its customers. Since De Fynne has always branded themselves as a quality wholesaler of fynbos plants, it was important that the branding materials also reflect this.

The strong referral networks of past customers and ASNAPP have served as great sources for sales leads; however, De Fynne lacks internal marketing expertise. Jacky and Elton realize they need someone on their team to focus on marketing, but budget constraints limit those staffing efforts. The company also lacks an online presence. Elton realizes now that many of their competitors are using websites to display their products and access a wider client base. In order to compete with the larger scale competitors in this industry, De Fynne needs to consider how it will leverage the reputation it's built to establish strategic partnerships moving forward.

SMALL BUSINESS NURSERIES / COMPETITORS

Landscape beatification once meant growing a few trees and flowers but today it means much more. People are combining a diverse palette of plant materials, architectural features and new construction techniques to meet functional, aesthetic and environmental requirements. This process creates tremendous opportunities and challenges for landscape designers, contractors and plant growers. De Fynne is in competition with local fynbos growers and producers of other landscape design material such as gravel, boulder rocks, pavement, etc.

Can De Fynne compete successfully with its direct competition, the current producers of cultivated fynbos in Western Cape? According to the research conducted by South African Producers and Exporters Association (SAPEA), the minimum land size for growing fynbos has increased from 10 hectares in 2004 to 30 hectares in 2008. De Fynne's current production is based on 1.5 hectares of land. Furthermore, the number of growers has reduced from 250 in 2004 to 150 in 2008, indicating a decline of the number of fynbos growers. Is the nursery too small to compete or positioned well for growth?

At present, De Fynne's main competition within the region consists of five large producers: Arnelia, Caledon Fynbos Nursery, Shadowlands, Nonke Plants and Glen Elgin. The profiles of the five competitors are given in Table 1. In general, the target market is the same for all these companies: retail nurseries, landscapers, garden centers, and property developers and the key competitors have been in the industry longer than De Fynne. Customer loyalty is high, which poses a challenge for De Fynne in capturing additional domestic market share.

Competitors have approached product diversification differently. Arnelia has strong ties with the ARC, who has recently released new varieties of fynbos available only to growers in South Africa. Arnelia maintains mother stock of these varieties and supplies rooted cuttings to the

SHADOW BOX #3: *(Adopted from Department of Agriculture, Provincial Government of the Western Cape)*

FYNBOS PROPAGATION & MOTHER STOCK: *Proteas can be propagated either by means of seed or vegetatively by means of cuttings. Only healthy plants that are not subject to stress may be used for cuttings. No cuttings may be harvested from plants that display any symptoms of disease. The plants used for cuttings are commonly referred to as mother stock plants.*

Cuttings from the mother stock are usually harvested from December to the end of April. It is important to harvest them at the right age. A simple test to determine whether the cutting is ready is to take a cutting of 20 cm and bend it. If the ends can touch each other, the cutting is too soft, and if the wood cracks, it is too hard.

The following dates can serve as guidelines for the harvesting of cuttings:

- *Protea: December to April*
- *Conebush: February to April*
- *Pincushions: March to May*

Preferably, the ends of shoots are used for the production of cuttings. Cuttings must be harvested in the morning and the mother stock plants should at no stage of the harvesting be subjected to heat or drought stress. The cuttings must be kept cool.

The leaves on the lower half (50 %) of the cutting are removed, and this end is dipped into a growth hormone.

The cuttings are placed in growing bags (preferably transparent) that have holes and are filled with a mixture of coarse sand and peat, to develop roots.
The cuttings must receive a mist spray every hour throughout the day and a spray program against disease must be applied.

After six weeks, the cuttings begin to form roots. This usually takes place six to 16 weeks after harvesting. Cuttings that have not formed roots after five months can be destroyed.

Cuttings are ready to be planted when the new roots are well developed and discolored brown roots are visible on both sides of the bag. The cuttings must then be planted in well-drained

South African protea industry (refer to the shadow box #3). Further, they are contracted by Future Fynbos (a privately owned breeding initiative, focusing on the selection and breeding of mainly Leucadendron, Protea, and Leucospermum) to propagate varieties of fynbos. They have positioned themselves as a major player by supplying new innovative products to the industry. Another competitor, Glen Elgin, began almost 100 years ago as a fruit grower. To diversify their offerings, Glen Elgin introduced fynbos in 2006. Since then, they have been able to grow their market for fynbos overseas by forming joint ventures with South African exporters and a Dutch importer. Other competitors found a way to diversify their product selection by partnering with smaller local nurseries and selling their product.

COMPANY OPERATIONS

50/50

Jacky and Elton each own 50% of the business, but their duties differ significantly. Jacky is responsible for running the day-to-day operations of the company, and dedicates her full time to De Fynne as manager. Elton is a visionary behind the business and devotes his time to new and innovative ideas on how to grow and secure more business. He also handles overall strategy development since Jacky is very busy with the day-to-day tasks.

In order to meet administrative needs and boost ongoing fynbos production, in 2010 they hired an assistant manager, Annalise. She has been employed for about five months and in addition to helping with administrative tasks, the majority of her time is spent outdoors overseeing the production process. She moved from Pretoria and has proven to be a valuable asset to the company with over 12 years of experience in the industry. Elton stated that at first they couldn't afford an assistant manager, but they ultimately decided to make the investment recognizing the benefits for the organization. He said, "Now it's been 5 months and we see the value of having our assistant manager. We now see the need for a dedicated sales person." Annalise oversees three team leaders who run the different production areas of the nursery (refer to the figure 5). The nursery is divided into three main production areas: (1) fruit production, (2) propagation and production of fynbos and (3) "growing on" section which includes: maintenance, pruning, weeding, feeding and all activities within the "full sun" area.

Every morning the management meets with the team leaders to establish the daily schedule and evaluate the need for casual workers, temporary and unskilled farm hands. Most of the casual staff is female - because they are generally more reliable - with the exception of three male employees whose duties include driving, maintenance and general site upkeep. Employees work 8 hours a day, 5 days a week. Weekend duties rotate between two individuals who come to water and maintain plants. The staff is paid weekly, and kept on contract as long as their performance is satisfactory. "If they perform well, their contracts are extended," Jacky elaborated. "We don't have to interview, but find the ones who look both interested and reliable, and then train them to do more. We don't have structured training, but that's something I want to plan for in the future, especially because it helps retain workers".

The issue of labor

De Fynne and other companies in the surrounding regions currently face a significant labor shortage problem that stems from an unreliable workforce with low skill levels. The unreliable workforce is a direct consequence of lingering alcoholism that continues from the dop system,

which existed in the apartheid era when workers in the wine lands were often paid in cheap wine. This historic issue is an ongoing problem is South Africa, and many professionals such as doctors are working hard to address this institutionalism (London, 1999). Other companies address labor shortage by transporting laborers from nearby urban areas; however, De Fynne does not have the capacity to do so. Even with 10 full-time and 11 part-time workers, De Fynne is still shorthanded. Elton stated, "We do have a problem with labor. They want to work, take the money, drink, and then come back. They don't want to work continuously. We struggle to get reliable males in the area and would like to recruit from farther out, but don't have the resources. We could use five extra males, but cannot find them. However, the people we currently have are passionate, especially the team leaders."

Retaining employees is a problem that partly stems from their operational procedures. Jacky stated, "When starting the nursery it was important for me to put operational systems in place that my staff could follow. Well, they were put in place obediently followed by the workers: however, the older the systems got, the more they needed to be nurtured and inspected to make sure they are useful. I found that the employees need to be trained and evaluated at least on a 6 month basis."

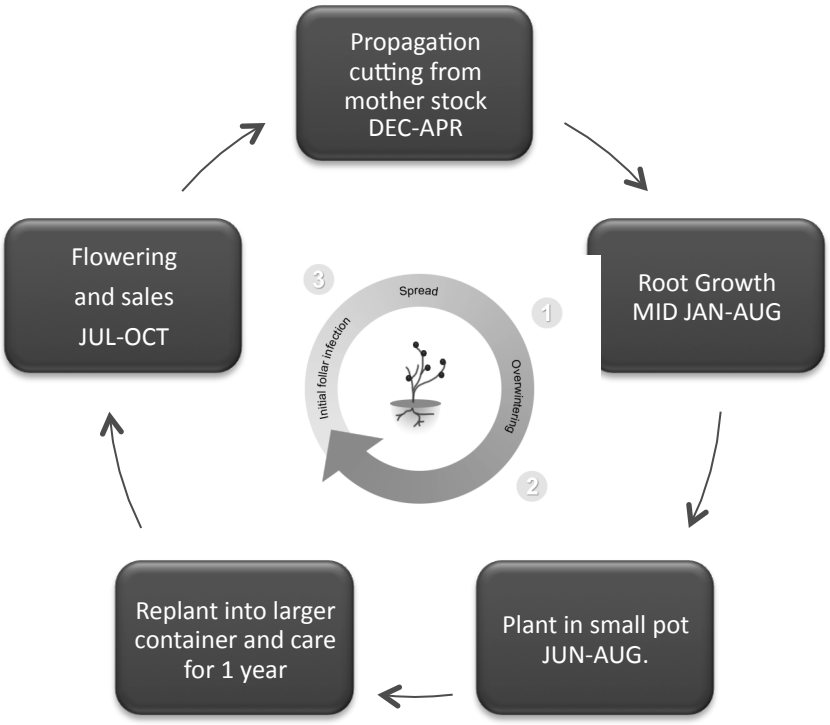
PRODUCTION

The nursery grows three main categories of products: (1) fruit seedlings, (2) fynbos and other ornamental plants and (3) blueberry seedlings. Each of the products goes through three initial phases of growth: propagation, rooting and planting after which the life cycle of each product differs. The infrastructure and the function of the tunnels are strategically divided to follow the flow of the production process and increase efficiency.

FYNBOS & OTHER ORNAMENTAL PLANTS

The tunnels closest to the office host propagation activities for fynbos and other ornamental plants. Another tunnel is dedicated to storing the plant mother stock. Mother stock plants are the sole source of the plant material necessary for propagation. The tunnel currently holds 600 plants and with the average of 20 cuttings per plant can yield total of 12,000 plants a year. At capacity, the nursery can hold up to 1,000 mother plants for a total yield of 20,000 plants per year. Even the maximum number of mother stock plants is not enough to meet De Fynne's yearly production forecast of 50,000 mature plants. Elton and Jacky are faced with the immense challenge of securing enough mother stock. The nursery is constrained by its size and the facilities are not adequate to keep a sufficient amount of mother stock. The competitors run their operations on land that is at least ten times larger than De Fynne's and can afford the space to grow their own mother stock. Currently to secure additional mother stock, De Fynne partners with large hospitality customers like hotels and a local golf course. In return for obtaining the cuttings from their gardens, De Fynne pays them a percentage of the sales.

Exhibit 1: Fynbos Production Cycle at De Fynne.

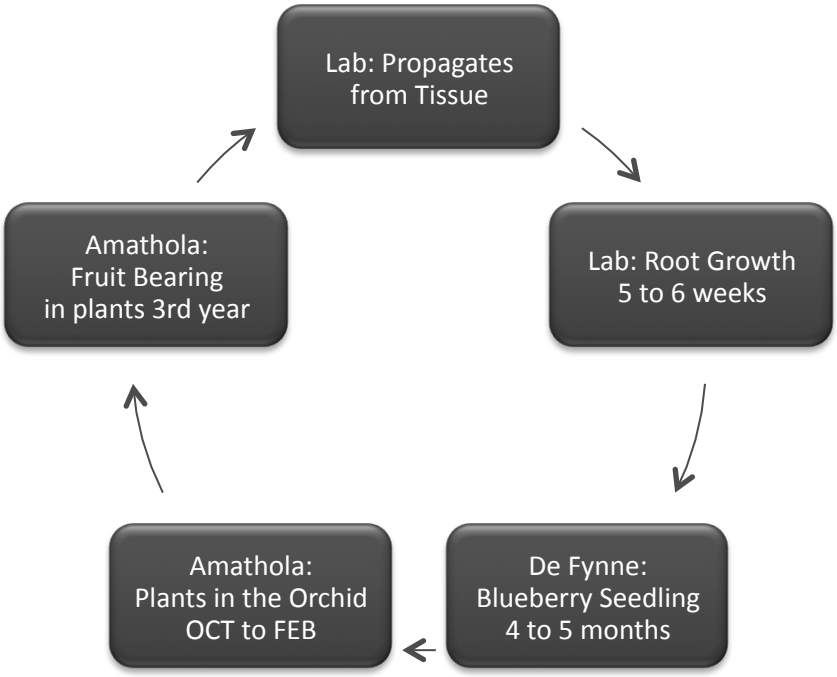


As one continues north alongside the path, the tunnels to the right of the propagation tunnels are used for planting production. Once the plants mature, they will be moved to the 'final container section' for replanting and further continue to the 'full sun area' where they will stay until sold. With the current staff, Elton and Jackie can yield about 60,000 fynbos and other ornamental plants per year. The current facility with the necessary number of staff could yield maximum of 80,000 plants. Current operations are not at full capacity, leaving Elton and Jacky in constant search for reliable labor.

BLUEBERRY

De Fynne dedicates one tunnel solely to the production of blueberries for Amathola Farmers in the Eastern Cape and plans on adding another tunnel to keep up with the increase in production. Amathola contracts with the laboratory to propagate blueberries from the tissue culture which is then shipped to De Fynne for planting (refer to the shadow box #4). The new venture with the laboratory presented another challenge for Elton and Jacky. The lab's maximum production of the tissue culture can yield only 300,000 berry plants a year, not enough to satisfy De Fynne's contract volume of 500,000 blueberry plants. In this challenge, Elton saw another opportunity for growth and started propagating his own berries from the cuttings. De Fynne's blueberry propagation is experimental, and will not yet yield enough volume to satisfy the contract.

Exhibit 2: Blueberry Production Cycle Propagated From the Tissue and the involved parties: Laboratory, De Fynne and Amathola Farmer.



The blueberries can be propagated either from the tissue, soft or hard cuttings. De Fynne either receives already rooted berries from the laboratory or propagates their own from the soft cuttings. Once the seedlings reach full maturity, they are transported to a farmer in the East Cape for final planting in the orchard. Delivery of the blueberries occurs between October and February in batches of 40,000 to 45,000 plants per delivery. Coordination is a key to success between Amathola and De Fynne. Amathola grounds have to be ready for planting at the same time as De Fynne is ready to deliver 45,000 plants. Once the blueberry seedlings are packaged, they must be planted within 5 to 6 days before wilting. The time frame includes the delivery time that can take up to 1 day of driving.

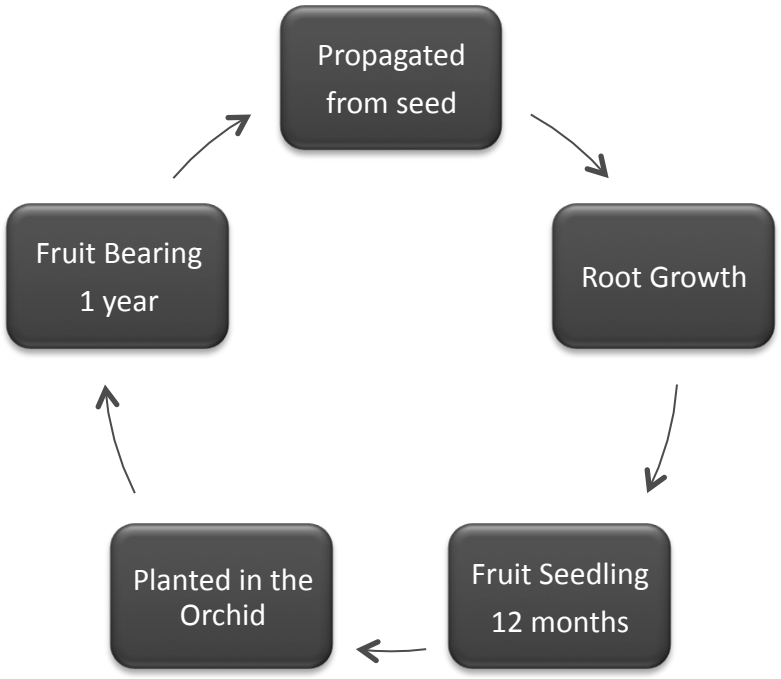
SHADOW BOX #4:
BLUEBERRY PROPAGATION: *Blueberries are usually propagated from softwood or hardwood cuttings selected from healthy, disease-free mother plants. Cuttings are placed in a propagation bed in a growing media that holds moisture well, but allows adequate aeration. A peat / fine pine bark blend or sawdust has proven ideal. Water is delivered by means of an intermittent misting system. The misting system should apply water for 10 to 30 second periods each 15 to 30 minutes to ensure that the cuttings remain moist.*
Certain commercial nurseries may propagate blueberry plants by means of Tissue culture. The shoot tips are induced to produce multiple shoots in agar media supplied with modified standard culturing solutions. After sub culturing, the shoots are cut off and placed into a peat-perlite rooting mixture under mist, where they root readily. (Adopted from Greeff, 2003)

FRUIT SEEDLINGS

Fruit seedlings are the test product that De Fynne grows for a major intellectual property (IP) management company that focuses on the management of plant varieties in horticulture. Most of the deciduous fruits in South Africa are produced in areas which are climatically marginal. (Costa, Mudzunga, Stassen, 2004). Deciduous trees need the cold winter months in order to foliate and produce excellent fruit for the following year. South African winters are mild and provide no sufficient chilling during the winter months resulting in marginal fruit quality, low yields, and uneven fruit size. (Costa, Mudzunga, Stassen, 2004). The company contracts with De Fynne to grow different varieties of fruit seedlings: apples, pears, nectarines and pomegranates. The objective is to develop orchard characteristics that are better adapted to the marginal environmental conditions in order for the Southern Hemisphere growers to successfully compete on the export market with the Northern Hemisphere growers.

Depending on the fruit variety, the maturity of fruit seedlings can take up to three years. Once the young plants reach maturity, the IP management company will plant them in the orchard and test their properties. If the fruits prove successful and have properties desired by the fruit producers, the management company will look for a nursery with which to contract in order to grow the specific fruit seedlings for numerous growers. De Fynne sees this as a long-term opportunity.

Exhibit 3: Fruit Seedling Cycle



KEY RELATIONSHIPS

Amathola

The main aim of blueberry production in South Africa is to produce quality fresh fruit to export to Europe during their winter from October through February. (Meyer, Prinsloo, 2003) In 2006, capitalizing on his network Elton initiated a conversation with Amathola, a medium size blueberry grower in Eastern Cape about the possibility of providing them with 500,000 blueberry plants per year for the next five years. As Elton recalls: "This [blueberry contract] was a blessing in disguise, and our big break! There must be a higher power for this guy to commit with us. Everything just fell into place at the right time. Any mistake could have cost either party."

At the time the conversations started, De Fynne was running a small nursery operation in Kylemore. As luck would have it, Amathola did not request a tour of De Fynne's facilities which would have revealed their true capacity. The arrangement was based on a 'gentlemen's agreement' and 'sight-unseen'. De Fynne quickly secured new grounds at NuCellar with eight tunnels and moved swiftly to start blueberry production. Nevertheless, it took a year to solidify the details and logistics of the agreement and the contract did not materialize until 2007.

Woolworths

In 2009, De Fynne secured a contract with Woolworths (refer to the shadow box #5), South Africa's top food retail chain. The contract was based on sales performance and included herbs, fynbos and other ornamental plants. In 2010, De Fynne supplied an initial order of 1,000 plants. By the end of that year the quantity dwindled due to underperforming sales of the test product mix. Getting the right products in the right markets is the goal for Woolworths and De Fynne's test period. Still De Fynne found themselves spending much of their time following the strict internal procedures of their new, large client. Along the way, Elton and Jacky started questioning if the time expended managing the Woolworths orders was well spent.

SHADOW BOX #5: *WO*OLWORTHS

WOOLWORTHS Founded in 1931, Woolworths has upheld a reputation of providing high quality products. After 80 years of operation, they have 149 corporate-owned stores, 51 international franchise stores throughout Africa and the Middle East, and 69 South African franchises (Woolworths online). Woolworths targets the luxury class consumer by focusing on households of a Living Standard Measure (LSM) of 8 and above (South African Advertising Research Foundation). They position themselves as an upscale supermarket chain in South Africa that promotes its social conscience. Part of Woolworths' strategy is also to source products locally, where quality, quantity and consistency meet the expectations of their customers, while also enabling the company to support and encourage local business and entrepreneurship – a key priority for the retailer (South Africa Info 2008).

Woolworths has many resources from which De Fynne could benefit. When De Fynne is ready to increase production, they will be able to access production loans through Woolworths. In 2010, De Fynne worked with Woolworths to test several different products to determine which ones warrant supplying in the future. As a result, many of the identified products are currently in production for 2011, by which time De Fynne would like to see orders from Woolworths double in volume. It may take additional resources on De Fynne's part to meet these orders due to the additional processing steps Woolworths requires of their suppliers. Jacky and Elton recognize the reputation boost that affiliation with Woolworths will bring. It will be worth the extra work in the long run to remain

associated with such a big reputable partner. Customers relate Woolworths with quality products and De Fynne's reputation will benefit from aligning with Woolworths' name.

FINANCIAL PROFILE

Revenues from the blueberry agreement make up 60% of De Fynne's total revenue. The whole business operations depend on one client and an informal agreement. At the outset, this agreement worked to De Fynne's advantage but now it poses a serious threat to the livelihood of the business. One wrong step could mean the demise of De Fynne. Amathola pays 50% up front and 50% on delivery. The plants are delivered in batches of approximately 40,000 to 45,000 plants per delivery. The blueberry payment schedule can cause a bottleneck in cash flow since it takes 4 to 5 months between the deposit and final payment. Indigenous plants and other ornamentals can stabilize the cash flow if they are sold on the 30-day payment-in-full schedule. About 98% of De Fynne's customers pay within 30 days (Thomas, 2008). Jacky has also, established a very good relationship with the suppliers and pays them within 30 days of the invoice.

The business mainly finances its operational expenses through retained earnings. With the fast growth expansion of the business, it is difficult to pre-finance the cost of sale of the product from the earnings. De Fynne's fixed costs remain low and account for less than 30% of the revenue. [1] The land rental is extremely affordable, includes all utility costs and accounts for only 16% of the total fixed costs. However, the one-year renewable contract limits the opportunity for commercial loans as any lenders prefer stable, long-term land leases. Transportation costs are curtailed as well since Amathola picks-up the blueberries at the nursery and De Fynne bears no expense for the blueberry delivery. Most of the local orders are delivered by two flatbed trucks that De Fynne owns. In order to decrease the transportation costs, orders from different customers are combined and the truck does not deliver until placed orders can fill one truck. On the other hand this causes delivery lead times to be 2-5 days where industry standards are 1-2 days.

The profit margin for De Fynne is set just below the industry standard for a competitive edge pricing. The financial statements show gross margin profit of approximately 16% for the indigenous plants and other ornamentals revenue. In other words, 84% of the revenue of indigenous plans and other ornamentals goes to cover the expenses related to the cultivation. On the other hand, approximately 92% of the blueberry revenue is contributed to profits (not including wages and fixed costs). Not only is the profit margin from indigenous plants and other ornamentals exponentially lower than profit earned from the blueberries, but it takes at least one year to realize the profit from the indigenous plants whereas blueberry profits are realized in half that time.

LOOKING FORWARD

How should De Fynne define itself in the future? Should they stay true to their mission and 'provide a consistent supply of high quality indigenous plants to the nursery retail and landscaping industry' or grow the mission to include blueberry plants and seedling testing? De Fynne is at a crossroads and they need to decide how they should grow. In both cases, Elton and Jacky understand that risk mitigation (i.e. reducing their dependence on any one client) needs to be at the

[1] salary is not included in the fixed cost as it varies depending on the number of casual workers needed

forefront of their strategic planning. They also must prioritize securing land ownership or a long term lease.

To better understand the blueberry plantation operations, in 2011 Elton and Jacky visited Amathola's grounds in the Eastern Cape. The visit proved rewarding for business with Elton and Jacky securing another 'gentlemen's agreement' for increased production of 800,000 blueberry seedlings over the next 2 years. On their way back to De Fynne, the partners discussed the outcome of their visit which initiated numerous questions and highlighted several uncertainties: Is it time for De Fynne to assess their capacity and labor? Just recently, due to the economic recession numerous small farms and businesses are shutting their doors. De Fynne is using this opportunity to acquire tunnels and equipment at extremely low prices and increase their asset value. Should they concentrate on increasing the blueberry production rather quickly or diversify their portfolio by increasing production of the fynbos? Either way they need to explore possibilities for improved cash flow. Elton and Jacky wonder what the right growth strategy is at this time and if they will be able to keep up with the increased production of both products simultaneously.

Just as the fynbos and other indigenous plants are in their natural habitat in South Africa, De Fynne is well situated within the industry. Although a young company in comparison with its competitors, De Fynne has more than two decades of invaluable horticulture expertise that differentiates the company in their journey towards future growth. Now is the time to make strategic decisions that will ensure future growth and sustainability.

ABBREVIATIONS

ARC	The Agricultural Research Council
ASNAPP	Agribusiness in Sustainable Natural African Plant Products
CC	Close Corporation
CONNEPP	Consultative National Environmental Policy Process
CSIR	Council for Scientific and Industrial Research
SAPEA	South African Producers and Exporters Association

GLOSSARY

ARC	The Agricultural Research Council proved itself to be the principal agricultural research institution in South Africa. The primary mandate of the ARC is to promote Agriculture and Industry, to contribute to a better quality of life; and to facilitate and ensure resource conservation.
ASNAPP	Agribusiness in Sustainable Natural African Plant Products. Mission: To help create and develop successful African agribusinesses in the natural products sector, providing income, employment & development, through environmentally and socially conscious practices to produce high quality natural products for local, regional and overseas markets.
BLACK PEOPLE	A generic term that refers to Africans, Coloureds and Indians
CC	Close Corporation, a business registered in terms of the Close Corporations Act of 1984, consisting of not more than 10 members who share its ownership and management.
CUTTINGS	A portion of root, stem, branch or leaf that is used for the propagations of new plants. The piece must have at least one molecule of the original plant which begins to produce a new plant after it is put in a suitable medium such as soil or potting mix.
MOTHERSTOCK	The source plant that gives the cutting
ROOTED	The process of plants putting forth roots

TUNNELS

It is a walk-in, hoop or gothic-shaped pipe frame structure that is covered with a single layer of film plastic. Plastic tunnels designed to protect young plants from harsh weather (especially frost), while allowing access to light and ventilation. Ventilation is by rolling up the sidewalls or end walls and opening doors. Irrigation water is provided typically through a drip system. Plant production can be in soil or in containers on top of a weed mat.

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Defining De Fynne: A Small Nursery Wholesaler

APPENDIXES

Table 1: Competition Profile

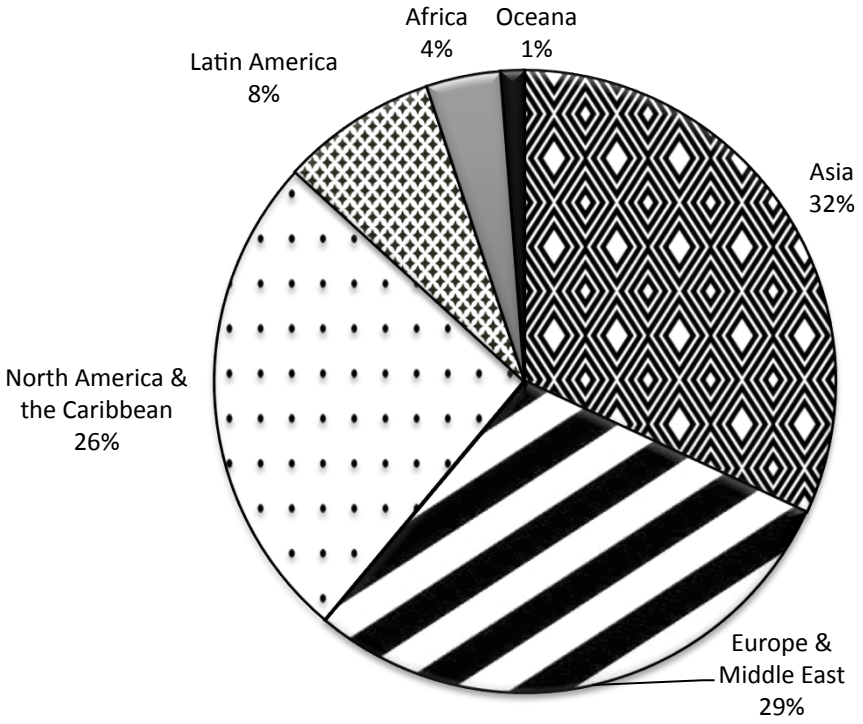
	DE FYNNE NURSERY	ARNELIA	CALEDON FYNBOS NURSERY	SHADOWLANDS	NONKE PLANTS	GLEN ELGIN
TYPE	Wholesale, not open to the public	Wholesale, not open to the public	Wholesaler, open to public	Wholesale, open to the public	Wholesale, not open to the public	Nursery, Farm
SINCE	2003	1999	1995	1994	1982	1903 Farm 1995 Fynbos Cutflower 2006 Fynbos nursery
TARGET MARKET	Nurseries, Plant Wholesalers, Farmers	Landscapers, Retail Garden Centers, Commercial Cut flower Growers	Farmers, Retail Nurseries and services to the export market	Local landscaping (30%) and Garden production centers (70%)	Nurseries, Landscapers, Farmers, Garden Centers, Property Developers	Export, Local market, Top Retail Outlets, Landscapers, Commercial Fynbos Cutflower Farmers
PRODUCT SPECIALIZATION	Indigenous Plants and Other Ornamentals	Proteaceae Plants	Fynbos (563 different species)	Indigenous plants, ornamental perennial plants, herbs	Non-specializing	Fynbos Cutflowers, Potted Plants , Rooted Cuttings
PRODUCT DIVERSIFICATION	Fruit: blueberries Testing seedlings: pears, pomegranates, apples	Propagator of fynbos varieties , maintain mother stock for new varieties (by ARC)	Other indigenous plants, trees, herbs	Partnership with three other nurseries: - long grass plugs - trees and shrubs - large aloes	No fruit trees, no grass	New fynbos variety joint venture with SA exporter and Dutch importer Grape, Bee hives
SIZE	1.5HA	15HA	N/A	750 sq. meter greenhouse 22 tunnels	16HA	1690HA: - 458HA apples - 82HA Pears - 45HA Fynbos Cutflowers - 1HA Fynbos Nursery - 30HA Wine
EMPLOYEE #	9 + casual workers	N/A	N/A	68	95	N/A

Table 2: The Worldwide Market Potential for Nursery, Garden Center, and Farm Supply Stores (US $ mln): 2006

REGION	LATENT DEMAND (potential)
Asia	58,198
Europe & the Middle East	53,338
North America & the Caribbean	46,893
Latin America	14,813
Africa	7,130
Oceana	2,282
TOTAL:	**182,654**

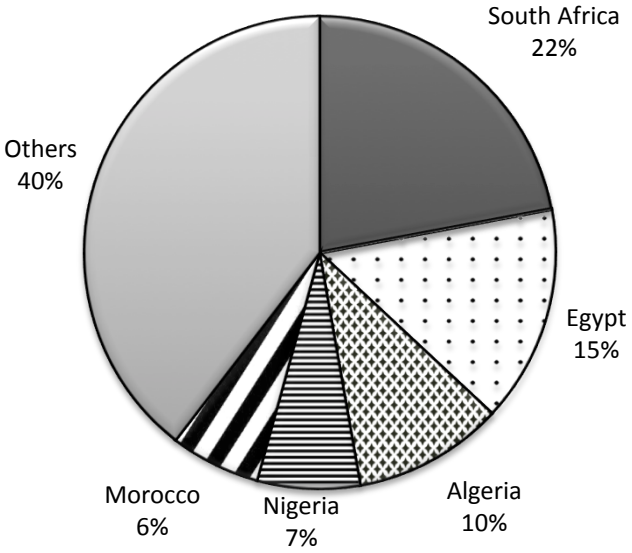
Source: Philip M. Parker, INSEAD, Copyright 2005, www.iconogrouponline.com

Figure 1: The Worldwide Market Potential for Nursery, Garden Center, and Farm Supply Stores as % of the globe: 2006



Source: Philip M. Parker, INSEAD, Copyright 2005, www.iconogrouponline.com

Figure 2: Market Potential for Nursery, Garden Center, and Farm Supply Stores in Africa as % of African Market: 2006



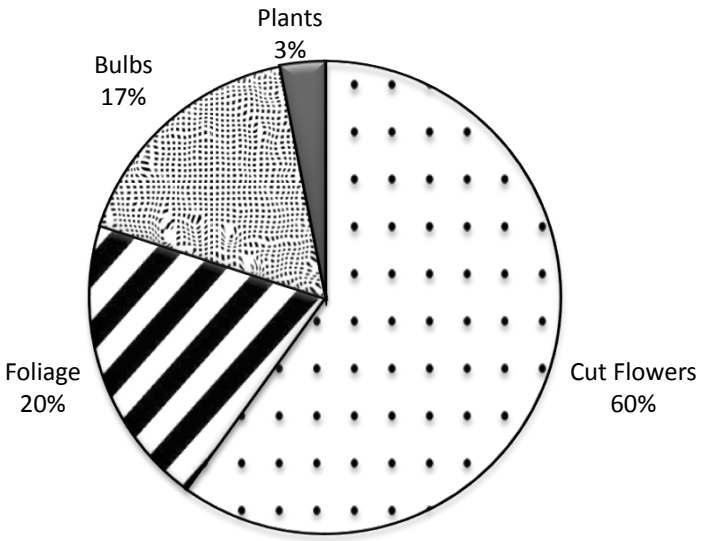
Source: Philip M. Parker, INSEAD, Copyright 2005, www.iconogrouponline.com

Table 3: Latent Demand Forecast for Nursery, Garden Center, and Farm Supply Stores in South Africa (US $ mln: 2003-2013)

YEAR	SOUTH AFRICA	AFRICA	THE WORLD
2003	$1,485.20	$6,525.11	$171,518.22
2004	$1,493.46	$6,492.93	$171,761.01
2005	$1,501.77	$6,462.05	$172,080.79
2006	$1,513.80	$6,464.24	$173,165.67
2007	$1,547.99	$6,659.43	$178,477.94
2008	$1,586.69	$6,894.57	$184,706.84
2009	$1,626.36	$7,139.19	$191,196.23
2010	$1,667.02	$7,394.00	$197,958.79
2011	$1,708.69	$7,658.59	$205,007.93
2012	$1,751.41	$7,934.30	$212,357.80
2013	$1,795.20	$8,221.31	$220,023.38

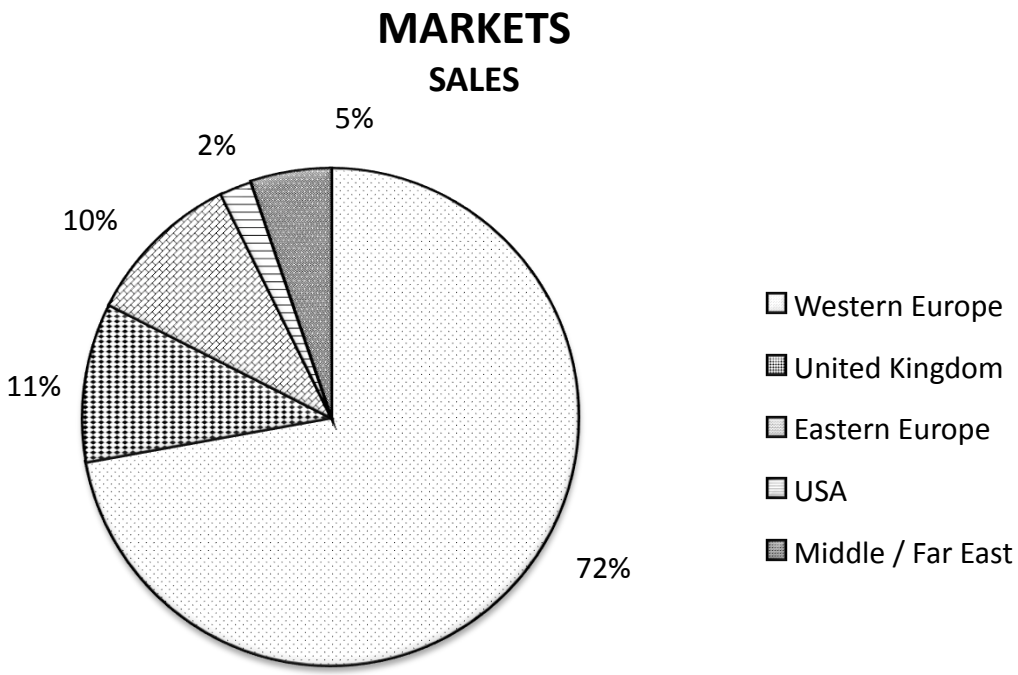
Source: Philip M. Parker, INSEAD, copyright 2007, www.icongrouponline.com

Figure 3: The main floriculture products exported by South Africa.



Source: Bester, C., Blomerus, L.M., Kleynhans, R. (2009). Development of New Floriculture Crops in South Africa. Proc. VIth on New Floricultural Crops . Acta Hort. 813, ISHS, pp.67-72.

Figure 4: Sales of South African Fynbos to International Markets September 6, 2008



**** Data adopted from Dorrington Peter, Country Profile of South Africa, South African Producers and Exporters Association (SAPPEX)***

Figure 5: De Fynne Organization Chart

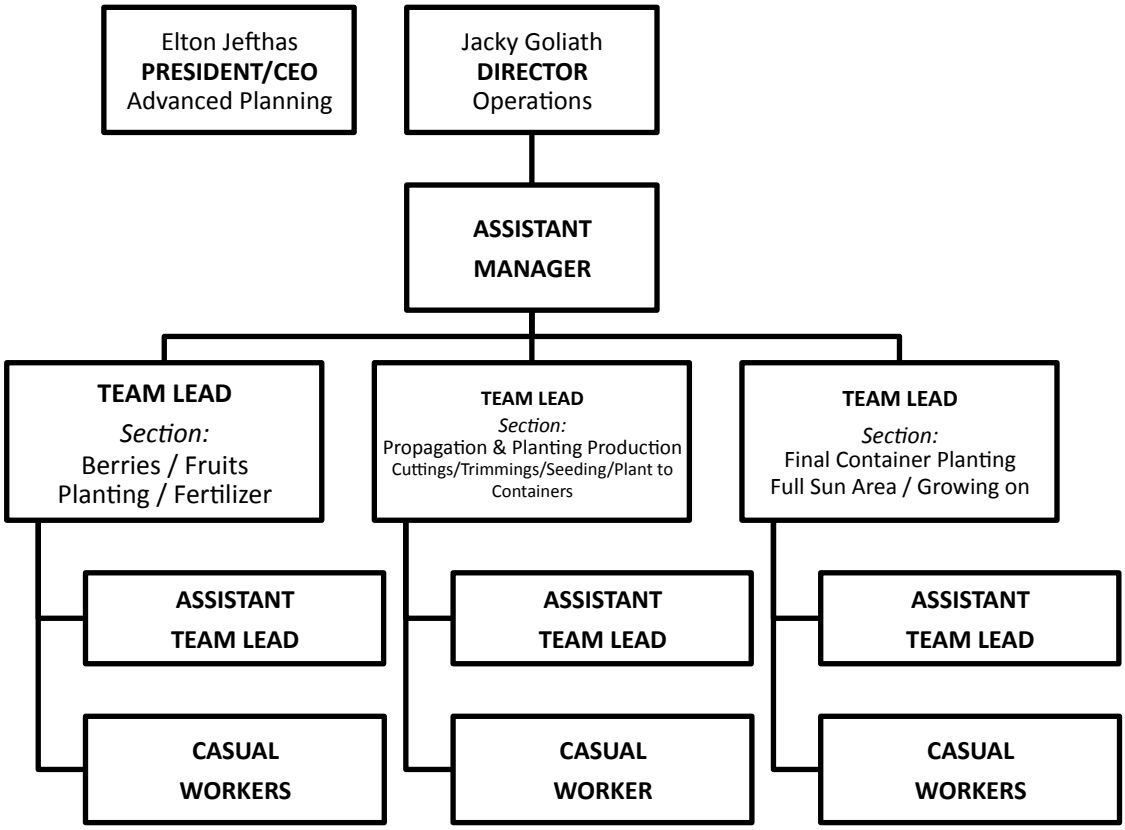


Figure 6: De Fynne's Timeline

