
Nature Isle Herbal Teas, Ltd.¹

DOMINICA, WEST INDIES

It was a typical June day in Dominica. There was powerful sun, tropical heat, high humidity, sporadic downpours, and a stunning rainbow in the distance over the mountains of the rain forest. Alvin Paul, production manager for Nature Isle Herbal Teas, stood in the open double doors of the factory as dark clouds approached. He reflected on the changes the company had weathered over the last few years, and wondered if management would steer the company well into the future. The management team was about to meet to determine the company's strategy. They had all worked hard to develop the company over the years, but now, with a potentially huge export market within their reach, Alvin had misgivings. Were they ready to handle this new level of growth? If they lost the confidence of their new distributors in Guadeloupe and Martinique, would they get another chance? There was so much to gain—and everything to lose. They would probably only get this one shot at success.

The Commonwealth of Dominica

Dominica is a small island in the West Indies between the French islands of Guadeloupe and Martinique (see maps on page 78). The east shore faces the Atlantic Ocean, the west the Caribbean Sea. Dominica gained its independence in 1980 from the British Commonwealth. Its 72,000 local inhabitants are largely descendants of slaves brought to the island by the British some 200 years ago. While English is the official lan-

guage, French Creole (or “patois”²) is promoted as part of Dominica's cultural heritage. The island is very mountainous, and the mountains are covered with the lush green vegetation of rain forests. It is said that there are 365 rivers on the island—one for every day of the year.

Dominica was not a typical Caribbean island. The tourist industry, like the rest of the economy, was not highly developed. (There are few sandy beaches and most of the coast is rocky, with sheer drop-offs leading to very deep water; the seas around the island offer some of the finest diving and snorkeling in the world.) The government had not approved any large scale hotel projects in order to protect Dominica's natural setting. Cruise ships had recently visited more frequently, but since they stopped only for a few hours, their contributions to the local economy were limited to short day trips. The areas that seemed to show the most economic promise were specialty crops (including tropical fruits), ecotourism, and scuba diving. The government had preserved almost a third of the island as national parks. There was little industrial pollution since there was not much industry on the island. In the agricultural sector, however, soil erosion from clearcutting and the increased use of herbicides and pesticides were posing ecological threats. Furthermore, as consumption increased, Dominica had begun to experience waste disposal problems.

Because of the incredible fertility of the island, hunger was not a problem. The temperature never dropped

below 60 degrees and could reach well above 90 degrees during the day. It often rained, but rarely for very long periods of time. Even though most people were poor by the standards of developed countries, many had televisions and most city dwellers had electricity, running water, and indoor plumbing. Vehicle ownership was on the rise, but most citizens relied on a minibus transportation system when travelling inland.

Inland transportation was a development challenge. Most of the main interior roads were paved and in good condition. Because of the history of British influence, cars drove on the left side of the road. Local minibus drivers provided the only means of public transportation. They negotiated blind curves on narrow, steep mountain roads with great finesse at speeds that often frightened visitors. Although the island was only 16 miles wide, the drive from Melville Hall (in the North) to Roseau (the capital in the South) usually took an hour and a half. There was a limited number of large trucks available for hauling, and freight rates were high. Duties were imposed on most goods coming into the country, and the duties on vehicles and parts made vehicle ownership expensive.

Another transportation challenge was the lack of a lighted airport facility or one capable of handling large airplanes. There were two airports on the island—Canefield (near Roseau) and Melville Hall. Melville Hall was more accessible to larger planes than Canefield, but the runway was not long enough to allow for passenger jets or large cargo carriers. Canefield was more convenient to Roseau, but it could only accommodate small propeller planes. Despite frequent turbulence and an alarmingly steep descent, pilots deftly landed their small planes on its perilously short runways. With no night landing facilities, it often took two days to reach Dominica from the United States. These inconveniences discouraged tourism and trade.

Dominica faced many of the uncertainties and inconveniences common to third world countries: cash and credit shortages, political instability (manifested through surprising outcomes in elections), high costs associated with importing capital equipment, disadvantageous economies of scale, and poor domestic infrastructure. The nation's economy was heavily dependent on agriculture. Local farmers had historically developed a dependence on whatever crop was most in demand

at the time. This led to economic upheavals when the demand for selected crops declined. For example, many hillsides were covered with untended lime trees that were once harvested to supply the Rose's Lime Juice plant in Roseau. When Rose's operations relocated, Dominica lost its market for limes, and the trees went unattended. Coffee, cocoa, grapefruit, and oranges were also once main export crops, but they had all lost most of their markets.

Banana exports now accounted for about 70% of the island's desperately needed foreign exchange earnings. Unfortunately, the subsidized price that Great Britain and France paid for bananas was higher than what German housewives were willing to pay, and the European Community had recently negotiated a gradual reduction in the price of Caribbean bananas. Dominican farmers rightly claimed that they could not produce bananas with the same economies of scale enjoyed by Latin American producers. Compounding these worries were concerns that the NAFTA agreement would divert the little investment capital Dominica now received to Mexico.

The largest private employer and exporter in Dominica was Dominica Coconut Products (DCP). DCP manufactured soaps, lotions, and hair care products under its own brand names and under license for Dial and Palmolive. DCP was currently paying more than the world market price for Dominican coconuts to help prop up the economy. Its owner warned that DCP could not compete effectively in the world market paying such high prices indefinitely. Bellot Products was another Dominican firm that processed the island's agricultural products. It produced specialty products such as juice concentrates and hot sauces. These products were sold domestically and abroad, and marketing efforts were being made to increase their presence in the United States.

There were a few small manufacturing firms. Despite the assistance that was available to small businesses, most failed within a few years. Remnants of expensive equipment (usually financed through international development agencies) could be seen rusting near various buildings. While seldom lacking in good intentions, the would-be managers of these businesses needed more than business financing; they required technical assistance in business development to complement

their loans for capital equipment. Since the local economy was so small, few businesses could reach significant size without exporting. Exporting could be extremely complicated and costly. A small business owner was not likely to have the expertise required to deal with the range of issues key to exporting, such as financing, regulations, tariffs, shipping expenses, and advertising in a foreign language.

Retailers were among the oldest and most successful businesses in Dominica. The largest retail businesses were owned by a few prominent families. Restaurants, bottling operations, and gift shops composed a significant portion of the economy.

On weekends everyone flocked to local markets in the larger villages and cities to buy and sell food and other items. This was a major social event. Through bartering and negotiating people stocked up on supplies in the open air markets. Among the exotic produce available were plantains, christophenes, pawpaws, dasheen, and breadfruit. Non-food items, such as beautiful straw baskets, mats, and wood carvings produced on the Carib Reserve, were treasured by Dominicans and tourists alike.

The local currency, the Eastern Caribbean dollar, was shared by the several member countries of the Eastern Caribbean Development Bank. It was pegged to the U.S. dollar.³ While it enjoyed the stability of the U.S. dollar, some Dominicans were calling for it to float freely to help make export prices more competitive in world markets.

Dominican Culture

Dominicans were very social people. They typically greeted everyone on a bus when they boarded. If they made eye contact with someone on the street, they were expected to greet the person or risk being considered unfriendly. Outsiders occasionally went out of their way to visit with people for the same reason. Word of mouth travelled fast, and it was essential to leave a good impression wherever possible. Dominicans were very friendly and helpful, but somewhat guarded in business and personal dealings until the other party was known and accepted.

Dominicans were fascinated with Americans and all things American. Nonetheless, the pace of life in the

Caribbean was considerably slower than in the United States. People could speak for a long time before getting down to the business at hand. It could take considerable time to complete even the most common tasks and errands. Local citizens advised visitors not to express too much impatience or irritation with the status quo.

Even the government of the island moved slowly compared to what citizens of developed countries would consider reasonable. Nature Isle recently experienced an unexpected water shut-down. The prior owner of an adjacent business closed down his operation without paying his water bill. Nature Isle's water line was connected through his property. Nature Isle leased this facility from the government. Since the government was also in arrears on its own water bill, the water utility used Nature Isle as leverage to receive payment from the government before restoring service. After negotiations, prodding, and countless phone calls, Nature Isle's managers finally regained their access to water some six months after its disconnection. In the meantime, they had to hand carry all the water they needed from a water line at the neighboring National Development Corporation, some 100 feet away.

The people of Dominica practiced the "early to bed, early to rise" ethic, except when there was a party. They are an industrious and hard working people. Most of the villagers around the island supported themselves through fishing and agriculture. Dominicans enjoyed social events and there were many widely celebrated feasts and holidays during the year. Often celebrations were scattered over a period of weeks so that it was possible for "fête-lovers" ("fête" is the Creole word for party) to drift from village to village following the revelry. Colorful costumes were worn at special festivities celebrating local culture.

The Company

Nature Isle Herbal Teas was a small firm that began as a one man operation seven years ago. The company had received support from DEXIA (Dominica Export Import Agency), other development agencies, the government, and local media. The brand name was well-known and the products popular in Dominica. The company experienced rapid growth over the preceding few years as the managers improved the packaging and the production process. Annual sales revenues

exceeded EC\$120,000 (see Exhibit 4). Nature Isle produced retail-sized packages of herbal teas and spices; there were 20 different products in their line. Although these herbs and spices were widely used in the Caribbean, only about 30% of revenues came from exports. Marketing efforts to-date had focused largely on the Dominica market, but recent promotions in Guadeloupe and Martinique revealed that there were excellent opportunities in the export market.

The building that housed operations was a corrugated metal structure with a cement floor. Some of the equipment from the previous owner still occupied space at one end of the 2,000 sq. ft. building. There were no screens on the windows or doors, and no air conditioning. As was typical of Dominica, mosquitoes and other insects added to the misery of hot, humid days. Fortunately, there was often a breeze off the mountains behind the building to help make the heat bearable. Inventory was stored in an area where the roof above had no major problems. Nature Isle kept a leased solar drier next to the factory and held 8.5 acres of farmland in the countryside.

The company's management team consisted of four partners. None of them had had any university training; they had all acquired their management skills through experience and at various seminars provided by development organizations working in the Caribbean region. All four partners were deeply committed to the success of the company. They had all lived on meager salaries to meet the cash flow demands of the business. They had all sacrificed their own salaries many times in order to pay their employees.

Glen Martin was the founder and chairman of the company. He recognized that Dominicans loved infusions made from local herbs.⁴ Due to their increasingly busy lifestyles, however, they might like the convenience of local herbs packaged in tea bags. Glen saw this as a potential market, and he started the business selling single serving bags of herb tea. He began by grinding the herbs and spices by hand. He would purchase boxes of Red Rose tea and empty the tea bags, filling them with his own product. Glen established a reputation for being quite knowledgeable about herbs.

Although reading and writing were difficult for him, Glen had an extensive vocabulary and a grasp of many fundamental business concepts. Over the next seven

years, he recruited three partners to help him expand the business. He hoped to further the development of Dominica by providing more employment opportunities and new markets for its diversified crops.

Alvin was Glen's first partner. George Charles was brought in next as general manager. Both invested many years of effort for minimal compensation in return for equity positions in the company. The latest partner was the new marketing manager, Joey Alleyne. So far, Joey had concentrated only on local markets but he was anxious to learn more about capitalizing on export opportunities. As the company grew, they hired additional workers. There were now four full-time production workers and an office manager.

As is common to fledgling companies in developing nations, Nature Isle Herbal Teas relied heavily on revenue grants and assistance from a variety of development agencies. This was how initial growth was financed. The company was now at a crossroads. Development assistance had become limited and the company held a great deal of short-term debt, making the timing of cash flows a critical management issue. The company had not established strong banking relationships or adequate equity to enable them to consolidate loans.

Although Nature Isle had not yet saturated the market in Dominica, Glen Martin and his management team perceived diminishing returns for local large-scale marketing efforts. The island population was small, there was little disposable income,⁵ and many grew their own fresh herbs for cooking and teas.

The company produced two distinct lines of products: herbal teas and spices. The herbal teas and most of the spices were organically grown and solar dried. They were all natural and had no preservatives.

The Production Process

Farmers grew herbs and spices for the company. As raw materials were received they were examined for quality and weighed for payment. Herbs and spices were usually washed before passing on to the next phase, the solar dryer. Products to be solar dried were placed in the dryer for five to seven days until they reached the correct moisture content level. The dried herbs were hand sorted to remove twigs and other

Exhibit I**NATURE ISLE HERBAL TEAS, LTD.
PRODUCT LINES****Herbal Teas**

Peppermint
Spearmint
Cinnamon
Ginger
Basilic
Bergamot
Citronelle
Anise

Spices

Cinnamon (Ground & Bark)
Nutmeg (Ground & Whole)
Ginger (Ground & Whole)
Anise (Ground)
Bay Leaf (Ground)
Tumeric (Ground)
Cloves (Ground & Whole)

debris. One employee could sort about 15 lb. (1 lb. equals 454 grams) of leaves during a workday. Sorted product was then milled into a fine powder by a milling machine before packaging. Alvin took charge of the milling process since he was the only one who knew how to run the machine.

Milled raw materials for tea were then placed in the tea bagging equipment that packaged the tea together with the thread and tag, and then boxed them in batches of 20 sachets (each sachet weighed approximately 1.5 grams). Boxes were opened and folded before they were loaded into the tea bagging machine. This process took about 20 seconds per box and it was performed in batches. Without breakdowns, the bagging machine could fill six boxes per minute, with each box containing 20 1.5-gram tea bags. The new tea bagger could produce 10,800 boxes per week when running at 75% capacity. Boxes of tea were closed and placed in a tub and then taken to the shrink wrap machine operator. Samples of the boxes were weighed intermittently to verify consistency in weights. Boxes transferred to the shrink-wrap machine were wrapped and placed into cartons, each containing 24 boxes.

Spices were placed in a filling machine after the milling process and bagged in polypropylene bags in quantities of 20 to 40 grams each. Spice bags were then sealed with

a foot-operated heat sealer and packaged individually in cartons for shipping and delivery.

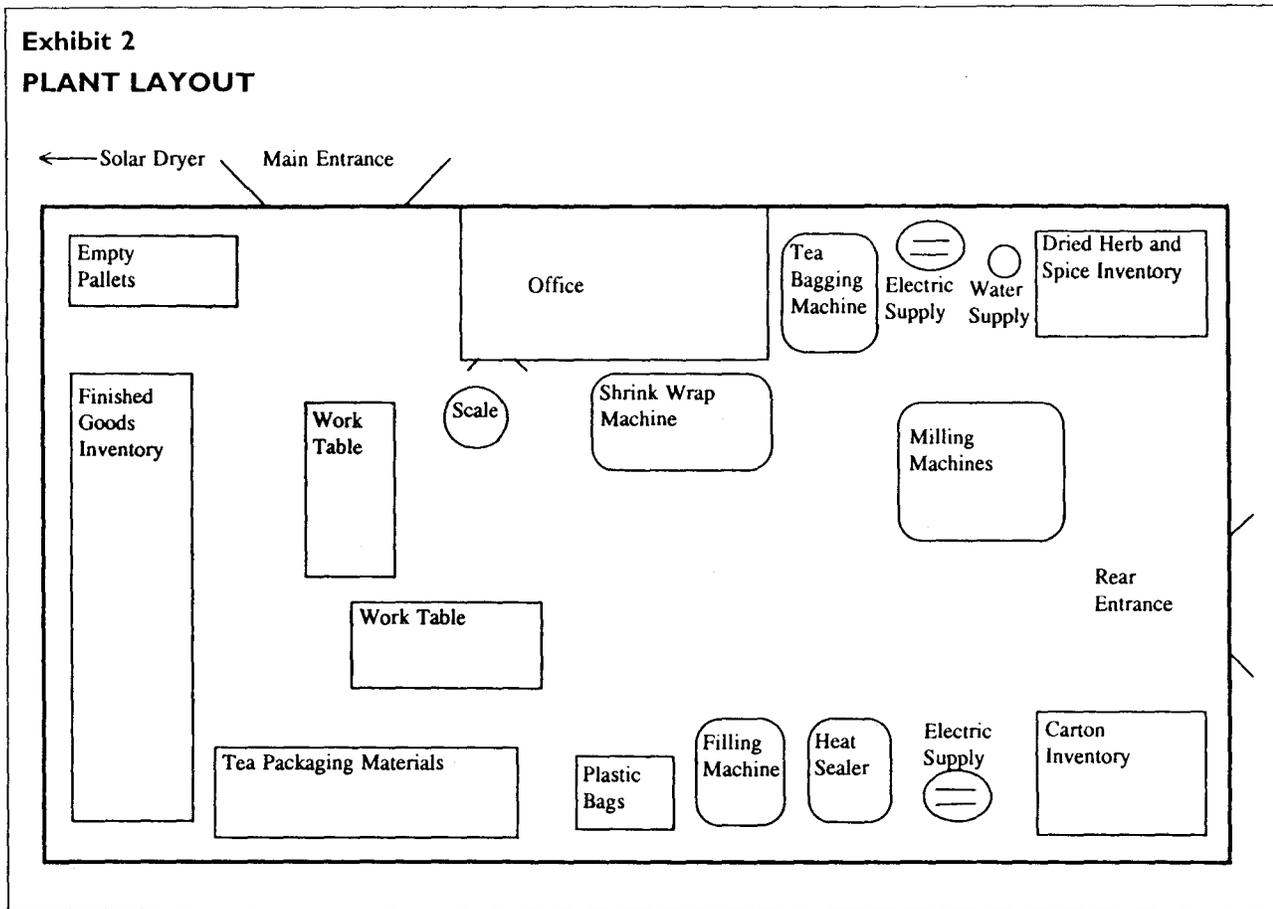
Operations were contained in an oblong-shaped, steel frame building with galvanized zinc sheet sidings and roof with dimensions of 90 ft. x 20 ft. (see Exhibit 2). The solar drier was located about 15 feet away from the main entrance to the building and measured 20 ft. x 14 ft. The solar dryer had a capacity of 1000 lb. of fresh product per week with an average yield of 130 lb. of dried herbs. Given the present capacity of the solar dryer, Nature Isle could produce about 1,967 boxes of herbal teas each week. The site was conveniently located on the outskirts of the city, approximately 2.5 miles from the seaport and seven miles from the airport at Canefield.

Most of the herbs required for production were supplied by about 15 farmers who each converted about 2.5 acres of land for growing herbs. Spices such as cinnamon and ginger were supplied by a variety of farmers, while nutmeg and cloves were imported from an island far to the south and then milled or re-exported in their original form. There was an additional 8.5 acres of land available for cultivation. Nature Isle agreed to assist farmers who supplied them by providing them needed tools and fertilizer in exchange for paying prices slightly less than market price.

Glen Martin regularly drove out to the countryside to talk with farmers about his raw material needs. He often encouraged farmers to plant a particular crop by offering to pay a high price for the first order. Most herbs could be grown in three months. Return trips were required to pick up many of the orders (not all farmers had trucks or vans for transporting their crops). Packaging materials had been ordered in large quantities a year before. They were expected to last for at least the next several months.

The Competition and Local Distribution

Local imports of herb teas originated primarily from the United States and Great Britain. Lipton's (England) mint herbal tea sold at EC\$6.36 retail for 32 grams. Heathway (U.S.) retailed a peppermint tea for EC\$15 for 56 grams. Lion Cross (U.S.) had a spearmint tea retailing for EC\$7.21 for 30 grams. Nature Isle mint teas retailed at EC\$6.50 for 30 grams.



The major competitor of spice products was Chief's from Trinidad with bottled cinnamon, nutmeg, and ginger retailing at EC\$3.55, \$3.20, and \$4.30, respectively.

Competitor packaging was more sophisticated. In taste tests, however, many consumers indicated that Nature Isle products had a much stronger aroma and fresher flavor. Nature Isle had a 15% price advantage at the retail level for spice products due to the simple packaging style they had adopted.

The Management Meeting

Nature Isle Herbal Teas had been selling almost exclusively in the domestic market. In the previous year the company entered into an exclusive distribution agreement with a distributor in Guadeloupe, a French island just to the north of Dominica. They sent a small shipment of their product for sale in several retail stores, and unfortunately, most of the products did not sell well during the few months they were available. The

distributor, Mr. Tichy, had advised them that in Guadeloupe there was a negative perception of Dominica. This was due to Dominicans' willingness to work for low wages and for undercutting Guadeloupe's market prices on agricultural products. The distributor suggested some changes in packaging to aid in the promotion of Nature Isle products in Guadeloupe. Nature Isle spices were sold in non-resealable plastic packets. Labeling on the tea boxes was designed for the Dominica market, but also included some French translation of key information. There were complaints that the stylized font depicting the brand name and the type of tea was not clearly legible. It was also suggested that name recognition should be increased through promotion and advertising. Production of a commercial for television would cost about 10,000 French francs.⁶ Running the ad at least three times a day for a week would cost 9,000 French francs over and above production. Mr. Tichy also suggested that since teas and spices were products in different markets, they should be marketed separately. With these changes, he was certain that the

Exhibit 3**RAW MATERIALS REQUIREMENTS**

	Product Mix	Boxes Required	Pounds Required
Teas:			
Peppermint	25%	14,423	5,344
Bergamint	12	6,923	2,922
Spearmint	15	8,654	3,660
Basil	12	8,229	3,467
Anise	5	3,429	902
Ginger	12	8,229	2,178
Citronelle	12	8,229	1,525
Cinnamon	<u>7</u>	<u>4,800</u>	<u>253</u>
Total	100%	62,916 units	20,251 lbs.
Spices:			
Cinnamon	15%	15,600	1,040
Nutmeg	15	9,375	830
Ginger	10	7,784	2,595
Anise Bay	5	5,556	3,658
Tumeric	18	14,012	4,695
Other	<u>37</u>	<u>28,802</u>	<u>1,930</u>
Total	100%	81,129 units	14,748 lbs.

products could be successfully sold in the Guadeloupe market.

Glen Martin believed that a cost-effective promotion campaign was essential if products were to be marketed effectively in the French market. Products were already on the shelves in Guadeloupe and Mr. Tichy had invested a good deal of his own time and money in placing these products with certain retailers.

While Mr. Tichy was busy in Guadeloupe, the Nature Isle management team signed an exclusive distribution agreement with Mrs. Lionis in Martinique (a French island to the south). An order for 75,000 French francs of assorted teas was submitted and hopes were running high that there would be subsequent orders in the near future. The Martinique order was to be divided equally among four teas: peppermint, spearmint, bay, and basil. The teas are being sold to Mrs. Lionis for 288 francs per carton (24 boxes per carton).

The Business Strategy Meeting

All four partners were present. Alvin started the discussion by acknowledging the Martinique order. "I'm really glad you got this order, George, but I wish you hadn't

promised delivery in just one week. I'm not certain that we can fill it that quickly. I know we need the money, but if we sell too fast I don't know if we can keep up."

"The staff just needs to be more disciplined," George Charles replied. "Right now, I don't know if they'll be on time in the morning or after lunch. We lose as much as two hours of production time some days."

Joey broke in, "The timing of this order is really bad since I have another order for six cartons of peppermint tea for our best customer right here in Roseau. We only have four cartons in stock. We need to think about ways to expand our production capability to meet the new orders coming in."

"Before we go any further, we need to assess our situation. Alvin and George, you take a look at our production capabilities and come up with a plan to increase our capacity. Joey and I will work on a marketing plan for exporting products into Guadeloupe and Martinique at a pace we can keep, and at a price we can afford," Glen concluded. "Let's meet in one week to compare our plans and decide on future tactics."

CASE DISCUSSION

1. Identify the production bottlenecks and recommend potential solutions.

Exhibit 4
**NATURE ISLE HERBAL TEAS, LTD.
INCOME STATEMENT**

All amounts are in Eastern Caribbean Dollars (EC\$)

	1989	1990	1991
SALES	32,735	75,836	123,300
Cost of Sales	24,875	41,411	63,176
Gross Margin	7,860	34,425	60,133
Operating Expenses:			
General/Admin.	56,967	123,641	107,899
Depreciation	5,252	8,102	19,867
Operating Profit/Loss	(54,349)	(97,318)	(67,633)
Revenue Grants	83,862	109,734	57,264
Amortization of Grants	2,351	5,869	13,747
NET PROFIT/LOSS	31,864	18,285	3,378

Exhibit 5**NATURE ISLE HERBAL TEAS, LTD.
BALANCE SHEET**

All amounts are in Eastern Caribbean Dollars (EC\$)

	1989	1990	1991
Assets			
Cash	12,322	18,643	25,159
Receivables	2,200	2,680	3,338
Inventories:			
Packaging	5,217	14,146	58,642
Raw Materials	<u>21,181</u>	<u>33,214</u>	<u>38,503</u>
Current Assets	40,920	68,683	125,642
Factory Equipment	32,741	67,387	163,529
Depreciation	(6,569)	(13,525)	(26,802)
Vehicles		27,505	27,505
Depreciation		(1,146)	(7,726)
Total Assets	67,092	148,904	282,138
Liabilities & Equity			
Accrued Expense	750	3,726	7,420
Loans/Notes	3,240	14,940	31,580
Deferred Interest		(7,848)	(11,867)
Loans Payable	<u>6,725</u>	<u>25,403</u>	<u>57,534</u>
Total Liabilities	10,715	36,221	84,667
Capital Grants	17,244	55,265	136,675
Owners' Equity	7,269	7,269	7,269
Accumulated Funds	31,864	50,149	53,527
Total Liabilities & Equity	67,092	148,904	282,138

2. What inventory issues can you identify? Suggest how you would deal with these issues if you were part of the Nature Isle management team.
3. Develop an export strategy for the company. What time frame is reasonable? How would you go about identifying potential competitors? What questions

must be addressed before a full scale export strategy is implemented?

4. Given Nature Isle's current product lines and packaging, what ideas would you pose to them for new product development?
5. The most recent financial statements for Nature Isle are contained in Exhibits 4 and 5. What is your opinion of the current state of their financial affairs? What financial management strategy should they follow?

Notes

¹This case was written by Scott Field of the University of Washington. This case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

²Patois is a combination of French and African languages. Dominicans are proud of their local language, and it now even appears in print. Original inhabitants of the island were the once warlike Caribs, whose descendants still live in the Carib Territory in the northeast. Some Carib words have become common terms in Dominica, but it is no longer spoken as a language. The Creole of Dominica is easily understood by the Creoles of Guadeloupe, Martinique, St. Lucia, Grenada, Trinidad and Haiti, but it is not identical to any of them, and even within Dominica, it varies slightly.

³The exchange rate was fixed, with the Eastern Caribbean dollar equaling 37 cents in U.S. currency (EC\$1 = US\$.37).

⁴Although most contain no tea leaves, these infusions were widely known as herb teas.

⁵Annual per capita GNP was approximately US\$2,000. Even though food was relatively inexpensive, many other imported items were expensive for Dominican citizens.

⁶There were 5.2 French francs to the U.S. dollar.