



Community Food Enterprise

Local Success in a Global Marketplace

*A project of the Wallace Center at Winrock International and
the Business Alliance for Local Living Economies*



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Wallace Center at Winrock International
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Funded by:

Bill & Melinda Gates Foundation
W.K. Kellogg Foundation

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This publication was funded by the Bill & Melinda Gates Foundation and the W.K. Kellogg Foundation.
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Community Food Enterprise: *Local Success in a Global Marketplace*

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Cargills (Ceylon) PLC

“This is not a corporate social responsibility program,” says Ranjit Page, CEO of Cargills (Ceylon) PLC, one of Sri Lanka’s oldest and largest businesses, “CSR is our business.”

For its first 140 years, Cargills imported not only food but clothing, pharmaceuticals, and alcohol, largely to serve expatriates and the country’s urban elite. Today the company focuses on growing raw farm products and selling them within Sri Lanka. The mission of Cargills (which is no relation to Cargills USA), says Ranjit, is to “serve the rural community, our customers, and all other stakeholders through our core business—the food we love—and other related businesses. Our work is based on three main principles: enhancing youth skills, bridging regional disparities, and reducing the cost of living.”

To achieve its mission, the company has put together, virtually from scratch, the infrastructure to purchase a wide variety of food commodities—at prices based on fair trade principles—from over 10,000 Sri Lankan small-holder farmers. To create an integrated food delivery system, including the largest chain of supermarkets in the country, the company partners with, and offers technical assistance to, almost 2,000 small and medium-sized Sri Lankan companies. Many of the foods sold in the over 130 Cargills retail locations are processed within the company, including a wide variety of dairy products and meats, and they reach over 40,000 retailers across the island.

Born in northern Sri Lanka and brought up in Colombo, Ranjit himself is a one-man balancing act. He has sought to retain the local character of his family-controlled public company but add global shareholders through a publicly-traded ownership structure; to prioritize local consumers but keep reaching out to global markets; to stay focused but dream expansively. In recent years his business has been lauded by the World Bank, by the Bill & Melinda Gates Foundation, and by others as a model for economic development via local food production and corporate social responsibility.

Business Model

Most publicly traded companies, with shares that can be bought and sold by anyone on the planet, cannot be considered community food enterprises. Cargills, however, is still largely owned by the Page family in a country with a land mass roughly the size of the U.S. state of West Virginia. Only about 10% of the company is publicly traded, so the company remains local under our study’s definition.

Sri Lankans know Cargills as a major supermarket chain that purchases its raw foodstuffs locally. Roughly half of its farmers grow vegetables, and the rest are producing fruit, rice, milk, and—just recently—engaged in fishing. But Cargills also is



All photos by Dushyanthini Kanagasabapathipillai

At a Glance

Where

Colombo, Sri Lanka with 9 regional collection centers, 3 production and processing facilities, 138 retail locations in 22 districts, 15 restaurants, and an island-wide distribution operation

What

Supermarket chain; food processing/manufacturing and distribution; restaurants; training programs

Website www.cargillsceylon.com

Founders

David Sime Cargill and William Miller

Year Founded

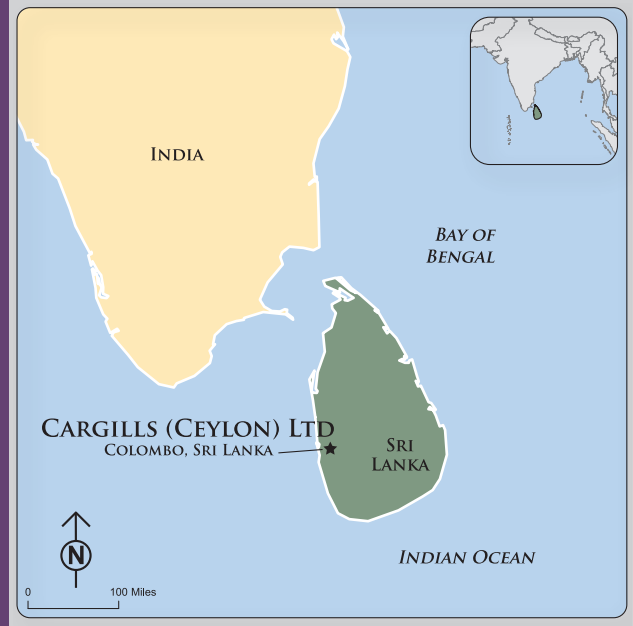
1844. 1946: Became public corporation; 1981: Ceylon Theatres Ltd took controlling interest

Number of Employees

5,605

Total Revenues

US \$111,884,782.46 / 12,053,952,000 Sri Lankan rupees (LKR)



a food-product processor and manufacturer, with its own lines of meats, dairy products, jams, cordials, sauces, and beverages. According to Ranjit, “We are proud to say that we are the only dairy company, the only meat company, and the only juice processing company in the country which has been certified with international standards.” Cargills also operates the Kentucky Fried Chicken franchises in the country. And starting in January 2008, the company began exporting processed foods to Australia and meats to India, the Middle East, and the Maldives.

According to Ranjit, Cargills’ purchasing networks are the largest in the Sri Lankan agriculture sector. The company employs directly 5,605 employees—more than 10 times the number in 1984. Its Food City brand is considered the third most valuable in the country and was a finalist for the Most Responsible Retailer of the Year award at the World Retail Awards 2009 in Barcelona. Sales have doubled every four years, and consolidated profits in 2007 were 62% higher than they were the previous year.

A key feature of the Cargills business model is that it guarantees its 10,000 farmers a minimum price 20% above estimated production costs. Cargills Director of Human Capital, Youth Development, and Rural Networks, Dr. Sunil Jayantha Nawaratne, explains the model this way: “Our farmers are living in rural areas, and they are in poverty. They lack market access. If we can bring the market to them with a guaranteed price for the whole year, we are working towards poverty alleviation, we are working with rural development, and we are training the next generation of leaders.”

Ranjit points out other services Cargills offers its farmers: “We take the market to them, we give them technical inputs, we drastically reduce the cost of finance to them. We do value addition, we innovate, we create new products from what we buy from them, and then we sell these products not only to local customers but now to international customers as well.”

Cargills can guarantee a higher price by eliminating the middleman. As Haridas Fernando, a deputy general for the company explains, “In a conventional supply chain, the farmer and customer are very far away from each other. There are five or six intermediaries involved....We have freed the farmers from the intermediary.” Through better coordination, efficiency, and integration, along with technical assistance to its growers, Fernando says that the company has been able to bring “the level of wastage of fruits and vegetables down from forty percent to three percent.”

Sri Lankan farmers eagerly embraced the model. “Before

Business Model Overview

| | |
|--|---|
| <p>Sector Raw product aggregation, processing, distribution, retail, service</p> <p>Ownership Type Public limited liability corporation</p> <p>Local Ownership Majority</p> <p>Products Raw agricultural produce; Cargills’ own products: dairy products, meats, jams, cordials, beverages</p> | <p>Market Domestic (since 1946)</p> <p>Customers Lower, middle and high income Sri Lankans in 22 districts; also buyers in several other countries</p> <p>Niche(s) Backward and forward integration, local purchasing and processing networks, in-country purchasing/ trade based on fair trade principles, entrepreneur and youth training programs</p> |
|--|---|

getting involved with Cargills,” says R.P.N.L. Premathilaka, a smallholder farmer, “I managed to cultivate only two times per year. But after getting involved, I cultivate throughout the year, and always get a better profit....At the time of getting involved with Cargills six years ago, I used to cultivate in a half-acre area. Now I cultivate fifteen acres, and I can send my children to school from the money I earn.”

One way Cargills has grown is by carefully matching its products to the needs of lower- and middle-income customers. “In Sri Lanka,” says Ranjit, “the consumers pay close to sixty percent of the monthly income for food and food related expenses. How could we make a difference with this sixty percent? That’s what we focused on.”

With 80% of its employees in their 20s, Cargills has devised several programs to engage, train, and “skill-up” young workers. Its human resources department is called “Human Capital.” Every employee goes through its Albert A. Page Institute of Food Business, an in-house certificate program that offers free classes to employees at all levels. “After joining us,” says Sunil, “they become experts in retail, food marketing, supply chains, ice cream manufacturing, meat processing, and food processing. We even allow them to go abroad, and work as skilled laborers or professionals.”

The recruitment process is all about finding young people committed to lifelong learning and serving. “When they come here for employment,” says Sunil, “we give our mission statement, vision, and our values, serve lunch for



them, and ask them to go and work at the Cargills supermarket or factory for three days. Then they learn for themselves what's happening. They get two days off, and come back and make a presentation in front of us saying why they want to work at Cargills."

Word about Cargills' commitment to being a learning company has spread. "Earlier," reports Sunil, "the graduates did not come to Cargills to seek employment, because they thought it was an English-speaking high class company, and they would not be able to find jobs here. Now, if we put an advertisement in newspapers to recruit 100 Management Trainees, we get 1,000 applications."

Cargills aims to be an exemplary triple bottom line company. It works with farmers and small-scale suppliers, alongside universities and government agencies, to recycle water and increase energy efficiency. "When you know that billions are starving on this earth, billions of people who are getting less than a dollar per day," says Ranjit, "food waste is a crime." Cargills actively promotes the adoption of new technologies like solar cells, greenhouses, and better seed varieties. And it's the only dairy company in the country to get all three relevant international certifications (ISO 9001, 14001, and 22000).

History & Drivers

For most of its history, Cargills catered to the needs of a few wealthy customers in urban Colombo, Kandy, Nuwaraeliya, and Bandarawella. The company was modest in size. By 1982, it had approximately 300 employees in four locations, and annually grossed US \$600,000. In 1983, the company decided to introduce the average Sri Lankan to the concept of a supermarket. Ranjit was instrumental in this effort, but ultimately disappointed that it reached so few consumers. "I was considering leaving the company by 1999," he says. "Walking into a supermarket was perceived as something for the affluent. I felt at that time I would not be able to change the regular customer who shops at the wayside shops."

Ranjit toyed with leaving the food world for a movie production business that was part of the Cargills holding company. During this period, he met a range of government ministers and officials, one of whom encouraged him to visit his rural farming electorate.

"Being an urban boy," says Ranjit, "I thought I was going to see some beautiful farms like the tea estates in Sri Lanka. But when I went there, I was shaken and challenged by what I heard from the people I met. I faced farmers in an auditorium, who asked me tough questions. They asked why we could not help them with transportation, why they were not getting the proper price, why there was no market for them, and why they were having to borrow at high interest rates. I did not have good answers."

"From that day onwards, I had to start from what I heard and what I saw." He returned to Colombo, met with Cargills' management and directors, and pitched them on developing an infrastructure



to purchase farm products directly from Sri Lankans at a high enough price to improve their quality of living. The company responded by creating a pilot collection center. Now, 10 years later, there are nine such centers.

Key Challenges & Lessons

Cargills has reinvented itself several times in the past 25 years. Its leadership and staff are understandably excited about their accomplishments but also keenly aware of the challenges they have had to overcome:

- *Investing for the Future*—Cargills has resisted pressures to pay out higher returns to shareholders and has instead reinvested in the company. In recent years, for every rupee of profit paid to owners, the company has invested two back into itself. Says Ranjit, “We do this so we can keep increasing the opportunity for the consumer, for the farmer, and for the youth of this country.”

“Our farmers are living in rural areas, and they are in poverty. They lack market access. If we can bring the market to them with a guaranteed price for the whole year, we are working towards poverty alleviation, we are working with rural development, and we are training the next generation of leaders.” ~Dr. Sunil Jayantha Nawaratne, director of human capital, youth development, and rural network

- *Price Fairness*—To offer a higher-than-market price to farmers while keeping prices for customers low enough to serve lower- and middle-income groups, Cargills has had to expand to a scale unimaginable by many CFEs. It has been able to cut cost by increasing volume and gaining full control over the supply chain. By eliminating middlemen, the company can pass along to farmers and consumers the savings in transaction costs. Reflects Ranjit, “It’s difficult most of the time, but we managed to do it because of our better supply chain.”
- *Inexperienced Workers*—That a very high percentage of Sri Lanka’s workforce is under 25 years of age presents a challenge to every company in the country. Cargills took this problem and transformed it into an opportunity. By becoming a company with huge in-house training opportunities, it is now especially attractive for young people.
- *Technological Innovation*—To maintain all of the national and international certifications and stay on top

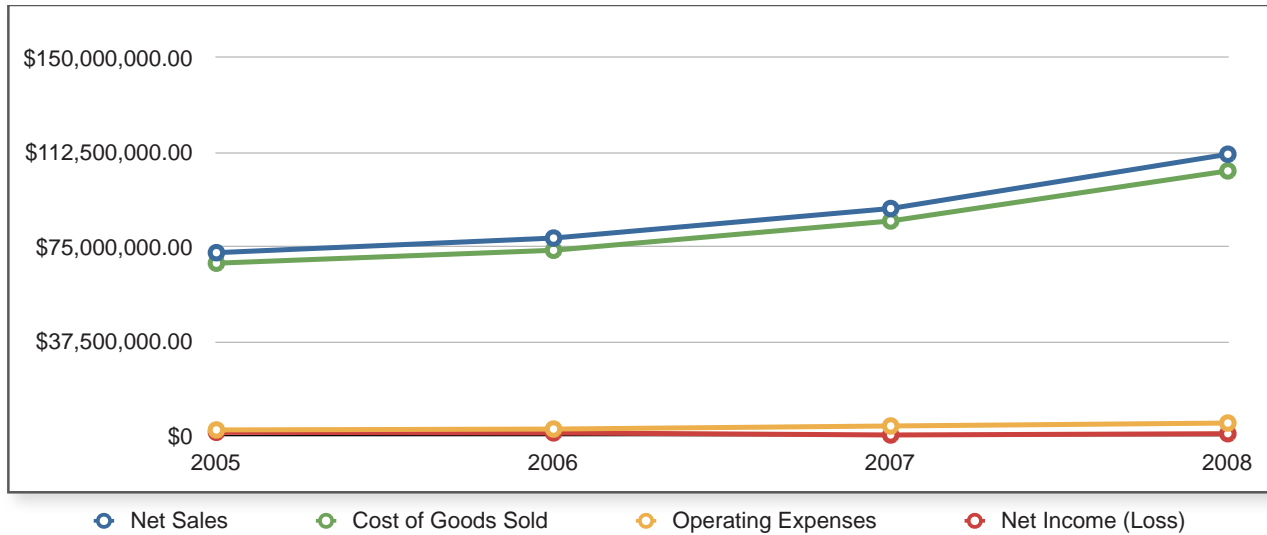
of its markets, Cargills has needed to “skill up”. One successful strategy has been to partner with universities to solve food processing problems. Another has been to bring in industry leaders from competitor countries like India to help learn about their innovations. The company has also started a food-business incubation program with the Chemical and Process Engineering Department of the University of Moratuwa, Sri Lanka.

- *Expanding into Agribusiness*—To date, Cargills has been in the business of purchasing agricultural products for processing and retailing. It has not engaged directly in farming or supplying farm inputs like seeds, agrichemicals, and farm machinery. Since these inputs are fundamental to profitable agriculture, Cargills has recently set up an Agri-business Center. The new Center aims to improve the standard of farming through production of quality inputs and through technology transfer.

A testament to Cargills’ impact is that other Sri Lankan companies are incorporating some of its practices. Cargills’ “graduates” are now in high demand in other food companies, particularly in the developing world. Ranjit himself is not content to see his model stay in Sri Lanka. He’s begun speaking at international conferences and has hosted a number of international research delegations.

“If the other companies also think like Cargills,” says Sunil, “we can meet the need of the hour which is to serve the nation. The private sector is the engine of the open economy. Public sector, private sector, and people’s sector need to work together for the prosperity of the community and country. ‘Peace and Prosperity through Public, Private, and People’s Participation,’—this is our slogan.”

Financial Performance



Cargills' revenue growth has been accelerating over the past four years. Gross profit has held consistent at just under 6%, however net profit eroded slowly from 2.3% in 2005 down to just 1% in 2008, a worrying sign that SG&A (sales, general, and administrative expenses) costs are creeping up. Inventory turns have decreased in the three most recent years which could be contributing to the decline in net margin, but further investigation would be needed to verify that. One potential point of concern is that Cargills is also carrying quite a bit of debt, with current liabilities consistently exceeding current assets and financing costs that have been as much as half of EBIT (earnings before interest and tax).



Social & Environmental Performance

B Corporation Report Card Score: *Pass**

** According to the B Survey rating system, this enterprise qualifies as a "Beneficial Corporation"*

Additional Indicators

| Indicator | Findings |
|---|---|
| Social & Labor Stewardship | |
| Established mechanism for worker representation in decision making/management? | Yes |
| Benefits provided to employees and their families? | <ul style="list-style-type: none"> • Living wage to all part-time & full-time employees • Paid/unpaid medical sabbatical with job security • Retirement plan for full-time employees at least partially paid for by company • Health insurance • Short-term disability • Sick leave • Paid vacation • Paid maternity leave • Health and wellness programs • Counseling services |
| Membership in associations that foster labor, community, or societal stewardship? | Employers Federation, Ceylon Chamber of Commerce, National Chamber of Commerce |
| Environmental Stewardship | |
| Are all sites of enterprise activity free of regulatory problems, liabilities, or fines for environmental issues? | Yes |
| Energy conservation or renewable energy practices? | <ul style="list-style-type: none"> • Energy usage measured annually • Energy efficiency policies (5-9% energy saved last year due to policies) • 1-5% from renewable sources |
| Membership in association(s) that foster environmental stewardship? | ISO 14001 |
| Local Economy Stewardship | |
| Majority (over 50%) of enterprise ownership located in the same community as at least 2/3 of workforce? | No |
| Expenditures (other than labor) directed towards independent local suppliers? | <ul style="list-style-type: none"> • Banking: Majority of services provided by a local institution • Supplies/services: 20-40% of expenditures (other than labor) |