

### **Rainforest Fruit Company**



Business Plan – October, 2004

#### **Executive Summary**

The Rainforest Fruit Company supplies competitively-priced, certified organic, fair-trade tropical fruits to organic and natural foods grocers, the fastest growing segment of the North American grocery industry. Demand for organically-produced tropical fruits consistently outstrips supply, creating a 50-200% retail price premium over conventional fruits. Rainforest Fruit will import unprocessed organic pineapples and bananas directly from grower cooperatives in Costa Rica that have been certified by the independent reviewers. The economic and political risks of international business are minimized by concentrating foreign operations in the stable and business-friendly climate of Costa Rica, “the Switzerland of Latin America.” The company will be profitable within three years and expects to grow with the continuing expansion of the organic and natural foods segment of the North American grocery business.

*Mission Statement – Rainforest Fruit Company promotes sustainable agriculture and biodiversity protection in Latin America by developing markets for organically produced, fair trade tropical fruits in the North American grocery industry.*

## **Market Description**

The United States represents the world's largest market for organic products (Kortbech-Olesan 2002). Gross sales of organics were \$8 billion in 2000 and are expected to reach over \$30 billion by 2007 (OTA 2004). This projected annual growth rate for organic products makes it the fastest growing sector of the grocery industry.

The largest demand for imports to the U.S. organic market is for fresh fruits and produce from tropical countries (Kortbech-Olesan 2002). Domestic cropland, livestock and dairy production in the United States have all increased exponentially since the early 1990s (ibid.), helping create an expectation among consumers for the availability of organic products. Tropical fruits, however, cannot be grown in the United States outside of limited areas in Florida and Hawaii. Organic bananas and pineapples currently represent a tiny fraction of domestic fruit production in the United States and consumer demand must be filled by imports.

Studies of the organic banana industry indicate no limit on the demand side, pointing instead to a supply bottleneck (FAO 1999). Wholesale price trends show a consistent 30% premium over conventionally grown bananas, while the retail premium ranges from 50%-200% (ibid.). Organic pineapples are a much newer market, but also offer a significant premium and suffer from supply limitations (Kortbech-Olesan 2002). Both cases offer great opportunities for growers and importers.

## **Competition**

Current players in the U.S. organic banana market include Mexico, Honduras, Ecuador and the Dominican Republic. Organic pineapples are available only in limited quantities from growers in Hawaii and Mexico. Both products are distributed to grocers

in the United States through several large organic wholesalers and are available to consumers directly over the internet. Import companies include New Farms, Inc. and Ben-Bud Growers, Inc., catering to organic and natural foods grocery distributors. Large conventional producers are beginning to recognize the growing market for organics and the Dole Fruit Company recently introduced organic banana varieties from Ecuador and Honduras to the U.S. Market.

Currently, high demand for organic tropical fruit reduces the threat of competition as a barrier to market entry. Rainforest Fruit will develop relationships with organic distributors located in key port cities, and then focus efforts on overcoming production and transportation hurdles. By entering the market now, Rainforest Fruit will be well positioned to gain and maintain market share in a rapidly expanding sector.

### **Production Development**

Costa Rica is the world's largest exporter of pineapples and the second largest exporter of bananas (Pollack and Perez 2003; Hernandez et al. 2000). Over the past two decades, bananas and pineapples have surpassed coffee as Costa Rica's top agricultural products. Organic fruit represents only a fraction of the overall trade, but is on the rise. Organic certification by the Costa Rican Ministry of Agriculture was recently recognized by the European Union, the only Latin American certification authority to receive such a distinction. Acreage under organic management in Costa Rica is increasing to serve both domestic and export markets.

Rainforest Fruit Company will work initially through the Talamanca Fruit Growers Cooperative, a collective of more than 1,000 farmers living in the humid southeastern lowlands. Many of these farms are rated as Organic by Costa Rican and international

certification agencies. Rainforest Fruit will work with TransFair USA to achieve organic and fair trade status for the entire organization. Additionally, we will work towards expanding the cooperative to other small growers in the Atlantic Lowlands.

By working through an existing cooperative and offering a new and consistent market, Rainforest Fruit will work towards increasing the production of organic bananas and pineapple in Costa Rica. Small farmers benefit from the price premiums and a predictable market and may also qualify for environmental service payments and other conservation incentives offered by the Costa Rican government. Rainforest Fruit benefits by tapping into an existing supply of organic produce. Also, working at the intersection of economic development and sustainable production may qualify Rainforest Fruit for grant funding or the direction of grant funding from international development organizations including USAID's Environmentally Sound Products program.

### **Marketing Strategies**

Rainforest Fruit acts to develop sustainable production in Costa Rica and as an importer into the U.S. organics trade. It benefits from entering a market with high demand and limited supply. Rather than direct marketing or developing relationships with regional wholesalers, Rainforest Fruit will work through key national distributors of Organic produce: Global Organics and Access Organics. With national reach, these companies target Food Cooperatives and other natural foods grocers where there is an increasing demand for bananas and pineapples. They also operate their imports division from the port of Miami, which receives regular and rapid ship transport via multiple shipping companies from Puerto Limon, Costa Rica. Rainforest Fruit's strategy will be to build a consistent and steady supply of high quality organics, imported through Miami

to the U.S natural foods markets. Longer term marketing will be to develop relationships with Whole Foods Markets and other large natural foods chains.

### **Political and Economic Environment**

Costa Rica is a democratic republic with a long history of political stability. The modern constitution was adopted in 1949, abolishing the armed forces and establishing a representative multi-party democracy featuring strict term limits and an independent judiciary. With a high literacy rate and universal health care, Costa Rica is seen as a model of stability and social reform in the volatile Central American region.

Economically, Cost Rica has seen steady growth and boasts the highest standard of living in Central America (US \$4,200 per capita). It enjoys a history of open trade with the United States and recently ratified the Central American Free Trade Agreement, further opening its markets to foreign investment. English is spoken widely and over 20,000 American expatriates call Costa Rica home. Inflation runs at 9% and the government spends close to a third of its budget on debt service (U.S. State Dept. 2004), but the currency is viewed as stable and the business climate favorable to foreign companies.

### **Social and Cultural Environment**

First settled by Spaniard in the 16<sup>th</sup> century, Costa Rica lay in between more populous and wealthy areas and developed a strong independent national spirit. Spanish is the national language and the people are primarily Roman Catholic, celebrating Saints Days and other Catholic traditions as national holidays. The country maintains no army and

declared permanent neutrality in 1993, earning it the title “Switzerland of Latin America.”

With its excellent record on human rights, health care, education and the environment, Costa Rica has an international influence far beyond its size. Rainforest Fruit expects to benefit from its highly educated middle class as a pool from which to hire excellent local employees.

### **Risk Management**

Any new business faces significant risks in terms of capitalization and market entry. International operations face the additional challenges of political, transportation and foreign exchange risks, while agriculture faces the challenges of production risks. Rainforest Fruit minimizes its risk exposure by strategic planning from the outset of operations.

Choosing Costa Rica for its production development helps reduce the political risk; the country has a half-century history of peaceful governance and benefits from positive trade relationship with the United States. Additionally, the new Central American Free Trade Agreement offers additional incentives and a positive business climate for foreign investment. The country maintains a significant debt load, however, and there is risk of devaluation if there were a sudden change in the currency exchange rate. Rainforest Fruit will minimize this risk by maintaining limited assets in Costa Rican colones. The currency floats and can dollar accounts can be exchanged quickly on day of purchase or payment for most transactions. Additionally, Rainforest Fruit will need to maintain few material assets in Costa Rica beyond its office operations, utilizing an existing

cooperative structure and hiring local transportation for shipments to port. The risks inherent in international shipping will be addressed by purchase of shipping insurance.

Production risks in banana production include black sigatoka fungus and banana root weevils, while pineapples suffer from black heart fungus, nematodes and base rot. Typically controlled by intensive fumigation of fungicides and pesticides, these production risks are addressed in organic operations through multicropping, crop rotation integrated pest management and application of organic pesticides. From a business perspective, these are a supply challenge that is paid in part by the premium that organics demand. The overshadowing risk is a catastrophic crop failure due to disease outbreak or natural disaster. Disease risk is minimized on small, multi-crop farms, but hurricanes on the Atlantic Coast of Costa Rica remain a concern. Rainforest Fruit will address this risk by seeking to develop production across a larger geographic area, including the Pacific coast.

### **Financial Plan and Outlook**

Rainforest Fruit anticipates an initial full-time staff of five, operating from a home office in the United States and a satellite office in Puerto Limon, Costa Rica. Packing will occur into refrigerated shipping containers at the Talamanca Growers Cooperative facility and trucked to Puerto Limon for export. A Costa Rican trucking company will be contracted for local transport, while several international shipping companies operate on the Puerto Limon to Miami route. There is a long-established trade in shipping fruit from Costa Rica to Florida; Rainforest Fruit will be a small addition to this ongoing trade. First and second year volumes will be dictated by existing capacity of Talamanca Growers Cooperative, while by the third year of operation production development

should bring additional growers on-line. Significant one-time startup costs include establishing an office and obtaining internationally recognized organic and fair trade certification for local farmers. Tables and figures below detail production expectations, budgets and revenue forecasts.

Table 1. Four –year projected revenue stream for Rainforest Fruit Company. Figures in U.S. dollars.

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Expenses:</b>				
Salaries & Benefits	252,000	264,600	277,930	291,721
Marketing				
Production Promotion	115,000	125,000	130,000	145,000
Organic Certification	240,000	180,000	40,000	40,000
Overhead	145,000	90,000	92,500	95,000
Packaging	22,000	22,000	27,500	31,250
Transportation	135,696	141,560	204,840	273,120
Insurance	43,500	43,500	54,250	61,200
Product purchase from Talamanca Growers	576,000	624,000	936,000	1,248,000
Contingency	190,000	195,000	210,000	218,000
<b>Total</b>	<b>1,465,191</b>	<b>1,419,054</b>	<b>1,693,083</b>	<b>2,109,562</b>
<b>Revenue:</b>				
Sales to Global Organics/Organics Access	1,056,000	1,104,000	1,656,000	2,208,000
Sales to New Markets	0	0	264,500	424,000
<b>Net Profit (Loss):</b>	<b>(409,191)</b>	<b>(315,054)</b>	<b>227,417</b>	<b>522,438</b>

### *Capitalization*

Rainforest Fruit seeks startup costs and production development funding of \$ 1.5 million to establish the business. Profitability is expected in year three of operations.

### *Additional Funding*

Because Rainforest Fruit works with farming cooperatives to create new markets in a developing country, it may qualify to receive or administer funds from international development programs, including the USAID Environmentally Sound Products program. These opportunities will be sought to augment funding for the production promotion activities of Rainforest Fruit.

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