



## Case Study: Aboquete, Panama

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Aboquete is a small company based in Boquete, Panama that produces fertilizer and fungal pesticides. Founded in 1999 by the father of the current CEO, management quickly passed to his son, and Demetrio Diaz then spent six months analyzing the business strategy. Demetrio realized there was a need for organic products that could actively control pests and diseases that were afflicting the crops of the producers, who bought fertilizer from him. In 2003, he signed agreements with local coffee producers to process all of their agro-industrial waste and began researching cleaner agro-industrial production techniques with the Ministerio de Desarrollo Agropecuario de Panama (MIDA). In 2008, the company established a laboratory and in 2009, it began offering farmers and gardeners an organic, fungus-based additive (biological control) that targets specific pests organically. The firm also began soil testing and plant disease analysis to give farmers a full picture of their soil's health and deficiencies.

### **Business Challenge**

The company is now differentiated in the market by offering organic pesticides (grown from fungus), soil testing, and plant disease analysis. It generates revenue through two products and one service: traditional organic fertilizer from compost (~80% of sales), fungus-based additives that act as pesticides (~20% of sales) and laboratory testing of soil (~1% of sales). However, through the provision of these products and services alone, it will not ensure a long-term sustainable business model for this small company.

Specifically, with the market for organic fertilizer and fungus-based additives growing quickly, the company's ability to produce sufficient amount of supply will determine its growth potential over the short to medium term. Currently, while the business operates with spare capacity in many areas of operation, there is a bottleneck in the storage of raw materials and thus due to the time required for these materials to decompose, the factory can go up to three months without producing a finished product. It takes at least three months to prepare organic fertilizer and in the event of a shortage, the company will be unable to reach demand. Additionally, the company must develop different ways to stabilize its fungal pesticides, so that they can be transported long distance and be mixed with other substances without losing their effectiveness.

### **Analysis of Alternatives**

*Relocate the factory* – In order to gain better access to raw material supply and eliminate the bottleneck associated with production, the company could relocate. The company has identified potential locations, but would require capital to fund the relocation. Having already made significant investments in an advanced laboratory facility, this could be an expensive proposition.

*Drive sales by investing in sales and marketing* – The company has historically depended on client referrals to grow sales and it lacks customer tracking or feedback system. Without a retail distribution channel, farmers and gardeners approach Aboquete directly by driving to the factory to purchase the product. By sourcing a distributor, the company would be able to expand outside its local area.

### **Action Taken**

In order to fund relocation and expansion, the company has chosen to pursue equity financing and has obtained investment from friends and family members to purchase preferred shares that pay 7% of annual coupon. After five years, this preferred stock will be paid back or converted to common equity, at the sole discretion of the company's common shareholders, which entirely consists of family members.

The company has shown the ability to strategically invest in research and development (R&D) as evidenced by its \$100,000 investment, funded through bank loan, to build a laboratory in 2008. The company continues to invest in R&D. Employees in the laboratory have a voice in company decisions and are given opportunities for capacity-building through collaborations with government agencies that include la Secretaria de Ciencia y Tecnologia and el Instituto de Investigacion Agropecuario de Panama (SENACYT). The CEO is an active participant in local and international conferences.

In 2009, a sales and marketing director was hired with the mandate to explore sales and distribution opportunities throughout Panama. While this individual brings enthusiasm to the role, the lack of stable supply of product while the company is in its existing facility could pose a challenge in his negotiations with large customers and distributors.

### **Results**

Aboquete experienced a nearly threefold increase in revenues from 2007 to 2009 and expects the trend to continue for the next several years, although the pace may moderate somewhat. The growth will be driven by the development of new products and the expansion of its distribution network, from Chiriqui province to national coverage.

Investments in new product development have impacted the company's margins and leverage ratios. These are not expected to improve in the near-future as the company will continue to invest in sales and marketing and will relocate to a larger facility. Therefore, should the company pursue a distributor-led model rather than the direct sales model it currently employs, margins are likely to stabilize at a lower level as the company will incur ongoing channel costs to distribute the product.

The company is seeking to raise equity capital of approximately \$600k to fund the purchase of a new factory and laboratory on a site that will make access to raw materials easier. To date, the company has raised \$33k from friends and family members, but has not yet had significant success in sourcing funds from institutional investors given the small, non-traditional nature of the business.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>1</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value created for these four different stakeholder groups by Aboquete.

**Aboquete and the COW-F Framework:**

<b>Stakeholder Community</b>	<b>Current Value Offering</b>
<b>Customers</b>	Aboquete is the only provider of organic pesticides for fertilizer in Panama and is also the only company to provide soil testing and plant disease analysis for farmers, which gives them a detailed understanding of their soil's health. By providing a fertilizer that is customized to the requirements of their particular soil, the company's product is able to increase yields by 20% while reducing their costs by 15%.
<b>Owners</b>	The company has shown strong growth in recent years, but is still small with weak governance and long-term profitability is still uncertain. The owner is passionate about his business and enjoys learning from others, including potential competitors, to grow the market for fungal pesticides.
<b>Workers</b>	Aboquete provides benefits and salaries to its workers that are better than other options in rural Boquete, including highly skilled roles in the company's laboratory.
<b>Future Generations</b>	By producing an alternative to traditional chemical fertilizers, the company is reducing the environmental damage of agro-industrial products.

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<sup>1</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.