



UNITED STATES INTERNATIONAL UNIVERSITY

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TEACHING NOTE

IDEAL MATUNDA: INVESTMENT CHALLENGES

Synopsis of the Case:

Ideal Matunda started as a management consulting firm and was involved in capacity building programs in 2004 where they were contracted to commercialize grafting, pruning and spraying in the fruit sector especially avocado and passion fruit trees.

In 2006, Ideal Matunda Company was registered and started its current operations in 2007. Its main objective was to partner with small scale farm holders to improve their lives and livelihoods through access to reliable and profitable markets. Its focus was to empower marginalized people through agriculture by providing markets for their fruit produce.

Having spent 4 years in the fruit business sub-sector, Ms. Mwangi looked back and realized she needed to move Ideal Matunda to the next level. This required her to either take the opportunity to diversify her business into refined avocado oils for local as well as international markets or to improve on operational efficiency of the company to cut down on costs and to be competitive and differentiate the business from competitors in the fruit sector. The company could not implement these two options due to investment capital constraints. Ms Mwangi wondered whether she should invest in another production system for refined oils or in ICT to link operations in the field, field offices, the factory and the head office to improve on operational efficiency.

1. Teaching Objectives

- a. Identify and illustrate the activities in an Avocado industry value chain
- b. Identify some of the strategies employed to lower costs or improve service for each of the activities in the value chain by using ICT
- c. Discuss how organizations justify the need for investing in ICT
- d. Discuss how investment in ICT will help in reducing cost.
- e. Discuss how the use of ICT will add value to business process
- f. Discuss ICT investment challenges
- g. Discuss Oil refinery investment challenges
- h. Identify the benefits of diversifying into refined Avocado oils

2. Immediate Issues

Ideal Matunda CEO needed to make a decision to present to the company board on whether to invest in an Enterprise Resource Planning (ERP) system or another production plant for oil refinery. The Operations Manager was passionately rooting for the oil refinery plant while the Finance Manager was convinced the ERP was the priority to improve on organizational operations.

3. Suggested Additional Reading

Michael Porter (1985) value chain model

4. Possible Teaching Aids

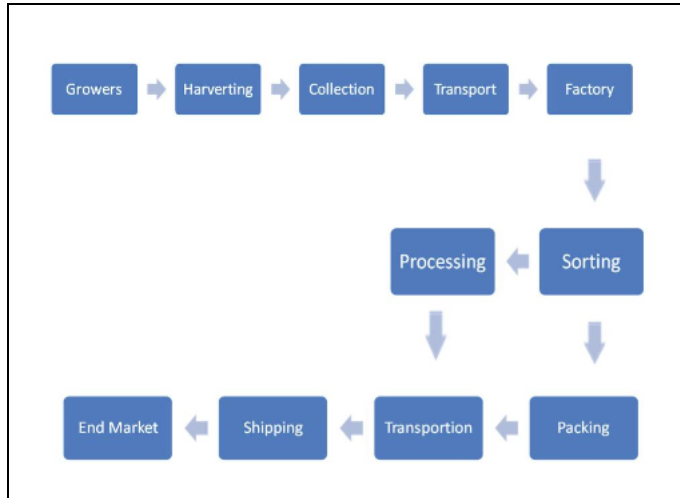


Figure 1: Avocado Value Chain

5. TEACHING PLAN AND CASE ANALYSIS

Suggested Student Assignment (before class):

Draw the value chain of the industry, from the producer to the customers (who buys the oil). Include the proposed oil refinery plant. We expect you to do this in a fair amount of detail—based on the information in the case and your personal experience – identifying the main activities performed by the different players.

6. Class session and suggested discussion questions:

At the beginning of the class session, the instructor will invite one student to draw the value chain on the blackboard. Other students will be invited to discuss/criticize. Depending on the sophistication of the students, the instructor may need to facilitate this process. An example of a typical expected answer is provided in Exhibit 1.

For the following questions, the students can be assigned to small groups to discuss them or they can be done in a general plenary session led by the instructor.

Q1. How will Ideal Matunda benefit from investing in the ERP system? Use your value chain and the information on the ERP system in the case to answer this question, and distinguish between cost reduction benefits and value added benefits.

| COST REDUCTION | ADDED VALUE/IMPROVED SERVICE |
|---|--|
| Data loggers to reduce shrinkage in transport | Immediate capture of data from the field and onward transmission |
| Optimizing inbound and outbound logistics | Better pricing capabilities |
| Automated HR, Inventory, payroll, financial support | Automated export documentation |
| Manufacturing process control IF oil refinery is implemented??? | Traceability of products |

Q2. What challenges will Ideal Matunda face in investing in the ERP system?

- HR – training of people, costly expertise
- Change management – different way of working
- Nairobi, Thika and field offices interconnection
- Reliability of power – backup generators needed?
- Huge initial financial investment

Q3. Consider the investment budget on page 17 of the case – do you think it is realistic?

- There is no mentioning of cost of customizing the software, nor any training costs or possibly the need to hire consultants or costly employees. So the real cost may be higher.

Q4. How will Ideal Matunda benefit from investing in the oil refinery? Use your value chain to answer this question, and distinguish between cost reduction benefits and value added benefits.

- More value added to export refined avocado oil than crude oil
- Access to new local markets – food (salads) and cosmetics
- Diversification

Q5. What challenges will Ideal Matunda face?

- Financial – massive investment
- Training, knowhow
- Additional complexity of packaging

Q6. Consider the investment budget on page 19 of the case – do you think it is realistic?

- The major issue here is the cost of land. The students should question why 5 acres is needed for this expansion (if it is not, a smaller proportion should be allocated to the project). Also, the possibility of leasing instead of buying should be considered

Q7. How should Ideal Matunda prioritize what investment to undertake? What should be the criteria?

If the students have been exposed to a finance class, they will mention things like NPV, IRR etc. Alternative suggestions might be Return on Investment and Payback time, and some students may bring up the issue about risk in making significant investments, as well as the availability of the money in the first place. There is not enough information in the case to use these tools, but it is useful to make the connection to other disciplines and tell them that the appropriate financial tools will be discussed there.

7. Additional Points to Raise

The possibility of an on line portal for marketing of the products is mentioned in the case and can be discussed