



Demerara Distillers Ltd



This case was compiled by the Arthur Lok Jack Graduate School of Business in collaboration with the United Nations Development Programme (UNDP) Guyana as part of a study of progressive Caribbean businesses.



Internet service provision and (together with partners) fish and shrimp processing.

Topco was acquired in 1993 as DDL, with already established distribution systems in Guyana and the Caribbean, decided to further diversify into fruit juices. At the time of purchase, Topco produced 75,000 litres of fresh non-pasteurised juice annually with total revenues of G\$10 million. Today, Topco produces 1.5 million litres of fresh and aseptic packaged pasteurised pure fruit juice and attendant drinks (under the brand names Topco and Wave) with total revenues in excess of G\$300 million.

Abstract

Topco, a subsidiary company of Demerara Distillers Ltd (DDL) that produces pasteurised packaged fruit juice, has established a partnership with the microfinance institution 'Institute of Private Enterprise Development' (IPED) to ensure that small-scale, low-income farmers are provided with the financial means to increase production and/or switch crops as well as have access to a guaranteed market for their produce.

The Company

Demerara Distillers Ltd (DDL) was incorporated in 1952, but its existence can be traced back for centuries to the time when every sugar plantation in Guyana had its own distillery. With changes and consolidation over time these were gradually merged into one distillery operation in Diamond, outside Georgetown. The core business of the company has been Demerara Rum and it is a leading supplier of bulk rums to Europe and North America.

In the early 1990s, in anticipation of changes to access for African, Caribbean and Pacific (ACP) rum producers, the company focused increasingly on branded bottled rums. Today the company's brands, especially its flagship brand El Dorado, are well-known throughout the Caribbean and internationally.

The company has also diversified over the years and today is a leading producer of carbonated beverages, - including the Pepsi brand - alongside its own Soca flavours and Diamond Mineral Water. In addition, the DDL group includes shipping and warehouse facilities, distribution of well-known consumer products (Johnson & Johnson, Colgate and Nestle), contracting services, medical transcription,

The Motivation

In the first few years after Topco was purchased by DDL, the company's production was mainly focused on non-pasteurised fresh fruit juice, which was primarily sold door-to-door (in plastic containers and small individual plastic packets) and to hotels, schools, hospitals and fast-food outlets.

At an early stage it was clear to DDL/Topco that there was potential to move into higher volume and higher value-added production - specifically into aseptic packaged pasteurised pure fruit juice and juice drinks. In an attempt to realise this potential, a trial strategic alliance was made in the late 1990s with a local packaging company.

At the end of this arrangement, the company made a decision to establish its own packaging capacity. Thus, the company embarked on the construction of a new packaging plant in 2002. The plant was in operation in late 2003 and had the capacity to process five million pounds of fruit annually.

Knowing that the new packaging plant would have the capacity to process five million pounds of fruit, DDL/Topco also realised that the current delivery capacity of the small farmers providing the fruit to the company would not be sufficient to make optimal use of the new packaging plant.

Taking Action

To overcome the constraint of limited fruit supply and ensure the necessary level of production, the small farmers would have to increase in numbers and individual production capacity. Some farmers would also have to switch crops to fruit that DDL/Topco had a demand for.

As an example, in the beginning there were too many farmers growing passion fruit, but the company found that there was a lack of cherries. The task was clear: the small farmers needed financial support to make various kinds of changes that could make their activities more useful to the company and thus more profitable for both parties.

DDL/Topco could have provided the full financial support necessary to the increase and/or redirect the production capacity of the small farmers that were supplying fruit to the company but as Mr Colin Thompson, Finance Controller at DDL, explains:

"It was decided that the company was not optimally equipped for the task, so we formed a partnership with an organisation that could manage the task more effectively and efficiently. The organisation was IPED, the microfinance institution."

The rationale for the partnership was straightforward. IPED would issue loans to the farmers, the farmers would increase production and/or switch to demanded crops, Topco would guarantee a market for the increased produce, thus enabling the farmers to repay IPED and increase their incomes and standard of living. The partnership was established in 2002 and by 2003 the farmers had increased production from 750,000 to approximately one million pounds of fruit. By 2004, production had further increased to 1.2 million pounds and DDL/Topco projects that 2005 will see the production of 1.5 million pounds of fruit.

Assuming that the partnership continues, production should increase to over two million pounds by 2007. The number of farmers

involved in the programme has also increased from approximately 100 in 2003 to approximately 150 in 2005.

The majority of the farmers are located at Timehri, along the Linden Highway and in West Coast Demerara. Although fruit production is increasing, the farmers are still far from producing five million pounds of fruit per year. Thus, the new packaging facility is still not being used to full capacity.

In light of this, DDL/Topco has chosen to engage in another partnership with Pepsi to produce the Tropicana and Gatorade brands for Guyana and the wider Caribbean markets to compensate for whatever packaging capacity the fruit juice processing activities do not utilise. This is not expected to hinder the potential for increased output from the small farmers.

Business Benefits

DDL/Topco has clearly benefited from engaging in a partnership with IPED and the small farmers. With a new packaging plant and increasing demand and export opportunities available, the company needed to operate at greater capacity in order to reap the benefits derived from economies of scale - and helping the small farmers increase their production capacity has served that purpose. This, in turn, has also markedly improved the livelihoods of the small farmers through increased incomes.

Vision for the Future

The company is hoping to see a continued increase in the production of fruit and to increasingly penetrate the wider Caribbean

markets. At present 30-40 percent of the DDL group revenues are from sales in foreign markets and the company is seeking similar levels for the Topco and Wave brands over time.