

LAPITA CAFÉ Vanuatu



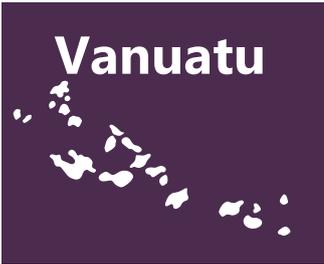
Investment Case Study

By Michael Pusinelli

LAPITA CAFÉ

Country

Vanuatu



Sector

Agriculture



Type

Local
Investment



Investor Background

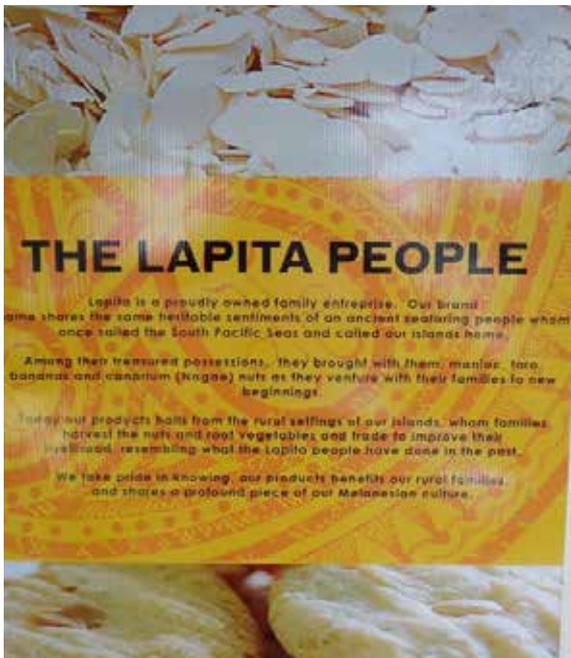
Lapita Café Limited is a food-processing and manufacturing business owned by Geordie and Votasi Mackenzie-Reur. Geordie is from the island of Espiritu Santo and Votasi is from Malo Island, which is off the Santo coast. The couple also own a fibreglass and polytanks factory in Port Vila, which manufactures boats, water tanks, septic tanks, toilet pedestals etc. Geordie runs this operation, while Votasi runs the Lapita Café business. Three of their sons work in the businesses too. Votasi is the Managing Director of Lapita Café Limited, and runs the business from her home at Namba Three in Port Vila, where she has her offices and the food processing kitchen. Votasi was educated at Onesua High School and Malapoa College in Port Vila, and then Nelson Girls High School in New Zealand, before studying to become a teacher at the Australian College of Advanced Education. She had developed a passion for cooking, and taught Home Economics in secondary schools for a number of years. She then got a job as a nutritionist at the Ministry of Health,

taking time out to do her Masters in Community Nutrition at Queensland University. She did her research in Malaysia and Thailand, before returning to Vanuatu in 1992, only to lose her job as a Government nutritionist when all the civil servants went on strike in 1993. She then took up a position at the Australian High Commission as a PR officer, while also running a small catering operation on the side, making finger food, savouries, canapes and baking for private functions, weddings etc.

Investment Background

In 1996, Votasi decided to quit her job and set up a full-time catering business. Her breakthrough was securing a 5-year contract to provide the catering for the University of the South Pacific Campus at Tassiriki in Port Vila. Up to this point, she had always funded her business ventures from her own savings, but she was able to obtain an overdraft from her

bank, the ANZ, to take on the USP catering contract. By now, she was already sourcing a lot of her food for the students from local producers and suppliers, and she started creating her own ingredients, focusing on local flavours and local produce. One of her creations was a pizza base made with cassava. The cash flow from the University contract gave her the confidence and the ability to start up the Lapita Café business in 1999, opening the café in Port Vila town, in a corner cottage site just up the road from the Bredbank building, and the café ran in this location for 4 years.



Lapita Café mission statement. The company, Lapita Café Limited, was set up in 1999, with Votausi and Geordie the 100% owners and shareholders.

Source: Image provided by Michael Pusinelli

The Production Facilities

Votausi and Geordie built their house at Namba Three in 1999, funding it out of the cash flow from the USP contract. It took them nine months. The site was large enough to enable her to add office space and the production kitchens and factory next to the house, over time. They moved in in October 1999, and have been there ever since, running all their businesses out of the office there. The kitchen

and factory have separate areas for the different processing and cooking operations, a 20-tonne oil press for the nangai nuts, and a grinding mill for the cassava and manioc. They have bulk store and freezer facilities, and a display room for the finished product.

The Lapita Cafe Business

Lapita Café focuses on local produce and healthy food, using local ingredients for all its baking and catering needs. After 4 years, Votausi closed the original café and moved her entire operation into her new premises at Namba Three. However, she still runs an out-catering business, getting most of her leads by word of mouth.

Lapita Café now produces a range of diverse products, included packaged nangai nuts, nangai biscuits, fruit chutneys (mango, pawpaw, tamarind), vegetable relishes made from choko, manioc and cassava flour, dried fruit and nangai oil



Lapita Café products

Source: Image provided by Michael Pusinelli

Lapita Café Product Lines

Her premises are subject to annual inspection by the Health Department before she is issued with her business licence, so she starts each year with refresher training of the staff on the correct food handling and hygiene practices. For example, when any machinery is not in use, it is thoroughly cleaned and covered up.

The production process is fully documented for quality control, with batch numbers, proper inventories and stock control, so that any issues with quality can be quickly identified and traced back to the source. They have to maintain high standards;



Lapita Café commercial kitchen

Source: Image provided by Michael Pusinelli

otherwise, Air Vanuatu would not take their produce. Their policy is that they do not compromise on quality, everything is checked and double-checked, and in the 10 years they have been operating, they have only ever had one product recall.

She uses her out-catering business as an opportunity to test her food products and get feedback from

her customers, using them as a marketing device to generate word-of-mouth advertising. The previous week she had put on a morning tea presentation for the WHO on food nutrition. She undertakes product promotions once a month outside the Traverso butchery in town, setting up a display table on the footpath and inviting people to taste the product. Typically, she will display the various chutneys, dried fruit (mango, bananas etc.), plus her range of gluten-free biscuits and flour-based baking.

In the Port Vila factory, the nangai nuts are pressed in their 20-tonne oil press, the oil extracted, processed and bottled, and the residue used for baking biscuits. The biscuits are packaged and sold directly to Air Vanuatu for its regional in-flight snacks, and Votausi wholesales the rest of her production to other local retail shops and supermarkets, including the duty-free outlets at the airport. The nangai nut



Lapita Café Manioc flour, made from cassava

Source: Image provided by Michael Pusinelli

and cassava play a significant role in the business of Lapita Café. The botanical name of the nangai is canarium indicum. The tree is indigenous to Eastern Indonesia, Papua, New Guinea, the Solomon Islands, and Vanuatu. The seed or kernel is rich in oil, and can be eaten fresh, roasted or smoked. It can also be

eaten as a snack food or incorporated into a range of cooked dishes. The oil is extracted by crushing the kernel and it can be used as a substitute for coconut oil. Nangai is a traditional food source in Melanesia and is also used in traditional medicine. Votausi was the first person in Vanuatu to start producing cassava flour on a commercial basis. It is an ideal substitute for imported flour.

Investment Process

Business Motivation

Votausi has always had a passion for food, and as a nutritionist, she was driven to discover as many uses as possible for Vanuatu's local produce to make healthy and nutritious food. She has built up a good reputation for her achievements in this area, and even featured in Robert Oliver's book, 'Me'a Kai', where he described her as "the undisputed queen of ni-Vanuatu cuisine". She is very keen to take her business to the next level, and her subsequent ambition is to set up a big nangai oil press in Santo, plus another mill for producing manioc flour.

Financing the Business

When Votausi first started becoming involved in the food processing business, she and Geordie both knew that it would not be enough to support them in the early days, so they decided to buy an

Votausi has always had a passion for food, and as a nutritionist, she was driven to discover as many uses as possible for Vanuatu's local produce to make healthy and nutritious food

established business to provide a good cash flow. Geordie, who had been an Agricultural Extension Officer with the Ministry of Agriculture, quit his job, and they purchased a fibreglass factory, Fibreglass Vanuatu Limited, in 1997. The purchase was funded with assistance from the ANZ. From all their experience travelling around the islands, they had come to realise that the local people had two big problems, safe water and transportation. The fibreglass factory provided them with an ideal opportunity to meet the demand for water tanks and small boats, and it turned out to be very successful.

Around that time, they met an Australian who persuaded them to join him in setting up a furniture manufacturing operation using a synthetic product called fibre-cane. The venture got off to a rather shaky start, as the Australian promised a lot, but failed to deliver. They imported the necessary plant and equipment through him, and he worked with them for a while, but there was little demand for the furniture and during that time, they lost over A\$100,000. They had to go back to the ANZ for additional financial support, as they had run out of cash, and things were so difficult for them for a time that they thought they might fail. However, by coincidence a television programme was being put together around that time, looking at enterprising ni-Vanuatu in business. Geordie and Votausi were invited to appear on the programme and were interviewed about their problems.

The following Monday, they had a call from the manager of the National Bank of Vanuatu, asking to come and see them. He told them that based on what he had seen, he felt that the bank could really help them, so they were able to transfer all their accounts from the ANZ and start again with fresh finance. They both say that this was what put them back on their feet again.

In 2001, they added a second operation to the fibreglass business, setting up the production of

polythene water tanks through another company, Pacific Polytanks Ltd. This also involved going into partnership with an Australian, which made them a little cautious at first, but this time things worked out well for them as he really helped them to set the business up. The partnership ran for 10 years, and in 2013, they were able to buy him out. The business has continued to be successful.

Up to this point, Votausi had always funded her activities from her own savings, but in setting up her catering business, she needed to borrow money from a bank for the first time. She was able to obtain the overdraft facilities that she needed from the ANZ, but in the process had to learn a number of new business skills, including how to prepare budgets and cash flow projections. She and Geordie also had to mortgage their house in Santo as security for the banking facilities.

Group turnover across their four businesses is currently about over VT100 million p.a., represented mostly from Fibreglass Vanuatu Ltd and Pacific Polytanks Ltd. Lapita Café Limited and Lapita Lodge caters for about 5-10% as they are still being developed. All four divisions are profitable, albeit not always spectacular, and their cash flow is steady, but Lapita Café Limited has the most variation in turnover year to year.

For the food business, their target markets are both domestic and tourists, but their actual customers tend to be a small number of big retail buyers, so if something happens to one of them, it can have a big impact on their turnover. They do not export any of their production themselves, but they do have a few tourists who come in and buy their products in bulk to take home. Votausi describes these as her "suitcase" exports.



Village recipients of Fibreglass Vanuatu water tank

Source: Image from http://dailypost.vu/fibreglass/image_d8846a90-483d-583d-9d07-18fa6a116a18.html

Cyclone Pam affected Lapita Café's business badly, with income down by about 50%. However, it is slowly picking up again.

Factors that Facilitated Investment

Local knowledge and networks have been very important to them in setting up their businesses, particularly in knowing where to go for help when they needed it and understanding how the ni-Vanuatu thinks. They also recognise the value and the benefits of a good education for both of them, and the support of family.

In the early days, Votausi did a lot of reading and research, talking to suppliers and processors for advice. One person who helped her a lot was a French butcher called Michel Furet, who not only gave her a lot of technical advice, but was also prepared to extend credit to help her. He also told her

Local knowledge and networks have been very important, particularly in knowing where to go for help and understanding how the ni-Vanuatu thinks

that if she could last for 6 years, then she would know that she had succeeded. She had similar support from her chicken suppliers, Toa Industries. At the time, Geordie was an administrator in charge of a Government department with a large number of employees and a big budget, so he taught her about cash management, planning, budgets and cash flow.

She found the process of applying to the ANZ for the overdraft fairly easy, as they had a good proposition to put to the bank, and the bank was very

supportive of them. Even so, they had to put their house in Santo up as security.

She has had a lot of assistance from a French agricultural research officer in the Agriculture Department, who has done a lot of research on kava, cassava (manioc) and taro. He gives her advice on the different species of each food type. Votausi has done a lot of her own research on food processing, including undertaking training through the Ministry of Trade and the University of the Sunshine Coast in Queensland. She also has a contact at the University who has undertaken a lot of research on the nangai nut for her.

With Lapita Café, the first assistance she got was technical advice and the supply of some equipment through the "FACT" project, (Facilitating Agricultural Commodities and Trade), through the South Pacific Commission. They were interested in small businesses like hers that had potential to export their products. She got help with her processing techniques, package design and setting up the kitchens properly. She found their support very good.

She was very thankful for their assistance, but one thing she felt that they did not understand was that actually her business was more about import substitution than straight export. To her, import substitution was just as important an objective as exporting, but they did not agree with her. Consequently, they ended up not give her as much credit as she felt they should have, and she also felt that she had fallen out of favour with them, as they rejected her application for the final piece of assistance she asked for. Part of her application was for assistance in obtaining recognisable certification of her production facilities, and although she worked very hard to put it all together, they lost all her paperwork so in the end she gave up. She has put certification on the back burner for the time being, as she does not need it for the local market.

Total Investments

In addition to the Lapita Café business, the fibre-glass factory and the polytank business, Votausi and Geordie own a house in Santo, which they used to let out on long-term rental. However, they were continually having problems with tenants damaging the house, so they converted it into a guesthouse, Lapita Lodge, in 2005, catering mainly for Government officials and NGO staff and budget travellers. She does not focus on tourists at all, as most of the business is local. The guesthouse can sleep up to 30 guests. It comprises two 3-bedroom apartments and three accommodation units and is managed by Votausi's niece. Aside from their annual group turnover, Votausi was unable to put a figure on their total investment, due to the incremental way in which it has been built up. They have no investments or business interests in any other Pacific Islands, nor do they plan to.



Lapita Lodge Guest House, Santo

Source: Image from <http://www.espiritusantotourism.com/activities/apartments/lapita-lodge>

Challenges to Investment

The weather is a challenge for Lapita Café, as finding ways to secure reliable supply lines despite seasonal weather and cyclones is difficult. Ensuring they always have adequate cash funds when the produce is in season can also be a challenge. Picking reliable producers in the islands is another obstacle. Votausi works through agents, paying the suppliers cash on

delivery, as that generates more loyalty, and she is prepared to pay good prices to ensure both quality and loyalty. She pays a minimum of VT200 per kilo to ensure the quality. Some of the farmers they have worked with for over 5 or 6 years now. They work as family units, with the nuts mainly collected by the women and children.

Finding good staff is an additional challenge. Votausi and Geordie employ a total of about 40 staff across their four businesses, all ni-Vanuatu, roughly 50/50 male and female. She invests a lot of time and effort in training her staff, but a number of them have left to go overseas as RSE workers, and they will not work for their old local pay rates when they get back. As long as she can keep her core staff and a good production manager, she feels she can handle the current staffing issues.

The proposed introduction of income and corporate tax would be a big challenge, and she is strongly opposed to it, as she does not believe it is in the country's interests.

Local Supply Chains

Votausi sources all the ingredients for her food processing operation locally. Securing reliable supplies of the nangai nut is a key challenge. For the nangai nuts, she buys through agents in the Sanma province (Santo and Malampa province, Malekula). Those two areas alone usually produce between 3 and 5 tonnes of nuts a year, which she buys already shelled. However, Cyclone Pam and the subsequent bad weather affected many of the nut-bearing trees, with a drop in production and more undersized nuts and unformed kernels.

They are also facing some stiff competition for the nuts from an overseas company wanting to buy them for the oil. This company has been going around the islands offering a higher price for the "nut-in-shell", which is pushing up the cost of supply at a time

when full harvesting is still not back to its pre-cyclone levels. That company is also shipping the nuts to Efate for processing, but in their case, what is left over after extracting the oil after crushing, is used for animal feed.



Votasi standing by the 20-tonne hydraulic nut press

Source: Image provided by Michael Pusinelli

Another problem she has is that now that other people are seeing what she is doing, they are starting to copy her, so not only does this increase the competition for the nuts, but it also adds competition to the sale of the finished product. Right now, she has no stock of nuts on Efate at all, but over the next few months, they will start to come back in. She normally gets her stocks of cassava for making flour from farmers on Efate, but since the cyclone there has been a big drop in production, so she has moved the processing to Santo, where stock is still available. Each processing run needs about a tonne of cassava, which she is able to get there, but both

she and Geordie feel that they probably need their own farm now, to provide a buffer for future supply. They have already bought a small farm on Santo, and have started planting. They acquired an existing rural lease on this property, going through a real estate agent, who handled all the paperwork for them. They had no problems with the process.

Looking Forward

Votasi has identified a number of key future opportunities. She has spent the last 6 years having her products analysed and tested through various agencies, including Government research facilities and the University of the South Pacific, to try to develop the healthiest and most nutritional options. She feels that once she knows she has the best quality in each of her product lines, she will be able to take production and processing to a new level, and enter the export market.

Votasi is currently looking for finance to take her business to this next level; as otherwise, it will start to go sideways. Her customers are already telling her that she needs to move away from a commercial kitchen to a stand-alone factory. Her plan is therefore to find funding to build a new factory in Santo with a capacity to process 50 tonnes of raw materials a year across all the product lines. Her current kitchen processes about 20 tonnes a year. Her objective is to go for full HACCP certification, which would then open up new export markets for her.

If she can secure regular niche markets for the finished product, she will be able to secure better arrangements with her suppliers at the local level. She is looking to the EDF11 (European Development Fund 11) for this funding. The EDF has a total of VT3 billion available through the Ministry of Trade specifically for investment in value-adding activities using local produce, e.g. fruit, vegetables, coconuts etc. She has already lodged her application, and is expecting a progress report on it in March. If she

is successful, she will be able to go ahead with the new factory. In that case, they would also invest in a nut-cracking machine, so that they can buy the “nut- in-shell”, which is cheaper than the shelled state. She is already working with an engineer on the design of such a machine. They would then use the shell as a heat source for drying cassava etc., or sell it as smokeless fuel for cooking.

Votausi thinks she has certainly achieved all her original objectives, having set out to go into the production of nutritious food products using local ingredients, and she has survived to this day in the industry. However, she would have done a lot more market research before she started if she had the opportunity to do things differently for her investment. Votausi is also very optimistic about the next five years, especially if her application to the EDF11 fund is successful. She still sees the potential for more growth in what she is doing, and she still has the passion to keep doing it. Although a key challenge to her investment in future is cyclones! She

can build cyclone-proof buildings, but cannot protect the raw materials.

She would further recommend investment in the agricultural sector in Vanuatu – despite a number of setbacks on the way. They have four business activities, all of which are still trading profitably. Vanuatu is a beautiful country, and everyone can contribute to make it a friendlier place to invest. However, she is concerned that if the Government brings in personal and corporate tax, this will have a very adverse effect on its attraction as a place to invest.

Her top tips and advice for new investors

- Do your market research
- Start small and build on your success
- Finance is readily available, but you still have to know how to manage it and understand how cash flow works
- Sustain the quality of your product – never compromise on it



Source: Image from https://www.facebook.com/pg/LapitaCafe/photos/?ref=page_internal