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# Idris S.A.<sup>1</sup>

SENOU, MALI

## CASE A

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**M**r. Ahmed Idris, General Director of Idris S.A., a Malian commodities import/export firm, had been eager for many years to begin exporting the world famous West African mango to Europe. His friends in Europe faxed and wrote him regularly encouraging him to try his hand in this area.

Yet entering this business posed several problems, primarily logistical. Since his West African country is landlocked, exporters had no choice but to ship their goods by plane. He had yet to determine the costs. He also did not know where to buy cartons, where to store them, or how many men it would take to pack the mangos. He further had not determined how much time it would take to pack the goods and deliver them to the airport.

He did know the project would be labor intensive, however, and that he did not have the time to supervise the packing and follow up on the faxes, telexes and paperwork involved in exporting. Nonetheless, the business seemed tempting. He knew that one company, Fruitema, had at one time exported thousands of tons per season, primarily in the 1980s, and that they had found it consistently lucrative.

Exporting was attractive for another reason, too. In 1991 the government abolished all export taxes. Whereas importing involved complicated paperwork and heavy customs duties—sometimes as high as 75%

of the cost of the good—exporting supposedly was tax-free and less bureaucratic.<sup>2</sup>

### FEARS OF CURRENCY DEVALUATION

All businessmen who imported goods into this country feared the possible devaluation of the F.CFA (Franc Communauté Financière Africaine), the currency used by as many as 14 West African nations and pegged to the French Franc (50 F.CFA equaling 1 FF). It was rumored that one day soon domestic austerity in France would mean the end of the expensive practice of intervening in the African currency to maintain its value. Economists at the USAID Mission in Senou estimated that the F.CFA in West Africa was overvalued by about 35%. World Bank and donor governments were pushing for this reform believing that a free-floating currency would encourage exports and help the economy.<sup>3</sup>

However, many businessmen in this country were quite concerned. About 80% of Mr. Idris' revenues came from importing grains, sugar, tea and powdered milk. It was daunting to think the costs of imported goods might skyrocket overnight.

Finally, importing was beginning to seem riskier financially. Merchandise always arrived two to four months after it was ordered, and market prices could fluctuate enough in the interim to squeeze the importer's margin. Exported fruit, in contrast, would arrive in Europe the

following day. The results of each transaction would be known almost overnight. Furthermore, payment by European clients was virtually guaranteed, he believed, and that was not always true with Malian clients.

#### MR. IDRIS TAKES ON A MANAGEMENT ADVISOR

In 1991 Mr. Idris' father, Boubacar Idris, took a leave of absence from his business and left it completely in the hands of his son, Ahmed. The next summer, the 31-year-old new General Director of the company received a phone call from the United States Agency for International Development (USAID) Mission in Senou. The gentleman on the phone made an intriguing offer: would he like to have an American MBA student spend a year in his company to "give advice and help in various management areas"?

Mr. Idris had spent time in the United States and had fond memories of his undergraduate experiences at the University of San Francisco, where he graduated in 1985 with a degree in Business Administration. He wrote back agreeing to the offer, indicating he wanted assistance in establishing financial controls, motivating workers, and writing a business plan.

In September 1992, Rachel Steiner, a student from a Midwestern U.S. university, arrived in Senou, Mali. During her first few weeks, she made the rounds of the company and the community. She went to the market place to meet the major wholesalers, some of whom were important clients of Idris S.A. and who were known to buy hundreds of tons of grain, sugar, powdered milk, and tea at a time. She also met as many people as she could in the agricultural and development sectors of the foreign aid community.

One of the first people with whom she spoke was Jeff Colton, the director of the Cooperative League of the United States of America (CLUSA) in West Africa, who worked with villagers in a 90-kilometer radius around Senou, teaching them, among other things, how to manage their finances.

He told her that something that really bothered him in this country was how many mangos rotted in the countryside each year. He estimated the waste to be on the order of thousands of tons, and he encouraged her to think about buying the fruit cheaply for export. The mangos seemed to be of a very high quality, much

better than anything he had ever eaten in the United States.

Beginning in October of 1992, Rachel began to meet business people—Lebanese, African, and European—who had exported mangos out of West Africa. In the beginning she heard that West African mangos, of which the favorite varieties are Amelie and Kent, could be sold for as much as 1,000 F.CFA per kilo, or 20 French Francs, in Europe. This kept up her interest in the export idea, since early on she had learned that air freight cost only about 250 F.CFA per kilo. There was thus the potential to realize substantial profit margins.

#### RACHEL'S PROJECTED CASH BUDGET

In mid-January Rachel presented Mr. Idris with her findings based on her interviews and meetings. She developed a spreadsheet that allowed her to do a sensitivity analysis using the following information:

1. Importers in Europe usually bought Amelie mangos at 600 F.CFA to 650 F.CFA per kilo in March but prices fell to 550 F.CFA or lower by mid-April (when Ivoirien mangos arrived by boat and they sold at more competitive prices than those arriving by plane). Prices went back up by June to 600 F.CFA for the Kent mango, and remained at this level through July. Nevertheless, even these prices were not guaranteed. The European importer could sell them to wholesalers for only as much as their quality merited.
2. Mango prices, set by the women who harvested them in this country, started at 70 F.CFA to 80 F.CFA in March and went down to 40 F.CFA by June for the Amelie. By April, however, the mango that Europeans most preferred was the Kent, and that would cost Idris S.A. a full 80 F.CFA per kilo. Normally, harvesting was women's work and the company would pay cash to the women who brought their harvested fruit to the warehouse every day.
3. European importers paid West African exporters anywhere from three weeks to several months after receiving the mangos and selling them.
4. The price per carton was 215 F.CFA and one carton held 5 kilos of mangos. The carton itself weighed 300 grams. The exporter paid freight for the weight of the mangos and cartons, but not for the weight of the pallet.<sup>4</sup>

5. She anticipated the company would export up to three pallets per week in the beginning. Each pallet held about 500 cartons, and each was considered a unit to be exported to a specific European importer. While boxing the mangos would be performed at the warehouse, palletization took place at the airport.
6. The importer's commission was between 6% and 8% of the selling price.
7. Airfreight would cost 250 F.CFA per kilo with Air Afrique, the airline which had control of all landing rights in this country and many parts of West Africa.
8. Transportation of the mangos to the airplane would cost about 7,500 F.CFA per delivery.
9. Laborers were paid 1,000 F.CFA per day whether or not they put in a full day's work. She heard that it would take one day for 10 to 14 men to manually wash and box a pallet of mangos. The company would need two to four men to take the mangos out to the airport and do the palletization. Overtime would cost between 250 F.CFA and 500 F.CFA per person.
10. She had heard that European importers passed their costs of handling and paperwork back to the exporter, but no one could tell her how much this would be. She looked at several possible numbers (expressed in percentages of the cost of airfreight) to see how sensitive the margins were to these variations.
11. The quality of the produce and the quality of its presentation greatly affected the price at which the mangos were sold in Europe.

#### THE COMPANY DECIDES TO EXPORT

After presenting Mr. Idris with the range of possible outcomes, Mr. Idris told her to proceed and start exporting in March. Ms. Steiner requested that she

work in partnership with someone from the company. The choice, Mr. Male, was announced not long before exporting began in mid-March.

To box the mangos, the company used existing warehouse space. They already had a 10-ton truck and a large scale to weigh hundreds of kilos of mangos at a time, so there was almost no investment required. By mid-March the company was in the business of exporting mangos. There were some unexpected developments, however, and in response after a few weeks she wrote a letter to the head of the Project Reform for Economic Development project at the USAID Mission in Senou, requesting his assistance with some difficult unanticipated costs (see Exhibit 1).

Other than the problems described in this letter, there were a few challenges working with her partner, Mr. Male. He was normally in charge of exporting the local millet and sorghum to neighboring countries, and presumably that explained his selection as Rachel's partner in the effort to export mangos. He was a very smart, capable and equitable person, and also deeply religious. During their partnership he regaled her with tales of his exploits in the bush, where he often had to travel to export grain. As time went on, however, Rachel sensed that he was disinterested in this work. One day he informed her that exporting sorghum and millet was work well worth the heat and dust because the farmers gave him extra bags of grain (each worth about F.CFA 5,000) for his help with their recordkeeping. Working with mangos, he no longer had the opportunity to traverse the countryside and work with these farmers.

Rachel worked hard to get the business off the ground. At the end of the season, she looked forward to assessing the effort—comparing her company's actual performance to the mango exporting plans she so carefully crafted at the start of the season.

**Exhibit I**

**LETTER TO USAID**

To: David Attenberry, Policy Reform for Economic Development, USAID  
 From: Rachel Steiner, Idris S.A.  
 Date: 26 April 1993  
 Re: Mango Exportation

I am a USAID subcontractor through the Institute of International Education, and part of a group of 16 student MBA advisors who have received a FMDAP (Free Market Development Adviser Program) grant to work with private enterprises in the third world.

The company with which I work, Idris S.A., has been extremely active in years past in the import and export of commodities such as rice, tea, sorghum and millet. This year we started exporting mangos, and between March 16 and April 25 we exported a total of 30 tons (compared to other major exporters who shipped 100 to 150 tons). This has been a good beginning, and we now know that we can make money during the brief window of time before Ivorian mangos arrive by boat in mid-April.

As the lead person on this new project for Idris S.A., I have witnessed most of the difficulties involved in fruit exportation, which are many. The most frustrating problems, and the least necessary, have to do with the administrative stumbling blocks and extra "taxes" experienced at the airport. Air Afrique's presence as a monopoly also poses some major problems for exports of fruits and vegetables in West Africa.

(1) While exports have been officially declared exonerated of all taxes, the airport (Senou) has, as of this year, levied a duty of 15 F.CFA per kilo on mangos. Last year it was 5 F.CFA per kilo. We have yet to see any official document regarding this change of policy.

(2) In order for the client in Europe to take possession of the merchandise in Europe, he needs to have a form called the EUR1 dutifully signed by customs officials here. These signatures cost dearly: between 5,000 F.CFA and 15,000 F.CFA each. For us and other exporters who make a delivery almost every evening, this is costly both in terms of time and money.

(3) Finally, Air Afrique imposes landing rights on all airline companies of F.CFA 1.6 million (US\$6,000). This means that any charter company offering to ship out mangos at 170 F.CFA per kilo (as opposed to Air Afrique's F.CFA 250) has difficulty recouping its investment. It is therefore impossible to export mangos after April 15 when prices in Europe drop drastically. I view these landing rights as a form of export tax.

I am requesting your office to pressure the Minister of Transport and other West African government officials to help exporters such as Idris S.A. by eliminating the official airport tax of 15 F.CFA per kilo as well as the unofficial tax levied for a signature on the EUR1. Furthermore, can your office do anything about the landing rights imposed by Air Afrique? Your help, in any of these areas, would be of great service to private enterprise as well as to the fruit and vegetable growers of West Africa. Please let me know if we can meet to discuss these matters further.

Tel: 22.22.25/22.45.67.

**CASE B**

**PROBLEMS AND ANECDOTES FROM THE FIRST MANGO SEASON**

Rachel wrote the following letter to Mr. Idris, and her eventual successor, describing what she learned during the mango exporting season, which lasted from 16 March to 24 April 1993.

Dear Mr. Idris,

I feel that it is important at this time to discuss some of the things which we have learned over the past six weeks. I hope that next season will prove more successful, given what we have learned during this one.

A. The Importance of Quality

- (1) Each mango must be perfect (without scratches, holes, or bruises). Getting the workers to throw away imperfect mangos or ones too ripe was very difficult. Waste seemed to be more or less an anathema.
- (2) Each box must weigh between 5 and 5.3 kg. If a box contained 14 equal-sized mangos, each mango would be considered calibre 14; if it contained 12 mangos, each would be considered caliber 12, etc. During our first

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season, a lot of boxes mixed calibre 8 mangos with calibre 12 ones. The additional work in Europe to sort them out raised our unit costs.

- (3) The company can buy huge mangos from the women who harvest them. Europeans seem to feel the bigger the better, even though smaller mangos can be tastier. If the mangos have not finished developing when they are harvested, however, they will never ripen properly. This lowers their selling price per kilo in Europe.
- (4) As the weather grows hotter, as high as 120° fahrenheit, we have to make sure that the mangos are dried after being wiped with a wet cloth, or their own heat and moisture will destroy them. Sometimes the workers did not dry the mangos.

My partner and colleague on the project, Mr. Male, later told me that he had not fully ensured the quality of the exported merchandise the way he should have, for a number of reasons.

The first problem had to do with the way he was assigned to the project. When he was originally called into the meeting to discuss this new business, he felt as though he had been ordered to do something that did not seem that lucrative for the company.

I am sure that I played a role in the mixed level of quality of our shipments. At the start of the season, I was largely responsible for the quality of the first few shipments. I assumed Mr. Male understood that such vigilance was required. I never explicitly told him why I was inspecting every box before it was shipped. In sum, it seems that we did not clarify his role in the project which to him may have seemed strange, dirty, and economically unviable.

#### B. Our Problems with Transportation

##### *Paying the Airway Bill May Not Mean Mangos Reach Their Destination:*

On 5 April 1993, Mr. Male went to the airport to send out 6 tons of mangos. The palletization was done properly and the freight was paid for in cash at the Air Afrique counter. With his work there done, he then left the airport.

The company found out two days later that three tons were actually never shipped out. It turns out that under very hot weather conditions, the planes cannot take off with a full load. So three of the six tons were taken off the plane and left on the runway.

As you recall, you and I went out to the airport on 7 April to settle the problem. The representative from Air Afrique explained that planes often cannot take off under a full load, and then he gave us our options.

Idris S.A. could either send the mangos to Europe, and the client there would take possession of the rotten mangos and through litigation recover his losses from Air Afrique. Alternatively, our company could open the boxes here in Mali and replace the rotten mangos, settling for reimbursement here in Senou.

We took the second option, and seven workers and I spent April 8 at the airport replacing the bad mangos (apparently to the amusement of the entire staff of Air Afrique). We believed the airline would then weigh what had gone bad and reimburse us. It turns out that since it was *our* people who did the sorting, Air Afrique was no longer liable. There was a third option that Air Afrique intentionally never told us: that Idris S.A. not touch the pallet and wait to be reimbursed for its replacement value.

##### *Air Afrique Schedules Planes Which do not Come:*

On 19 April we learned that a cargo plane would be passing through on 21 April and the company reserved space to ship a pallet (about 3 tons). Late in the afternoon of 20 April (after buying the mangos) we learned that the plane had been cancelled, but we were assured that there would be another plane coming through on 22 April. When this plane arrived in Senou from Dakar, it was already full of produce. Our mangos finally left on the 23rd, though they had been bought a full three days earlier. These mangos were ruined by the heat and so we did not break even on this shipment.

During this same week we made a confirmed reservation on 19 April for a flight with Air Algerie departing 22 April. We were subsequently told on 21 April that it would be impossible to export on this date; we would have to wait until the 24th. This time mangos bought on the 21st were finally sent on the 24th. This was again catastrophic given the heat of late April. We lost money on this shipment also.

C. Problematic European Importers

European importers can go broke and one of the biggest in France was in the midst of doing so in the spring of 1993. In all cases the importer pays the exporter anywhere from three weeks to several months after selling the merchandise. If an exporter is sending tens of tons of produce over a month, accounts receivable can balloon in a very short period of time. This situation becomes untenable if it means waiting for a bankruptcy court to sort out the priority of creditors.

D. Political Turmoil

On Friday 2 April, Senou had some of the worst violence it has had since the coup of 1991. The National Assembly was broken into and sacked. The president's mother's home was burned to the ground. Cars were burned and a few people died. Since then, the government has closed the schools. They realized that the youths organize themselves at school, and if they can't go to school, they can't organize.

During these days of violence it was difficult to travel back and forth between the home office and the warehouse. This was time consuming and sometimes dangerous for everyone.

These are a few thoughts, and they do not adequately tell the story of the complexity of doing business here.

Regards,

Rachel Steiner

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THE OUTCOME OF THE FIRST SEASON SHOWS A LOSS

Rachel learned that it was impossible to calculate exact unit costs and profit margins at the start of the season. The company did not even export throughout the anticipated 16 weeks. The season, which should have continued with the export of Kent mangos, could not be completed because the harvest was poor. In addition, quality played the greatest role in determining the sales price for the exported fruit.

At the end of the season, she calculated unit costs per delivery for the whole exporting season (see Exhibit 2). To do this, she took the amount of cash expended for the whole season (cash was used to pay the workers, purchase the mangos, and cover incidentals), and divided by the number of kilos (gross) sent with each delivery. Using the airfreight bills the company knew exactly how much each delivery weighed. The rest of Exhibit 1 shows start-up costs, how much the mangos were sold for, the net profit or loss on each shipment, and the overall season performance.

Exhibit 3 shows the cost per kilo of handling and paperwork in Europe, costs which were passed back to Idris S.A.

GIFTS AT THE AIRPORT AND CALCULATION OF OTHER UNIT COSTS

The cost per kilo of getting the EURI forms signed (mentioned in the letter to David Attenberry) also varied. Since one European importer may have one or more pallets delivered to him, it depends on the size of the delivery. That is, the signature will cost between 5,000 F.CFA and 15,000 F.CFA, but this cost will be lower when an increasing number of pallets are designated to a particular European importer. Sometimes the company paid nothing (usually when Rachel was around).

The biggest unknown had been the cost of handling in Europe, partially because fellow exporters were willing to share their experience to only a limited extent. As shown in Exhibit 3, the handling per kilo varied greatly.

Another surprise for the season had been the cost per kilo in airfreight, which went from the anticipated 250

**Exhibit 2****RESULTS OF FIRST SEASON OF MANGO EXPORTATION**

Cash Spent at Warehouse	3,283,152	Cash was for mangos, labor and incidentals at warehouse
Total Kilos Sent/Gross	29,804	
Unit Cost/Kilo Without Cartons	110.16	
Total Number Cartons Sent	5,561	Cartons weigh 300 Grams
Cost/Carton	215	

**SHIPMENTS**

Date (Day/Month)	Importer	Kg	Cartons	Freight	Cost/Kilo	Sales Price	Net
16.03	CTR	604	139	COD	159.64	143.36	(9,831)
21.03	CTR	2430	493	COD	153.78	167.94	34,415
30.03	CTR	2430	486	646,500	419.21	458.48	95,432
5.04	CTR	6090	1157	1,768,850	441.46	453.77	74,991
8.04	Exotic	2670	480	COD	148.81	46.33	(273,621)
11.04	CTR	4920	850	1,308,800	413.32	401.34	(58,935)
16.04	Tropix	1100	200	COD	149.25	115.1	(37,564)
17.04	Exotic	2610	480	COD	149.70	135.45	(37,188)
19.04	CTR	2720	500	693,470	404.63	396.78	(21,358)
23.04	Tropix	2720	500	COD	149.68	93.9	(151,722)
24.04	Exotic	1510	276	405,150	417.77	376.89	(61,725)
<b>Net Profit (Loss)</b>							<b>(447,106)</b>

**START-UP COSTS**

Labels	70,000	
Forwarder	106,396	
AMELEF	50,000	Export association
Samples	78,100	
	<u>4,822,770</u>	
Cost of Freight		
Total Spent	9,606,033	Cash, Freight, Cartons + Start Up
Carton Inventory at end of Season	137,385	

F.CFA/kilo to 265 F.CFA because of the airport tax (also mentioned in the letter to David Attenbury).

The greatest cost to the company was the inability to assure a certain level of quality. This was the main reason for the fluctuations in the price at which mangos were sold in Europe. Rachel and Mr. Male overestimated the amount of time the mangos could stay in the warehouse, especially as the weeks became increasingly hot. They also believed the workers could begin to supervise their own work, insuring that they packed similarly-sized mangos in each box, all well-cleaned and thoroughly dried. In fact, one of the leaders in the group, Dramane, assumed responsibility for checking the cartons. However, even this did not prove to be the right strategy.

**WHETHER TO PROCEED IN THE NEXT SEASON**

Despite the apparent failure of the first year's export season, Idris S.A. wanted to press on for the next season. One reason to go forward was that the other major exporters in the export association, revitalized in 1992, told Rachel that they had all lost money during their first season. She was told that it usually takes about three seasons before the company can begin to break even.

There was one exception. A cooperative in Sikasso, aided by an Italian nongovernmental organization (NGO) and which had never before exported to Europe (but had experience exporting out of Sikasso to Mopti and other outlying towns), made money during their first year on exports of 30 tons. Right from the

**Exhibit 3  
COST OF HANDLING AND  
PAPERWORK INCURRED  
BY EUROPEAN IMPORTERS**

European Importer	Price/Kilo
CTR	69.91
CTR	36.48
CTR	59.44
CTR	66.13
Exotic	34.33
CTR	60.7
Tropix	89.2
Exotic	79.08
CTR	72.79
Tropix	24.31
Exotic	48.61
Average	58.27

beginning, they went to Europe to meet the client and wrote a fixed contract that guaranteed a minimum price per kilo.

Mr. Idris still had several problems. First of all, who would take over the supervision of this project? Mr. Male had said he was not particularly interested in the project, and the quality of the finished product hung in the balance if the supervisor was not committed. Profit margins were narrow as it was.

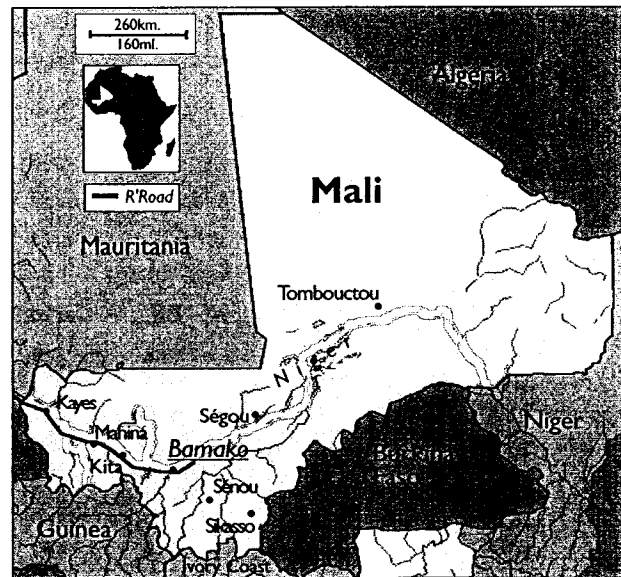
Rachel recommended Mr. Idris hire one of the foremen whom she had met who was in the export business and who was looking for a job because he was not very happy with his current boss. His name was Mr. Tele and he had been very helpful at the airport where late nights were normal and tempers always flared. Mr. Idris did not seem too interested in this option.

Mr. Idris was also very worried about devaluation. Would this event help or hurt his profit margins? Mr. Idris basically liked mango exportation because it did not require heavy investment in infrastructure. Industrialists and factory owners told Rachel that they did not feel secure in this West African country and would leave if they could.

**Notes**

<sup>1</sup>This case was written by Paula Gutman of Case Western Reserve University. It is intended as a basis for class discussion

**MAP OF MALI**



rather than to illustrate either effective or ineffective handling of an administrative situation.

<sup>2</sup>When Idris S.A. planned to import 5,000 metric tons of rice into West Africa, it had to declare its "intention to import" with the Economic Affairs Office. Before economic reforms and liberalization began in earnest in 1991, the government controlled prices and market share by limiting the number of "intentions to import." Now, almost no "intentions to import" were denied. When the goods arrived, importers were required by law to declare at the Customs Office whatever entered the country, and it then levied an import tax. Rice carried import duties of between 55% and 85%, depending on the most recent ruling by the National Assembly.

<sup>3</sup>The trade balance in this West African country is always negative. Figures for 1988 through 1990 were as follows (in millions of F.CFA):

	1988	1989	1990
Exports	250.7	268.9	410.2
Imports	507.5	483.3	610.1
Trade Deficit	(256.8)	(214.4)	(199.9)

Source: *Foreign Economic Trends and Their Implications for the United States, West Africa*, prepared by the American Embassy Senou.

<sup>4</sup>A pallet is a metal platform on which the boxes of mangos are loaded. The platform measures about 12 feet by 12 feet. The platform is then lifted into the plane and rolled into the cargo space. Palletization involves stacking the boxes of mangos on top of each other, throwing a net over them, then tightly securing the bundle to prevent the boxes from capsizing in transit.