



WANJA MICHUKI AND THE HIGHLAND TEA COMPANY

“You really just suspend all fear and go for it.”

- Wanja Michuki, Founder, The Highland Tea Company

A. THE BIRTH OF AN IDEA

Seeking Inspiration: Spring Break 2002

It was July 2001 and Wanja Michuki, one year into the MBA program at Columbia Business School, was working as a summer intern in investment banking at Merrill Lynch in New York City. But as far back as her days studying economics at Bryn Mawr College, Wanja had structured her academic and professional career with her true passion in mind: economic development.

A Kenyan national, Wanja had developed substantial experience in the financial services sector by the time she entered business school, having worked for three years as a corporate analyst and researcher for Barclays Bank in Nairobi. She had loved her work at Barclays, where she advised the government on its privatization mandates in industries including tea, telecommunications and sugar. Her job was directly related to Kenyan economic development and she found the work fascinating. After leaving Barclays, she decided to pursue a business education in the United States in order to acquire the skills of investment professionals in the West. She planned to eventually take these skills home to Kenya, where she hoped to establish a research firm promoting investment in Kenyan companies.

Business school opened up a world of new opportunities for Wanja. She took classes on entrepreneurship and listened to talks given by some of the most prominent leaders and businesspeople in the world. During her summer at Merrill Lynch, it became clear to Wanja that she had strayed from her original intentions by entering investment banking. On weekdays, she arrived at the office at 8:30 in the morning and did not leave until 3:00 at night; on weekends, she arrived at 10:00 in the morning and stayed until midnight. The hours did not bother her as much as the nature of the work: she processed data and converted annual reports into an analyzable format through financial modeling. “I had betrayed my passion and that was very clear to me. I was so far removed from making an impact. It’s fine to be up working at three in the morning, but the question you have to ask yourself is, why? And I didn’t have a good reason. Trying my hardest, I still couldn’t make a connection from my work to Kenyan development, even forecasting five years down the line.” That epiphany came easily; the next step was much harder. Wanja needed to chart out a new path for her career.

The summer came to a close and Wanja entered her second and final year of business school. When spring vacation arrived and her classmates left for exotic destinations, Wanja and her friend Jacqueline Chew decided to stay in New York City and write business plans for fun. Having interacted with the entrepreneurs and business leaders who frequently came to speak at Columbia, Wanja thought: “If they can do it, why can’t I? It was the first time I became consciously aware of what I could do.” It was both a theoretical exercise and a creative challenge. For a week and a half, Wanja and Jacqueline researched, developed, and wrote business proposals for hypothetical companies they might want to start one day. They met every morning at the local Starbucks coffee shop, headed over to the library to

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do their research, and then returned home with stacks of printouts to develop their business plans. At a time when Wanja was at a loss about what to do with her professional life, the break was a welcome opportunity to be truly creative without constraints.

“It was a chance to take all the things I love and put them into a business plan,” said Wanja, “and a search for that something hasn’t been done that could be done.” Returning to her passion for economic development, Wanja believed that the best way to add value in Africa was through agriculture, the source of subsistence for most people on the continent, including her own family. Wanja had grown up on a coffee farm and coffee had been in her family for generations. The conclusion came naturally: add value with coffee. She would “create” a business that would bring Kenyan coffee to the world market. With her idea in place, Wanja immersed herself in research to back up her idea with facts and data.

On the third day of spring break, as was the routine, Wanja met Jacqueline at Starbucks. Wanja was dissatisfied with her business idea and had a nagging feeling from her research that it was not new enough, that it could not make enough impact. “I thought to myself, ‘Hang on. Coffee’s been done. What’s the new thing I’m bringing here? And my answer to myself was nothing.’” As she was sitting in Starbucks, she noticed small boxes of Tazo Chai teas sitting along the shelves of the store, and something clicked. Though her family’s roots were in coffee, tea had also been a large part of Wanja’s life and upbringing in Kenya. Her mother Watiri had started and incorporated her own tea farm in 1991, and each time Wanja brought tea from home to her friends and colleagues in the United States, she had been surprised by their lack of awareness of Kenyan tea – despite Kenya’s status as the world’s largest tea exporter. She thought to herself, “Tea is going to be the next big thing. No one knows about it. This is where there’s an opportunity to bring in something new.” Wanja was off and running again, and began working to evaluate her idea with research.

Wanja’s research confirmed much of what she believed. While Kenya was the world’s largest tea exporter, the United States was not among the top ten importers of Kenyan tea (Appendix 1). Because Kenyan teas did not have a strong presence in the United States, there was potential for immense growth in that market. Even more promising, the specialty tea market in the United States was booming; clearly, American consumers were willing to pay higher prices for higher quality teas. Research showed that tea was the largest employer in Kenya’s private sector, employing roughly 10% of the working population. Moreover, in 2002, tea was the leading foreign exchange earner, having overtaken coffee as the largest export in 1989. Wanja had guessed right. There existed a real opportunity to promote economic development in Kenya, if she could only create a high-profile premium Kenyan tea and increase demand and prices for it in the international marketplace.

Wanja refocused her business plan around building a Kenyan tea brand and got to work researching Kenya and its position in the global tea industry. Despite the large volume of high-quality black tea produced and exported by Kenya annually, Kenyan teas did not have a strong presence in the international marketplace. Rather, they were sourced out in bulk and mixed with lower-quality teas of other origins. By the end of spring break, Wanja had the outline of a plan for her company. She had not yet decided on a name for her project, but toyed with the idea of naming it MiKaA Chai after her grandfather’s family clan name, “Michuki wa Kagwe.” Once school resumed, Wanja filed the business plan away, thinking to herself: “Well that was fun, now back to class.”

At school, Wanja continued to interview for jobs in finance. While her training, background, and skill set made her a finance specialist, Wanja was not excited about the positions for which she was interviewing. Mitchell Nathanson, a close friend of Wanja’s from Columbia, observed: “She was incredibly competent and talented in corporate finance and investment banking. You would think someone who gets it so easily could do so well in that industry. But I definitely sensed from Wanja that she just didn’t find a career in finance fulfilling.” After graduation and still interviewing, Wanja remembered the business plan she had written over spring break. She pulled it out and dusted it off. Reading over what she had written, Wanja was instantly drawn in again. She decided to dedicate one hour each day to her tea company and focus the rest of her time on the traditional job search. Time



passed, and one hour became two and two became three – until the company became what she would wake up for in the morning and what she would fall asleep thinking about at night.

Identifying the Space and the Opportunity

The question that drove Wanja's search for a business idea was simply: "Where is there room to do something that hasn't been done?" She was not looking for an entirely new idea but for an unrealized opportunity. Adding value by building and marketing a premium brand was not a new idea, and it had already been done with coffee, as Wanja discovered during her initial research.

Guided by her personal background and experiences, Wanja perceived an opportunity in the tea industry. Through her family and her mother in particular, Wanja was intimately familiar with Kenyan tea and the qualities that made it superior to other black teas: it offered robustness and intensity of flavor, with a low tannin content that made it smooth and non-bitter. Similarly, Wanja knew a little about the structure of the Kenyan tea industry and the tea farmers who comprised the labor force. She knew the farmers' wages were too low given the value of the product they produced. Wages were pushed down by the high fees charged by middlemen (such as tea brokers and warehousemen), and the market prices for Kenyan teas were driven down by bulk sales. From her time in the United States, Wanja knew there existed little, if any, brand awareness of Kenyan tea among American tea-drinkers. Moreover, ever since she had spotted Tazo Chai on the shelves of Starbucks, she had a gut feeling that specialty teas would be an up-and-coming growth market in the United States. Origin played an important role in specialty teas and no niche had been established for Kenyan teas in that market.

Wanja felt she had found a space where she could contribute something new and have real impact. She saw an opportunity to increase the earnings of small-scale tea farmers in two ways: directly, by purchasing tea straight from the farmers instead of from the Mombasa tea auction (Appendix 3), and indirectly, by raising the demand for (and therefore the price of) the tea they produced.

Jumping In, Feet First

By August 2002, having exhausted online and print resources, Wanja was ready to solicit feedback on her idea. She shared her plan for the tea company with friends and family and received positive responses. At Wanja's 28th birthday party that month, a designer friend from her primary school in Nairobi, Carol Muthiga, even offered to design Wanja's product if she ever decided to go forward with the idea. With encouragement from her personal network, Wanja decided to begin talking to people in the industry.

One day in August, Wanja decided to call the Tea Association of the United States. To her surprise, the Association's President, Joe Simrany, picked up the phone. Wanja decided to share her idea and ask Simrany the questions that she had been pondering. "I told him, 'I'm Kenyan and I'm wondering, where are our teas? Why aren't they here?'" Simrany explained to her that no Kenyan-branded teas existed in the American market because Kenya exported tea in bulk as a commodity. Simply stated, no one had taken the initiative to build and market a Kenyan brand. Then, to Wanja's surprise, he invited her to attend the Annual World Tea Convention in Palm Springs, California. Wanja was unclear what exactly she would do there, but Simrany added, "Strange things have been known to happen at the convention." Wanja was sold. She would go to the convention and use the experience to decide whether or not to move forward with her tea company.

The four-day convention in October 2002 brought the major players of the global tea industry to Palm Springs. It was a very small and tight-knit community, dominated by large, long-established corporations, most of which were American and run by men. For many of its attendees, the convention was an occasion to catch up with old friends in the industry. In contrast, Wanja was an unknown newcomer. She had only printed her business cards at home the night before, when it occurred to her that she did not have any. Even the name of the company printed on those cards had only been recently



decided. She had settled on The Highland Tea Company at her brother's suggestion, after the tea farm their mother had incorporated in Kenya in 1991. She felt it had a nice ring to it, and it was already registered as a corporation in Kenya.

At the convention, Wanja met people quickly, introducing herself and her idea. The Highland Tea Company was received with overwhelmingly positive feedback, which Wanja took as a sign that she was on the right track. She noticed, "I was enjoying myself and pushing myself to talk about my idea with confidence. These were the moments when you really just suspend all fear and go for it." She met with Joe Simrany, who would later become a close friend in the industry. She also met the Managing Director of the Kenya Tea Development Agency (KTDA), with whom she hoped to form a strategic partnership. KTDA was a Kenyan agency that managed processing factories and marketed tea on behalf of small-scale Kenyan tea farmers like her mother. The person Wanja *really* wanted to speak to, however, was Steven Smith, the founder of Tazo teas. As a specialty tea line with mass distribution channels, the Tazo business model was the closest to her vision, and Wanja felt she could learn an enormous amount by speaking with Smith.

Due to the success of his Tazo tea line, Smith was the most popular person at the convention. Everyone wanted to talk to him. Taking him aside for a moment after he finished a talk on the first day of the conference, Wanja quickly gave her pitch: "Hi, I'm planning to introduce a Kenyan tea brand into the American market and your tea inspired me. If you could spare 15 minutes of your time sometime to talk through this idea, I'd really appreciate it." Smith's response was positive but noncommittal, saying to Wanja, "Sure, I'll catch you around." A few days passed with no response, and Wanja assumed that was the end of it. But on the penultimate day of the convention, a voice behind her at the buffet table asked her to have lunch. It was Steven Smith. Turning down a multitude of offers by others to join them at their tables, Smith spent lunch that day speaking with Wanja alone about her idea. At the end of their talk, he told her, "You have to do it. You have a real story. You have a family in tea and a history in tea, and you come from a country that produces these wonderful teas." It was the sign Wanja had been waiting for. She had received the tea industry's equivalent of a celebrity endorsement. She committed to The Highland Tea Company full-time.

Mitchell Nathanson, who was at this time in regular contact with Wanja to share ideas and thoughts on the business, observed about her, "She was interested, enthusiastic, and passionate about her work. You know, I think most people want to be entrepreneurs and work for themselves, but there are two obstacles. The first one is just lack of financing, which you can overcome, but the second is, for lack of a better word, guts. Most people don't have the guts to pull the trigger and start something. Everyone talks about it but nobody does it. Wanja did it."

B. LAYING (AND CHANGING) THE FOUNDATION

Getting into the Field

Once Wanja decided to commit herself to the business, the next step was to return to Kenya for field research. She went on a month-long fact-finding mission to Kenya in December 2002 to learn more about the Kenyan tea industry and to develop a local network of contacts. In particular, Wanja hoped to secure the Kenya Tea Development Agency (KTDA) as a strategic partner to penetrate the U.S. market. Established as a state corporation and later privately incorporated, KTDA was the largest tea marketing company in the world that represented small-scale growers (Appendix 2). It owned the processing facilities, provided growers with their inputs, and marketed and sold tea on behalf of small-scale growers. Wanja was interested in partnering with KTDA for its marketing expertise and financial capital, and she felt they had a shared interest in developing a Kenyan tea brand that would command a higher selling price.



Wanja had met KTDA's Managing Director in Palm Springs and set a meeting to present to the Board while she was in Kenya. She had prepared a comprehensive presentation for the Board and went into the meeting certain that KTDA would become Highland Tea's strategic partner. To her surprise, the Board's reaction to her presentation was completely flat. When she offered to take questions from the Board, she was met with silence. She then waited for a couple of months for a response but heard nothing. She later learned that KTDA was keen on entering the U.S. market but was extremely reluctant to put money behind any venture that was new and untested. A few months after her trip, Wanja resolved that Highland Tea would have to go it alone without a partner.

Though her meeting with KTDA did not go well, Wanja was able to gain a deeper understanding of the tea industry during her trip. With the help of her brother, Wanja broke into the network and scheduled meetings with key stakeholders in the industry. She met with investors, manufacturers, brokers, blenders, tasters, farmers, packers, and anyone involved at any stage of the product life cycle. She traveled with her mother to the weekly tea auction in Mombasa, where roughly 90% of Kenyan tea is sold. By the end of her trip, she had a fairly comprehensive understanding of the Kenyan tea industry.

After returning to the United States, Wanja began her research into her target consumer market. In New York, she knocked on doors and got to know her buyers and customers. She conducted twenty-three interviews: ten with industry buyers and packers, and the remainder with consumers. She asked buyers about their bestsellers and learned about pricing and consumer preferences. Wanja then stood in the tea section of gourmet food stores and observed people to gain a sense of consumer buying habits. She asked them what they did and did not like, why they kept buying the same teas, and what appealed to them about certain packaging styles. From her observations, she was able to develop and hone a profile of her target market: "Our target customers are people who are curious about the world . . . [who] have fine tastes and will pay for quality. They love tea for its taste but also because they can build an association with the places where the teas they drink come from."¹

Packaging a Brand: Looking for a Look

The first-ever tea trade show was to be held in March 2003 in Las Vegas, and Highland Tea needed a product to put on display. Wanja wanted the packaging of her canisters to reflect both the high quality and the origin of the loose-leaf teas they contained. To get there, she needed the help of a designer. An industry contact she had developed at Palm Springs recommended her to the prestigious international marketing firm McDevitt Youmans. She had begun discussions with the firm in October of 2002 and when it came time for the firm to draw up an estimate, the price tag was steep: \$35,000 for concept and design execution. Partnered with KTDA, the cost may have been manageable. But with a strategic partnership no longer an option, Wanja needed to look elsewhere.

Wanja recalled her friend Carol's enthusiastic reaction to Highland Tea at her birthday party and decided to give her a call. The news was good: Carol was happy to create the design and at a fraction of McDevitt's price. With Carol's help, Wanja was able to conceptualize the packaging to be very natural, symbolic of how tea was packed into brown paper bags when she was little: "It's very basic, very Kenyan . . . It's the sophistication of nature at a very basic level – simple and uncluttered. The color of the packaging could be associated with a Lamu beach or a Masai Mara savannah."² The design of the canisters was completed and finalized in February 2003. Wanja and Carol arrived at the Las Vegas tradeshow in March, and as companies set up next to them with tens of thousands of display cans, Highland Tea set out its four prototype canisters, one for each of its signature loose-leaf teas (Appendix 9). With Carol's design skills, they created a very professional display and, unlike the other companies present, wrote up orders at the event promising the first shipment of the product in July. The show was a success. With the design finalized and the first orders received, Wanja now had to produce her product.

¹ Wanja Michuki, "TeaBits Interviews Wanja Michuki of The Highland Tea Company," *TeaBits Newsletter* 10.2 (2003): 5.

² *Ibid.*



Securing Distribution Channels

Some distributors, like the small firms that placed orders at the trade show, were relatively easy to locate, identify, and contract with. In New York, Wanja had also knocked on the doors of small specialty and gourmet stores, tea and coffee shops, and foodservice establishments with considerable success. But for her company to have a real impact on the Kenyan economy and on the livelihood of Kenyan tea farmers, Wanja needed distribution channels that would reach a larger market. She needed to get her teas into national chain stores, a much more difficult task. She doggedly pursued a number of potential distributors and had mixed results. Some signed on, some turned her down, and some never responded. Her experience with Whole Foods was particularly discouraging. With 175 stores in 31 states, Whole Foods had the potential to bring Highland Tea to a much larger market. But after six months spent contacting Whole Foods regional buyers and being met with rejection or no response at all, Wanja concluded a deal with Whole Foods was impossible.

Production Processes: Packing and Manufacturing

Originally, the Highland Tea Company business plan had called for the packing and manufacturing processes to take place in Kenya, providing an additional source of employment and supporting the larger goal of economic development. As she met with different sellers of tea-packing machinery during her fact-finding trip, Wanja explained her idea of creating employment by locating her packing line in Kenya. One supplier, Mike Fitzgerald, asked her, “You’re going to create employment? With what market?” Mike had a different idea and Wanja listened. He suggested that she initially outsource production of her teas, build up market demand, and then return to Kenya when it was financially feasible. Reflecting on the experience, Wanja noted, “When you’re new and you’re learning and you’re hungry, it really opens you up to what people say.” She began to give serious thought to outsourcing the packing of her teas.

Wanja researched and considered the tradeoffs of outsourcing packing and manufacturing processes. Keeping production processes local would not only boost the local economy but also add credence to the 100% Kenyan brand Wanja hoped to create. Yet without a partner like KTDA, Highland Tea would be unable to finance the high upfront capital expenditure required to build a plant. By comparison, outsourcing the processes had a distinct and significant cost advantage. For instance, shipping costs were much higher if production took place in Kenya since bulk tea could be exported from Kenya without a duty but packaged tea (i.e. the output of production processes) was taxed when exported. With outsourced production, Wanja could have the specific canister model she had envisioned for her tea. Weighing these considerations, Wanja decided to switch from a manufacturing model to an outsourcing model to produce her tea canisters.

She explored the option of setting up production in the United States, which had the advantage of being in closer proximity to the assembly centers and to her initial target market. At the same time, Wanja’s blender strongly recommended that she look into China as an option, saying, “If you want packaging, this is where you do it.” Mitchell, who had experience with outsourcing in China from his work importing and distributing consumer products, put Wanja in touch with multiple factories there. As she received estimates and narrowed the group of factories under consideration, the cost advantage of producing the canisters in China became clear. In the United States, it would cost \$1.20/can not including shipping to produce and label the cans, while in China it would cost \$0.40/can including shipping costs. Wanja contracted with a factory in China to produce her first shipment of canisters.

Outsourcing raised a host of other cultural and logistical issues. Wanja navigated her way through negotiations about price and differing expectations regarding quality standards. The factory had trouble properly manufacturing one canister in particular, which Wanja kept sending back until it finally met her expectations. But the back-and-forth took time and prompted further delays. Highland Tea had told its buyers to expect their first shipment in July 2003, but production lagged far behind schedule. Logistics and distance added another layer of uncertainty: the transportation system in China was



unreliable, and in the aftermath of September 11th, shipments were also held up at ports before entering the United States. While she kept her buyers updated and informed about the delays, Wanja was anxious to see her product on shelves, and bad feelings had begun to develop. Wanja felt the factory in China had overpromised and underdelivered, while the factory workers in China felt that she did not understand that they were trying their best with what they had.

Her friend Mitchell observed, “Wanja was spending a lot of time and money on people she’d never met and factories she’d never been to. It’s one thing if you were a large corporation outsourcing for the first time. You might have the same problems, but you would have more resources available, and you could fly someone out to China, for example. But Wanja really had to do everything herself, using only e-mail and telephone.” At the end of November 2003, almost five months after her initial delivery date, the first shipments arrived and The Highland Tea Company had officially launched.

Wanja learned a lot from the first run. She decided to stay with the outsourcing model but switched to a different factory. After realizing the loss in efficiency that had resulted from trying to manage a long-distance relationship that bridged two different cultures, she decided to hire a local agent in China to oversee the process for future shipments. Finally, she let go of some of her own perfectionism, observing: “Sometimes it helps to make some noise when you’re dissatisfied, but at a certain point, there are things you can obsess over that don’t make a difference. And you just accept that people are doing their best.” The changes made a big difference. Future shipments went much more smoothly.

Lessons Learned, Sans Partner

Wanja had made considerable adjustments to her business plan after it had become clear that KTDA would not partner. First, Wanja shifted operations to the United States as much as possible, including finding an American blender to blend and package The Highland Tea Company’s teas. She called up different suppliers and through them was put into contact with Len Szyper Sr., who later became her blender and partner. Second, keeping manufacturing local in Kenya was not an option without the resources of KTDA, so she switched to an outsourcing model. Third, she scaled back her marketing plan to be more cost-effective, which she accomplished with help from a local public relations firm. Despite these changes, everything at the core of her business – its mission, scale, and vision – had remained the same.

Much of the progress Highland Tea made during its start-up phase was facilitated by Wanja’s freedom to make decisions and quickly execute. Had a partnership with KTDA been formed, Highland Tea would have had greater access to capital and marketing resources, but possibly at the expense of its early progress. In retrospect, Wanja observed, “I’m glad it happened the way it did. I see now how so much of the progress we made would have been stalled by organizational bureaucracy.”

C. THE UNENDING SEARCH FOR IMPACT AND IMPROVEMENT

Marketing: The Missing Link

In the months following the launch of her teas, Wanja was nagged by a familiar feeling of restlessness and dissatisfaction. Sales were decent but they did not resonate with the trends Wanja was picking up from industry news, which reported that loose-leaf specialty teas were becoming wildly popular with American consumers. They were also not at the level necessary for her to have the impact she desired on the Kenyan economy. She knew the weakness could not be her product, which represented one of the highest-quality loose-leaf teas on the market. Then it occurred to her: “Wait, where’s the marketing?” Wanja had neglected to develop a marketing plan that would excite consumers about Highland Tea. She needed to build her brand.



Wanja pulled together a rigorous marketing strategy. She did much of the marketing work – knocking on doors and cold-calling consumer and tea magazines – herself. In May 2004, she hired a publicist from Nutra Public Relations to work exclusively to increase awareness of the Highland Tea name. Shortly thereafter, The Highland Tea Company received an award from *Food & Wine* magazine and appeared in numerous publications read by consumers and industry insiders. Direct sales from the Highland Tea website increased rapidly. Slowly but surely, The Highland Tea Company was building brand awareness and staking out a claim for itself in the public consciousness.

A Second Look, A Second Wind

For Wanja, 2005 was a year for reexamination. Her first shift was a strategic one, as Wanja recognized a new opportunity. She wanted Highland Tea to begin producing teabags. Though a teabag line would signal a shift away from the premium loose-leaf brand Highland Tea was building, it ultimately facilitated the greater goal of Kenyan economic development. Wanja's logic was simple: "For this to make a difference [for Kenyan farmers], we need to sell a lot of tea. Regardless of the price we sell at, we have to be a volume business. In the United States, most tea-drinkers use teabags. So, volume is in teabags and not in loose-leaf teas."

Once the decision to diversify the company's product mix was made, Wanja underwent a product development cycle similar to the first. She created new blends herself and taste-tested them with friends and family. She studied her new consumer and noted behavioral differences that would impact the design of the packaging, such as impulse buying and attraction to bright colors. At the time, Carol was busy with her own work schedule and Wanja wanted a fresh take on the design of the teabag line. She posted an announcement on Craig's List, an online community message board open to the public, and received over 100 responses. She looked for a designer with a background in designing consumer products (by contrast, Carol's background was in fashion design) and found Julie Shore-Sonke. Wanja worked with Julie and a local Kenyan artist to create a design that was still uniquely Kenyan, but much more colorful and eye-catching than the design used for the loose-leaf canisters. In November 2005, the new teabag line was successfully launched.

Wanja's second shift was a mental one. Things were picking up for the company, which was both positive and stressful. As the only full-time employee of Highland Tea, Wanja's time and energy were spread increasingly thin, as she spoke to investors, met potential partners, and launched and promoted the new teabag line. In October, she attended the Landmark Forum, an intensive training seminar and learning experience focused on personal reflection and self-development.

After the forum, Wanja refocused her energy and made a series of adjustments to her life. She moved out of Manhattan to New Jersey in December 2005 to give herself more space. She enrolled in a small business consulting program. She sought additional sources of funding and began preparations to enter the Global Social Venture Competition. She also decided to pursue Whole Foods again, and she resolved that she would get her product into Whole Foods by January 2006. Wanja observed later, "It was all the result of a mental shift. It happens when you really want something and at that point, I was unstoppable. And it's kind of been like that ever since." Mitchell observed about Wanja's renewed determination to get into Whole Foods, "I'm sure many other people would have given up by then because after all, how many times do people want to be rejected? At this time, even I didn't think Whole Foods was feasible. I would say to her, 'You know what, Wanja? Whole Foods is not happening for you right now. Why don't we try one of the hundreds of other retailers out there?' But she stuck with it."

Wanja reread the rejection letter she had received in September from the Whole Foods buyer for the mid-Atlantic region. It stated (with regrets) that Whole Foods could not take The Highland Tea Company's teas because it already carried similar products and the purchase would be redundant. She called the buyer, with the letter in her hands, thinking, "This means nothing, absolutely nothing. I'm going to turn this no into a yes." When she got the buyer on the phone, she gave it the best she had. She



told the buyer that The Highland Tea Company teas were different from anything else carried by Whole Foods and laid out her reasons: 1) they were 100% Kenyan, 2) they contained a low tannin content and thus had no bitter aftertaste, and 3) they were completely natural and free of pesticides and herbicides. She made one last appeal to the broker, “Our intention here is to promote economic development and we can’t do that without a chance.” The broker asked Wanja for the contact information of her distributor. On January 3rd, 2006, Wanja’s teas began shipping to Whole Foods stores across the Eastern United States.

Defining and Creating the Social Impact

Wanja’s original business plan for The Highland Tea Company was designed around a model of corporate social responsibility. The company, as she originally envisioned it, would have a social impact by paying out a cut of net profits to small-scale tea farmers, thus increasing their direct earnings. Until 2005, Wanja had been busy simply getting Highland Tea off the ground. Now that the company was up and running, she had time to reexamine, design, and implement the social responsibility aspect of her business.

Wanja had been grappling with her corporate social responsibility model for quite some time. To some extent, she found the model to be arbitrary and potentially dangerous. What portion of profits would be fair to pay out and still maintain sustainability? 10%, 15%, 20%? And how should the money be invested to promote development? How would it be monitored?

At a tradeshow in March 2005, Wanja spoke with the tea portfolio manager from Transfair³, who introduced her to the Fair Trade model (Appendix 8), wherein the premium charged for Fair Trade certified products is returned to workers to fund community development projects. Wanja felt it was the perfect structure for Highland Tea. It had a rigorous system of accountability and produced a virtuous cycle with a sustainable model. With the Fair Trade for Tea program, she shifted Highland Tea’s model from the vague notion of “corporate social responsibility” to a robust model based on Fair Trade. In early 2006, she added the Kanyenyaini factory (which processed the Highland Tea Company’s teas) to the lineup of Kenyan factories to be inspected and approved for Fair Trade Certification. In April, the factory was Fair Trade certified and in May, The Highland Tea Company was authorized to use the Fair Trade certification mark on its products.

Entering the intensely competitive Global Social Venture Competition (GSVC) in October 2005 gave Wanja the opportunity to determine what The Highland Tea Company would support with its Fair Trade for Tea program. Wanja’s previous study of political and economic development attracted her to education programs: “Education was the thing that just grabbed me because it’s good long-term development planning when you have an educated work force.”⁴ She decided the Fair Trade premium from Highland Tea sales would be invested in two programs – one focused on formal primary school education, and another focused on informal adult education for Kenyan tea farmers. The primary school program would upgrade schools and hire qualified teachers. The adult education program would utilize solar powered radios to educate a large, diffuse community of farmers. A community radio station would broadcast news and educational programs in a local language, eliminating illiteracy as an obstacle to education. Wanja connected with the program the first time she learned of it, as it spoke directly to her own experiences in Kenya. “I know exactly how the farmers live and have spent so much time in those huts. It’s completely rural. There is no radio. No TV for sure. So I could see how this would really impact those communities.”

In April 2006, The Highland Tea Company took third place for its Fair Trade with Tea program in the 8th Annual Global Social Venture Competition, which had drawn over 100 other socially responsible

³ Transfair is a multinational nonprofit certification organization that audits transactions between companies offering Fair Trade Certified™ products and their international suppliers to ensure that the farmers who produced these goods were paid a fair, above-market price.

⁴ Susan Ellis, “Plan To Help Tea Farmers in Kenya Wins Global Prize,” 23 July 2006 <<http://usinfo.state.gov/af/Archive/2006/May/09-609415.html>>.



businesses. With its Fair Trade programs, Highland Tea had considerably expanded the gains for Kenyan tea-farming communities. By engaging in tea production and trade, farmers now benefited three times over, from: 1) increased direct earnings from premium prices, 2) increased earning potential of children through investment in education, and 3) increased agricultural yields through informal adult education via the radio programs. According to Wanja's social impact analysis (Appendix 8), every dollar invested in its Fair Trade for Tea program would return \$122 in benefits for tea farmers over the course of the projected 10-year period. Assuming the program reached all targeted households (i.e. 85% of all households in the target area, or 7,420 households of 5 members each), it could translate into income of \$13,043 per household.⁵

What Next?

Four years after it was conceived as an idea, The Highland Tea Company was scaling its business and beginning the implementation of its social programs. In July 2006, the Freeplay Foundation donated 500 radios to The Highland Tea Company, and construction of a pilot community radio station for the adult education program had already begun in Kangema Constituency. Wanja was also developing a plan to expand the business from the American market to the United Kingdom and the Middle East. Once Highland Tea scales up its operations to a sufficient level, she envisions bringing production processes back to Kenya to create jobs. Her vision for Highland Tea is "to be about more than just tea" and to become a conduit for other export crops that can similarly have a large impact on Kenyan economic development.

⁵ Highland Tea Company Business Plan (©HTC 2006), 19-22.



APPENDIX 1. THE KENYAN TEA INDUSTRY: PRODUCTION AND EXPORTS

Kenya is a leading producer of tea, contributing over 10% of global tea production and over 20% of global tea exports. Tea is also the top foreign exchange earner for Kenya, contributing about 20% of Kenya's export revenue. About 95% of the tea produced in Kenya is exported, with the vast majority exported in bulk. 90% of Kenyan tea exports occur through the weekly Mombasa tea auction, while 10% are exported directly through private agreements with tea importers across the world.

Table 1.1: Leading Tea Exporters, 2004-2005

Country	2004		2005
	Exports (tons) ⁶	% World Exports	Exports (tons) ⁷
Kenya	293,000	20.0	323,000
Sri Lanka	291,000	19.8	321,000
China	282,000	19.2	311,000
India	179,000	12.2	197,000
Indonesia	98,000	6.7	108,000
World	1,467,000	100.0	-

Figure 1.1: Composition of Kenyan Exports in 2004⁸

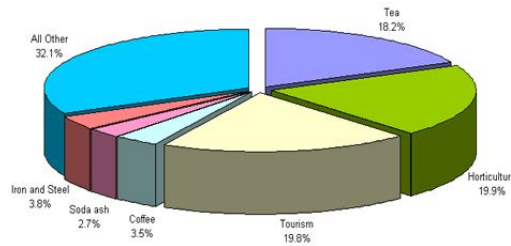


Table 1.2: Leading Kenyan Exports, 1997-2004 (KSh. Billions)⁹

Item	1997	1998	1999	2000	2001	2002	2003	2004
Horticulture	13.75	14.94	17.64	21.22	19.85	28.33	36.49	39.54
Tourism	16.86	12.82	21.36	21.55	24.24	21.73	25.80	39.20
Tea	22.80	32.97	33.10	35.20	34.49	34.38	33.01	36.07

Table 1.3: Exports of Kenyan Tea, by Destination, 2002-2005¹⁰

Importer	2002		2003		2004		2005		
	Quantity (tons)	Value (US\$, 000s)	Quantity (tons)	Value (US\$, 000s)	Quantity (tons)	Value (000 US\$)	Quantity (tons)	Value (US\$, 000s)	% Tea Exports
1 Pakistan	63,137	101,956	65,802	110,394	84,340	142,994	98,301	165,122	29.1
2 Egypt	52,284	82,389	45,267	68,331	84,106	128,606	77,931	114,338	20.2
3 UK	59,755	92,399	44,652	69,454	53,474	86,850	53,486	82,062	14.5
4 Afghanistan	24,700	45,290	33,968	63,648	28,948	51,267	21,336	37,669	6.6
5 Sudan	10,544	13,189	14,643	18,886	17,447	23,475	21,197	28,871	5.1
6 UAE	9,606	15,953	5,809	9,901	8,950	15,018	10,646	18,646	3.3
7 Russia	4,273	6,665	5,728	9,987	8,702	14,980	10,908	18,194	3.2
8 Yemen	13,941	22,869	17,659	30,857	10,772	17,986	9,112	14,968	2.6
12 USA	4,687	8,987	2,622	4,630	2,715	7,333	3,756	8,511	1.5

⁶ Food and Agriculture Organization of the United Nations, Intergovernmental Group on Tea, "Tea Compendium," 22 July 2005 <<http://ftp.fao.org/docrep/fao/meeting/009/j5601e.pdf>>.

⁷ Keith Bradsher, "Read the Tea Leaves: China Will Be Top Exporter," *The New York Times* 11 Oct. 2005.

⁸ Export Promotion Council, "Export Statistics" <<http://www.epckkenya.org>>.

⁹ Export Promotion Council, "Export Statistics" <<http://www.epckkenya.org>>.

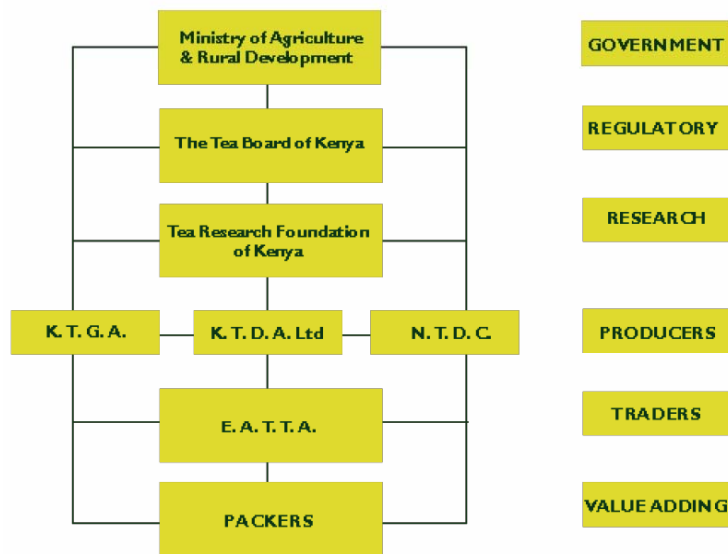
¹⁰ The Tea Board of Kenya, "Tea Production Statistics – Tea Exports (2001-2005)" <<http://www.teaboard.or.ke/statistics.asp>>.



APPENDIX 2. STRUCTURE OF THE KENYAN TEA INDUSTRY

Tea growing and production in Kenya occurs in two different subsectors: small-scale farmers and large-scale estate growers. Small-scale farmers, owning about 2 acres on average, contribute 60% of Kenya's total tea production. They are represented by the Kenya Tea Development Agency (KTDA), which collects, processes, and markets tea on their behalf. Large-scale estate growers account for the remaining 40% of tea production and are typically large multinational corporations that own 25 acres or more. The tea industry is the largest private-sector employer in Kenya. Over three million people (~10% of Kenya's population) are directly or indirectly employed by the tea industry.

Figure 2.1: Structure of the Kenyan Tea Industry¹¹



The major players in the Kenyan tea industry are:

- *Kenya Tea Development Agency (KTDA)*. Cooperative of small-scale tea farmers that manages factories, provides farming inputs, and collects and markets tea in the small-scale sector. KTDA manages over 50 factories in over 20 districts, owned by over 400,000 small-scale growers.
- *Kenya Tea Growers Association (KTGA)*. Association of large-scale estate farmers that markets and promotes teas in the large-scale sector, managing about 40 factories.
- *Tea Board of Kenya (TBK)*. Government agency that regulates all aspects of the tea industry, including growing, research, licensing, infrastructure, trade, and promotion in both local and international markets.
- *East African Tea Trade Association (EATTA)*. A trading association of tea producers, brokers, buyers, and packers. The weekly Mombasa auction is conducted under EATTA's auspices.
- *Tea Research Foundation of Kenya (TRFK)*. Scientific research arm of TBK that explores and develops methods to improve high agricultural yields and quality.

¹¹ The Tea Board of Kenya, "The Tea Industry" <http://www.teaboard.or.ke/tea_industry.asp>.



APPENDIX 3. THE TEA PRODUCTION PROCESS

It is believed that tea was introduced to Kenya as early as 1903 by the English settler G.W. Caine, making Kenya one of Africa's oldest tea-producing countries. Kenya produces almost exclusively black teas. Tea in Kenya is grown predominantly in the Great Rift Valley at 1500-2700 meters above sea level. Production continues throughout the year, with high seasons from March-July and October-December.

In the small-scale sector, tea is produced in the following stages:

- *Planting.* Tea bushes are grown planting cuttings from mature trees 1-1.5 meters apart.
- *Picking.* Tea leaves are picked manually and typically grow back in two weeks. Fine plucking, which allows for the highest-quality tea, entails picking only the top two leaves and the bud.
- *Transportation to factory.* The Kenya Tea Development Agency (KTDA) sends a truck to collect tea from farmers and pays them according to the amount of their contribution. The tea is then transported to a KTDA-managed processing factory, such as the Kanyenyaini plant.
- *Processing: Withering, Shredding, Fermentation.* The tea is placed in withering troughs to make it more pliable for cutting. The tea is shredded using either the “cut, tear, and curl” (CTC) method or the traditional “orthodox” method. Roughly 97% of Kenyan teas are shredded in the CTC method, which processes tea for use in teabags through fine maceration. The orthodox method produces larger leaf particles and is used for high-quality loose-leaf teas. The orthodox method was phased out after 1970 due to its higher cost and was only recently re-introduced by KTDA in 2002 in an attempt to add value to Kenyan teas through loose-leaf sales.
- *Drying and Tasting.* Once dried, tea is prepared for tasters to check smell, color, and uniformity.
- *Auction.* Tea is transported to Mombasa, where the world's second-largest tea auction takes place every Monday except on public holidays. About 60% of Kenya's teas are sold through the Mombasa auction. The remainder is directly sold overseas (16%) or consumed locally (24%).

Figure 3.1: Tea Growing Districts of Kenya¹²

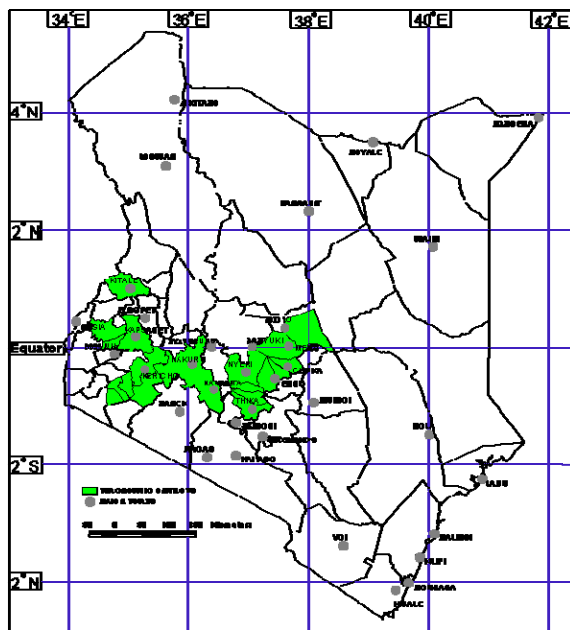
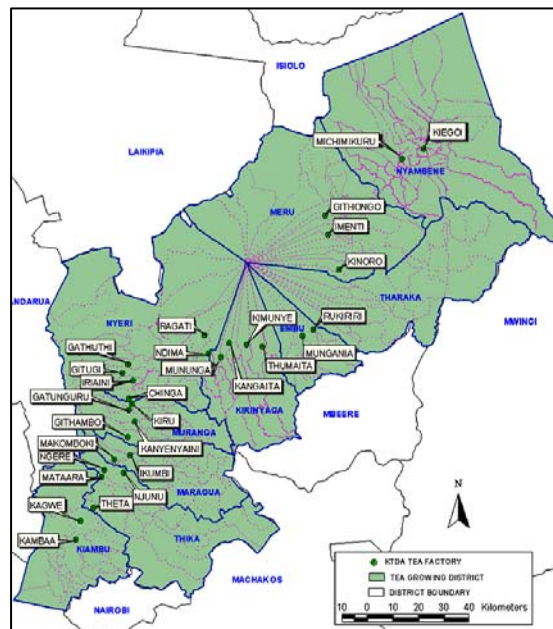


Figure 3.2: Factories East of Rift Valley¹³



¹² Kenya Tea Development Agency (KTDA), “Tea Growing Regions of Kenya,” 12 Aug. 2006 <<http://www.ktdateas.com/tgrowingregions.asp>>.

¹³ KTDA, “KTDA Tea Factories East of Rift Valley,” 12 Aug. 2006 <http://www.ktdateas.com/factories_eastern.html>.



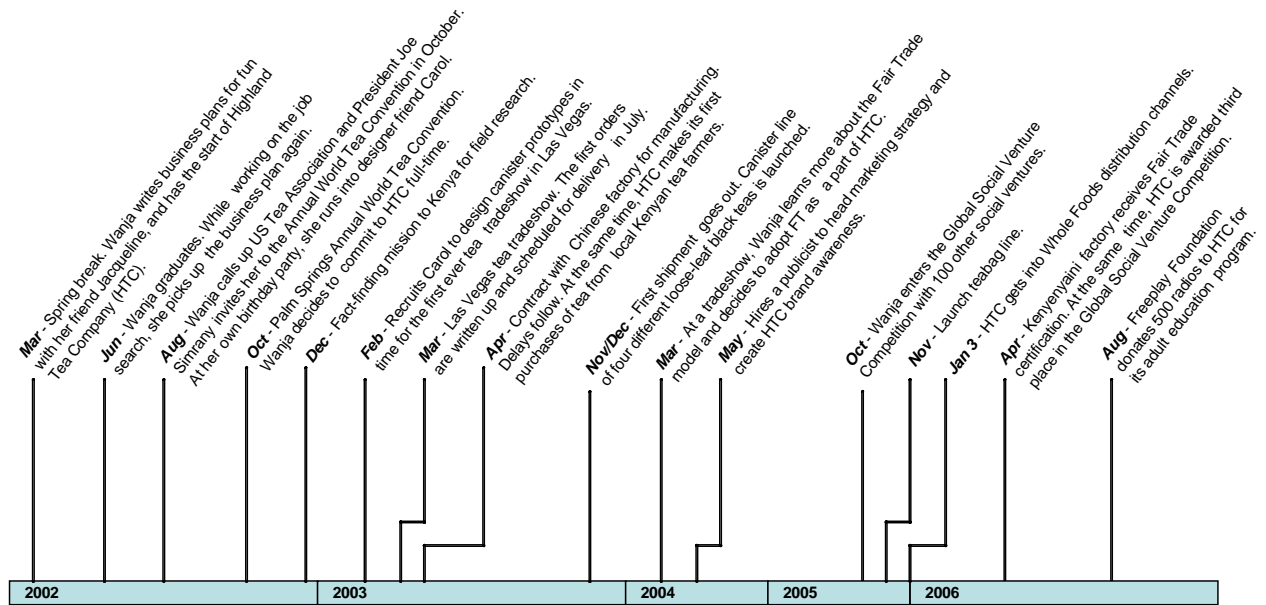
APPENDIX 4. WANJA MICHUKI'S CURRICULUM VITAE

WANJA Y. MICHUKI

EDUCATION	COLUMBIA BUSINESS SCHOOL , New York, NY
2000-2002	MBA , Finance and Economics, May 2002 Member, Investment Management, Equity Research, Black Business Students Association, Columbia Women in Business; Cluster Representative, Class Gift Committee; Tutor, Finance
1992-1996	BRYN MAWR COLLEGE , Bryn Mawr, PA BA , Economics (Major) and Political Science (Minor) <ul style="list-style-type: none">▪ Junior Year Abroad, University of Bristol, England▪ President, Bryn Mawr African & Caribbean Students' Organization
EXPERIENCE	THE HIGHLAND TEA COMPANY, LLC ; www.highlandteacompany.com
June 2002- Present	<u>President & Co-owner</u> <ul style="list-style-type: none">▪ Wrote and executed business plan to establish The Highland Tea Company brand, a Kenyan specialty tea line, in North America▪ Creating distribution channels for specialty tea lines▪ Establishing social development programs for rural tea farming communities in Kenya
Summer 2001	MERRILL LYNCH & CO., INC., INVESTMENT BANKING , New York, NY <u>Summer Associate</u> <ul style="list-style-type: none">▪ Conducted industry and comparable financial analyses of industrial and media companies for merger and acquisition proposals▪ Recommended subsidiary redeployment strategies for a multi-division industrial corporation▪ Developed model to assess high yield and equity offering consequences
1999-2000	BARCLAYTRUST INVESTMENT SERVICES LIMITED (BISL) , Nairobi, Kenya <u>Research Manager</u> <ul style="list-style-type: none">▪ Led debt and equity research of both publicly quoted companies on the Nairobi Stock Exchange and privately held enterprises▪ Authored company valuations, investment recommendations, and quarterly 'General Economic' report for use by fund managers and pension fund trustees▪ Chaired fortnightly Equity Review meetings with fund management team
1997-1999	BARCLAYS MERCHANT FINANCE LIMITED , Nairobi, Kenya <u>Corporate Analyst</u> <ul style="list-style-type: none">▪ Developed privatization strategy option reports, Information Memoranda, presentations to Privatization Steering Committees, and Terms of Reference for strategic sales of state-owned enterprises and private companies▪ Participated in structuring of debt and equity financing for business ventures and developed tender documents for prospective projects▪ Valued equity of private sector companies for potential acquisition and initial public offering
Summer 1996	OPPENHEIMER & CO., INC., PRIVATE CLIENT SERVICES , New York, NY <u>Intern</u> <ul style="list-style-type: none">▪ Maintained client accounts for four money managers responsible for over 1,000 client portfolios▪ Cold-called potential high net-worth clients across the United States
Summer 1995	LOITA ASSET MANAGEMENT LIMITED/SG WARBURG , Nairobi, Kenya <u>Intern</u> <ul style="list-style-type: none">▪ Co-authored weekly money market report disseminated to corporate clients
ADDITIONAL	Fluent in English, Kiswahili, and Kikuyu; elementary French skills; Enjoy traveling, literature, horseback-riding, tennis, and scuba diving



APPENDIX 5. HIGHLAND TEA COMPANY TIMELINE, 3/2002 – 8/2006



APPENDIX 6. COMPETITIVE ANALYSIS: INITIAL MARKET AND BRAND RESEARCH¹⁴

Brand	Price	Quantity	Product Differentiation
Tazo	\$4.69-\$4.99	20-count teabags	Mood teas/Zen
Numi	\$4.99	18-count teabags	Artisan teas/tisanes
Honest Tea	\$4.49	18-count teabags	Natural/Organic
Republic of Tea	\$7.99-\$8.99	50-count teabags 80g loose-leaf	Functional teas
Taylor's of Harrogate	\$5.99	50-count teabags	UK teas
Twinings	\$2.99	25-count teabags	UK teas; English Breakfast includes Kenyan tea
Choice Organic	\$3.99	16-count teabags	Organic teas
Kusmi	\$7.99	20-count teabags	Russian teas
Bigelow	\$2.69	20-count teabags	Functional teas
Celestial	\$2.99	20-count teabags	Functional teas
Ombili	\$3.99	60g loose-leaf	South African red teas
Stash	-	-	Flavored teas
Zhena's Gypsy Teas	-	-	Gypsy/Herbal remedy blends
Harney & Sons	-	Loose-leaf	Family traditional (Kenyan/Ceylon blend)
Barry's Tea	-	20-count teabags	Irish teas (Kenyan/Indian blend)
HTC Canisters	\$7.99	100g loose-leaf	Kenyan teas
HTC Teabags	\$5.99	20-count teabags	Kenyan teas

¹⁴ HTC Business Plan (©HTC 2006), 12-13. Numbers based on prices from Whole Foods Market, as collected by Wanja Michuki.



APPENDIX 7. HIGHLAND TEA COMPANY PRO FORMA FINANCIAL PROJECTIONS, 2006

	2006	2007	2008	2009	2010
TOTAL REVENUE	\$253,300	\$839,900	\$2,379,700	\$5,793,900	\$10,698,400
Teabag Revenue	\$157,100	\$491,700	\$1,332,400	\$3,199,200	\$5,873,500
Number (units)	26,227	82,087	222,437	534,090	980,551
Price (\$/unit)	5.99	5.99	5.99	5.99	5.99
Canister Revenue	\$96,200	\$348,200	\$1,047,300	\$2,594,700	\$4,824,900
Number (units)	12,040	43,579	131,076	324,743	603,867
Price (\$/unit)	7.99	7.99	7.99	7.99	7.99
TOTAL COSTS	\$536,893	\$1,113,923	\$2,274,305	\$4,225,675	\$6,795,165
Cost of Goods Sold (COGS)	\$129,993	\$406,323	\$1,134,605	\$2,716,175	\$4,930,665
<i>Cost of Teabags</i>	<i>\$78,958</i>	<i>\$225,192</i>	<i>\$600,554</i>	<i>\$1,419,367</i>	<i>\$2,565,755</i>
Number of Boxes	59,100	181,900	485,100	1,146,500	2,072,500
COGS/box	1.336	1.238	1.238	1.238	1.238
Tea (\$/box)	0.097	0.072	0.072	0.072	0.072
Packaging (\$/box)	1.089	1.016	1.016	1.016	1.016
Shipping (\$/box)	0.150	0.150	0.150	0.150	0.150
<i>Cost of Canisters</i>	<i>\$51,035</i>	<i>\$181,131</i>	<i>\$534,051</i>	<i>\$1,296,808</i>	<i>\$2,364,910</i>
Number of Boxes	29,500	104,700	308,700	749,600	1,367,000
COGS/box	1.73	1.73	1.73	1.73	1.73
Tea (\$/box)	0.38	0.38	0.38	0.38	0.38
Cans (\$/box)	0.50	0.50	0.50	0.50	0.50
Packing (\$/box)	0.75	0.75	0.75	0.75	0.75
Shipping (\$/box)	0.10	0.10	0.10	0.10	0.10
Selling, General, and Admin (SG&A)	\$406,900	\$707,600	\$1,139,700	\$1,509,500	\$1,864,500
Marketing	124,400	306,500	479,800	697,100	979,200
Personnel	265,500	355,100	608,900	761,400	834,300
Number of Employees	6	7	8	9	9
Professional/Legal Services	17,000	46,000	51,000	51,000	51,000
PROFIT BEFORE TAX	-\$283,593	-\$274,023	\$105,395	\$1,568,225	\$3,903,235
Pre-Tax Margin	-	-	4%	27%	36%
PROFIT AFTER TAX	-	-	\$69,561	\$1,035,029	\$2,576,135

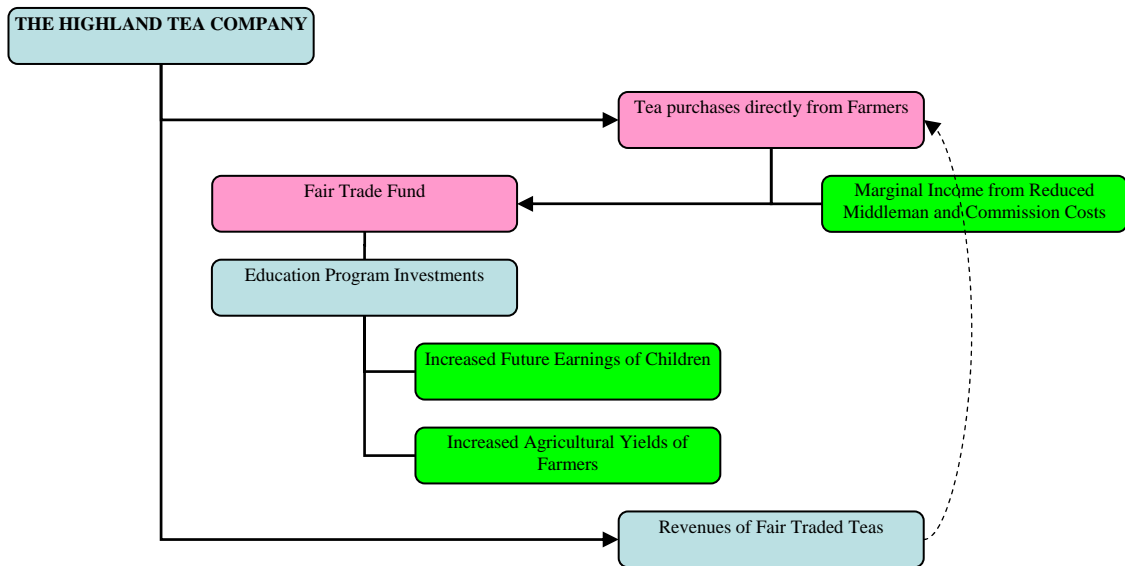


APPENDIX 8. THE FAIR TRADE FOR TEA™ MODEL AND SOCIAL IMPACT ANALYSIS¹⁵

The Highland Tea Company’s core goal is to contribute to sustainable economic development and poverty alleviation in rural tea farming communities. . . By employing the Fair Trade certification label, The Highland Tea Company aims to broaden the appeal of Kenyan teas to socially conscious consumers who will pay a premium to support Kenyan development. The higher retail price for Fair Trade tea (relative to non-Fair Trade tea) is the source of funding for our social investment activities.

Fairtrade Labeling Organization guidelines state that the price premium for Crush, Tear and Curl (teabag grade) teas is \$0.6115 (€0,50) per kilogram, and the price premium for orthodox (whole leaf grade) teas is \$1.21 (€1,00) per kilogram. The Purchasing Power Parity Adjusted combined benefits from the investment of Fair Trade premiums across our three impact channels [see below] is \$122.09 for every dollar invested over the projected 10-year period. Assuming that each household in our target population is impacted, this translates into income of \$13,043 per household over that period.

Figure 8.1 The Highland Tea Company’s Fair Trade Model



Impact Channel 1: Direct Buying from Farmers

Direct earnings of farmers will increase due to The Highland Tea Company’s purchasing of tea directly from factories rather than from the Mombasa auction. Higher earnings enable farmers to facilitate wealth creation at the community level by investing in non-farm assets. In addition because small holder farmers in Kenya are mainly subsistence farmers (i.e. farm owners and family members provide the labor for their own farms), higher earnings will reduce the family labor requirements for subsistence farmers and enable more children to attend school.

Table 8.1: Valuation of Social Impact from Direct Buying Programs

	2006	2007	2008	2009	2010	...	2015
Kilos of Tea Purchased/ Year	\$ 11,676	\$ 36,829	\$ 97,969	\$ 197,143	\$ 318,178	...	\$ 446,261
EVA/KG adj. PPP	\$ 6.27	\$ 6.27	\$ 6.27	\$ 6.27	\$ 6.27	...	\$ 6.27
Impact of Direct Buying	\$ 73,211	\$ 230,913	\$614,263	\$1,236,075	\$1,994,957	...	\$2,798,031
Fair Trade Fund (Investment Cost)	\$ 6,045	\$ 19,546	\$ 53,238	\$ 112,441	\$ 187,965	...	\$ 263,631
Present Value of EVA	\$ 8,506,732						
Present Value of Fair Trade Fund	\$ 792,672						
NPV of Social Impact	\$ 7,714,060						
IRR	68%						
Benefit/Cost	10.73x						
Benefit/Household	\$ 1,146						

¹⁵ All text and diagrams in Appendix 8 excerpted from The Highland Tea Company Business Plan (©HTC 2006), 19-26.



The average price for tea sold at the Mombasa auction is \$1.50 per Kilo. Small-scale farmers who are not out-croppers for the large commercial estates sell their teas through this auction. The current cost of producing a Kilo of tea is \$1.00, which also includes the brokerage fees and warehousing costs incurred when teas are auctioned. By buying directly from the factory, we will eliminate agency and warehousing costs, providing farmers with an incremental \$0.18 per Kilo. Because tea farmers are currently earning \$0.22 for every kilogram of processed tea, the reduced agency cost would represent an increase of 83% over current earnings. This additional income would not be earned without our direct purchase of tea from the Kanyenyaini catchment area.

We have used a Purchasing Power Parity adjustor of 34.83 to align the measure of returns on every dollar invested with the cost of investing in *Fair Trade for Tea*TM. We assume that the average household size is 5 and that 85% of the population (7,420 households) is engaged in tea farming.

Impact Channel 2: Investments in Primary School Education

Investments in education will increase the earning potential of children by increasing primary school enrollment and graduation rates. The Highland Tea Company will invest in school upgrades and staffing to eliminate resource constraints that reduce the quantity and quality of primary education. Such investments are proven to increase lifetime earning potential, improve health and hygiene, reduce fertility and infant mortality rates, and eliminate gender disparities.

Table 8.2: Valuation of Social Impact from Primary School Investment Program

	2006	2007	2008	2009	2010	...	2015
Graduating Students	-	38	152	380	456	...	760
Primary Social Returns	-	\$ 2,178	\$ 8,714	\$ 21,784	\$ 26,141	...	\$ 43,568
Primary Private Returns	-	\$ 3,225	\$ 12,899	\$ 32,247	\$ 38,697	...	\$ 64,494
PPP- Total Primary Returns	-	\$ 188,209	\$ 752,835	\$ 1,882,089	\$ 2,258,506	...	\$ 3,764,177
Secondary School Returns		\$ 10,806	\$ 43,225	\$ 108,063	\$ 129,675	...	\$ 216,125
PPP- Total Secondary		\$ 376,418	\$ 1,505,671	\$ 3,764,177	\$ 4,517,013	...	\$ 7,528,354
PPP Income/Student-Primary School	\$ 4,953						
PPP Income/Student-Secondary	\$ 19,811						
PV of Social Impact	\$ 33,639,810						
PV Investment Cost	674,738						
NPV	\$ 32,965,072						
Benefit/Cost	49.86x						

Psacharopoulos and Patrinos (2002) have suggested that the returns to primary level education are the greatest in developing countries. They estimated that the social rate of return to primary school education is 25.4% and the private rate of return is 37.6% in sub-Saharan Africa¹⁶. It is common to find that children who do not complete primary level education end up as farm laborers, earning \$0.069 per kilo of tea they pick. On a 1 acre farm, the average collection per person is 12.5 kilos of tea per day. Our proxy for the annual income of a non-primary school graduate is therefore \$226. By completing primary level education, a child's *incremental* annual income due to increased productivity would equal \$142 or the PPP equivalent of \$4,953.

Children who graduate from primary school are also more likely to proceed to secondary school. By completing secondary school, a child's income potential increases four-fold, with access to non-farm wage sectors. Therefore children who make it through primary and secondary school have an *incremental* income potential of \$569 or the PPP equivalent of \$19,811.

Impact Channel 3: Investments in Informal Adult Education Programs

Agricultural yields of farmers will increase as a result of informal Adult Education programs. The Highland Tea Company will distribute solar-powered radios to farming households in partnership with the Meteorological Department of Kenya. Radio broadcasts will provide illiterate farmers with weather

¹⁶Psacharopoulos, George and Patrinos, Harry A., "Returns to Investment in Education: A Further Update" (September 2002). World Bank Policy Research Working Paper. This estimate was developed by using earnings differentials to calculate benefits, and cost data on education to measure investment costs, resulting in a rate of return.



forecasts and information on husbandry, soil conservation, water management, and adoption of renewable energy sources. Broadcasts will be in an easily understood language and format.

Table 8.3: Valuation of Social Impact from Adult Education Investment Program

		2006	2007	2008	2009	2010	...	2015
Balance of Fair Trade Fund		\$ 6,045	\$ 8,546	\$ 9,238	\$ 2,441	\$ 55,965	...	\$ 43,631
Impact of Increased Yields		\$ 26,800	\$ 37,885	\$ 40,953	\$ 10,819	\$ 248,094	...	\$ 193,416
Community-Adjusted Earnings		\$ 80,399	\$ 113,654	\$ 122,860	\$ 32,457	\$ 744,281	...	\$ 580,247
PPP Adjustment		\$ 2,800,563	\$ 3,958,945	\$ 4,279,620	\$ 1,130,602	\$ 25,925,775	...	\$ 20,211,929
Discounted Cashflows		\$ 2,545,966	\$ 3,271,855	\$ 3,215,342	\$ 772,216	\$ 16,097,867	...	\$ 7,792,573
PV of Impact Social Cashflows	\$54,632,609							
PV Costs	\$ 117,934							
SNPV	\$54,514,675							
Benefit/Cost	463.25x							
PV Benefit/Household *PPP	\$ 16,874							

Rural communities lack effective access to the vital weather, climate and other information that is necessary to increase agricultural yields. The RANET¹⁷ initiative is a unique and very cost effective way to transfer knowledge on a large scale. Our Adult education program is geared to landowners who are generally illiterate and can benefit immensely from access to important information, but the entire household will benefit. In homes where test radios were given out last year, children reported better marks on their exams than children in areas where test radios had not been distributed.

The cost per radio is \$40. Rather than distribute radios to individual households, we have assumed that three households can benefit from information delivered through a single radio. It is not uncommon for people in rural areas to come together and listen to radio programming collectively, as radios can be scarce. To measure the increase in farming yields from the distribution of solar radios, we used proxy data from a study of the effect of adult education in small-scale agriculture. Farmers receiving adult education experienced a 24% increase in agricultural returns.¹⁸ The net present value of the impact of agricultural education is \$16,874 per household when adjusted for PPP.

Aggregate Social Impact of The Highland Tea Company’s Fair Trade for Tea™ Program

As our analysis indicates, each dollar invested The Highland Tea Company’s *Fair Trade for Tea™* program will create tremendous long-term economic and social gains:

1. Direct earnings of farmers will rise due to The Highland Tea Company’s purchases of tea directly from the factory rather than at auction.
2. Earning potential of children will rise through primary school investments that increase enrollment and graduation rates.
3. Agricultural yields of farmers will rise as a result of non-formal Adult Education programs.

Table 8.4: Cumulative Social Impact of the Fair Trade for Tea™ Program

		2006	2007	2008	2009	2010	...	2015
Fair Trade Fund		\$ 6,045	\$ 19,546	\$ 53,238	\$ 112,441	\$ 187,965	...	\$ 263,631
Impact from Direct Tea Purchases		\$ 66,555	\$ 190,837	\$ 461,505	\$ 844,256	\$ 1,238,712	...	\$ 1,078,762
Impact of Investment in Primary Education-PPP		...	\$ 453,237	\$ 1,648,136	\$ 3,745,763	\$ 4,086,287	...	\$ 4,228,771
Impact of Investment in Adult Education-PPP		\$ 2,800,563	\$ 3,958,945	\$ 4,279,620	\$ 1,130,602	\$ 25,925,775	...	\$ 20,211,929
PV Impact Social Cashflows	\$ 96,779,151							
PV Costs (Fair Trade Fund)	\$ 792,672							
SNPV	\$ 95,986,479							
Benefit/Cost	122.09x							
Benefit/Household *PPP	\$ 13,043							

The Purchasing Power Parity Adjusted combined benefit of the investment in Fair Trade as measured by the 3 outputs is \$122.09 for every dollar invested over the projected 10-year period. If each household in the target population is affected, this translates into \$13,043 per household.

¹⁷ Radio and Internet for the Communication of Hydro-Meteorological and Climate Related Information- www.ranetproject.net

¹⁸ Food and Agriculture Organization of the United Nations. *SD Dimensions: The Role of Agricultural Education in Food Security* <<http://www.fao.org>>.



APPENDIX 9. PHOTOGRAPHS

Figure 9.1: Wanja Michuki, Founder, President and CEO of The Highland Tea Company



Figure 9.2: The Highland Tea Company Loose-Leaf Tea Line




Left to Right: Tangawizi Ginger, Straight Black, Masala Spice, and Earl Grey.

Figure 9.3: The Highland Tea Company's First Tea Order, from the Las Vegas Trade Show

135305


CARI McCarty (Manager) → call for billing info ✓
(360) 786-0350

NAME: CAROL WELCH		BUSINESS: TEA LADY	
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CITY: OLYMPIA, WA 98501		CITY: OLYMPIA, WA 98501	
ORDER NUMBER: HTE-0091	DEPARTMENT: SALES	ORDER DATE: 6/16/03	ORDER TYPE: COD
		SHIP TO: UPS	DATE: 03/17/03
			GROUND
QUANTITY	DESCRIPTION	PRICE	AMOUNT
1	TANGAWIZI GINGER (Show Special)	17.80	
1	MASALA SPICE (10% OFF)	17.80	
1	STRAIGHT BLACK	17.80	
1	EARL GREY	17.80	
			71.20



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