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## **PLATANERA RIO SIXAOLA, S.A.:** **Teaching Note**

Platanera Rio Sixaola, S.A. was a producer of bananas in Costa Rica for export to Germany. The production methods, which were organic except for one chemical needed to deter the extremely destructive "black sigatoka" disease, had earned the bananas the "Eco-OK" seal which signified improved agricultural production methods. The cost of producing the bananas, however, exceeded \$7 per box shipped while the revenues had been averaging \$5 per box. Now, as the plantation's owner considered his next steps, he was questioning how to reduce his costs of production; he was also considering whether the Eco-OK seal had been helpful to him in either increasing distribution or enabling him to charge higher prices for his product.

## Discussion Questions

### 1. What is the current marketing mix for Platanera Rio Sixaola?

Platanera Rio Sixaola produces standard top grade bananas with methods that are the most chemical-free and are nearest to organic production. The only exception is the use of a chemical fungicide to control a virulent fungus called black sigatoka. Platanera Rio Sixaola's production methods were recognized in 1993 with the Rainforest Alliance Eco-OK "green seal." Platanera Rio Sixaola's bananas were sold to a large German importer, Cobana, Hamburg, which in turn distributed them to fruit and vegetable shops in Hamm and two other towns in the German province of Westphalia. Platanera Rio Sixaola received \$5.32/18 Kg. box; all standard top grade bananas retailed for \$2/Kg to the German consumer. Limited radio advertising (about \$1000/month) was employed in the Westphalia region and the radio message featured the Eco-OK approval. There was also a good deal of publicity about Platanera Rio Sixaola because of its owner -- Mr. Ribniger -- who was a native of the Westphalia region. Ribniger shipped anywhere from 2000-3500 boxes of bananas each week.

### 2. What industry structure and cost problems are contributing to the company's inability to make a profit?

After 3 years of operation, the cost of production (\$7.22/18 Kg box) continued to exceed the revenues (\$5.32). An analysis of Exhibit A shows that \$1.55 of the cost/box relates to debut service for the financing for the operations. This is a cost that is unusual to Ribniger's operations; the other major growers either owned their own farms outright or contracted with owners and thus had no financing costs.

Even without the financing costs, however, Ribniger's costs were probably higher than was true for other banana producers, particularly in labor, packaging and supplies where Ribniger could not enjoy any economies of scale. In addition, Ribniger was a small, independent banana producer in an industry where approximately 70% of the world market was controlled by the "Big Three" of Chiquita, Dole and Del Monte. These companies operate as an oligopoly, setting all industry-wide quality standards and prices. In Costa Rica, subsidiaries of these three producers controlled the exports of two-thirds of the country's banana production. While the average yield per hectare in Costa Rica was the highest in the world, production costs were also the highest in Latin America, putting Costa Rican production costs at a disadvantage in the world market.

### 3. What are the environmental problems of typical banana production? Has Platanera Rio Sixaola effectively eliminated these problems? How?

Environmental problems associated with banana production include the generation of solid waste in the form of waste bananas, waste from materials used in the production process, deforestation, reduced biodiversity, and the intensive application of herbicides, pesticides, nematicides, and fertilizers.

Ribniger's plantation had received the Eco-OK certification. This meant that

- Banana plantings were buffered from watersheds and roads
- There was no clearing of primary forest
- The plantation had a plan for soil conservation
- All workers wore protective clothing when applying chemicals, and received education regarding agrochemicals

- All plastic was to be collected and recycled
- Water was to be screened before being returned to the environment.

At the same time, however, it was possible to be Eco-OK while still using chemical pesticides, herbicides, fertilizers and nematicides.

Ribniger actually managed his plantation in a way that exceeded Eco-OK standards. The only chemical used was a fungicide to combat “black sigatoka.” Otherwise the bananas were grown without any chemical fertilizers, herbicides or nematicides. Instead, Ribniger used organic fertilizer, biological nematicides, and planted ground cover instead of herbicides. Sedimentation tanks were used to separate latex from the water and then return it to the farm to biodegrade. Waste bananas were used as compost. Workers lived a kilometer from the plantings.

4. If this company can differentiate its products it might be able to receive more revenue per box. Do you agree/disagree and why?

There is a real question of whether Ribniger could successfully differentiate its products adequately to receive more revenue. The reason is that the "Big Three" of Chiquita, Dole and Del Monte seem to set standards and prices worldwide. Also, Chiquita appears to be moving to Eco-OK production worldwide. Even though their achievement of this standard might be years away, once they did achieve it, Ribniger would have little or no product advantage. Therefore, if Ribniger wants to differentiate his products, he needs to do it through advertising and promotion in Germany. And, the differentiation would need to be strong enough to not only command a premium price in Germany but to establish a strong enough image to help Ribniger once Chiquita achieved Eco-OK status. Germany is certainly a good market in which to attempt this differentiation. The German public is strongly pro-environmental. And, Ribniger has a strong distributor in the fruit and vegetable retail sector, a distributor that is also supporting regional advertising.

The challenge therefore is to create information, compelling, and environmentally truthful advertising.

*An interesting assignment is to have student groups form and attempt to develop advertising and point-of-purchase materials for Ribniger. They should be encouraged to consider "branding" of the bananas, possible claims, etc.*