

KARABELLA DAIRY: BEYOND MILKING CARABAOS FOR WHAT THEY'RE WORTH

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CASE DESCRIPTION

This case was designed to be used in strategic management classes, particularly for sessions that deal with business model development, macro-environmental analysis, and internal business analysis. It has a difficulty level of four, appropriate for senior level undergraduate students and first year graduate level students. The case is designed to be used for a three-hour class, and requires three (3) hours of outside preparation by students.

CASE SYNOPSIS

Karabella Dairy is a social enterprise co-founded by Erika Valerie Ng Wong, who saw an opportunity to uplift the lives of carabao (water buffalo) farmers in the Philippines by producing ice cream and other dairy products made from carabao milk. During its first few years as an enterprise, Karabella Dairy had some successes, having been recognized both for its social mission and product quality, but also faced challenges in terms of scaling its operations and establishing a distinctive brand.

This case is about an entrepreneurial start-up that seeks to refine its business model so that it can continue to provide better livelihood opportunities and steady income streams for farmers in an economically-viable manner. Students are asked to show how the business model of the social enterprise evolved over the years, using the Business Model Canvas as a tool. They are also expected to conduct a macro-environment analysis to uncover the opportunities and threats faced by the players in the Philippine dairy industry; and an internal business analysis to determine the strengths and weaknesses of the company. Finally, they are expected to recommend strategies that will enhance Karabella Dairy's long-term growth and viability as a social enterprise.

INTRODUCTION

“Karabella’s goal is to really uplift the lives of carabao (water buffalo) farmers.” This was according to Erika Valerie Ng Wong, who shared the purpose of her social enterprise in a television feature that was aired by a major Philippine broadcasting company in October 2016. The enterprise’s name is Karabella Dairy, which produces and sells ice cream and other products made from carabao’s milk. Two years after making this public declaration, Erika wonders what

else can be done to scale the business more quickly so that it can benefit more Filipino carabao farmers, many of whom struggle with making ends meet.

Erika, who serves as Karabella's Chief Catalyst Officer, explained how she used to source her raw material from a middleman, who pays the farmer 30 pesos per liter of raw carabao's milk, and sells the milk to her at a price of 70 pesos per liter. Erika felt that this was unfair because the farmers are the ones engaged in hard labor. A typical day for the carabao farmer means waking up at 3:00 AM, milking the carabaos, feeding them, and bathing them. They do these activities all over again in the afternoon, after which they bring the raw carabao milk to the cooperative to sell it. Thus, it takes an entire day of work to care for the carabaos. "Thirty pesos do not do any justice to the carabao farmers," Erika said. Thus, she decided to buy milk directly from a carabao farmer, who she pays 70 pesos per liter. "If I am willing to pay 70 pesos to the middleman," she added, "then why not to the farmer who is doing all the hard work?"¹

With health-conscious moms and their children in mind, Karabella prides itself in offering a unique concept in the Philippines: all-local and all-natural milk and ice cream with exciting flavors like leche flan with *calamansi*, peanut butter, salted egg caramel, *tablea* chocolate, *turon* with *langka* (jackfruit rolls), and *ube halaya* (purple yam jam). Karabella's products are sold in a few select stores, but it mainly does business through party bookings and cart rentals, combining highly interactive and colorful booths with its innovative flavors.

Now that Karabella has succeeded in establishing a recognizable brand, it is setting its sights on a much wider market. However, it is faced with several challenges typical of early-stage social enterprises attempting to scale to maximize its social impact. As a very small player in an industry dominated by conglomerates such as Unilever Group, Froneri Ltd., and San Miguel Corporation, Karabella needs to expand its distribution channels to make even a minor dent in the Philippine ice cream market (see Table 1).

Brand	Company name	2015	2016	2017	2018
Selecta	Unilever Group	33.2	34.3	35.8	37.0
Cornetto	Unilever Group	17.7	17.8	18.6	19.2
Nestlé*	Froneri Ltd.	25.5	24.7	23.7	22.8
Magnolia	San Miguel Corp	5.8	5.8	5.6	5.8
Drumstick*	Froneri Ltd.	4.4	4.3	4.2	4.1
Magnum	Unilever Group	2.0	2.1	2.2	2.4
Arce	Arcefoods Corp	2.0	2.0	1.9	1.8
Fruits in Ice Cream	Food People Inc., The	1.4	1.3	1.3	1.2
BTIC	BTIC Inc	1.2	1.2	1.2	1.2
Lait*	Froneri Ltd	0.8	0.8	0.8	0.7
Pinipig*	Froneri Ltd	1.4	1.4	1.3	0.6
Magnolia Popsies	San Miguel Corp	0.2	0.2	0.2	0.1
Others	Others	4.3	4.1	3.1	3.1
Total		100.0	100.0	100.0	100.0

*The Nestlé, Drumstick, Lait, and Pinipig brands were previously owned by Nestlé SA, but are now owned by Froneri, a joint venture between Nestlé and UK-based ice cream company R&R.

Source: Euromonitor International

Among the options Karabella is considering are partnerships with various dealers and cafes, as well as setting up stalls in shopping malls. But this would require substantial investment in expanding its production capacity, a steady supply of raw materials, consistent product development efforts, as well as regular cash flow to sustain rent payments for mall space. To really make a difference in the lives of thousands of carabao farmers in the Philippines, is Karabella ready to deal with the risks that accompany a rapid growth strategy? Is there an opportunity for a small artisanal ice cream producer to make it big in a highly-competitive ice cream and frozen desserts industry?

JUMPSTARTING A SOCIAL ENTERPRISE

After graduating from De La Salle University with a degree in Applied Corporate Management in 2011, Erika worked for Mondelez International for three years. Having undergone an extensive management training program, she was exposed to sales, marketing, marketing communications, and brand management among others. It seems that Erika was on her way to climbing the corporate ladder in a major multinational firm. However, her entrepreneurial spirit, coupled with the desire to do good for society, led her to think about setting up her own social enterprise.

At that time, there was an increasing interest in social entrepreneurship in the Philippines, partly due to the efforts of *Gawad Kalinga* (literally “to give care”), a non-government organization known for adopting novel approaches and initiatives in solving poverty in the Philippines. Among these initiatives is the Gawad Kalinga Enchanted Farm (GKEF), a social business incubator based in Bulacan, a province located north of Manila. To promote social entrepreneurship among college students and young professionals, GKEF hosted the first Social Business Summit in 2014. Inspired by social enterprise leaders and aspiring social entrepreneurs that she encountered in GKEF, Erika visited the farm regularly—mostly on weekends, and participated in the meetings of the farm and of its social entrepreneurs. In one of the farm’s management meetings, the need for someone to lead an ice cream business arose. Attracted to the idea, Erika made a decision—she wanted to engage in social entrepreneurship full-time.

Erika started as an ice cream reseller, which operated under the name Kara and Beau’s. She bought ice cream from ‘dirty ice cream’ producers in neighboring towns, and participated in a countryside fair. Intrigued by the term ‘dirty ice cream’, she visited the community and saw how they made ice cream. There was a large machine within an informal settlers’ area, a shared facility with no walls and no sink. She considered setting up her own facility to ensure that the product she sells would meet sanitary standards. However, she had to think twice when she found out that she needed to invest about a million pesos just for the production facility.

In the meantime, she continued working with her suppliers. She bought the ingredients, decided on the flavors, and asked them to produce the ice cream for her. “We had different flavors then. We had watermelon, ginger ale, and coffee,” Erika recounted.² She, then, sold the ice cream in GKEF, which constantly attracted local and international tourists, and in nearby municipalities. However, she soon had to abandon the arrangement when she discovered strands of hair and shards of glass somewhere in the machine’s cylinder. “I said, that is the last straw. I can’t work with them anymore. So I revisited my business idea,” Erika said.

Drawing from her knowledge of management and economics back in college and from what she learned from the corporate world, Erika wrote a new business plan, did some research on the dairy industry, and learned as much as she could from how different ice cream businesses

work. She discovered that the dairy industry in the Philippines was largely dependent on imported inputs, even as products are processed and packaged locally. In fact, more than 95-percent of the local dairy requirement is being supplied by other countries. As such, the country is exposed to fluctuations in milk prices at global level.³

It also did not escape Erika that Filipino farmers, unlike those in the USA or Australia, are poor. Taking inspiration from Fonterra, a New Zealand-based multinational company and cooperative whose shareholders are farmers, Erika decided that she wanted to help Filipino farmers too. “When you say Philippine agriculture, you picture a farmer and a carabao,” Erika said.⁴ She discovered that carabao’s milk was richer in terms of nutrients compared to cow’s milk, and that people from the rural areas mixed carabao’s milk with rice. This convinced her to champion carabao’s milk. She said: “That’s when our mission was formed. Our goal is to create a full line of products made of carabao’s milk.”⁵

KARABELLA’S SOCIAL VALUE PROPOSITION

Karabella Dairy gets its supply of carabao’s milk (about 8 to 10 liters a day) from carabao farmers who live near the GK Enchanted Farm. For other ingredients apart from carabao milk, Karabella purchases from other social enterprises in the GKEF community. Erika sources Karabella’s salted egg caramel from Golden Duck, which sells a range of high-value duck products from premium salted eggs to award-winning burgers; and its peanut butter from First Harvest, which sells delectable spreads and jams made with nutritious ingredients and no extenders. It sources its other ingredients (e.g. cookies) from Make Peace Bakery, which aims to empower the youth through baking with a French touch. However, Karabella’s suppliers are not just limited to GKEF—Erika collaborated with her former professor to source pasteurized egg yolk essential for making the ice cream.

Karabella also employs young women from the GKEF community. They help manage Karabella booths in the farm and assist in producing the carabao’s milk mixture for Karabella’s dairy products. The company’s ice cream mixture is made in an old hut in the GKEF community—a sanitary facility compared to Karabella’s previous shared facility that was located in the informal settlers’ area. After the ice cream mixture is prepared, the batch is delivered to Manila, where it is further processed via an ice cream machine. The mixture is packed and sent to the freezer. After this, the finished products are distributed to Karabella’s limited dealers or are sold via Karabella’s party carts and through participation in bazaars.

MARKETING AND BRANDING KARABELLA

Before branding the social enterprise as Karabella, Erika underwent what she called a “brand identity crisis.” GKEF’s original ice cream business was formerly known as “Kara and Beau’s” – a play on words that resemble the pronunciation of ‘carabao’. However, after consulting her contacts in the marketing field and doing her own tests for the brand’s name, Erika found out that Kara and Beau’s, though inspired by Ben and Jerry’s, was not easy to remember.

Coinciding with her search for the social enterprise’s brand identity, she met Jesse Divinagracia, a manager working for a major telecommunications company, who happened to visit the farm. Interested in tasting carabao’s milk ice cream, Jesse met with Erika. The two discovered a potential for partnership—Jesse began working with Erika on the social enterprise’s

unique selling proposition, branding, and image. They continued to test branding options with stakeholders, such as the students and interns of GKEF's School for Experiential and Entrepreneurial Development (SEED). After much iteration, they finally decided to brand the social enterprise as "Karabella" – a term derived from the term "caraballa" or a female carabao. The name aimed to communicate a fresh, healthy, nutritious and exciting dairy brand appealing to Karabella's primary target market—mothers and their children. Erika explains:

We want moms to buy all natural and local ice creams to show love for their children and families – that's why we also host children's parties. Since there are also many entrants in artisanal ice cream, I think that was how we can enter the market and own it. We did not want to start a stall yet, because there are many fixed costs. Also, while we're still testing out the market, at least we'll see what will attract the kids' taste buds.

Now equipped with a brand that is easier to communicate, Karabella established relationships with its target market through various communication channels. It utilized social media via Facebook, where many Filipinos spend most of their time browsing the internet; and Instagram, a platform conducive to promoting picture-perfect shots of food and desserts. In addition, Karabella initiated a tie-up with a social enterprise called "Parenting Emporium"—dealing with mothers with considerable influence in the social media sphere in terms of promoting healthy products suitable for raising children. Karabella and Parenting Emporium worked together to participate in various events such as product launches and sponsorships.

Karabella's efforts have garnered various recognitions. In 2016, the social enterprise was recognized as one of the Top 120 teams in the DBS-NUS Social Venture Challenge Asia for its mission of creating wealth for local carabao farmers. Moreover, food critics recognized the exciting flavors of Karabella, as the brand ended up as the grand winner of the local Ultimate Taste Test 2016 competition. These initial successes of Karabella extended even to mainstream media. It was featured in a show called "Green Living" aired by the ABS-CBN News Channel, which is a nationally televised show that featured enterprises that promote social responsibility and sustainability [Note: The televised episode can be accessed online by clicking on <https://www.youtube.com/watch?v=RSX45s30gQE&t=473s>]. Karabella's products, which sell at premium prices, has since been made available not only at the GKEF but also in selected local restaurants and cafes in Metro Manila. In addition, Karabella allows its customers to rent party carts for children's parties, weddings, and birthday debuts.

OPPORTUNITIES AND THREATS IN THE PHILIPPINE DAIRY INDUSTRY

As a part of the Philippine dairy industry, Karabella can take advantage of major trends that have boosted growth in the consumption of milk and milk products in the Philippines. These trends include the growing health consciousness of Filipinos, which drives them to make better food choices; and the increasingly busy lifestyles especially among urban dwellers.⁶

Another opportunity for Karabella is the Philippines' tropical climate, which encourages consumers to buy ice cream and frozen desserts year round. Companies offering these products continue to stimulate consumption through new flavor variants, generally during summer and towards the end of the year. The rise in temperature during summer increases Filipinos' appetite

for ice cream as a means to cool down. There is also an increase in demand for ice cream at year end because of the number of family and social gatherings during Christmas time. Moreover, Filipinos have a liking for sweet flavored food; therefore, dairy ice cream, which is sweet and creamy, has always had a strong following over the years (see Table 2).⁷

Category	2015	2016	2017	2018
Ice cream	15,684.90	16,757.90	18,266.60	19,875.90
• Frozen yoghurt	201.20	215.80	231.80	248.50
• Impulse ice cream	5,947.90	6,313.20	6,920.50	7,452.00
• Take-home ice cream	9,535.80	10,228.90	11,114.30	12,175.50

Source: Euromonitor International

To capture a bigger portion of the Philippine ice cream market, however, Karabella must deal with the aggressive launch of new products and promotional efforts undertaken by major ice cream companies. It must also consider offering its ice cream in the most popular formats: cones and sticks, which accounted for 64.6-percent and 23.7-percent of impulse ice cream sales in 2018. Karabella currently offers its ice cream in cups, which is not as popular among Filipino consumers.⁸

Impulse ice cream products, just like take-home ice cream (bulk ice cream), are sold in supermarkets, but these are also purchased in significant amounts through grocery retailers such as *sari-sari* stores (traditional neighborhood stores). Also driving the growth of impulse ice cream is the number of convenience store brands in the country, many of which also sell soft-serve ice cream (see Table 3). From two major players previously, there are now five key brands (7-Eleven, Ministop, Lawson, Family Mart, and Alfamart) in this channel. These convenience stores will make impulse ice cream “more accessible to consumers for consumption at home and even in the workplace as some outlets are located in business districts.”⁹ Karabella has yet to take advantage of these potential distribution outlets.

Distribution outlet	2015	2016	2017	2018
Grocery retailers	100.0	100.0	100.0	100.0
• Modern grocery retailers	75.6	76.2	76.6	77.0
• Convenience stores	3.8	3.8	3.9	3.9
• Discounters	-	-	-	-
• Forecourt retailers	0.7	0.7	0.6	0.6
• Hypermarkets	11.4	11.6	11.8	12.0
• Supermarkets	59.7	60.1	60.2	60.5
Traditional grocery retailers	24.4	23.8	23.4	23.0
• Food / drink / tobacco specialists	0.2	0.2	0.2	0.2
• Independent small grocers	14.1	13.7	13.3	13.1
• Other grocery retailers	10.1	9.9	9.9	9.7
Non-grocery specialists	-	-	-	-
Non-store retailing (e.g., vending, home shopping, e-commerce, direct selling)	-	-	-	-

Source: Euromonitor International

Another threat is the growing competition posed by fast food chains such as McDonald's and Jollibee that also offer ice cream to augment their food service. How Karabella will position itself in this competitive environment is a major challenge.

BEYOND MILKING CARABAOS FOR WHAT THEY'RE WORTH

Karabella's vision is "to be the top tier supplier and processor of carabao's milk products in the Philippines and in the world." On the other hand, its mission is "to help grow the Philippine dairy industry, create wealth for Filipino farmers, and give everyone access to healthy and delicious dairy products."¹⁰ The company also subscribes to Gawad Kalinga's core motto of "*walang iwanan*" [no one gets left behind], manifested in its efforts to uplift the farmers' lives by creating shared value products and selling them at a fair price [See Exhibit 1 – Karabella Dairy's web and social media pages].

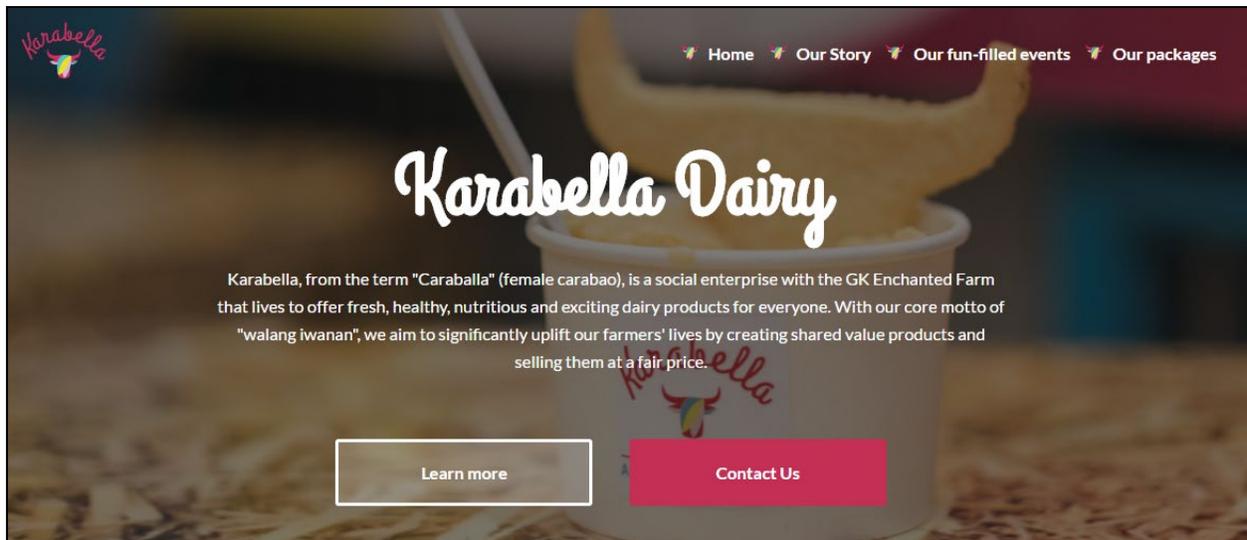
Currently, Karabella measures its social impact through the following: liters of milk bought from farmers at fair trade prices, and salaries given to workers from the community. "In terms of social impact," Erika explains, "we achieved our target for this year. We now pay minimum wage."¹¹ She also revealed plans to buy milk from farmers at a higher price, perhaps 100 pesos or 150 pesos, even if this will result into higher production costs. "It depends. We still must study it. That will, however, go into the SSS (Social Security System) and PhilHealth contributions of the farmers because they don't have these yet," she added.¹²

Karabella plans to hire more full-time employees and establish more partnerships in the coming years. The company has also firmed up arrangements with a commissary based in Makati City. Under this arrangement, the milk will still be pasteurized in the farm before it is delivered to the commissary together with the other raw ingredients. The commissary will then produce the ice cream and package the final product for Karabella, which will take care of bringing the ice cream to its distribution outlets.

So far, Karabella's main channels are party rental carts, a booth in the Enchanted Farm, and placements in local food bazaars. This set-up severely limits the social enterprise's market reach, as well as its sales revenues. Erika wonders: "Should we also partner with various dealers and cafes? Should we have standalone stores in malls similar to other ice cream and gelato brands?"¹³ Choosing appropriate channels for Karabella is not an easy task, given that the shelf-life of its organic products is less than a year, which is significantly shorter than other ice cream brands. This increases the risk of spoilage for unsold products. Moreover, as a startup, Karabella has limited access to funding that is essential to sustain rent payments for mall space.

To support its ambition for growth, Karabella needs to strengthen the enterprise's administrative management. It is currently looking for individuals who are well-versed in dairy-oriented operations, in finance and accounting, and in legal matters. As Karabella attempts to scale, it aims to reach more farmers, who can be given better livelihood opportunities; as well as mothers and children, who will get to taste its new and exciting ice cream flavors. By reconciling the needs of local carabao farmers with the preferences of its customers, Karabella truly goes beyond milking carabaos for what they're worth.

Exhibit 1: Karabella Dairy's web and social media pages



<http://karabelladairy.com/>

Karabella Dairy
@KarabellaDairy

Home
About
Posts
Photos
Videos
Likes

Create a Page

Liked Following Recommend ...

Call Now Message

About

FIND US

@KarabellaDairy Send Message

Call 0917 861 3405

Karabella Dairy
0917 861 3405

HOURS

11:00AM - 9:00PM

BUSINESS INFO

Opened on January 1, 2016

Mission

Karabella's mission is (1) to help grow the Philippine dairy industry, (2) create wealth for our Filipino farmers and (3) give everyone access to healthy and delicious dairy products.

ADDITIONAL CONTACT INFO

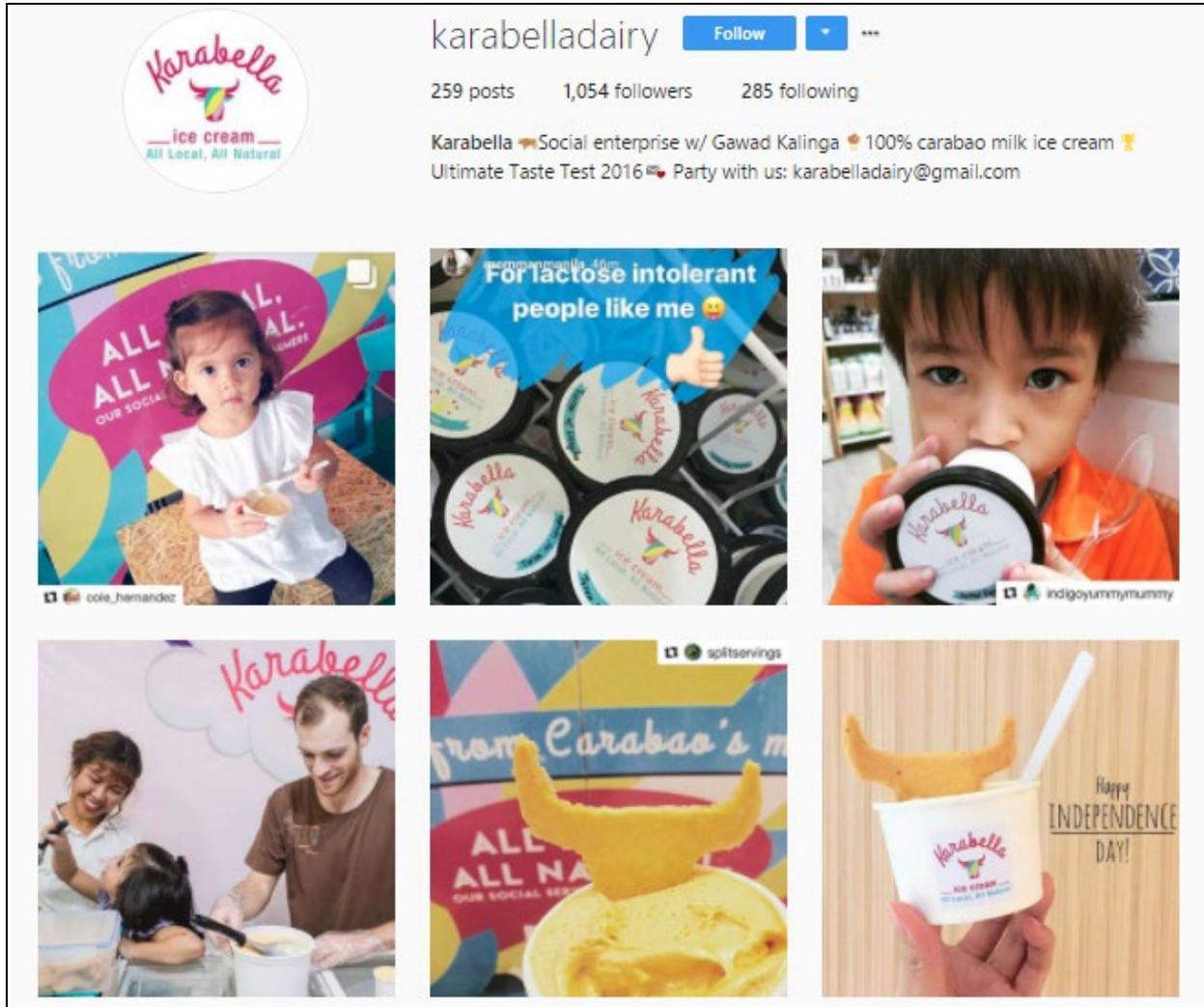
karabelladairy@gmail.com

STORY

Karabella, from the term "Caraballa" (female carabao), is a social enterprise with Gawad Kalinga Enchanted Farm that offers fresh, healthy, nutritious and exciting dairy products. With our core motto of "walang iwanan", we aim to uplift our farmers' lives by creating shared value products and selling them at a fair price.

We are offering a very unique concept - All Local, All Natural - ice cream flavors like Tablea Chocolate, Peanut Butter, Turon with Langka, Leche Flan with Calamansi, Ube Halaya and Salted Egg Caramel with a highly interactive and colorful kiddie booth. Book our party carts today!

<https://www.facebook.com/KarabellaDairy/>



<https://www.instagram.com/karabelladairy/>

ENDNOTES

- ¹ Personal interview with Erika Ng Wong, October 2017
- ² Personal interview with Erika Ng Wong, October 2017
- ³ Euromonitor International, Drinking milk products in the Philippines, Category briefing September 2, 2016
- ⁴ Personal interview with Erika Ng Wong, October 2017
- ⁵ Personal interview with Erika Ng Wong, October 2017
- ⁶ Euromonitor International, Drinking milk products in the Philippines, Category briefing September 2, 2016
- ⁷ Euromonitor International, Ice cream and frozen desserts in the Philippines, Category briefing July 11, 2016
- ⁸ Euromonitor International, Ice cream and frozen desserts in the Philippines, September 2020
- ⁹ Euromonitor International, Ice cream and frozen desserts, Category briefing July 11, 2016
- ¹⁰ <https://www.facebook.com/KarabellaDairy/>
- ¹¹ Follow-up interview with Erika Ng Wong, July 2018
- ¹² Follow-up interview with Erika Ng Wong, July 2018
- ¹³ Follow-up interview with Erika Ng Wong, July 2018