



## **Bio Bhutan: Progress Report January – June, 2007**

**Your provider of natural and organic  
certified products from Bhutan!**

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## **1. Introduction**

Bio Bhutan is the first enterprise in Bhutan specializing in product development and marketing of natural and organic certified products from Bhutan for local and international markets. Key goals of the enterprise are to:

- Contribute to the sustainable use of natural resources of Bhutan;
- Improve income and employment opportunities of rural communities and private entrepreneurs;
- Create surplus value for final consumers through healthy and tasteful natural and organic produces from Bhutan; and
- Promote the image of Bhutan as a supplier of pure, natural and organic products.

Bio Bhutan was established in 2005 and operates with funds provided by Helvetas/SDC Bhutan in the form of a soft loan.

The financial analysis of the reporting period from 1<sup>st</sup> January to 30<sup>th</sup> June shows a considerable increase of sales worth Nu. 1,041,747.34. Overhead costs have been reduced by 36% from an average of Nu.80,743 per month during the first two months of 2007 to Nu.51,241 per month from during the latter four months of the first half of 2007.

## **2. Organization & Management of Bio Bhutan**

### **2.1 Bio Bhutan staffing**

From January to March the operation of Bio Bhutan activities was overseen by four full time staff including the Managing Director, the Product Manager, Accounts officer and Logistics officer. In order to reduce overhead costs (as recommended in the board meeting) the Accounts officer left Bio Bhutan during the month of March. Since then the Product Manager has been responsible for maintaining the accounts files.

In order to enhance the Product Manager's accounting capabilities he attended a brief training course on TALLY at the Rigsum Institute of Management. In addition Bio Bhutan also hired a private financial expert to guide and advise the Product Manager during transfer of all old accounting files into the newly installed TALLY system. The complete transfer of accounts data will be accomplished by mid September, 2007.

With the onset of the lemon grass oil distillation season in early July the Bio Bhutan field representative for lemon grass oil was employed since July. Since the field representative of 2006 was unavailable for the 2007 season, arrangements were made to recruit another class 10 pass out to carry out the responsibilities of the field representative. Handing over of responsibilities took place in July.

The key responsibilities of the field representative for lemon grass oil are: to ensure that the lemon grass collectors and distillers are following organic principles during their

operations and to maintain records of grass collected and oil distilled in each of the 5 distillation units of Dozam.

## **2.2 Board Meeting**

The Annual Board Meeting was held on February 20<sup>th</sup>, 2007 at the Bio Bhutan Office. It was attended by three of the four board members: Mr. Ernst Reinhardt (also chairman of the meeting), Dr. Saamdu Chhetri and Mr. Phurba of Lhatshog Enterprise. Key outcomes and recommendations of the meeting were:

- Bio Bhutan should drop Gogona cheese. Only if the Department of Livestock (DOL) provides substantial subsidies would it be advisable for Bio Bhutan to continue marketing the cheese.
- The Lemon Grass Air Spray is a very good product and must be used as the carrier of Bio Bhutan PR activities. All efforts must be made to further promote the sales of the air spray.
- A sensitivity analysis must be carried out to see whether it is worthwhile for Bio Bhutan to continue exporting cordyceps.
- Consultancy is a key product of Bio Bhutan. Hence, more consultancy work must be carried out and used for building PR and good reputation.
- At least 30% of the budget must be used for marketing and promotion.
- Overhead costs must be immediately cut by lowering salaries, reducing staff or any other means.
- A cash flow and sensitivity analysis must be carried out on Bio Bhutan's finances to guide future investments.
- Financial progress reports must be submitted to the board and Helvetas/SDC on a quarterly basis.
- Establishment of a non-profit branch, Bio Bhutan Foundation would be advisable.
- All energy must be focused on two or three products for the time being. The 80/20 concept of gaining 80% returns with 20% input must be followed as far as possible.

## **2.3 Follow up activities – of Board Meeting**

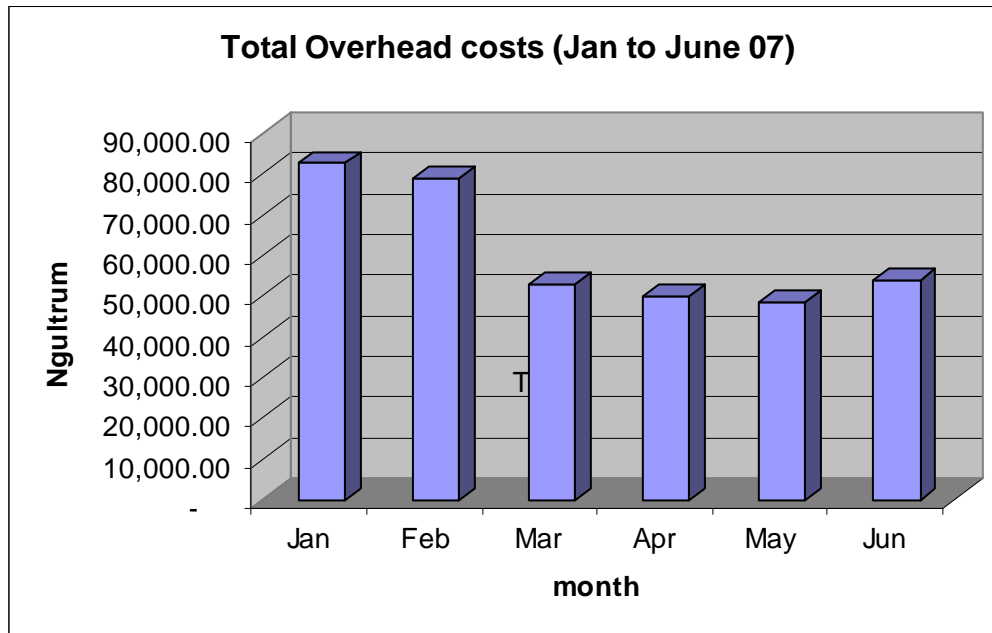
Implementation of the Board's recommendations was initiated immediately. The accountant left the Bio Bhutan office on March 12<sup>th</sup> and the salaries of the Managing Director and Product Manager were reduced by 28% and 20% respectively. In addition the store cum processing unit was no longer rented from April 2007 onwards. The monthly overhead costs were reviewed and a ceiling was set for the expenses under each category. As a result there was a reduction in monthly overhead costs as shown in the graph below.

A sensitivity analysis was carried out on Bio Bhutan's finances over eight different scenarios. The analysis showed that it was extremely important for Bio Bhutan to get a consultancy assignment (SNV Ginger project)<sup>1</sup> or acquire additional funds of at least

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<sup>1</sup> Discussions on the possibility of Bio Bhutan being hired by SNV as a local capacity builder to train farmers groups was already underway.

Nu.500,000. Without either of this Bio Bhutan would run out of funds by August, 2007. The best scenario was: Gogona cheese is dropped; overhead costs reduced; lemon grass air spray sales increased considerably; SNV Ginger project goes ahead; Bio Bhutan Foundation is established; and additional funds are provided to Bio Bhutan. The sensitivity analysis also showed that the main financial problem was liquidity or availability of cash.



Discussions on Gogona cheese resulted in the Department of Livestock (DOL) offering subsidies to Bio Bhutan for continuing to be the marketing agent. Since the advisory board had recommended continuation with Gogona cheese only under the condition that subsidies are provided, it was decided that Bio Bhutan will continue being the marketing agent for the cheese until November 2007.

### **3. Products and Product related activities**

Bio Bhutan continued trading the four main products: Lemon grass oil, Lemon grass air spray, Sha Gogona Cheese and Cordyceps sinensis. In addition two new products: a lemon grass gift pack and powdered ginger was developed during the first half of 2007. Further details on progress of each product are provided in the following paragraphs.

#### **3.1 Organic certified lemon grass oil: *Cymbopogon flexuosus***

The Managing Director traveled to Dozam from the 10<sup>th</sup> – 15<sup>th</sup> of June, 2007. On the way she participated in a meeting with officials of the Lemon Grass Cooperative and Essential Oils Development Project in Mongar. This meeting was organized by SNV and facilitated by Mr. Kencho Wangdi of SNV. This was a very important meeting where open discussions and negotiations were held between Bio Bhutan and the Lemon Grass Cooperative. Both parties acknowledged the importance of Bio Bhutan's role and the

great potential for product development and market diversification of lemon grass oil by working together. Key outcomes of the meeting were:

- Bio Bhutan's requirement of lemon grass oil in 2007 is 1 ton of organic certified lemon grass oil from Dozam and a minimum of 250 kg of non organic certified oil from other areas.
- From 2007 onwards it was agreed that the annual contract for purchasing lemon grass oil from the Dozam distillers would be signed between the Lemon Grass Cooperative and Bio Bhutan with specific mention of the Dozam distillers rather than directly between Bio Bhutan and the Dozam distillers as earlier.
- The EODP established that any local buyer interested in purchasing lemon grass oil (from outside Dozam) could do so by paying Nu.600 per kg for purchases upto 1 ton and Nu.550 per kg for purchases exceeding 1 ton.
- As in 2006 Bio Bhutan would pay a rate of Nu.600 per kg for the organic certified oil from Dozam.
- Bio Bhutan would provide an advance payment of Nu.20,000.00 to each of the five Dozam distillers for use as working capital.

Following the meeting in Mongar a day long meeting was held with the distillers, grass collectors and officials of the Dozam Community Forestry Group as well as the Lemon Grass Cooperative. The main purpose of the meeting was:

- to discuss and agree on the plan for marketing lemon grass oil for the season of 2007;
- to renew the contract for 2007 and
- to provide the annual training on the practices required to be followed in accordance with organic standards<sup>2</sup>.

The 2006 study carried out by Bio Bhutan on the impacts of organic certification on the Millennium Development Goals revealed that it was mainly the distillers that were aware about organic certification and not the grass collectors. Hence, in the meeting cum training program this year many more grass collectors were involved in comparison to previous years. During the course of the meeting technical aspects of lemon grass harvesting, possibilities for lemon grass cultivation and trial distillation of wintergreen oil were also discussed.

On the way back from Dozam the Bio Bhutan Managing Director met with Mr. Dhanapati Dhungyel, a Research Officer of RNRRC Wengkhar in Mongar. As a research officer Mr. Dhanapati has a lot of experience and knowledge on different types of medicinal herbs and essential oils including lemon grass oil. Hence, Bio Bhutan is in regular contact with Mr. Dhanapati to discuss and get advice on issues with regard to lemon grass oil.

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<sup>2</sup> The Dozam lemon grass oil was organic certified (EU standards) by INDOCERT in 2005. Training the Dozam distillers and grass collectors on organic practices on an annual basis is one of the requirements for continuing the organic certification.



With the early monsoon this year it is anticipated that the lemon grass oil production will exceed last year's figures. Due to lack of rains Dozam produced only 307 kg in 2006. This quantity was less than half of Bio Bhutan's export commitments and not adequate at all for local sales.

**Discussing organic practices for lemon grass oil collection/distillation with the Dozam farmers.**

### **3.2 Lemon grass air spray**

The Lemon grass air spray continues to be the most popular product of Bio Bhutan. This product has been very well appreciated in the local as well as export markets.

With the first lot of 20,000 lemon grass air spray bottles almost finished a new order for the next lot of 20,000 bottles was made in June 2007. The lemon grass air spray was first launched in February 2006. Hence, Bio Bhutan sold 20,000 bottles of lemon grass air spray within approximately 1.5 years. This translates into an annual sales rate of 13,333 bottles. With further promotion Bio Bhutan anticipates an increase of 25 % within 2007.

### **3.3 Sha Gogona Cheese**

As reported earlier Sha Gogona cheese remains to be the most challenging product of Bio Bhutan. Following a series of discussions with the main stakeholders: DoL and Helvetas the Department of Livestock offered to provide support to Bio Bhutan in 4 aspects: 1) refund of certification costs incurred in 2006, 2) provision of cold storage space, 3) coverage of costs for puff boxes for exporting cheese, and 4) assurance that all damaged cheese can be returned back to the MPU. In addition the Department would take necessary steps to improve the quality of the present gouda cheese and develop a new hard cheese with better shelf life. Based on this Bio Bhutan presented a marketing strategy cum detailed financial plan The DOL's support would gradually phase out by 2011. By then Bio Bhutan would be in a position to market the cheese independently on a profitable basis. Based on this strategy and in discussion with board members, DOL and Helvetas Bio Bhutan decided to continue being the marketing agent for the Gogona cheese. Other reasons which led to this decision were:

- The gap that would be created for market outlets and customers established by Bio Bhutan for Gogona (gouda) cheese;

- Gogona cheese being a part of Bio Bhutan's identity and being included in Bio Bhutan's website, brochure and other Bio Bhutan documents; and
- Gogona cheese already having completed two years of conversion and being in a position to be organic certified by 2008<sup>3</sup>.

In addition to the long term marketing strategy developed by Bio Bhutan an interim action plan for improving the quality and type of Gogona cheese was developed by Mr. Fritz Maurer, the technical advisor for Gogona cheese. In accordance with Mr. Maurer's plan processing and marketing of the cheese would be carried out by MPE Bumthang for an interim period of one year. The plan included changing the type of cheese to hard cheese with a longer shelf life. The action plan proposed by Mr. Maurer was planned to be initiated some time during the third quarter of 2007.

### **3.4 Cordyceps sinensis**

As the Cordyceps auctions begin only in July not much has been carried out for the promotion and marketing of this product.

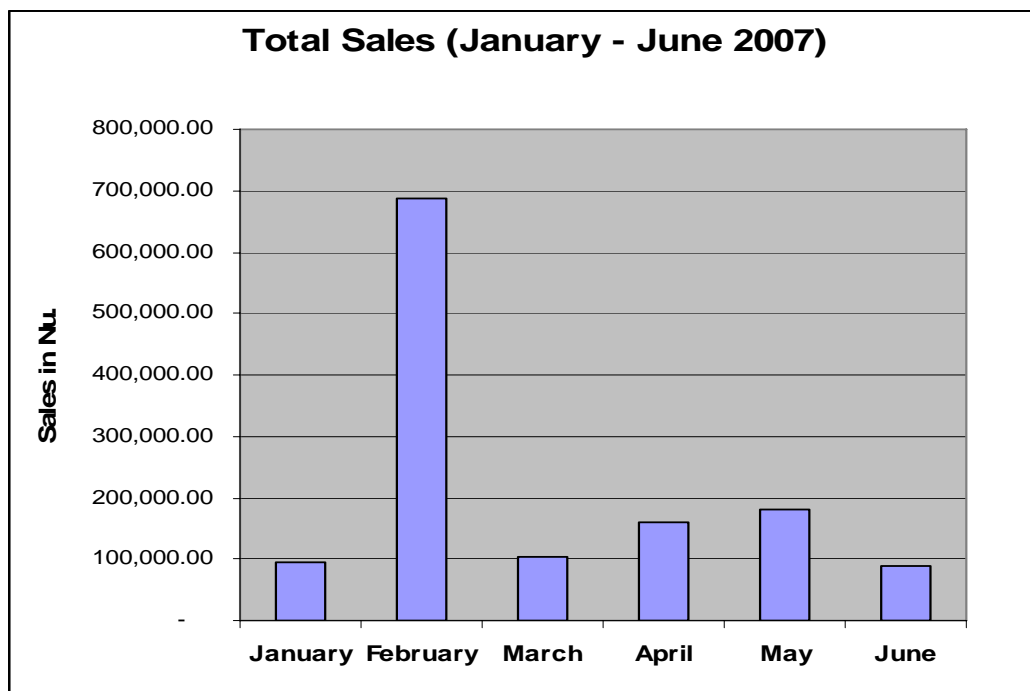
## **4. Sales and Market Outlets**

Promotional campaigns resulted in a substantial increase in Bio Bhutan retail outlets and customers. From only 13 outlets scattered across six districts there are now 37 outlets. These outlets comprise a mix of grocery, medical and handicraft shops. Bio Bhutan's clientele also includes luxury hotels such as Aman Resorts and the Yangphel hotels.

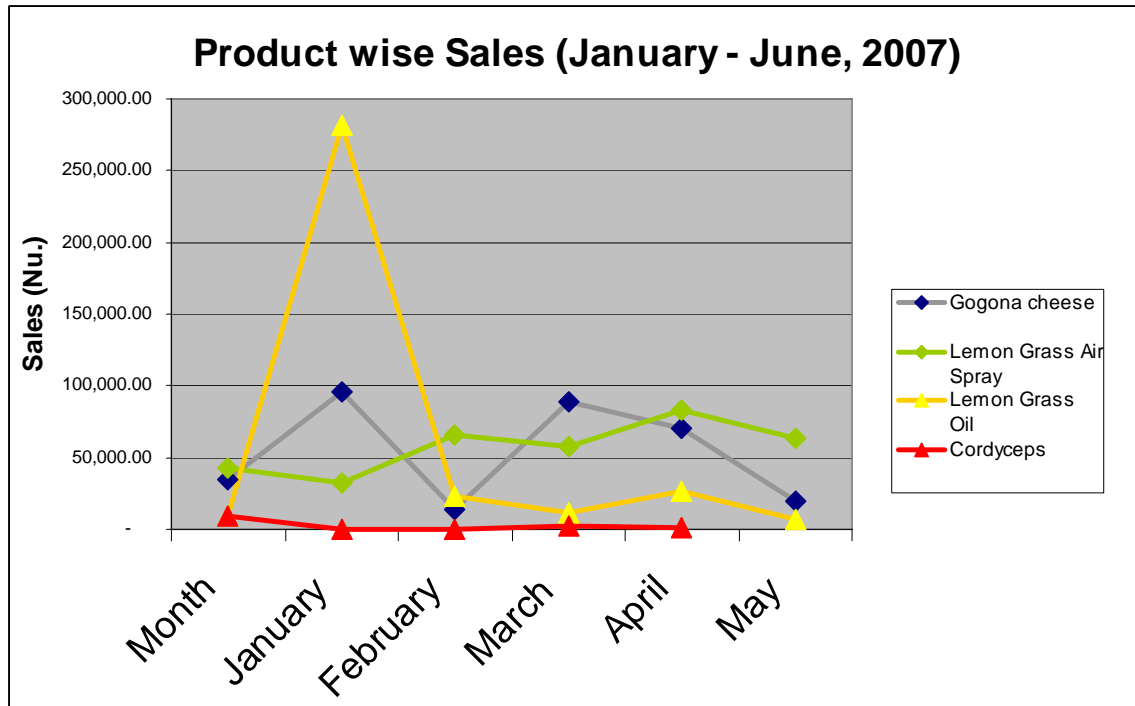
The total sales through these retail outlets and customers amounted to Nu. 1,041,747.34 from January to June, 2007. The highest sales of Nu. 686,015.00 was made during the month of February. This was mainly due to the export of last year's lemon grass oil to Vossen & Co. in Belgium. Details of the sales figures are given in the following graphs and table:

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<sup>3</sup> Bio Bhutan initiated organic certification of Gogona dairy farm, MPU and cheese in 2005. At the end of 2007 Gogona will complete the three year conversion period required for organic certification.



Product	January	February	March	Apr	May	June
<b>Gogona cheese (kg)</b>	100.5	340	64.8	318.7	252.5	69.2
<b>Gogona cheese (Nu.)</b>	34,647	96,285.9	13,772.6	88,328	69,848	19,148
<b>LG Spray (30 ml bottles)</b>	474	397	859	746	1107	844
<b>LG Spray (Nu.)</b>	42,755	31,810	65,520	57,237	83,080	63,845
<b>LG Oil (60 ml bottles/kg)</b>	128	74/301	162	124	180	93
<b>LG Oil (Nu.)</b>	9,040	4,810/ 276,554.6	23,505	11,780	26,500	6,550
<b>Cordyceps (kg)</b>	0.100	0	0	0.025	0.022	0
<b>Cordyceps (Nu.)</b>	9,760	0	0	2,425	1,600	0



As can be seen from the table and graph the sales of all four products fluctuates considerably throughout the year:

- Sales of Gogona cheese dropped in February due to the low production capacity in winter.
- Decrease in sales of lemon grass air spray during the month of February due to the exhaustion of lemon grass oil from last year's season which was very poor due to weather conditions in Dozam.
- Peak for sales of lemon grass oil in February is due to the export of the lemon grass oil to Belgium.
- Almost no sales of Cordyceps took place since the cordyceps auction season starts only in July. Very small quantities from last year's auctions were sold to local buyers.

## 5. New initiatives of Bio Bhutan

### 5.1 SNV Local Capacity Builders Project

Bio Bhutan has been contracted by SNV under the Local Capacity Building Program (LCB) to train farmer groups on organic methods of cultivation/production and facilitate marketing of organic products from Bhutan. The main focus of the assignment is to train the Dekiling Ginger Group in Sarpang to cultivate and market ginger in accordance with organic requirements.. In addition to the Ginger group Bio Bhutan is also required to train the Dozam lemon grass oil distillers and two other farmer groups that are interested in producing and marketing organic products.

The contract between Bio Bhutan and SNV for this assignment was signed on 23<sup>rd</sup> May, 2007 and is valid for a period of one year. A total budget of the Ngultrum equivalent of Euro12,660.00 will be provided by SNV to Bio Bhutan over a period of one year.



**Members of the Dekiling Ginger Group with local Dzongkhag and Extension officials**

As part of activities under this project the Bio Bhutan Managing Director traveled to Sarpang during the last week of May for an introductory meeting with the Dekiling ginger group. Basic information on the group structure, activities, ginger cultivation cycle and related issues was collected during this introductory meeting in collaboration with the local agriculture extension agents and the Dzongkhag Extension Supervisor. Further, a Situational Analysis report on the current situation on organic farming in Bhutan with information on the

ongoing activities, key players approaches, challenges, risks and lessons learnt was also prepared.

## 5.2 Lemon grass oil gift pack



**Sample of Gift Pack**

In discussion with travel agents, Bio Bhutan customers and amongst Bio Bhutan staff initiatives were taken to develop a lemon grass oil gift pack. This gift pack would contain a bottle of the 30 ml lemon grass air spray and the 60 ml lemon grass oil. According to travel agents this gift pack would serve as an ideal gift for tourists visiting Bhutan.

In collaboration with Lhating Enterprises, a local packaging/ designing/printing company the gift pack was designed and a sample developed. An order was placed for the printing of 5000 gift packs and is expected to be ready by the last week of July.

### 5.3 Ginger powder



Ginger powder to be used as a spice in cooking, beverages and pastries is the simplest product that can be easily developed from ginger. Hence, a trial production of the ginger powder from the ginger of the Dekiling Ginger Group was carried out in collaboration with the National Post Harvest Centre, Ministry of Agriculture in Paro. The trial production helped to gather basic information necessary for the calculating the cost of production per unit of ginger powder. Plans were made to introduce the ginger powder in the local market during the Trade Fair planned to be held in August, 2007. Accordingly steps were taken to design and order the appropriate packaging containers and label.

#### Sample Ginger powder Jars

## 6. Publicity and Advertising

A new brochure cum catalogue was designed in collaboration with Rabsel Media Services and 1000 copies of the brochure were printed in Kolkata during the month of January and February, 2007. This brochure is intended to be key part of Bio Bhutan's identity for the next one to two years.

The Bio Bhutan website [www.biobhutan.com](http://www.biobhutan.com) is regularly maintained and updated.

## 7. Participation in Workshops, Meetings and Missions

### 7.1 LA Trade Mission

The Department of Trade organized the first Bhutanese Trade Mission to the US (Los Angeles) in May 2007. The Department selected representatives of ten different products/sectors from the private sector and relevant government bodies to take part in the mission. Bio Bhutan was selected as one of the sectors representing essential oils. Hence, as Bio Bhutan's representative, the Managing Director participated in the mission. While the actual mission to L.A took place during the first half of May, 2007, various preparatory activities were held in March and April 2007. Preparatory activities included training of the representatives of the ten sectors on marketing and promotion of their individuals products/enterprises and development of marketing tools such as brochures, business cards, samples etc.

To promote Bio Bhutan, the Managing Director carried the brochure of Bio Bhutan and samples of seventeen products to the trade mission. These samples included products that Bio Bhutan was currently trading as well as potential medicinal plants and food products.

Bio Bhutan has been communicating with the San Diego Trade Co. since 2006. This company could be a potential distributor of Bio Bhutan products. A first lot of 50 lemon grass air spray bottles was delivered to the Trade Co. and discussions on the Trade Co's

role as a Bio Bhutan distributor were held. The Bio Bhutan MD established contacts with three other entrepreneurs promoting natural and organic products. The potential roles that these contacts could play are that of a promoter cum distributor, retail outlet and manufacturer of products with Bio Bhutan ingredients.

## **7.2 FAO Mountain Products**

A day long workshop on the promotion of Mountain Products from Bhutan with support from FAO was organized by FAO consultants and the Ministry of Agriculture on 6<sup>th</sup> June. Bio Bhutan was one of the potential stakeholders invited to the workshop.

## **7.3 Organic Farming Workshop**

A three day workshop entitled “Organic Farming – A Way to Improve Livelihoods of Small farmer holders in the 10<sup>th</sup> Five Year plan” was organized by the National Organic Program at the National Biodiversity Center, Serbithang from the 14<sup>th</sup> to 16<sup>th</sup> of June, 2007. The Bio Bhutan Product Manager attended the meeting. Over the three day workshop many presentations and discussions were carried out on various methods of natural, environmental friendly and organic farming and farmer group systems. The workshop concluded with the development of a technical working group on development of an implementation plan for small farm holders.

## **8. Challenges**

As identified in the board meeting held in February, 2007 and the sensitivity analysis liquidity or availability of cash is a key constraint. This requires careful planning of investments and constant review of financial transactions.

Efficient marketing of the Gogona cheese is difficult mainly because the timing of the high demand season and high supply season do not match. In addition the quality of the cheese still needs to be standardized and improved. Plans have been made and initiatives taken to switch to hard cheese in order to help address this issue.

Due to the low production of lemon grass oil in the last season, there was a severe dearth of lemon grass oil for local sales during the first half of 2007. All attempts were made to tap any remaining stocks of lemon grass oil. Initiatives were also taken to market sophea oil<sup>4</sup> as a substitute to lemon grass oil. However, this oil was not well received by the local market as well as potential international markets.

## **9. Further steps for 2007**

### **9.1 Improvement in quality and sales**

Continuous efforts will be made to increase and expand markets and sales through increase in the number of outlets and promotional activities.

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<sup>4</sup> Sophea oil (local name) is distilled from another grass species *Cymbopogon distans* which also grows in plenty in the lemon grass oil distillation districts.

## **9.2 Extending consultancy services**

Further steps will be taken to apply for projects such as the SNV Ginger project. Additional budget provided by such projects will help to contribute to further product development as well as help to address the issue of liquidity.

## **9.3 Product development**

With the ginger powder developed as the first product from the Dekiling ginger, further activities will be carried out to develop new ginger based products (pipla-honey-ginger lozenges).

The Bio Bhutan management has discussed the development of a liquid soap from lemon grass oil. Necessary steps will be taken to further this idea.