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Export networking challenges and opportunities for manufacturing firms from developing countries

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Document Version

Publisher's PDF, also known as Version of record

Publication date:

2003

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Tsegay, G. T. (2003). *Export networking challenges and opportunities for manufacturing firms from developing countries: the case of footwear and textile manufacturing firms in Eritrea*. [Thesis fully internal (DIV), University of Groningen]. s.n.

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PART IV
EMPERICAL STUDY

Chapter 6

Empirical Study of Export Market Opportunities: The Netherlands

6.1 Introduction

The main objective of this chapter is to examine and understand the organisation of footwear and textiles exports to the Netherlands. The other basic objective is to identify the requirements the footwear and textiles manufacturers in Eritrea have to fulfil in order to do business in the Netherlands. To achieve these objectives interviews with six footwear importers and six textiles importers were conducted. The concepts discussed in this section, based on the framework given in Chapter five, are the buyer supplier relationship, the organisation of imports, the organisation of sales, contract enforcement mechanisms, trust and opportunism, competition, and the requirements of the Netherlands market.

This chapter has two sections: (1) the characteristics of the Netherlands footwear market and (2) the characteristics of the Netherlands textiles market. Conclusions will be drawn after the interview results have been discussed.

6.2 The Netherlands footwear market

For several reasons the Netherlands is a good starting point for footwear manufacturers from developing countries to commence selling to the EU. Firstly, due to its geographical location and limited natural resources, the Netherlands has a long tradition as a trade-oriented country. Importers are accustomed to working with footwear exporters from developing countries. The attractiveness of the market is accentuated by the fact that more than 90 % of national consumption consists of imports (CBI, 2001). To facilitate imports to the Netherlands, the government established a centre for the promotion of imports from developing countries (CBI) in 1971. The CBI supports small and medium sized enterprises and trade promotion organisations in developing countries in their promotion of exports to the European Union.

Table 6.1 Imports of total footwear in the Netherlands by area of origin, 1997-1999

	1997		1999		% Change in volume 1997-1999
	Mln pairs	Average price in US\$	Mln Pairs	Average price in US\$	
Total	102,095	11.23	134,028	9.97	+31.30
Of which from					
Other EU countries	34,146	17.65	36,922	15.17	+8.10
Developing countries	47,652	6.59	67,278	6.33	+41.20
Other countries	20,297	11.31	29,828	11.73	+47.00

(Source: Eurostat in CBI 2001)

Importers in the Netherlands travel worldwide to purchase merchandise, not only for the Netherlands market but also for sale to neighbouring EU countries. Footwear imported to the Netherlands is re-exported to Germany, France and Belgium. The amount of re-exports is estimated to be about 37% of the total footwear import. Despite its small production (3.8 million pairs), the Netherlands is a large trader in footwear. The country's annual footwear

import is estimated at about 100 mln pairs (Ibid.). Manufacturers from Italy, Spain and Portugal dominate the leather footwear segment whereas the non-leather footwear segment is dominated by imports from China (almost 45 % of total imports in volume) and other Asian countries such as Vietnam, Indonesia, Thailand, South Korea and Taiwan, which are classified as developing countries (see table 6.1).

Table 6.2 Types of retail channels by market share (in % of value) in major EU countries, 1999

Country	Footwear multiple stores	Independent specialised retailers	Department & variety stores	Mail-order houses	Hyper-/super-markets	Sports shops	Other ¹⁾	Total
Germany	31	31	5	11	4	8	10	100
United Kingdom	33	11	15	8	3	14	16	100
The Netherlands	40	40	3	2	1	8	6	100
France	38	23	3	3	11	13	9	100
Italy	8	54	6	0	7	10	15	100
Belgium	29	47	3	2	1	10	8	100

(Sources: OETH and Retail Intelligence in CBI 2001) Note: 1) Clothing shops, street markets and other.

Wholesalers, buying organisations, and retailers are active in the Netherlands footwear market, the largest footwear wholesalers in the Netherlands being Eegim Shoe and Aspo. Retailers are independent speciality shops, multiple chains, department stores, clothing shops, and other small retailers. About 60 % of the independent speciality shops in the Netherlands belong to one of the four large buying organisations: Garant Schuh, Nord West Ring, Euretco and EuroHolland. The independent speciality shops account for 40 % of the market share. Multiple chains operate different chains of shops for specific consumer groups which extend from medium-price fashion shoes to cheap discount outlets. Multiples or chain stores account for 40 % of the Netherlands footwear market. The Netherlands has the highest number of footwear multiple stores in Europe (see Table 6.2). Discounters operate at the lower segment of the market. The multiple chains group comprises retailers like Hoogenbosch, Bristol, Scapino, Van Haren and Schoenenreus. Department stores sell footwear together with clothes and other related articles. They account for only 3 % of the market share. Clothing shops and other small retailers make up the rest of the market share (17%). The small retailers group consists of mail order houses, hypermarkets and supermarkets, sports shops and street vendors. The latter are involved in clearing stocks from wholesalers and retailers. All EU countries apply common customs tariffs to imports from outside the union.

Table 6.3 The Netherlands economy (2000) figures⁷

GDP	\$ 388.4 billion	(Euro 422 billion)
GDP per capita	\$ 24,400	(Euro 26,484)
GDP Growth rate	4%	
Inflation	2.6%	
Unemployment	2.6%	
Exports	\$ 210 billion	(Euro 228 billion)
Imports	\$ 201 billion	(Euro 218 billion)
Imports as of % of GDP	48%	

(Source: World Fact Book: Netherlands)

However, some kind of preferential trade agreement applies for many developing countries. Examples are the general system of preferences (GSP), and the 4th Lome convention for the African, Caribbean and Pacific (ACP) countries. The Lome Convention gives European

⁷ In the year 2000 the exchange rate was \$1=Euro 1.0854

importers the opportunity of importing footwear originating in the ACP countries, of which Eritrea is a member, without paying duties.

Table 6.4 Price range of footwear in the Netherlands footwear market

Type of shoe	Target price (Retail) US\$
Men's casual	30-50
Men's dress shoe classical	60-100
Ladies closed shoe	25-40
Ladies (sandals)	15-35
Children's shoes	15-40

(Source: Survey 2000)

The classification system used for all products in the Netherlands and the European Union member countries is the Harmonised Coding System (HS) (Appendix 3). The quality and grading standards laid down by the International Standards Organisation (ISO) are applicable in the Netherlands. In general, single unit sizes are demanded for textiles and plastic footwear whereas leather and imitation leather must also be made in half sizes. The normal size range for ladies footwear is 36-41, for men's footwear it is 40-45 and for children it is 20-35 (girls) and 20-39 (boys). Care for the environment and the conscious use of the available resources are a major issue in the Netherlands (and in Europe). The box used for packing the footwear must be manufactured from at least 80 % recycled paper. Increased awareness of ecological issues has also played a part in dictating the latest fashion trend, with a move away from synthetic man-made footwear components towards more traditional, natural sources.

6.2.1 Footwear wholesalers

The interview results from two footwear wholesalers, Comforta and Eegim Shoe, are discussed below.

Comforta

Comforta is a footwear wholesale company, which is located in the southern part of the Netherlands in the district of Nieuwkoop. The company was established in 1971. Its current annual turnover is about \$16.3 million and it employs 28 people. It imports leisure footwear for men, women and children who spend their weekend in jeans or go to school in casual clothing.

The company has been importing about 80 % of its footwear from South-east Asian countries for about twenty years. Its main suppliers are found in China, Taiwan, Vietnam, Cambodia and Indonesia. According to the managing director, the company has problems with China because the anti-dumping tax policy of the European Union applies to that country. When the size of the import exceeds the quota, importers have to pay 49.2 % tax on top of the 17.5 % sales tax. The managing director of Comforta said, "*Because of the quota the EU has imposed on footwear imported from China, we cannot buy what we want to buy from China.*" The Comforta process for purchasing footwear, mainly from South-east Asia, may be classified into three stages: (1) idea screening, footwear sample design and sample production, (2) exhibiting samples in trade fairs, and finally (3) placing orders, receiving orders and sales.

Firstly, a buyer for Comforta travels to major markets and trade fairs around the world, generally during March and April. The objective of the trip is to collect information on best-

selling footwear. During his visit the purchaser makes a collection of footwear that he thinks will attract a high demand for the next season. He describes all the information including the sole, the upper and the last and communicates this to the designer. The designer is an independent person who has a close business relationship with Comforta and who makes a detailed sketch of the footwear according to the specifications prepared by Comforta. After the footwear design is ready, the purchaser travels to South-east Asia. The trip is often scheduled at the end of April. During his visit the buyer explains the design of the footwear he wants to buy to agents located in South-east Asia. After an agent receives the detailed information from the purchaser he selects possible manufacturers and negotiates the price and delivery time. The agent is useful in establishing the first contact between the wholesaler and the manufacturer.

The agents have been working with the suppliers for a long time. They have accurate information about the production capacity, the technical skill and even the reputation of the people running the factories. This makes the selection of the right manufacturer easier. When asked why the buyer did not bypass the agents and contact the manufacturers directly, he replied, “ *Because the buyer handles many designs he does not have the time nor the capacity to find manufacturers for all the designs he has with him. It is easier to give the designs to a well-established agency in South-east Asia and let it follow the production progress and carry out the quality control itself. You cannot conclude an agreement with a manufacturer to produce only five or ten samples. In that case the cost would be far too high.*”

The agency in South-east Asia signs a contract with the manufacturers to make samples according to the sketches delivered by different footwear importers from all over the world. As soon as the agent and the manufacturer agree on the specifications of the product, the price and the delivery time, the manufacturer starts making the samples. During this period manufacturers produce only sample footwear. The agent and the manufacturer cover the production cost while the wholesaler pays the transportation cost of the samples to the Netherlands. The production cost of a pair of sample footwear is approximately \$ 50 while the cost of producing normal footwear is about \$10. The agent and the manufacturer cover the cost of making samples on the assumption that Comforta will accept at least some of them.

The second stage is receiving and exhibiting the samples. The sample from the manufacturing plant in South-east Asia has to reach the Netherlands during the first week of June. Comforta receives about one thousand samples from its agents most of whom are in Asia. The company makes a selection out of the one thousand samples of those that have a high probability of being purchased by the customers. The first selection is made by referring to the sketch given to the agency and from Comforta's earlier experience. The exhibition is first shown at the International trade fair in Italy and later in Comforta's shop in Nieuwegein, the Netherlands. The wholesaler displays those samples that pass the first selection at the international trade fair in Italy in mid-June. Buyers and designers from different corners of the world visit the trade fair, which is held twice a year in the months of June and January. The main reason that Comforta participates in this trade fair is to get reactions to the samples. After returning to the Netherlands, Comforta makes the second selection. Approximately only five hundred of the original one thousand samples pass the final selection criteria. The selected samples are then displayed at Comforta's shop in Nieuwegein, the Netherlands. The footwear centre in Nieuwegein contains the exhibition shops of seventy-eight wholesalers and buying organisations in the Netherlands.

Finally, the shops open for buyers in mid July. The first four days are reserved for large buyers such as Bristol, Scapino, Van Haren, and Schoenenreus. According to the managing director, these are large retailers each owning between 90 and 200 retail outlets. The large customers make their selections and place orders within four days. The next week the shop opens to small buyers. They also make their choices and place orders. After securing orders from the large and small buyers the Comforta personnel take a three-week holiday. They return from holiday in late August and contact their suppliers in Asia. After conducting final negotiations on the price and delivery dates Comforta makes an offer. If the manufacturer accepts the offer, Comforta places an order in early September. Following the placement of the order Comforta opens a letter of credit to help the manufacturer obtain money to purchase the materials required to produce the footwear. The managing director of Comforta said, *“At this stage trust is very important. The wholesaler has to be sure that the manufacturer has the capability and willingness to make and deliver the footwear on time. If the manufacturer produces inferior quality footwear the money is lost.”*

The footwear has to be shipped at the end of December so that it reaches the Netherlands at the end of January. Comforta starts selling (delivering) the products to the buyers in late February. For the second order samples have to be collected and sketched from April to October. Comforta receives the samples from suppliers in December. It displays them first in the international trade fair in Italy in mid January and then at the exhibition shop in Nieuwegein in late January. Comforta places orders at the end of March and suppliers have to ship the order at the end of July. The footwear has to reach the Netherlands at the end of August to be sold in September.

Comforta has a long-term business relationship with its manufacturers. However, this long-term business relationship has not been transformed into a higher business relationship such as subcontracting or a joint venture. During the interview this question was posed to the managing director of Comforta. He said, *“ Subcontracting or a joint venture is not to our advantage because we are small and we do not have the capacity to sell all the footwear produced by the supplier on a continuous basis. Besides, we are susceptible to political and economic changes in the countries where our manufacturers are located. To give you one example, currently the Euro is getting weaker and weaker against the dollar. At this time it is advantageous for us to buy footwear from EU member countries such as Spain and Portugal rather than going to South-east Asia. In the EU we deal with the Euro and we can avoid the effect of the strong dollar.”*

When asked what his reaction would be if a footwear manufacturer from Eritrea approached him and explained to him that he could produce and supply the right kind of footwear for the European market, he said, *“ For me a new supplier means additional expense. The benefit I would get from the Eritrean manufacturer must justify the additional cost I would have to incur. Before I would ask the manufacturer in Eritrea to produce a sample for me the manufacturer would have to show me what he is doing now. In this way I could decide if the footwear was good enough to be displayed in the international fairs. If it was OK I could place a trial order. However, before we were to start business I would have to know the Eritrean manufacturer well. I would have to be convinced that he has the capacity and skill to make the type of footwear I need to sell.”*

Eegim Shoe

Eegim Shoe is the largest footwear wholesale company in the Netherlands. It is part of the Achten Fashion Group. Beside Eegim shoe, the Achten Fashion Group comprises large footwear wholesale companies such as Aspo and Orces. The former is specialised in footwear for men and children and imports mainly from Rumania. The latter is specialised in fashion footwear for young people and imports from Bulgaria. Eegim shoe is specialised in ladies fashion footwear mainly in the middle and higher segment of the market. Its import markets are China, Vietnam, Hong Kong, Korea, and Taiwan. The head office of Eegim Shoe is located in Waalwijk, the Netherlands. It employs 110 people and has an annual turnover of about \$ 62 million.

The Eegim shoe purchasing process is similar to that of Comforta, the difference being that Comforta hires agents while Eegim shoe uses its branch office in Taiwan. The branch office in Taiwan is a co-ordinating centre for all imports coming from South-east Asia. It selects suppliers, expedites sample production and performs quality inspection. The staff in the Taiwan office know most manufacturers in the region and have long standing business relationships with many of them. There are thus fewer problems in matching the order to the right manufacturer.

When asked why the company opened a branch office in Taiwan instead of using an agent located in the region the sales manager said, “ *In addition to the fashionable ladies footwear, we sell sports footwear and cheap house slippers. We work closely with the other two sister companies and we order footwear for them as well. Given our large volume of import the running cost of the office in Taiwan is less than the commission we would have to pay to an agent. Besides, the services we get from our office in Taiwan are a lot better than that of an agent. The orders we place always reflect the changes in fashion. To get the manufacturers to understand the changes we need to have close contact and communicate intensively. So it is important that we are close to the manufacturer.*”

The sales manager mentioned that although Eegim shoe purchases footwear from many countries in Asia, it has only one or two manufacturers in each country. Given the small number of manufacturers we asked the sales manager how his company creates a balance between security and flexibility. He said, “ *Unless there is a serious problem we do not want to change a manufacturer. For us price is less important than quality. We do not need to be flexible for the sake of a lower price. We only need manufacturers that can understand our needs. Once we get that right there is no need to change.*”

Eegim shoe asks its manufacturers to produce a sample twice. The first sample is simply used to see that the designs made by the styling department in Eegim shoe are appealing. At this stage comments on how to improve the sample are communicated to the manufacturer through the Taiwan office. The manufacturer makes a final sample after incorporating the necessary changes. The company has its own designers but it also employs freelance designers who prepare the styling and technical specification. The technical design is complex because it specifies all the sizes and structures of all the parts needed to make the footwear. Eegim shoe does not pay for samples. After participating in the footwear exhibition in Italy and Germany Eegim shoe invites its large buyers and agents from all over the world to its showroom in Waalwijk. The buyers cover all travel and accommodation expenses, however, Eegim shoe pays for dinner during the exhibition day. The company sells its footwear all over the world including in South Africa, where the company sells shoes through an agent.

Eegim shoe uses letters of credit to pay its manufacturers in South-east Asia. However, for manufacturers in India the arrangement is cash against delivery. The sales manager explained this as follows: *“There are quality problems. While the footwear coming from India is cheaper the stitching and quality of leather is not good. Sometimes buyers find it hard to put the footwear in their shops because of the bad smell of the leather. Before we pay the money we have to make sure that the footwear is free from stitching and smell problems.”*

When asked what his company would do if a manufacturer in China shipped inferior footwear and took the money from the bank made available by the letter of credit, he said, *“ Our office in Taiwan carries out quality inspections for the first one or two years only. After that we leave all the responsibility to the manufacturer. There is a low probability that the manufacturer will cheat us. We buy in large quantities and if he loses our order he will have a problem. I cannot say that this does not happen but I am sure that such manufacturers would not remain in the footwear market for very long.”* He stressed the importance of trust between the buyer and the manufacturer. He said that manufacturers sometimes lie to the buyers to keep the business going. However, it is better to tell the buyer what has happened even if this creates conflict between the buyer and the manufacturer since it helps in solving problems in the future.

The sales manager mentioned that Eegim shoe has large footwear manufacturers (suppliers) in South-east Asia. For instance, a manufacturer located in China manufactures about 43 % of the total footwear that Eegim shoe imports from South-east Asia. When asked why the business relationship had not developed into sub-contracting or a joint venture, he said, *“ We are wholesalers. We would like to have a business relationship with the manufacturers as long as they are good for us. If we sign a sub-contracting or joint venture agreement with the manufacturers in Vietnam we reduce our flexibility. Order based, long- term business relationships are good for us because they motivate the manufacturer to perform well so that he can get more orders.”*

Finally, when asked what his response would be if a manufacturer from Eritrea came to his office and showed him footwear that might be interesting to his customers, he said, *“ It is possible that a manufacturer from Eritrea could show me an attractive type of footwear. However, there are other things I would need to know about the manufacturer. I would have to make sure that the manufacturer has the capacity to produce footwear the same as the samples. There is a difference between making a sample and producing thousands of pairs of footwear. The relationship between the manufacturer and the buyer is more important than a single product the manufacturer can show me. We cannot simply exchange footwear for money on the spot. There is a process that we have to pass through to produce the right footwear. To make the process successful we need to know each other and there should be a continuous flow of information. If he showed me a good footwear sample I could give him a trial order. However, the payment arrangement would be cash against delivery. If the footwear did not match the original sample given to us we would not pay for the shipment. He could also send samples to us.”*

6.2.2 Footwear buying organisations

Interviews with two buying organisations, EuroHolland and Garant Schuh were conducted. The results are described below.

Euro Holland

According to the managing director, a group of small footwear shop owners in the Netherlands came together forty years ago to discuss how to solve import problems such as locating producers, language problems, import documentation and payment. In 1957 they decided to establish Euro Holland as a co-operative organisation. Euro Holland is located in Nijkerk, the Netherlands and it represents 105 small footwear shops in the Netherlands. The 105 shops that own shares are the legal owners of the company. The shop owners sell footwear to the middle segment of the market in the Netherlands. Euro Holland employs 11 people.

Euro Holland does not directly import footwear for its members it is the shop owners themselves who import the footwear. Euro Holland offers support services that facilitate import of footwear by its members. Firstly, one week before the trade fair starts, often on the 28th of February, Euro Holland provides a fashion seminar for its members. The seminar focuses mainly on offering information about fashion trends for the next season. After the seminar has been completed Euro Holland invites footwear suppliers to display their footwear in its exhibition hall in Nijkerk. On the 2nd of March the early buying fair opens. Some suppliers who display footwear are ready to supply footwear within weeks⁸. These suppliers do not have a pending order and are ready to supply the footwear in less than three weeks. The normal order cycle takes three months. Some buyers present at the early buying exhibition are those who need the footwear as soon as possible. Usually, the suppliers give discounts to the early buyers. After the early buying fair has been completed the second fair, of children's footwear, starts on the 13th of March. The ladies and men fairs are held on the 23rd and 31st of March respectively. During the fairs Euro Holland invites the shop owners to visit the fair. Shop owners select the type of footwear they want to purchase and place orders. Although Euro Holland is a buyer's organisation it provides a market platform for both buyers and suppliers.

Euro Holland guarantees payment within fourteen days after delivery, for every order placed by the member shop owners. Although the individual shop owner signs the import contract the invoices are sent directly to Euro Holland. It also serves the small shop owners by handling their financial matters concerning import. Euro Holland receives a 3 % commission from both the buyer and supplier. The suppliers can be footwear manufacturers or importers based in the Netherlands. Euro Holland has indirect links with suppliers outside of Europe through wholesalers and agents located in Europe. As Euro Holland is a small buying organisation it does not have the financial capacity to send people to sign contracts with foreign manufacturers and monitor the orders. The wholesalers and agents in Europe guarantee that the orders arrive in the Netherlands at the right time. Euro Holland does not accept more than one member from a designated area. This is done to eliminate conflicts arising because of the similarity of the products the retailers handle in their shops.

When asked what his opinion would be if a footwear manufacturer from Eritrea approached him and made an offer to supply the type of footwear that its customers need to have, the managing director said, “ *Often suppliers who have an agent in the Netherlands come to our organisation and tell us they have footwear to sell. We ask them to show us the footwear and if we find it acceptable⁹ we let them participate in the fair and introduce them to our*

⁸ This happens when wholesalers are out of stock or see a window of opportunity to act faster. However, this kind of arrangement is not common in the footwear business in Europe.

⁹ Euro Holland has a footwear specialist who examines the quality standard of the footwear that will be

members. However, the decision to buy the footwear from the manufacturer lies in the hands of the shop owners. The key factor in the footwear business is how to build trust. We have not had any business relationship with the manufacturers in Eritrea. We only have limited information about the country. I think the best way for the footwear manufacturers in Eritrea to penetrate the European footwear market would be to have an importer/agent in the Netherlands to sell their footwear. After the footwear has been introduced to the European market they could deal with any buyer in Europe.”

Garant Schuh

Garant Schuh is a footwear-buying organisation for 450 retail shops in the Netherlands, Germany and France with its head office located in Germany. The Netherlands' branch is located in Nieuwegein, the Netherlands. The organisation was established in 1950. Selling shares raised the capital to organise the company. The retail shops that bought a share own the company. The value of one share is \$1300 and a member could claim this amount of money if he decided to withdraw his membership. The company has 250 employees.

According to the division manager, Garant Schuh is responsible for linking buyers and suppliers and administering the financial affairs of its members. It places an order on behalf of its members and makes follow-up contacts with the agent or importer located in Europe. The company receives 3 % commission from both buyers and sellers for its services. Garant Schuh requires its suppliers to offer an 8 % discount on all types of footwear ordered by the company. Garant Schuh buys all types of footwear for its members. The suppliers themselves come to its office in Nieuwegein to show their footwear. Until 1993, the company was open to all suppliers that could supply standard quality footwear. However, since then the company has changed its policy and has decided to do business only with wholesalers and agents located in Europe. The division manager explained this as follows: *“Six years ago a manufacturer from India came to our office and showed us attractive footwear and made an offer to supply the footwear at a reasonable price. We accepted the offer and we placed an order for 10,000 pairs. After we received the shipment we realised that the footwear was different from the sample. There was nothing we could do with the footwear other than disposing of it at a loss. We did not want to file a lawsuit, because we knew that it would cost us more money than we could recover from the manufacturer. From that time onwards we decided not to buy footwear from a supplier who was not located in Europe.”*

Garant Schuh has good business relationships with wholesalers and manufacturers located in Europe. The wholesalers and manufacturers bring their collections to the Garant Schuh exhibition in Nieuwegein. The marketing manager selects the footwear. The selected samples are communicated to the retail shop owners in two ways. First, if there is an exhibition day already planned the retail shop owners come and view the samples in person. If the shop owners are interested in the sample they ask Garant Schuh to place an order for them. Garant Schuh is also responsible for making sure that the order has been carried out according to the terms of the contract. Secondly, Garant Schuh exhibits the samples in the magazine that is distributed to its members. The magazine shows the picture of the footwear and describes the materials it is made from, its colour and price, and the name of the company that is offering to supply the footwear. The trade magazine also includes an order form that a retail shop owner needs to complete if he/she wants to order footwear described in the magazine. After collecting the order forms Garant Schuh places a formal order to the importer or agent who has already made the offer.

displayed in the show.

When asked what his reaction would be if a manufacturer from Eritrea showed him footwear that could be suitable for his customers, the division manager said, *“If the footwear is in line with our standard requirement I do not care where it comes from. But it is impossible for us to create a direct contact with the producers in Eritrea. They would need to have an agent or wholesaler in The Netherlands.”*

6.2.3 Footwear retailers

The results of the interviews conducted with a multiple chain and a department store, Hoogenbosch and Scapino, are described in this section.

Hoogenbosch

Hoogenbosch is a footwear retail company which is a holding of the Macintosh Company. Hoogenbosch is located in Den Bosch, the Netherlands. The company has five types of retail outlets aimed at the middle and higher-class footwear consumers. These are Dolcis, Invito, Manfield, Pro-Sport and Olympia Sports. Its main markets are the Netherlands, Belgium and Germany. The company owns 243 retail outlets and has 3500 employees in the aforementioned three countries. Hoogenbosch imports footwear from Europe and South-east Asia. The company imports about 60 % of its leather footwear from Italy. China, Rumania, Vietnam, Pakistan and India are the major markets for non-leather footwear such as canvas.

Although Hoogenbosch is a retailing company it follows a purchasing process almost the same as the one used by footwear wholesalers such as Comforta and Eegim shoe. The difference is that Hoogenbosch does not exhibit its footwear. If the sample prepared by the manufacturer matches the sketch Hoogenbosch places an order. The stages of the Hoogenbosch purchasing process are: (1) idea screening, sample design, (2) sample production and quality test, and (3) placing orders and sales. Hoogenbosch sometimes uses the internet to send designs to its manufacturers in Italy. However, the final contract is only signed after discussions between the purchasing and selling managers of the two companies have been held. According to the purchasing manager, when the contract involves leather footwear personal interaction is important. The purchaser has to see and feel the quality of the leather to determine if it meets his specifications.

When asked how his company establishes the first contact with agents and manufacturers in Italy and countries in Asia, the purchasing manager said, *“We find the name and address of the agent on the internet. However, it is often difficult to find the right agent. For instance, we had an agent who represented us in China and Vietnam. Our objective was to buy most of our footwear from Vietnam, but the agent wanted to buy all the footwear from China. Despite the dissatisfaction we had with the agent we continued to use his services until we got another agent. While this was going on we hired a buyer who was working for another footwear company in the Netherlands. Fortunately, the buyer knew a good agent in China. We contacted this agent and we have been working with him for almost five years. If you have the right agent it is his job to establish contact with good manufacturers.”* If Hoogenbosch does not have any prior business relationship with the agent or manufacturer it makes a background check. For this purpose it requests information about the agent or manufacturer from the Ministry of Trade and the Chamber of Commerce in the country where the agent or manufacturer is located.

Three years ago Hoogenbosch designed a strategy to buy cheaper leather footwear from Asian countries. Hoogenbosch then ordered leather footwear from India. As part of the agreement Hoogenbosch gave the footwear design to an Indian footwear manufacturer and asked him to make a sample. The samples were OK but the products delivered were different from the sample. Hoogenbosch displayed the footwear in its retail outlets but consumers were not interested in it. As a result Hoogenbosch did not continue with the Indian manufacturer. Hoogenbosch uses payment against delivery. The payment is made thirty days after delivery. However, when the business relationship with the manufacturer is at its initial stage, it opens a letter of credit. When asked what his company would do if the footwear shipped to the Netherlands was found to be unsatisfactory after it arrived in Hoogenbosch's store, the purchasing manager said, "*The first thing we would do is to contact the agent and tell him the footwear is unsatisfactory. After that, there are some alternative measures we can take. However, the measures we would take depend on the size of the order. If the order was large (1) we would ask for discount (2) we would stop payment until the goods were displayed in the retail shops and we knew the reaction of the consumer and finally (3) if the first two measures did not work we would send the footwear back to the supplier. If the order was small we would take the risk and break all further business dealings with the manufacturer.*"

Unlike the buying organisations, Hoogenbosch tries to ignore wholesalers located in the Netherlands. When the company is going to buy footwear from wholesalers located in the Netherlands it always asks for exclusivity. Exclusivity means the wholesaler has to promise not to sell the same footwear bought by Hoogenbosch to other retailers or wholesalers in Europe. The purchasing manager mentioned that the wholesalers usually do not keep their promise in regard to exclusivity. When asked why his company requires exclusivity from the supplier, he said, "*We are dealing in the middle and higher level of the footwear segment. Our customers need to be unique. As footwear marketers we have to satisfy their need.*" The purchasing manager explained that Hoogenbosch has been working with some Italian manufacturers for about 15 years. When asked why the long-term business relationship had not evolved into a more advanced business relationship such as subcontracting or a joint venture, he said, "*In Europe specialisation is very important. If you want to be successful in your business you have to be good in one thing. We are good in retailing. It is easier for us to expand into other retail business than into footwear production. Moreover, we do not want to tie ourselves to one manufacturer and put all our eggs in one basket.*"

In response to the question what his reaction would be if a manufacturer from Eritrea came to his office and told him he could supply the kind of footwear his company wants to have, he said, "*We already have manufacturers in Italy and South-east Asia. It is true that we are dissatisfied with some of them and we might want to change them. However, if we were going to buy footwear from manufacturers in Eritrea, there would have to be something that we could not get from our current manufacturers. Going to a new place involves many risks. We do not have previous business experience with Eritrean footwear manufacturers. If we were going to do business with Eritrean manufactures there would have to be an advantage that we could not get from our current manufacturers.*" According to the purchasing manager, if the footwear manufacturers in Eritrea want to conduct business with his company he would first need to see what they are doing now. For this purpose Eritrean manufacturers would have to prepare five or six prototypes of fashionable footwear. If he found them acceptable he could place a trial order. Stressing the importance of samples he said, "*Most of the time when manufacturers come here and ask me if I want to buy footwear my answer is I do not want anything because I already have manufacturers or suppliers.*" According to him, the best way

to deal with retailers and wholesalers is to show what you have and negotiate how to make it better.

Scapino

Scapino is a footwear retail company established as a family business in 1973. It has 200 retail outlets throughout the Netherlands. The annual turnover of the company is about \$310 million. It imports footwear from countries such as China, Vietnam, Brazil, Taiwan, Spain, Portugal and Italy. Scapino operates in the lower segment of the footwear market. It sells footwear for children, men and women. The head office of Scapino is located in Assen, the Netherlands. Scapino purchases footwear from three sources. These are (1) from wholesalers located in the Netherlands, (2) from export trading companies located in South-east Asia and finally (3) from manufacturers in South-east Asia.

The purchasing manager explained this as follows: *“Each source has its own advantages. Although they are expensive we always buy footwear from wholesalers located in the Netherlands. The reason is that the wholesalers are closer to the Netherlands market and have good knowledge of the fashion trend. They invest time and money to obtain footwear that is fit for the Netherlands market. It helps us to cope with other competitors who buy footwear from the wholesalers.”* Export trading companies in Asia are independent organisations that have close working relationships with manufacturers. They make their own collections. According to the purchasing manager, export trading companies in Asia supply cheaper footwear in comparison with the wholesalers in the Netherlands. The export trading companies make collections for buyers coming from all over the world. Consequently, they are not specialised in a particular market. To correct this problem the purchasing manager from Scapino has to recommend modifications to make the footwear saleable in the Netherlands market. If everything is all right the purchasing manager places orders to the export trading company. The export trading company in turn passes the order to its manufacturers.

When asked why Scapino does not bypass the trading companies and buy footwear directly from the manufacturer, he said, *“In the footwear business the larger the order the easier it is to work with manufacturers. In order to deal with manufacturers we must have an order size of at least 25,000 pairs of footwear. If we have a smaller order size we go to the export trading company. The export trading company is free to sell a similar type of footwear to wholesalers and retailers operating in markets other than the Netherlands. For that reason it can fill the minimum order from other buyers.”* Scapino uses a letter of credit to pay its suppliers. When asked what his company would do if a manufacturer in South-east Asia shipped inferior footwear and took the money from the bank, he said, *“The fact that we do not carry out any quality inspection at the production site could make us susceptible to such kind of problems. However, we have never experienced this kind of problem. If we think it is important we can include a clause in the letter of credit that says full payment will be made after Scapino has inspected the goods and confirmed to the bank that there are no problems with the shipment.”* Scapino has no styling department.

The purchasing manager mentioned that Scapino has a long history in dealing with suppliers mainly in South-east Asia. When asked why this long-term business relationship had not evolved into subcontracting or joint venture relationships, he said, *“ We know that the manufacturers with whom we are dealing in South-east Asia use subcontractors to make the footwear we order. The advantage is that the manufacturers have the production knowledge*

and can control everything. However, we are retailers and we are not specialists in production. It is better for us to remain as retailers.” Finally, when asked what his response would be if a manufacturer from Eritrea came to his office and told him he could supply the right kind of footwear to Scapino at a lower price, he said, *“Eritrea has no track record of footwear production. Not only the manufacturer but also the country is new to us. We do not know importers in the Netherlands that have purchased footwear from Eritrea. Given this it would be important for us to get informed about the country. Knowledge about the culture of the people, the business practices, the type of footwear manufactured, the availability of footwear component producers and the price level is important. If everything was in order I could place a trial order.”*

6.2.4 Discussions of the interview results

The discussion is based on the seven export market characteristics mentioned in figure 5.1. These are the buyer supplier relationship, the organisation of imports, the organisation of the sales function, competition, trust and opportunism, contract enforcement mechanisms and the requirements of the Netherlands export market.

Buyer and seller relationship

The evidence from the cases discussed above reveals that the business relationship between the footwear importers (wholesalers and retailers) in the Netherlands and manufacturers in South-east Asia is based on a previous business relationship. The Netherlands footwear importers prefer to share the risk over a long time period with a few manufacturers in the hope that the benefits which result from building up trust outweigh the costs involved in not being able to freely switch manufacturers as price dictates. Arms length contracting barely exists. Even if it does, it only serves as a stepping-stone to a future long-term business relationship. Before a real transaction exchange starts buyer and seller have to pass through certain stages. These are understanding the fashion trend, generating new product ideas and designing a sample, producing the sample, exhibiting the sample and modifying samples based on the suggestions given by customers and designers during the exhibition (Figure 6.1)¹⁰. The level of performance of the first order affects the buyer's willingness to send additional orders to the manufacturer. In their footwear transaction exchange process, two factors are most important to the wholesalers and retailers in the Netherlands. These are security and flexibility.

By security is meant the degree of guarantee the wholesalers and retailers get from the manufacturer that the latter will ship the right footwear at the right time. Flexibility concerns the degree of freedom the footwear wholesalers and retailers have to replace a manufacturer. The reason may be lower price, faster delivery or better quality. However, flexibility incurs transaction costs. When the wholesaler changes a manufacturer he breaks the business relationship that he has established with his previous manufacturer. Both the wholesaler and the manufacturer have invested time and money to build the business relationship. Moreover, when the wholesaler or retailer decides to replace the existing manufacturer there is a risk that

¹⁰ These stages in the purchasing decision process are more or less similar to those described by Johnston and Lewin (1996) with reference to the work of Robinson, Faris, and Wind (1967) Webster and Wind (1972) and Sheith (1973). However in this thesis the buying organizations in the Netherlands perform more activities than the buying centres described in the literature. Not only they place orders on behalf of their members but also they administer the financial affairs of their members and give guarantee of payment to the suppliers (manufacturers).

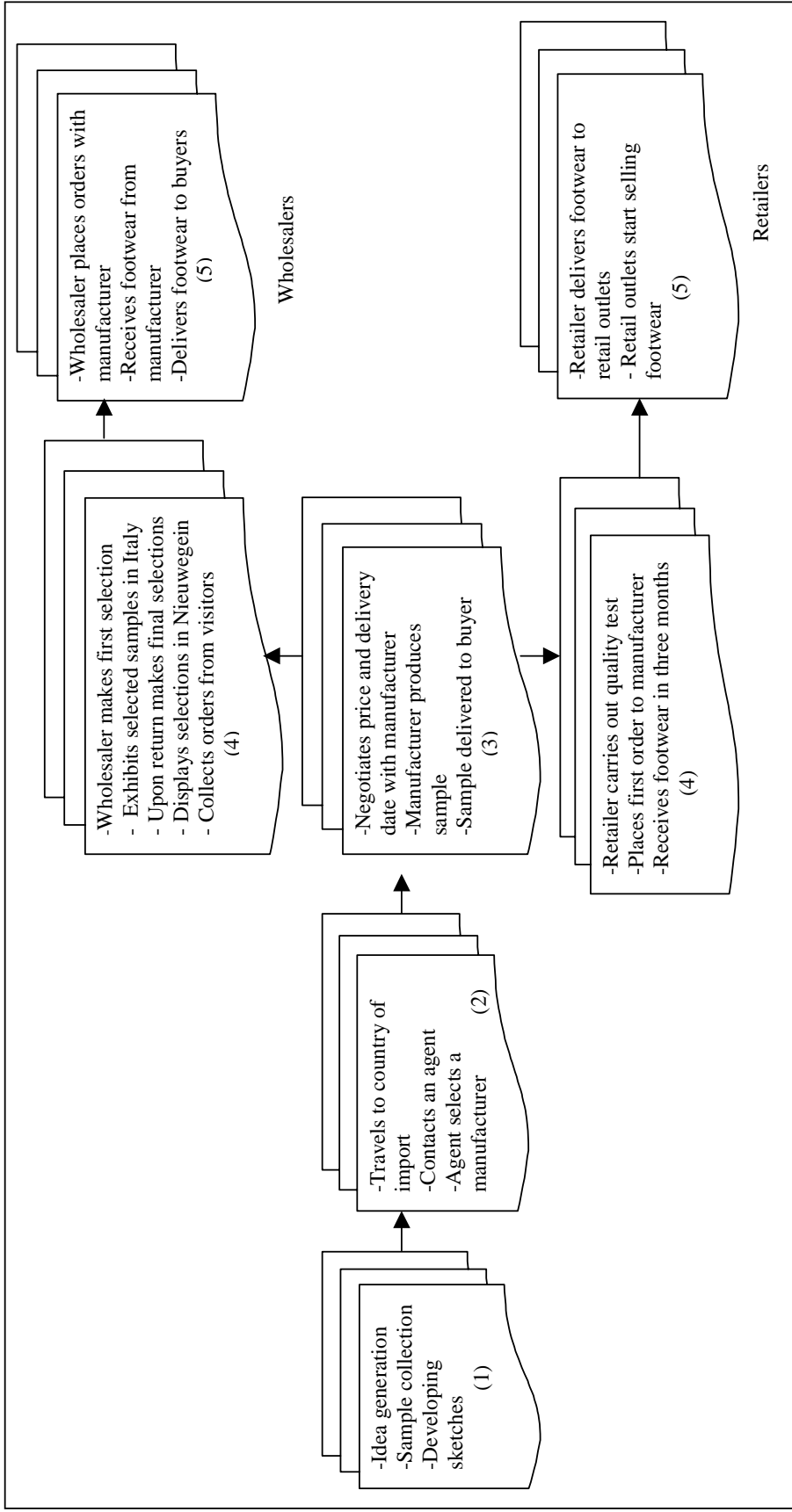
a wrong manufacturer might be selected. Even if we assume that the wholesaler finds the right manufacturer it takes time to build trust and conduct real business.

The need for security is influenced by the fashion sensitivity of the footwear. Fashion sensitive footwear requires more buyer seller interaction. For wholesalers such as Eegim shoe, which sells in the fashion sensitive segment of the market, security is much more important than flexibility. However, wholesaler and retailers do not want to close the door on flexibility. Established business relationships can be terminated due to controllable and uncontrollable factors. By controllable factors we mean a poor performance on the part of the manufacturer in relation to product quality, price or delivery time and small size of order. Uncontrollable factors are economic and political changes in the countries from which the wholesaler imports the footwear such as civil unrest, exchange rate volatility and other political problems. For instance, when the dollar was appreciating against the euro in late 2000, Comforta shifted its purchases from South-east Asia to Spain and Portugal. To accommodate the need for flexibility wholesalers prefer order-based, long-term business relationships with manufacturers. They are not interested in subcontracting and joint venture agreements. Table 6.5 summarises fourteen important elements of business relationships identified in the cases under study.

Organisation of the import and sales function

Wholesalers and retailers in the Netherlands import footwear mainly from manufacturers in South-east Asia. While the big retailers import footwear themselves, the small retailers buy footwear from wholesalers located in the Netherlands. The wholesalers are highly specialised in the import business. They have departments responsible for market research, product design and purchase. However, footwear wholesalers sometimes contract out the aforementioned services. In the purchasing process depicted in Figure 6.1, stages 1-3 are common to both wholesalers and retailers. They conduct the market research, develop the footwear design, travel to the import market, and negotiate on sample delivery time and price. The wholesalers exhibit the samples in trade fairs in Milan and Nieuwegein. This is done mainly to find buyers and get feedback from visitors. The wholesalers place orders with the manufacturers after they have secured orders from their customers in the Netherlands and other European countries. The retailers receive the samples and make sure that the samples meet the specifications. If the results are positive the retailers place orders with the manufacturers. In this case the manufacturers in South-east Asia are highly dependent on the orders from wholesalers and retailers. The study reveals that the traditional marketing chain logic that gives a great deal of power to the manufacturer does not work in the footwear market. Manufacturers have limited power to influence the decisions of wholesalers and retailers. In fact what can be seen is that the footwear manufacturers are highly dependent on the wholesalers and retailers in the Netherlands for up to date footwear design and orders. After the footwear arrives in the Netherlands the wholesalers pass it to the customer who previously placed orders. In turn the retailers distribute the footwear to their retail outlets (see Figure 6.1). The retailers also buy footwear from wholesalers. The wholesalers conduct a detailed market study and the footwear design they develop is superior in quality. To compete with retailers in the Netherlands who buy footwear from the wholesalers, the big retailers reserve some percentage of their purchases for the wholesalers.

Figure 6.1 Import procedures followed by footwear wholesalers and retailers in the Netherlands



(Source: Market research 2000)

Competition

Competition in the Netherlands footwear market is intense. Three factors determine the competition in the footwear business in the Netherlands. These are cost, design and business network relationships with customers. The large importers enjoy low-cost advantages due to economies of scale. Eegim shoe imports large quantities of footwear through its import office in Taiwan. Wholesalers and retailers who develop a good footwear design have a better market. To keep their competitive strength through exclusive superior footwear design, wholesalers and retailers ask the manufacturers for exclusivity. However, exclusivity is related to the nature of the market segment the firm is dealing with. The higher-class customers are more interested in uniqueness than price. The retail outlets that sell to this segment are sensitive to fashion. To satisfy the high fashion requirements by their customers, retailers such as Hoogenbosch ask manufacturers for exclusivity. Nevertheless, retailers like Scapino who deal in the fashion insensitive footwear segment also ask for exclusivity. Scapino asks for exclusivity to make sure that the footwear that it has purchased does not fall in to the hands of its competitors at least for a short period of time. The main factor that influences the manufacturer's decision whether to accept the request for exclusivity is the size of the order placed by the buyer. If the order is large it can justify the cost of sample development and the manufacturing cost so that the manufacturer can accept the request.

Footwear buying organisations such as Garant Schuh and EuroHolland give power to their members to negotiate with manufacturers. This also helps them to compete with larger multiple chains. They work to build trust between buyers and suppliers in the sense that the suppliers know they will get their money from Garant Schuh and Euro-Holland. The companies reduce the administrative cost of the shop owners by handling the documentation and payment functions. However, the footwear buying organisations do not have direct business relationships with manufacturers outside Europe. The reason for only dealing with wholesalers and agents located in Europe is their limited personnel, financial capacity and the volume of their turnover. The strong business network relationship between the Netherlands wholesalers and their customers can be a barrier to newcomers.

Trust and opportunism

The interview results show that the business relationships with the manufacturers in South-east Asia are based on trust. In the footwear business there are at least three stages where trust is important. When the footwear wholesaler or retailer is introduced to the manufacturer, when the manufacturer commences production and when the goods are shipped to the Netherlands. When the wholesaler or retailer is introduced to the manufacturer the former has to make sure that the manufacturer has the competence to produce the footwear according to the specifications (competence trust). This concerns the sharing of information about the type of machines, production capacity, knowledge of employees and business experiences of the manufacturer. If the wholesaler or retailer is convinced that the manufacturer can do it, he gives the manufacturer a design to make a sample for him. If the samples meet the specifications the wholesaler or retailer places an order with the manufacturer. This is possible when the wholesaler or retailer pays the manufacturer some money to buy materials.

At least two factors restrict the opportunist behaviour of footwear manufacturers. These are the large volume of business and the risk of losing reputation. The orders placed by the wholesalers or retailers in the Netherlands to the manufacturers in South-east Asia are very large and most manufacturers cannot afford to lose that business opportunity. If the

Table 6.5 Summary of fourteen elements of business relationships identified in the cases under study

Description	Wholesalers			Buying organisations			Retailers	
	Comforta	Eegim Shoe	EuroHolland	Garant Schuh	Scapino	Hoogenbosch		
Previous business relationship	Important	Important	Important	Important	Important	Important		
Importance of trust in the business relationship development process	Very important	Very important	Very important	Very important	Very important	Very important		Very important
Presence of agents in the exporting country	Important	Important	Not important	Not important	Important	Important		Important
Design produced by the buyer	Very important	Very important	Not important	Not important	Not important	Not important		Very important
Sample exhibition before placing an order	Very important	Very important	Important	Important	Not important	Not important		Not important
Need for security	Very important	Very important	Very important	Very important	Very important	Very important		Very important
Need for flexibility	Moderately important	Moderately important	Moderately important	Moderately important	Important	Important		Important
Subcontracting agreements	Not important	Not important	Not important	Not important	Not important	Not important		Not important
Joint venture agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important		Not important
Flexible supply contracts	Very important	Very important	Very important	Very important	Very important	Very important		Very important
Form of business establishment	Private limited company	Private limited company	Association	Association	Private limited company	Private limited company		Private limited company
Source of capital for establishing the organisation	Private capital	Private capital	Shares	Shares	Private capital	Private capital		Private capital
Source of revenue for the organisation	Profit	Profit	Commission	Commission	Profit	Profit		Profit
Exclusivity of supply to the buyer	Important	Important	Moderately important	Moderately important	Not important	Not important		Very important
Willingness to establish direct business relationship with footwear manufacturers in Eritrea	Yes	Yes	No (Indirect)	No (Indirect)	Yes	Yes		Yes

(Source: Extracted from the interviews)

manufacturer deceives a particular wholesaler the business relationship normally breaks down. Moreover, information travels fast among the wholesalers and retailers. Consequently, to keep the business going and preserve their reputation manufacturers usually try to fulfil their obligations. According to the managers in the wholesale and retail organisations in the Netherlands, most of the time a dispute with the manufacturer arises when the samples do not match the order. This is mainly because the manufacturers spend a lot of time and energy in producing good samples but do not have sufficient capacity to translate the sample into a large volume identical to the sample.

Contract enforcing mechanisms (conflict resolution)

The footwear importers in the Netherlands regard legal proceedings as expensive and prefer to avoid conflicts with manufacturers. When disagreements arise they develop internal mechanisms to solve them. The wholesaler or retailer expresses his dissatisfaction and asks for compensation such as price discounts or extra time to display the products in his/her retail outlets. This shows that disputes are settled through internal mechanisms in the business relationships.

Enforcing formal contracts between the retailer and the manufacturer takes time and costs money. In the Netherlands buying organisations, agents, banks and courts of arbitration play a role in enforcing contracts whenever necessary. Buying organisations give a guarantee of payment to the manufacturer for any transaction concluded with their members. Fourteen days after shipping the manufacturer can claim his money from the buying organisations. When a dispute between the importer and the manufacturer arises the buying organisations often mediate between the two parties.

Finally, banks play a role in the contract enforcement process as they check the bill of lading and inspection and insurance documents when the manufacturer claims payment. When the aforementioned contract mechanisms do not work the importer and manufacturer can go to courts of arbitration. However, the interview results show that disputes are often settled through negotiations.

Market requirements

The requirements of the Dutch footwear market vary with the stage of the import process. Accordingly five stages has been identified (Table 6.6). These are establishing a first contact, sample production, first order, second order and payment terms. The orders are split into first and second because the requirements vary considerably. A first contact between the manufacturer (seller) and the importer (wholesalers and retailers) can be established in two ways. Firstly, the manufacturer can take the initiative and show the manufacturer a sample. The sample can also be sent to the buyer through the Chamber of Commerce or by advertising in CBI bulleting. Secondly, the buyers can take an initiative and visit the manufacturing site. However, for the buyer to travel to the import market, he needs to have sufficient information about the state of footwear manufacturing in that country. When the first contact has been established and the buyer is convinced that the manufacturer has the required competence trial sample production can start. Nevertheless, for the business relationship to strengthen the buyer requires an agent in the import market who takes care of agency functions on his behalf. Due to the tax advantage footwear importers in the Netherlands prefer to import footwear from manufacturers located in countries that are entitled to benefit from the Lome Convention and General System of Preferences (GSP).

Table 6.6 Requirements of the Dutch footwear market

Stage of the buyer seller relationship	Footwear wholesaler and retailer requirements
Stage 1. <i>Establishing the first contact</i>	<p>Sellers initiative</p> <ul style="list-style-type: none"> ■ Footwear manufacturer in Eritrea approaches a wholesaler or retailer in the Netherlands and shows him a sample. ■ Footwear manufacturer in Eritrea makes a sales offer announcement in the CBI bulletin. ■ Chamber of Commerce or Ministry of Trade in Eritrea organises a footwear exhibition in Eritrea and invites wholesalers and retailers in Europe. <p>Buyers (Importers) initiative</p> <ul style="list-style-type: none"> ■ Footwear wholesaler or retailer in the Netherlands asks embassies of Eritrea in Europe for information about footwear manufacturing in Eritrea. ■ Footwear wholesaler or retailer in the Netherlands contacts manufacturers in Eritrea for information related to types of products, production capacity, and experience in exporting. ■ Footwear wholesaler or retailer in the Netherlands visits the footwear manufacturers' outlets in Eritrea to have first hand information on the status of footwear manufacturing and possible signing of a supply contract. ■ Footwear wholesaler or retailer in the Netherlands meets Eritrean manufacturer in Trade fairs.
Stage 2. <i>Sample production</i>	<ul style="list-style-type: none"> ■ Footwear manufacturer's willingness to produce free samples according to wholesalers' or retailers' specification, to deliver on time and to accommodate changes on samples. ■ Footwear manufacturer's willingness to keep exclusivity of footwear produced according to a design given by the footwear wholesaler or retailer. ■ Presence of an agency organisation in Eritrea that certifies the quality of footwear and textiles produced by the manufacturer. ■ Footwear wholesaler and retailer prefer to import from a country, which is a beneficiary of the GSP agreement and Lome Convention. ■ Footwear manufacturer is expected to respect European product grading and quality standards.
Stage 3. <i>First order</i>	<ul style="list-style-type: none"> ■ Footwear manufacturer's willingness to accept small size first order usually less than 500 pairs. ■ Footwear manufacturer should have good production and fashion knowledge. ■ Footwear manufacturer (agent) should guarantee quality control procedures. ■ Footwear manufacturer should give a guarantee to deliver the footwear in three months. ■ Manufacturer has to keep the promises he made during the agreement (trust). ■ Footwear manufacturer has to accept flexible order- based business relationship. ■ Footwear manufacturer in Eritrea should offer price lower than the one offered by the current manufacturer in the Far East (to cover switching cost). ■ Availability of sea transport, airfreight in Eritrea and effective bank service. ■ First order, letter of credit.
Stage 4. <i>Second order</i>	<ul style="list-style-type: none"> ■ Footwear manufacturer's capacity to process an order up to 60, 000 pairs of footwear in three months. ■ Failure to respect delivery date by the footwear manufacturer in Eritrea results either in price discount or cancellation of contract. ■ Wholesaler or retailer has the right to return products differing from the sample. ■ Footwear manufacturer's financial capacity to finance exports. ■ Second order, cash against documents.
Stage 5. <i>Third order</i>	<ul style="list-style-type: none"> ■ Third order, open account.

(Source: Market Research 2000)

As the business relationship between the footwear importer and footwear manufacturer gets stronger the mode of payment becomes more relaxed. In the beginning the importer opens a letter of credit for the manufacturer. However, to avoid the costs incurred in opening a letter of credit the payment for the second order is made via cash against documents. Finally, starting with the third order the payment is made through an open account.

6.2.5 Conclusion

The discussion above indicates that there is indeed a business opportunity and room for a long-term business network relationship between footwear importers (wholesalers and retailers) in the Netherlands and footwear manufacturers in Eritrea. However, before they would enter into any business network relationship the footwear retailers and wholesalers in the Netherlands would need to know the Eritrean footwear manufacturer well. They would require information about the type of footwear the manufacturer is producing, his production capacity, the type of machinery in use, his financial capacity to finance exports and above all his honesty. To sum up, the following conclusion can be drawn:

-The evidence from the case studies shows that there is a business opportunity for the Eritrean footwear manufacturers in the Netherlands footwear market. All the footwear wholesalers and retailers studied are willing to establish an order-based business network relationship with footwear wholesalers and retailers in Eritrea. However, the success of the business network relationship would be highly dependent on the competence of the Eritrean footwear manufacturers.

-The presence of an agency organisation in Eritrea is critical in establishing a business network relationship and to develop trust between the footwear manufacturers in Eritrea and footwear wholesalers and retailers in the Netherlands.

-As a general rule footwear wholesalers and retailers in the Netherlands do not want to enter into subcontracting and joint venture agreements with manufacturers in developing countries.

-A business network relationship with footwear buying organisations in the Netherlands is possible through wholesalers or agents located in Europe.

6.3 The Netherlands Textiles Market

The textiles market in the Netherlands is classified into five product groups. These are fibres and yarns, garment and clothing fabrics, sanitary articles, carpets and floor coverings and household and furnishing textiles. In this section attention will be paid to the garment and fabric sub-sector, which includes the potential exportable products in Eritrea: T-shirts, sweaters and clothing fabrics.

The garment market in the Netherlands is classified into casual wear and leisurewear. Casual wear includes outerwear and sportswear for men and women, unless otherwise specified. Outerwear for women includes blouses/shirts, dresses, knitwear (both conventional and casual) skirts and suits of all types, trousers/jeans and shorts, jackets, coats and rainwear. Outerwear for men includes shirts of all types, knitwear, trousers/jeans, shorts, suits of all types, jackets and coats. Knitwear for men and women includes T-shirts, jerseys, sweaters, pullovers and polo shirts. Moreover, the following products are classified as basic leisurewear: denim trousers and jackets, T-shirts and polos, shorts, and sweaters. T-shirts for

both sexes are mostly classified as underwear. It has to be noted that these garments can be used for many purposes. Functions vary from use as underwear, especially in the winter months, to use as outerwear for sports- and nightwear. About 90 % of the T-shirts imported to the Netherlands are made of cotton (CBI, 1998). An increasing share of T-shirts came from outside the EU (81 percent in 1998). About 64 million items or 58 percent of total imports came from developing countries, of which Bangladesh accounts for 28 % (25 million units). T-shirts and sweaters are among the most important product groups in the knitted sector imported by the Netherlands (Eurostat, 1996).

The ten leading suppliers of casual knitwear in terms of weight to the Netherlands were: Bangladesh (12.4%), followed by Turkey (10.0%), Hong Kong (6.7%) and Germany (6.1%). India, Indonesia, Italy, Belgium, China and Portugal make a total of 28.9 %. In total 64 % of all imports into the Netherlands came from these 10 countries (CBI, 1996). Fabrics are one group of textiles exported to the Netherlands. The name of a fabric is associated with the name of the fibre. Woven fabrics, knitted fabrics and non-woven fabrics are made from textile fibres. The fibres can be divided into those made from natural sources and those made from man-made sources. The generic names of natural fibres are cotton, wool, silk or flax. The generic name of man-made fibres refers to the chemical group. Eritrean textiles manufacturers make fabrics out of cotton. Cotton is put to a wide range of uses, such as underwear, blouses, T-shirts, dresses, suits etc. The import of fabrics in the Netherlands is about 3.5 times higher than the national production (Ibid.). The total import of fabrics into the Netherlands in 1996 was about 56.5 million tons in volume or 566 mln ECU in value (Eurostat, 1996).

Table 6.7 Imports of total outerwear in the Netherlands by area of origin, in terms of volume and average import prices 1998-2000

	1998		1999		2000		% Change in volume 1998-2000
	Mln Units	Average price in US\$	Mln Units	Average price in US\$	Mln Units	Average price in US\$	
Total	512	8.93	541	8.21	608	6.74	18.8%
Of which from							
Other EU countries	113	15.05	122	12.55	103	11.72	-8.8%
Developing countries	301	6.39	319	6.08	403	5.05	+33.9%
Other countries	98	10.94	100	9.62	102	8.37	+4.1%

(Source: Eurostat in CBI, 2001)

Wholesalers, buying organisations and retailers are active in the Netherlands textiles market. The largest wholesales in the Netherlands are Teidem BV/Doancawear, Leisure Textiles, Susan Fashion, and Vadotex. The textiles buying organisations in the Netherlands are Intres, Euretco, Centurion, Deco and Hadac. Retailers active in the Netherlands market are independent clothing and sports speciality shops, clothing multiples, department stores, and other small retailers. The clothing and sports speciality shops account for 32 % of the market share. The important speciality shops in the Netherlands are Hunkemoller, Livera, and Lindessa.

Multiples or chain stores operate different chains of shops for specific consumer groups from medium price fashion textiles to cheap discount outlets. Multiple chain stores account for more than 34 % of the Netherlands textiles market. Discounters operate at the lower segment of the market. The clothing multiples group comprises retailers such as, C&A, Hennes &

Mauritz, Peek & Cloppenburg, Zeeman, Wibra, Hans Textile, Scholtens, Bentex and Henk ten Hoor. Department stores provide the customer with an opportunity of buying a wide range of products under one roof. Well-known department stores include Vroom and Dreesman (V&D) and De Bijenkorf which have about 10 % of the market share. While independent retailers account for 32 %, mail order, hyper- and supermarkets and others account for 24 %. Table 6.8 gives an overview of how the consumer is reached in several major EU member states. Finally, it is worthwhile noting that the tariffs, grading standards and environment regulations discussed in the footwear subsection also apply to the textiles market.

Table 6.8 Types of retail channels by market share (in % of value) in major EU countries, 2000.

Country	Clothing multiples 1)	Independent retailers	Department & Variety stores	Mail- order	Hyper- and super- markets	Sports stores	Other 2)	Total
Germany	29	29	12	13	5	6	6	100
United Kingdom	32	14	28	10	3	8	5	100
Italy	16	54	6	3	11	4	6	100
France	34	26	6	8	15	5	6	100
The Netherlands	34	32	10	5	6	4	9	100
Spain	18	43	14	3	12	3	7	100

1) Including textile discounters and value retailers 2) including street markets. (Source: Eurostat in CBI, 2001)

6.3.1 Textiles wholesalers

The interview results from two textiles wholesalers, Susan Fashion and Vadotex that import textiles mainly from developing countries are presented in this subsection.

Susan Fashion

Susan Fashion is a branch of the B-H (Belgium and Holland) group BV. The B-H Group has a long history as a textiles organisation. Susan Fashion merged with the group in 1967. At present, Susan Fashion is the branch that sells fashion and fabrics to customers all over Europe and it is specialised in garments such as T-shirts, underwear and leisurewear for ladies, men and children. According to the purchasing manager, specialisation is important for selling textiles in Europe as it saves time consumers spend in looking for a shop that sells the textiles they want to buy.

Susan Fashion was established in 1892 as an agency company. Its main business was to create a link between fabric manufacturers in Greece and buyers in Europe. Fifteen years ago, the purchasing manager of the company travelled to Bangladesh to see if there were textile manufactures that wanted to sell textiles through an agent based in Europe. However, the purchasing manager decided to buy textiles directly from Bangladesh and sell them in Europe. Currently Susan Fashion's business is divided into agency (5%) and wholesale (95%).

When asked how his company selects the textiles manufacturers it wants to represent in Europe, the purchasing manager said, *"First, Susan Fashion writes a letter to foreign embassies in Europe asking for information about the status of textiles manufacturing in the respective countries. The letter includes a request for the name and addresses of the textiles manufacturers in each country. Based on this information, Susan Fashion writes a letter to the manufacturers asking if they need an agent to link them to buyers in Europe. If the response is positive, Susan Fashion requests the manufacturers to send information about the*

type of products they produce, their production capacity and if they have export experience.” According to the purchasing manager the communication between Susan Fashion and the manufacturers can go on for months before they make any real contractual agreement. If Susan Fashion is convinced that there is an opportunity of conducting business with the manufacturers, the purchasing manager travels to meet the manufacturers and to verify the information. If things go well, there are two alternatives: he can either sign an agency contract or decide to buy some of the products.

Before Susan Fashion enters into an agency contract, it requests the manufacturers to fulfil some preconditions. These are, firstly, that the production capacity should generate a reasonable amount of commission, about \$ 50,000 per three months. Susan Fashion's commission rate is 5%. Secondly, the manufacturer should have several product lines. The last requirement is that there should be at least six manufacturers in the same country. Susan Fashion offers market information and product designs to its clients. Design expenses are shared as follows: (1) Susan Fashion sends the invoice directly to the manufacturers to pay the bill or (2) both the manufacturer and the agent share the cost fifty-fifty. He also said, *“If the volume of business is large the design cost is immaterial. For that reason the agent takes care of it.”* When asked if his company has an interest in diversifying into production through subcontracting or a joint venture, he said, *“We prefer to remain as an agent and a wholesaler because Susan Fashion is better in marketing than production.”* Some of the retailers who buy textiles from Susan Fashion are Hema, V&D and Aldi. During the interview the purchasing manager mentioned that Susan Fashion is ready to start communicating with textiles manufacturers in Eritrea.

Vadotex

Vadotex is a textiles wholesale company located in Maastricht, the Netherlands. Vadotex B.V. was established in 1979 as a division of the Van Dooren Trading Company. It has been an independent entity since 1987 and employs 20 persons. The activity of the organisation consists of designing, importing and distributing night and leisurewear. The company's main import markets are Turkey, Bangladesh, India and China. The purchasing process of Vadotex is similar to the one adopted by Susan Fashion. Vadotex makes collections and exhibits the samples to its customers. The customers place orders with Vadotex which Vadotex then passes to the manufacturer. The manufacturer delivers the goods to Vadotex and ultimately Vadotex sends the goods to the buyer.

Normally Vadotex does not handle stocks. However, it does maintain a small stock in case the buyer's order is less than the manufacturer's requirement. Vadotex sells the textiles to Benelux countries (40%), Germany (25%), France (25%), and others (Denmark, Italy, Spain, the Czech Republic, and Greece) in total 10%. In all cases Vadotex buys the textiles through agents located in the import market. The agents are expected to recruit new suppliers, conduct quality control and monitor the order. The agent has to send the final inspection report to Vadotex before each shipment. He is also required to send, preferably by mail, a detailed weekly status report on all orders monitored by him. Furthermore, the agent has to deliver information concerning developments in local currency rates, duty drawbacks, quota charges, civil unrest and recruitment of new manufacturers. A manufacturer identified by an agent can only deal with Vadotex through the agent. All communication of Vadotex with the manufacturer passes through the agent. The general manager said, *“Vadotex follows this strategy because it is important to build trust between the buyer, agent and manufacturer.”*

When asked how his company/agent selects manufacturers, he said, “*Vadotex prefers to deal with medium sized family-owned manufacturing firms. Owners often run these firms and the manager is always at the company. In this situation communication is easy. We also prefer to deal with manufacturers that have long experience with garment manufacturing and exporting to European markets. Moreover, a manufacturer should have the capacity to execute orders up to 60,000 pieces.*” To establish the first contact with agents and manufacturers Vadotex uses information from the CBI, embassies, Chambers of Commerce and suppliers it already knows. The general manager also mentioned that it could take a year before the buyer and the manufacturer make profits.

The general manager also reported that his company believes in long-term business relationships with manufacturers based on mutual trust and respect. He said, “*Business in some seasons can be high and in some seasons can be low, but we want the business relationship to continue even during that kind of situation.*” According to the general manager his company believes that by communicating properly and responding fast to new market developments, all parties that are part of the chain (manufacturer-buyer’s agent-buyer-consumer) can benefit.

When asked how his company creates a balance between security and flexibility in dealing with its suppliers, he said, “*The more you change agents and manufacturers the higher the risk of selecting the wrong agent or manufacturer. However, this is the risk that we have to take. We sacrifice some security to be flexible. To minimise the risk of security we always recruit two or three manufacturers in one country. We continue to develop relationships with all of them. If something is wrong with one of them we go to the other.*” In response to the question whether his company had a plan to diversify into production, he said that despite its long-term business relationship with some manufacturers his company does not have any plans to enter into subcontracting or joint venture relationships with manufacturers.

Vadotex uses letters of credit, cash against documents and open accounts to pay manufacturers. For orders placed in the first year of contact Vadotex opens a letter of credit. Afterwards the manufacturers are required to work on terms of cash against documents or open accounts. Open accounts are used when the business relationship has become strong. Small orders (with value less than US\$ 2000) are paid on open account basis and payment is made five days after the delivery of the goods to Vadotex’s warehouse. When asked what his company would do if the supplier shipped inferior textiles and took his money from a bank because a letter of credit had already been opened, the general manager said, “*The important thing in business relationships is trust. If there is no trust between the parties, the written contracts have a lot of loopholes that either party can use to deceive the other. To answer your question directly we would lose the money but we would not have any kind of business relationship with the manufacturer in the future.*” The general manager mentioned that worse than this the manufacturer and the agent sometimes co-operated to take money from the buyer. They do this by pretending that they were shipping the required goods to the buyer while in practice they shipped a completely different, inferior product.

According to the general manager, a good manufacturer tells the truth. This way the importer can understand and consider the problems of the manufacturer and a business relationship can develop. He said, “*A few months ago a manufacturer from Bangladesh told us he would be shipping the textiles after a week. Two months later he told us the same story. This is something that we do not accept. Because not only are we losing the goods but our programme is also being disrupted. If he had told us he could not deliver the goods in two*

months we would have told our customers to wait for some time.” To avoid any complications in solving problems Vadotex asks the manufacturers to agree to a clause that states, *“In case of dispute the Netherlands court will be entitled to solve the problem”* so that Netherlands law applies.

Finally, in response to the question what his answer would be if a manufacturer from Eritrea told him he could produce and supply the type of textiles his company wants to have, he said, *“ My first question to him would be to explain what is the unique advantage that should drive me to Eritrea. Subsequently I would want information about his machines, production capacity and the types of products he makes and his lead-time. If it seemed OK I could give him samples to produce for me.”* Before contracts are signed, Vadotex gives agents and manufacturers detailed information about the rules and regulations under which it works. Contracts are signed if they agree with these rules and regulations.

6.3.2 Textiles buying organisations

This sub-section describes the results of the interview conducted with two buying organisations in the Netherlands: Intres and Centurion.

Intres

The name Intres is an abbreviation of International Retail Support Services. Intres is a textiles buying organisation established in 1996. However, its history dates back to the 1950's and 1960's. It emerged as a merger among small textiles buying co-operatives that represented retail shops in the Netherlands. The idea of the merger was to obtain a better quality, better price and better services. Intres represents 2200 textiles retail shops in the Netherlands. The company is organised as a share company with the value of one share being \$ 4000. The company employs 350 persons and its member shops have a total annual turnover of about \$600 mln.

Intres imports textiles on behalf of its members. Some textiles are also kept in stock on the assumption that members may need the products some time in the future. Intres adds its operating cost and a certain profit margin to the product price. The Intres product price is a manufacturer CIF price plus operating cost and profit margin. Any profit generated by the company is distributed to the members as dividend. Intres tries to avoid any use of agents in the import market. When asked why his company prefers to avoid agents, the buying manager replied, *“Agents cost money and sometimes their services are not satisfactory. To minimise our costs and avoid any uncertainty we prefer to deal directly with producers. To check the quality of the products we employ an inspection institution like SGS¹¹.”* Intres prefers to employ an international inspection organisation like SGS. According to the buying manager, SGS has a more comprehensive knowledge of the washing standards, shrinkage, weight and detergents used in Europe than the local agents in the foreign market.

Intres has legal experts, marketing specialists and designers. It offers services to its members on shop design, taxation, promotion and legal matters. The company has two types of members. The first group consists of independent textiles retail shops that use their own business name. The second group consists of franchise shops. The franchise shops use names such as Livera, Jambelle, and Duthler. In 1999, Livera had 33.7 % of the Netherlands ladies

¹¹ SGS is a Geneva based company engaged in the field of inspection, testing, analysis and certification. It has representatives in more than 140 countries and employs about 40,000 people.

underwear market. In the franchising agreement Intres requires its members to have a computer link to the Intres mainframe computers. This is in order to facilitate the flow of information between the shops and Intres. The main import markets of the company are Portugal, Italy (high quality products), Turkey, India (cotton knitwear) and China.

The Intres purchasing process starts with collection of ideas. The trend watcher, mostly someone from the styling department, gathers ideas about the fashion trend for the next year. The ideas are collected from trade fairs, manufacturers and members. The design department prepares a design from the ideas. A group of marketing specialists and some selected members discuss the feasibility of the sketches and makes a selection. The buyer takes the designs to manufacturers in South-East Asia and concludes an agreement with the manufacturers to produce a sample. After the sample has been shipped to the Netherlands the company invites its members to its exhibition room to view the textiles. The members make their selection and ask Intres to place orders. However, there are situations where Intres places an order before the samples are displayed in the exhibition room. This happens when Intres thinks it is going to be too late to place orders after the exhibition. Sometimes the company buys raw materials in one country and contracts productions in another. However, the buying manager reported that such cases were very rare. Intres uses payment against documents.

When asked what his response would be if a textile manufacturer from Eritrea came to his office and told him he could make and supply T-shirts, sweaters and fabrics that could be interesting to the members of Intres, he replied “ *We have long-term business relationships with our customers in South-east Asia. It took us a lot of time and energy to understand each other. If we were going to shift to Eritrea, there would have to be a clear gain that would justify our switching cost. The textiles manufacturers in Eritrea would have to show us what they are doing.*”

Centurion

Centurion is an association of 130 textiles retailers in the Netherlands. The retailers own a total of 170 shops. It was established in 1932 and currently employs 18 people. The purpose of the association is to give the small textiles retailers the power to compete with multiple chains. The power comes mostly from the payment arrangement made with suppliers and sometimes from the combined volume of purchases. Centurion pays suppliers within ten days after delivery. The company operates in the ladies medium and higher segment and in the men's textiles segment. The textiles purchased by the association or its members are mainly suits, trousers, jackets, T-shirts and pullovers. Often members buy themselves, however, Centurion also buys for its members in two ways.

The first alternative is used when the combined orders from members are large enough to negotiate discounts from suppliers. When the discount is substantial Centurion uses its own private label. The goods are delivered directly to Centurion and members take the goods from its warehouse. When asked why suppliers give more discounts if Centurion uses its own private label, the purchasing manager said, “*Manufacturers work for many buyers. It is advantageous for them to have additional orders with private labels even with a small profit margin. Additional orders allow manufacturers to work at full production capacity. If they manage to get a certain order level they can work for the rest at variable costs.*” Centurion does not make any profit or hold stock. It is registered as an association and does not pay

taxes. Centurion takes commission from the members and the suppliers in order to cover all expenses.

In the second case converters are used. First collections of samples from fairs, magazines and shops are made. A committee of some Centurion staff and retailers looks at the collections and makes a choice. After the selection has been made the committee decides on two alternatives. These are (1) whether to buy a garment or (2) to sign a conversion contract with manufacturers. The decision depends on the respective cost of each alternative. In order to reach a final decision the committee has to analyse factors such as the availability and cost of the fabric, the lead-time of the manufacturer and the cost of conversion. If the materials used to make the garment can be found easily and at a cheaper price Centurion chooses for conversion. Centurion purchases the materials and sends them to converters in Hong Kong and Portugal. An agent in both countries supervises the conversion process. In this case Centurion adds its cost and a certain risk margin to the final price. It also pays a 5 % commission to the agents located in Hong Kong and Portugal.

Centurion also deals with suppliers outside Europe through wholesalers and agents located in Europe. The purchasing manager explained this as follows: *“We are a small company. Our orders do not justify the cost that we would have to incur in travelling abroad. Despite the higher price that we have to pay, we prefer to deal with agents and wholesalers in Europe.”* Sometimes Centurion buys textiles from suppliers who made an offer. It prepares exhibitions five times a year. The suppliers that made an offer can participate in the exhibition in person. However, they can also send their textiles and Centurion can do the exhibition for them. If the suppliers are present at the exhibition members place orders with them directly.

Centurion makes payment in two ways. These are (1) letter of credit and (2) cash against documents. A letter of credit is used in the case of conversion. Cash against documents is used when Centurion or its members buy ready-made textiles. When asked how his company contacts and selects suppliers, the purchasing manager said, *“ We have been in this business for more than a century. We know many agents and manufacturers in Europe. We have a long-term working relationship with most of them. So we do not have any problem in contacting agents or manufacturers in Europe.”* The purchasing manager stressed the importance of trust between the buyer and the seller in the textiles business. He said, *“A piece of paper is like a patient. You can put so many things in it...the important thing is building confidence between the buyer and the seller.”* When asked how his association and its members maintain a balance between security and flexibility, he said *“Our association deals with limited number of suppliers and we do not change suppliers much.”*

Finally, when asked what his answer would be if a manufacturer from Eritrea told him that he could produce and supply the kind of suit his members want to have, he said, *“...it would be difficult for us to go to Eritrea and sign a conversion contract with the manufacturers, unless there was a unique advantage the Eritrean textile manufacturers could give us. However, we are ready to work with wholesalers located in Europe who buy textiles from manufactures in Eritrea and sell them in Europe.”*

6.3.3 Textile retailers

The results of the interview carried out with the buying departments of two large multiple chains and department stores in the Netherlands, Zeeman and Hans textile, are presented here.

Zeeman Group

Zeeman group is a textiles retail company, which was established by Jan Zeeman in 1967. The company has a total of 560 retail outlets in the Netherlands, Belgium, Germany and France. The head office of the company is located in Alphen aan de Rijn, the Netherlands, the town where Jan Zeeman opened his first textiles supermarket 33 years ago. Currently the company employs 4000 persons and has an annual turn over of approximately \$ 240 mln. A board of directors administers the company.

The aim of the company is to offer affordable household textiles and clothing to its middle and lower class customers. The philosophy of the company is, “ *Let the consumer choose from a complete range, and offer the best possible quality at the lowest price.*” The key factors that allow Zeeman to offer customers good quality textiles at the lowest possible price is its centralised bulk buying and efficient logistics. Prices are kept low due to the enormous quantities that the Zeeman group purchases for its Zeeman textiles supers. The company has a sound logistic basis. It owns a fleet of trucks that make deliveries to the stores. Each of the stores is visited three times a week. Instead of returning to the distribution centre in Alphen aan de Rijn empty the trucks collect out of season items, packaging material and waste from the stores. This way the trucks are idle for short periods only.

Zeeman’s major textile suppliers are found in China, Indonesia, Pakistan, India, Bangladesh and the Philippines. Zeeman Supermarkets sell children’s, ladies’ and men’s underwear and outerwear. The supermarkets carry a wide range of textiles but are not necessarily sensitive to fashion. Zeeman purchases its supplies in two ways. These are: 1) textiles purchased from suppliers who made an offer to the company 2) textiles purchased from manufacturers according to design specifications prepared and communicated by Zeeman.

The first purchasing strategy refers to the textiles purchased by Zeeman from suppliers who make an offer. According to the purchasing head of Zeeman, many agents, wholesalers and manufacturers come to the company and offer a sample of a product they would like to sell. Concerning these offers the purchasing head said, “ *If we find the quality and price of the product acceptable to our middle and lower class consumers, we place an order. Normally we place up to ten orders at the same time. The first order has two objectives. It serves as a testing mechanism to see if the supplier has the capacity to supply the product. It helps us to see if the product has a demand in the market. If the supplier keeps his promise and the demand in the market is encouraging we continue to place orders.*” However, the purchasing head mentioned that this purchasing strategy consumes much of her time and sometimes discourages some suppliers who make an offer to her company. She said, “ *The major problem is that most of the suppliers who make an offer to us do not know what type of company we are, the type of products we sell and most importantly they do not know the profile of our customers. Sometimes they come with a high quality standard product, which is out of the price and quality range of our customers. When we tell them we cannot buy the product they are astonished.*”

To avoid the aforementioned problem, Zeeman requests suppliers to visit its supermarkets before they make any offer. This is done to give the suppliers an idea about the type of textiles sold in Zeeman supermarkets and the price range. The purchasing head believes that this strategy has a long-term advantage to suppliers because they could also get new ideas of the products they could supply to Zeeman. Moreover, the strategy saves time wasted on negotiations. This group of suppliers includes, agents, wholesalers and manufacturers in and

outside of Europe. For this group of suppliers Zeeman makes payment after receiving and inspecting the textiles. The reference used for the inspection is the sample that was given to Zeeman when the contract was signed. If there is a significant deviation of the order from the sample Zeeman does not make any payment to the supplier. In this purchasing process Zeeman requires the suppliers to keep their promises.

The purchasing head mentioned how a manufacturer from Zimbabwe failed to keep his promise. She said, “*Five years ago a manufacturer from Zimbabwe came to our company and showed us a sample of trousers that he wanted to sell to us. The quality of the product and the price were acceptable. We placed the first order and he carried it out well. Later we signed a one-year contract to purchase the product on a continuous basis. After five months he refused to supply the trousers because he was not making money out of it. For us that was the end of the business relationship.*” When asked why her company did not sue the supplier for breach of contract, she said, “*We decided not to sue him because litigation would have cost us more money than we could recover from the manufacturer. This is the main reason why we always look for reliable suppliers.*”

The second purchasing strategy is similar to the one used by Vadotex in the textiles wholesale business. The difference is that while Vadotex sells the textiles to retailers Zeeman distributes the textiles to its supermarkets. When asked if Zeeman has long-term business relationships with its suppliers, the purchasing head replied, “*We have long-term business relationships with some of our manufacturers. The longer you conduct business together, the more you know each other. This makes business simple, fast and efficient.*” In response to the question why some of the business relationships had not evolved into subcontracting or joint venture agreements, she said, “*We are retailers and we would like to continue as retailers. Besides, in a subcontracting relationship, after two or three orders the manufacturer takes the incoming orders for granted and there is less initiative to keep the quality in line with the specifications made in the agreements. We refrain from signing subcontracting or joint venture agreement with manufacturers. Rather we would prefer to have order based long-term business relationships.*”

When asked why the company does not look for opportunities in other parts of the world than South-east Asia, she replied, “*The first reason is lack of time to travel to many parts of the world. In the purchasing department we only have four staff members. We need to plan our time carefully. The second reason is that before we decide to travel to a foreign country we need enough information about the status of the textiles manufacturing in that country. For instance, the main reason why we are not buying from Africa is that we do not have many suppliers coming to our company to make an offer. Since we cannot travel to every country in the world it is useful for manufacturers to take an initiative themselves.*”

The final question posed to her was what her answer would be if a manufacturer from Eritrea approached her and made an offer to supply her company with T-shirts and sweaters. She said, “*We have a policy of soliciting new suppliers and we do not mind about the source of the textiles that are supplied to us. Our main requirement to the Eritrean supplier would be that first he would have to show us the type of product he wanted to sell to us. Second, if we found it acceptable, price and quality wise, we would place an order. But we would really need him to keep his promise to fulfil the contract that we sign. If he fulfilled the requirements we could establish a long-term business relationship.*” According to her, the European market offers many opportunities for suppliers for inexpensive good quality textiles. Her company

plans to offer European consumers between fifty and seventy new stores every year, most of which will be located in Germany, Belgium and France.

Hans Textile

Hans Textile is a textiles retail company that owns 150 retail outlets. It was established in 1960. The company is expanding rapidly and has a plan to open 15-20 retail outlets every year. It employs 1000 people and has an annual turnover of about \$ 60 mln. It operates in all segments of the textiles market and sells underwear and outerwear for children, ladies and men. Its main import markets are Bangladesh, Hong Kong, China and Pakistan. The purchasing process of the company is the same as that of Zeeman. Often, staff from the purchasing department travel to South-east Asia to fix a final deal on the quotations. According to the purchasing manager, the company has a long-term business relationship with suppliers in South-east Asia. However, this relationship continues only so long as the suppliers can offer Hans Textile a benefit that it cannot get from other manufacturers. For instance, the price offered by a manufacturer who has a long-term business relationship with Hans Textile must be competitive. When asked how the company keeps the balance between security and flexibility, the purchasing manager said, “ *The balance is determined by the performance of our manufacturers. If the manufacturer fails to keep his promises we need to be flexible. Otherwise we always prefer to work with manufacturers we already know.*”

Hans Textile uses letters of credit to pay its manufacturers who are mainly in South-east Asia. To avoid any cheating by manufacturers Hans Textile hires an agent to inspect the textiles before they are shipped to the Netherlands. When asked what his response would be if a textiles manufacturer from Eritrea came to his office and showed him textiles that could be interesting to his customers, he said” *If the textiles were good we would give him a trial order. We would not expect the Eritrean manufacturer to design a product that could be interesting for us. To avoid this problem we would give the manufacturer in Eritrea our designs and see what he could do with it. If he made a good product out of it, there would be a possibility of doing business.*”

The company experiments with two new manufacturers every year. The purchasing manager said, “ *If we think it is interesting way we do not hesitate to give new orders to starters. We have a lot of expertise in textiles and if the manufacturer can benefit from our expertise we are ready to share it with him. However, the help we offer to the manufacturers is not on a structural basis.*” He also mentioned that if textiles manufacturers in Eritrea are going to conduct business with the company they must be honest. Hans Textile distributes all the textiles through its 150 retail outlets in the Netherlands.

6.3.4 Discussions of the interview results

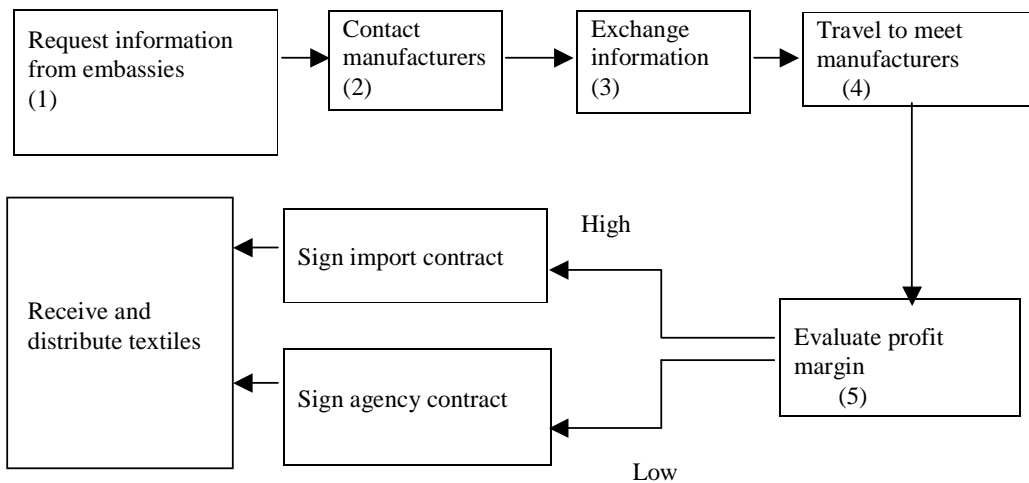
For convenience the discussion is based on the seven export market characteristics mentioned in figure 5.1. These are the buyer supplier relationship, the organisation of imports, the organisation of the sales function, competition, trust and opportunism, contract enforcement mechanisms and the requirements of the Netherlands export market. Because there is high similarity between the business practices in the footwear and textiles markets in the Netherlands the findings in the textiles market will be compared with the findings in the footwear market. The main similarities and differences between the two markets are highlighted.

Buyer and seller relationship

In support of the findings in the footwear market, the evidence in this sub-section reveals that the wholesalers, retailers and buying organisations in the Netherlands prefer to buy the textiles from manufacturers with whom they have business relationships since it avoids switching costs and gives the importer a guarantee of a continuous supply of textiles. By switching costs is meant the time and money spent on finding a new textiles manufacturer who understands the buyer's requirements. For the buyer changing a manufacturer means incurring additional cost. However, it has also been noticed that wholesalers and retailers deal with two or three manufacturers in the same country of import. This is done to mitigate the losses that might occur if a manufacturer defaults.

One difference between the footwear and textiles buyers in the Netherlands is that in the textiles market a company called Susan Fashion conducts wholesale and agency business together. The two business units give Susan Fashion the opportunity of choosing the contract that maximises its profit. If the profit margin is high Susan Fashion chooses import (Figure 6.2), otherwise it signs an agency contract. In the short run, Susan Fashion's decision to act as a wholesaler or an agent can affect the manufacturers with whom it deals, positively or negatively.

Figure 6.2 Decision process of Susan Fashion in its business relationship with manufacturers



(Source: Market research, 2000)

If Susan Fashion chooses for import it is beneficial for the manufacturer because he can sign a sales contract without delay. However, if Susan Fashion chooses for an agency contract it affects the manufacturer's prospect of establishing long-term business relationships with other wholesalers in Europe negatively. Susan Fashion is a wholesale company and other textile wholesalers in Europe could consider it as a competitor. The wholesalers know that if the offer is attractive Susan Fashion will buy the textiles for sale in Europe. This perception on the part of the wholesalers can hinder the agency function from being effective.

Organisation of imports and sales

The import and sales function in the textiles market is organised in the same way as in the footwear market. The textiles wholesalers and retailers in the Netherlands conduct market

research, design the textiles and place orders. When the textiles reach the Netherlands the wholesalers pass them to the customers who have already placed orders. However, the retailers who import the textiles themselves distribute the textiles to their retail outlets. Due to the strict requirements the textile buyers in the Netherlands place on their manufacturers in South-east Asia, highly specialised agents are employed to inspect the textiles. For instance, Intres prefers to employ an international inspection company known as SGS rather than locally based agents. This is mainly because SGS has a comprehensive knowledge of the washability and shrinkage of the textiles in Europe and the types of detergents used. Moreover, while the footwear buying organisations in the Netherlands are limited to the European market, Intres has direct contacts with textiles manufacturers in South-east Asia.

Competition

The competition in the Netherlands textiles market is mainly centred on design, price and delivery time. The design is a function of the scope and depth of the market study made by the wholesalers and retailers and the effort to transform the market information into design. Often, the wholesalers and retailers with a good design win the competition. The lower segment of the textiles market is well known for its affordable prices and unfashionable products. For that reason the importers in the Netherlands experiment with two new manufacturers every year to see if they can get a better deal.

Textiles buying organisations such as Centurion and Intres enable small retailers to compete against wholesalers and retailers. The central payment function of Centurion and Intres gives the supplier the confidence to deal with every member. Centurion and Intres also enable small retailers to get discounts from suppliers. However, the services rendered by the buying organisations to their customers differ with the financial and human resources of the organisation. The legal form of their establishment is also different. For instance, while Intres is a private limited company Centurion is an association. Accordingly while Intres can make a profit out of its operations and pays tax to the government, Centurion cannot declare a profit and does not pay any tax. Intres and Centurion also differ in the scope of their functions. Centurion administers the financial affairs of the members, links buyers with suppliers and buys textiles for its members when the supplier allows a special discount. Centurion, however, engages in a conversion process when buying fabrics and converting them into a garment is more profitable than buying a ready-made garment. The idea of conversion by Centurion is mainly designed to increase the competitiveness of its members. The conversion contract enables Centurion to cut out some of the manufacturer's and wholesaler's profit margins. Unlike other buying organisations, Intres sends staff to South-east Asia to conclude contracts with manufacturers. The financial position of Intres is strong because it generates a profit. The profit also gives Intres the financial leverage to import textiles on the assumption that members may need them some time in the future. Meeting the delivery period is an important factor that determines competitiveness in the textiles business. The type of textiles sold in a specific store is mainly dependent on the prevailing season. If a wholesaler fails to meet his delivery time the textiles can be out of season.

Table 6.9 Summary of fourteen elements of business relationships identified in the cases under study.

Item	Wholesalers			Buying organisations		Retailers	
	Susan fashion	Vadotex	Intres	Centurion	Hans Textile	Zeeman	
Previous business relationship	Important	Important	Important	Important	Important	Important	
Trust	Very important	Very important	Very important	Very important	Very important	Very important	Very important
Presence of agents in country of export (production)	Important	Important	Not important	Important	Important	Important	Important
Design production before order is placed by the buyer	Very important	Very important	Very Important	Important	Very important	Very important	Very important
Sample exhibition before placing an order	Very important	Very important	Important	Important	Not important	Not important	Not important
Need for security	Important	Very important	Very important	Very important	Very important	Very important	Very important
Need for flexibility	Very important	Moderately important	Moderately important	Moderately important	Important	Important	Important
Subcontracting agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important	Not important
Willingness to engage in joint venture agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important	Not important
Willingness to engage in flexible supply contracts with manufactures	Very important	Very important	Very important	Very important	Very important	Very important	Very important
Source of capital for establishing the organisation	Share capital	Private capital	Share capital	Share capital	Private capital	Private capital	Private capital
Form of return	Profit	Profit	Profit	Commission	Profit	Profit	Profit
Exclusivity of supply	Important	Important	Moderately important	Moderately important	Important	Important	Important
Willingness to establish direct business relationship with footwear manufacturers in Eritrea	Yes	Yes	Yes	No (Indirect)	Yes	Yes	Yes

(Source: Extracted from the interview)

Trust and opportunism

As in the footwear business trust in the textiles business develops through time. The effective accomplishment of the five stages, mentioned in Table 6.6, is the key to facilitating the trust development process between the manufacturer and the importer. What is different in the textiles market is that wholesalers such as Vadotex try to state the court and the law they would like to follow in case a dispute arises. Knowledge of rules and regulations helps the transacting parties to build contractual trust. Moreover, the effectiveness of the communication channel between the importer and the manufacturer is another factor that facilitates trust between the parties in the exchange process. Communication with small family-owned firms is faster than with the larger ones. Communication in the textiles market is important because it determines the length of time it takes before the parties are engaged in real business. If the communication is slow it could take about a year before the buyer and the manufacturer conduct any real business. To tackle this problem wholesaling companies such as Vadotex prefer to conduct business with small family-owned manufacturing firms in South-East Asia. Communication with small companies is faster because owners run the small firms and the manager is always at the company. This is also an opportunity for small and medium sized textiles manufacturers in Eritrea since owners manage most of the textiles manufacturing firms there.

On the whole the interview results with the textiles buyers in the Netherlands show that opportunism rarely occurs as the penalties are high. Often opportunist manufacturers are those who fail to continue as manufacturers of textiles. Consequently appraisal of the financial position of the manufacturer by the potential importer can help the latter to take pre-emptive action against opportunist behaviour.

Contract enforcing mechanisms (conflict resolution)

From the case studies it has been learnt that, although a sound business relationship is mainly dependent on the degree of trust between the transacting parties, prior agreement on the court and the law that is going to be applied when a dispute arises can build contractual trust between the parties. Vadotex provides its suppliers with rules and regulations on how to do business with the company. It specifies the court and the law that will apply if a dispute arises. The parties go to court when the contract enforcing mechanisms mentioned in the previous sections (negotiation, agents, banks, buying organisations and courts of arbitration) do not work properly. Moreover Vadotex and its customers know that if they have to go to court, they will incur costs.

Market requirements

The requirements the textiles buyers in the Netherlands place on their manufacturers in South-East Asia are similar to those in the footwear business. Thus the market requirements in Table 6.6 are relevant to this sub-section. Among the main market requirements of Zeeman are product quality acceptable to the company's lower and middle class textile consumers, lowest price possible and suppliers having to keep their promises. The last requirement is as important as the first two because the buyers in the Netherlands do not want to enter into long legal proceedings with their suppliers. Before any order is placed Zeeman wants to make sure that the supplier is someone who will fulfil his promises. The last requirement shows that legal contracts are not enough for the buyer to obtain textiles according to his specifications. Thus the buyer applies additional measures such as setting strict supplier selection criteria and

making payment after delivery. The requirements concerning quality and price vary with the type of market segment the company is dealing with. While Zeeman and Hans Textile focus on lower price Vadotex focuses on quality.

Given the cheaper labour costs in Eritrea, the textiles manufacturer in Eritrea could supply T-shirts, sweaters and fabrics to Zeeman and Hans Textile. However, the manufacturers should not expect a higher price but they can use Zeeman and Hans Textile as a channel for introducing their textiles to the European market. Furthermore, it is better to deal directly with a retailer such as Zeeman and Hans Textile than through a wholesaler as it saves the profit margin of approximately 30-40 % taken by the wholesaler. If Zeeman and Hans Textile were satisfied with what the Eritrean textiles manufacturers are doing at present they could move to a better business relationship such as producing textiles according to specifications submitted by Zeeman and Hans Textile. However, in order to establish a business relationship with Hans Textile and Zeeman the presence of an agency organisation that certifies the quality of footwear and textiles to be exported from Eritrea is a precondition.

6.3.5 Conclusion

The overall conclusions in this sub-section are no different from the conclusions in the footwear industry. The only difference is that, unlike in the footwear industry, one of the buying organisations in the textiles industry has direct business relationships with textiles manufacturers in developing countries. In view of this difference the following conclusion can be drawn.

1. Out of six textiles wholesalers, buying organisations and retailers interviewed in the Netherlands, five are prepared to establish preliminary contacts with textiles manufacturers in Eritrea. One buying organisation would wish to have a link with the manufacturers through agents, wholesalers and retailers based in Europe.
2. Out of the six cases discussed in this sub-section, five would require an agency organisation or international quality inspection organisation in Eritrea.
3. None of the textiles wholesalers and retailers discussed would wish to enter into a joint venture and subcontracting network relationship with textiles manufacturers in developing countries. However, a conversion contract could be possible as long as the Eritrean textiles manufacturers are competitive.

