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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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Chapter 7

Empirical Study of Export Market Opportunities: Uganda

7.1 Introduction

The main objective of this chapter is to understand the organisation of the Ugandan footwear and textile export market. Another basic objective of the chapter is to identify the requirements of the Ugandan export market that the footwear and textile manufacturers in Eritrea need to fulfil in order to do business with wholesalers, buying organisations and retailers in Uganda. To achieve this objective we conducted an interview with four footwear importers and four textile importers in Uganda.

This chapter has two sections. These are, (1) the characteristics of the Ugandan footwear market and (2) the characteristics of the Ugandan Textile market. After a discussion, each subsection ends with a conclusion.

7.2 The Ugandan footwear market

Uganda is a country located in East Africa. The country has a population of about 21 million (1998 estimate). It is attractive for the Eritrean footwear manufacturers for various reasons. Firstly, there are no locally based strong footwear manufacturers and there is no fierce competition in the market. Ugandan consumers prefer imported footwear. The local manufacturers are mainly engaged in the production of unfashionable synthetic shoes. Uganda is situated centrally in the Great Lakes region, and there is an opportunity to establish a base for re-export to Rwanda, the Democratic republic of Congo, Tanzania and Southern Sudan. The surrounding countries do not have an established strong footwear-manufacturing industry. Finally, the fact that there are good bilateral relation between Eritrea and Uganda can facilitate trade between the two countries. No visa is required for Eritrean and Ugandan passport holders who travel between Uganda and Eritrea.

The main players in the domestic footwear production are Bata and the Uganda Shoe Company. Uganda Bata Shoe Company is a subsidiary of the Canadian multinational Bata shoe company. The annual footwear consumption in Uganda is estimated to be about 17.6 million pairs. Out of this the domestic production accounts for only 16%, or 2.8 million pairs. While the import of new shoes accounts for 61% the import of second hand shoes accounts for 23%. Out of the 2.8 million pairs of footwear produced in Uganda, leather shoe has the lowest volume, which is 820,000 pairs. Although there are plenty of hides in Uganda there is no tannery to processes the hides. Thus the Ugandan footwear manufacturers use imported leather. This makes domestic leather footwear production expensive.

While 70% of the footwear sold by the Uganda Bata Shoe Company is produced in Uganda, 30% is imported from sister companies in India and Singapore. The footwear imported from sister companies is superior in quality to that produced by the Uganda Bata Shoe Company and it is meant for higher-class Ugandan customers. Bata is known for the back to school range, which includes men's classic shoes, ladies synthetic sandals, children's shoes, army boots, and gumboots. While Uganda Bata Shoe Company accounts for 53% of domestic footwear production, Uganda Shoe Company accounts for 15% of this. The rest, 32%, of the

domestic footwear production comes from small/medium-sized enterprises, workshops, and small artisans scattered all over the country. Both the Uganda Bata Shoe Company and the Uganda Shoe Company sell wholesale and retail. Uganda Bata Shoe Company has ten retail outlets throughout the country.

Table 7.1 Retail price range of footwear in the Ugandan market

Type of shoe	Target price (Retail) US\$
Men's casual	15-25
Men's dress shoe classical	40-50
Ladies closed shoe	15-25
Ladies (sandals)	15-20
Children's shoes	13-20

(Source: Survey February 2001)

The Ugandan import market comprises both wholesalers and retailers of new and second-hand footwear. The new shoe wholesalers import from countries such as the Emirates, Thailand, Pakistan, Germany, Italy, and the UK. Wholesalers of second hand footwear import container loads of second hand footwear and clothes from Canada, UK and Holland and sell this to retailers and hawkers in Uganda. The second-hand footwear market in Uganda is located in a specific area called Owino. However, it is also common to see hawkers selling second hand footwear on the roadside and in offices. Retailers in Uganda get supplies either by importing these themselves or by buying from the wholesalers in the domestic market. The retailer importers are mainly suitcase importers. This group comprises a large number of small traders who combine tourism with business. They usually purchase footwear with other products (clothes and cosmetics) in small quantities as part of their personal effects for sale in return. The UK is usually a favourable destination. On the lowest category of the marketing chain we have petty traders/Hawkers (direct sales).

Hawkers take footwear in small quantities (perhaps half a dozen) from wholesalers and retailers and sell to individuals on the roadside, in offices or in open markets. Wholesalers and retailers hire hawkers mainly to clear stock. There are two types of hawkers: registered and unregistered. When a wholesaler wishes to hire a Hawker he makes him register in the work licence office. In this case the hawker has a licence to work and he pays taxes. The licence number is written on the back of his brown uniform to show the police that he works legally. Police follow and confiscate the goods handled by unregistered hawkers. Because Ugandans buy footwear and other articles on the roadside, in recreation areas and in offices, hawkers clear large stocks of footwear every year.

It has been estimated that 5% of the Ugandan population use expensive imported leather shoes, 20% buy medium and low priced shoes and 60% wear slippers (Jabati, 1996). The remaining 15% are considered not to wear shoes. Excluding those who wear slippers and assuming that 25% of the population wear two pairs of reasonable quality shoes per year, there is a market for 10.5 million pairs of footwear per year in Uganda. Deducting the 2.8 million pairs produced in the domestic market leaves a market for 8.7 million pairs of imported footwear per year. Slippers are ignored because the high transportation cost from Eritrea to Uganda precludes transporting cheaper footwear like slippers. Moreover Kenya is specialised in producing cheap plastic shoes.

The potential problem to the Eritrean footwear and textile manufacturers in the Ugandan market is the high transportation cost from Eritrea to Uganda. This is attributed to the absence of a direct shipping line from Massawa (Eritrea) to Mombassa (Kenya). The footwear has to

be sent via Jeddah, Port Sudan, or Djibouti for transshipment to Mombassa. From Mombassa to Kampala there is only land transport. The sea transport cost from Massawa to Mombassa for a twenty-foot container is \$1700. The land transport cost from Mombassa to Kampala is \$1500. Because a twenty-foot container contains 7000 pairs of shoes, the transportation cost from Massawa to Kampala per pair of shoes is \$0.46. The transportation cost per pair of shoe from Mombassa to Kampala is \$0.21. This explains why it is important for the Eritrean footwear manufacturers to trade in high value added leather shoes. The higher the value added in the shoe the lower the transportation cost as a percentage of the selling price. The airfreight from Eritrea to Kampala is \$1.43 per pair of shoes, which is very expensive.

Table 7.2 The Ugandan Economy (2000) figures¹²

GDP	\$ 26.2 billion	(U.Shillings 430859 billion)
GDP per capita	\$ 1100	(U.Shillings 18089500 billion)
GDP Growth rate	6%	
Inflation	6.5%	
Unemployment	N.A%	
Exports	\$ 5001million (f.o.b. 1999)	(U.Shillings 228 Million)
Imports	\$ 1.1 billion (f.o.b. 1999)	(U.Shillings 1599 Billion)
Imports as % of GDP	4%	

(Source: World Fact Book, Uganda)

Clearing and forwarding agents in Kenya often perform the clearing in the port of Mombassa. The clearing cost depends on the speed of action taken by the clearing agent. If he acts as soon as possible the clearing cost including the agent's fee is about \$ 400 for a 20-foot container. If the clearing agent acts late the clearing cost can go up to \$650 for a 20-foot container because of the warehouse and other port related charges. As soon as the clearing is finished the Kenyan customs police escorts the goods up to the Ugandan border. This has two objectives. The first objective is to protect the goods that are meant for Uganda from entering to Kenya as contraband. Secondly, to protect the goods from thieves on the inland road heading from Mombassa to Uganda. Similarly, after the goods arrive at the Ugandan boarder the Ugandan customs police escort the goods until they reach their destination.

Table 7.3 Taxes applicable to imported footwear in Uganda

Type	Rate
Duty	4%
VAT	17%
Surcharge	10%
SGS post shipment surcharge	3%

(Source: Market research, February 2001)

As a member of COMESA, Eritrea qualifies for preferential tariffs. The tariff rate is 24% (without the ten percent surcharge) compared to 34% for non COMESA members. The break down of the charges is shown in table 7.3. The import trade in Uganda has been liberalised and import licensing has been abolished. However an import certificate, which is non goods specific with a validity of six months is required. The certificates take the place of import licences. Neither quota nor health and safety regulations are imposed on imports of footwear to Uganda.

The high selling periods for footwear are October and December and on holidays. As far as market segmentation is concerned Eritrean footwear can cover the middle class or middle-income groups, which can afford to buy a pair of shoe from \$ 15 to \$ 40. While imported

¹² In 2000 1\$= 16445 U. Shilling. In 1999 1\$ = 14541 U. Shilling.

leather shoes with good finishing are sold for about \$30, a similar Eritrean leather shoe with inferior finishing is sold at \$15. This shows that if the Eritrean footwear manufacturers can improve their finishing to the level of other shoe exporters to Uganda they can enjoy a price as high as \$ 25. In the expensive shoe segment it is important to come up with better quality shoes that can compete with new, imported European footwear.

7.2.1 Footwear wholesalers

In the following sections we discuss the interview results of two footwear wholesalers that import footwear from Italy and the Emirates. Although the Emirates is not known for its footwear production it is a central market for footwear produced all over Asia, the Middle East, and North Africa. Thus many wholesalers in Uganda use Dubai as their import market. The two wholesalers are Fame Italian Shop and Arafat Agencies.

Fame Italian Shop

Fame Italian shop is a footwear wholesale company established in 1993. It is a joint venture between Italian and Ugandan partners. The company initially started its operations as an exporter of agricultural products from Uganda. Currently the company is engaged in footwear wholesale on a large scale and retail on a small scale. It employs five people as sales persons.

Joint ventures between a foreign investor and a Ugandan partner are rare in Uganda. The reason is lack of trust and the opportunist practices, which are common in Uganda. When asked how she convinced the Italian investor to be her partner, the Ugandan partner and managing director of the company, Mary Thandle said, “ *There were two factors that favoured us working together. The first factor was the Ugandan government investment policy at that time. The investment code of Uganda at that time used to require foreign investors to have Ugandan partners. In this case my partner had to find a Ugandan partner. The second favourable factor was my relationship with an Italian friend who used to work for the British embassy in Uganda. The Italian friend gave my partner a full guarantee that he would take responsibility for any harm to the Italian partner that might arise through my partnership with him.*”

When asked how her company decided to enter into the footwear business, she said “*While we were exporting agricultural products from Uganda to Italy, Ugandan customer asked us to import a container full of footwear, which is about seven thousand pairs, for him. We accepted his request and we brought in the footwear. However, our Ugandan customer refused to take the footwear and pay us the money so we decided to sell the footwear ourselves. We opened this shop for that purpose and we are still importing and selling footwear from Italy.*” The company imports both men’s and women’s footwear from Italy. While the Italian partner undertakes the buying, the Ugandan partner runs the wholesale and retail business. When asked how her company connects to its suppliers in Italy, she said, “ *We just go and buy the footwear from shops in Italy. We also visit manufacturers but because we buy in small quantities of each footwear style that we think has a good demand in the Ugandan market, the Italian manufacturers do not accept our orders.*” At the present time the company does not take advance orders from wholesalers in Uganda, Kenya, Congo and Rwanda. It carries out the market study itself and imports the footwear that it believes has a demand in the Ugandan market.

When asked why the company does not take orders from wholesale buyers in Uganda and the surrounding countries, the managing director said, “ *Our experience has taught us that the wholesale buyers are unreliable. There is no guarantee that they will take the footwear they have ordered. When they do not take the footwear they ordered, it is difficult for us to sell footwear that was ordered by another party. Thus we decided to carry out the market study ourselves and import the footwear. If the footwear is not sold on a wholesale basis we can sell it retail.*” The company has shipments from Italy every two weeks. It uses air transport to import the footwear to Uganda. The wholesale customers in the aforementioned countries come to the shop every two weeks and see what is there. Often they buy the footwear they would like to have from the available assortment.

The company does not give credit to its customers. The managing director explained this as follows; “*In Uganda if you give credit to a customer you are paving the way for him to stop buying from you. Usually customers who take credit from us do not show up again. They buy footwear from other suppliers. While the objective of giving credit is to attract more customers, in Uganda the result is the reverse.*” The company has its own mechanism for helping customers who have immediate financial shortages. When a wholesaler wants to buy footwear from the company but he is in short of money, he can choose the type of footwear he wants to buy and pay a deposit. In that case the company keeps the footwear for him until he pays the full amount. The waiting period allowed by the company for such an arrangement is usually one week. When asked if her company uses a letter of credit to import the footwear from Italy, she said, “*Because we buy the footwear from many customers we cannot open a letter of credit for each of them. What we do is to buy the footwear and pay the money on the spot.*” She also mentioned that for every order her partner has to go to Italy to check the footwear. The company cannot order footwear from Italy because the wholesalers and retailers in Italy do not have catalogues. Besides, if the footwear that has been ordered is delivered to Kampala and is found to be the wrong quality, there is little probability that the shop owner in Italy will take the footwear back.

According to Thandle, because her company imports fashionable footwear the competition from second-hand shoes is minimal. She said, “*Bata is facing stiff competition from second hand shoe dealers because its shoes are neither fashionable nor durable. When people see the same model more than once they prefer to go to the second-hand shoe market and buy a better design. To avoid competition from the second-hand shoe dealers it is important to follow the fashion trend.*” She also mentioned that where the shoes are made is important in the Ugandan market. She went on to say, “*Ugandans think foreign made footwear is superior in quality. The made in Italy stamp is imperative to the success of the firm in its sales. Because of this we abandoned our plan of manufacturing footwear in Uganda and continued to import from Italy.*” According to Thandle her customers are middle-income families in the four countries mentioned above. When asked how a middle income Ugandan family can afford the expensive shoes, whose price range is from \$30-80 while the average monthly salary is about \$220, she said, “*The income of a Ugandan family is multidimensional. If the husband is a public servant his wife is engaged in trading merchandise in the market. We think the combined income is enough to buy our shoe.*”

Finally, when asked what her response would be if a footwear manufacturer from Eritrea came to her and told her that he could supply footwear the same as that which her company is importing from Italy, she said, “*As I have mentioned before the country of origin is important. If it is possible to manufacture footwear in Eritrea with a label made in Italy then we can do*

business with Eritrean footwear manufacturer. This is taking the expertise of the Eritrean footwear manufacturer for granted.”

Arafat Agencies

Arafat Agencies is a footwear wholesale outlet located at William Street in Kampala. Six footwear wholesalers occupy the outlet. Because of the high outlet rent in Kampala it is common to see as many as seven wholesalers sharing the same outlet. Each wholesaler or retailer has his own space in the outlet and shares the rent accordingly. The traders in Arafat Agencies are engaged in wholesale business. However, they also act as retailers when they need to clear footwear not sold on wholesale.

Mulando Jjemba is one of the traders who operate in the outlet. He started the footwear business in 1996. Before he started in the footwear business he graduated from Makerere University in civil engineering. He also worked as an engineer for a construction firm in Kampala. When asked how he entered the footwear business, he said, *“Previously I used to work for a construction company as a civil engineer. Unfortunately the company collapsed and I had to find another job. Since it is difficult to find a job in Uganda I decided to trade footwear with the money I saved when I was working for the construction company. The idea came to me because my brother was in the footwear business and I had a clue as to how it works.”* Jjemba also mentioned that another compelling reason that made him choose the footwear business was because, compared to textiles footwear requires little display space and this is important to reduce the outlet rent. He said, *“Currently we are paying a total outlet rent of \$ 2800 for three months. This is \$ 155 per trader per month. If we were textile traders the number would be smaller, possibly four. Textiles require more space for display. In this case the outlet rent per person would be \$233 which is \$ 78 more.”*

When asked how he imports the footwear that he sells, he said, *“We acquire the footwear in two ways. Firstly, we import the footwear, usually from Bangkok and Dubai ourselves. Secondly, we use carriers. In the latter case what we do is this. When some one is travelling abroad to import footwear, he/she could be from the same outlet or outside, he/she informs his/her relatives and friends about the trip. We raise the money and ask him/her to bring footwear for us as well.”* This type of arrangement is made in two ways. If the relationship is strong, the person who is travelling abroad to import footwear asks nothing for his services. Otherwise, the traders who are asking him to bring footwear for them are also obliged to share the transportation and accommodation costs. In this case the carrier can ask the retailers who are requesting him to import footwear for a fifty percent cost sharing. In some cases the carrier can ask only a small fixed amount of money from each retailer. Usually the carrier has the freedom to bring back the type of footwear he thinks is good for the Ugandan market. When the riders operating in the same outlet get the same type of footwear it is natural to think that this would aggravate competition amongst them. When asked how they handle this problem, Jjemba said, *“When we get the same type of footwear we just fix the price. In that case six wholesalers could receive a customer who visits our outlet. But he buys the same footwear for the same price. As to where the customer wants to buy depends on chance and the previous relationship of the customer with the traders.”*

When the carrier brings back footwear that he/she thinks is good for the Ugandan market, a difference of perception between the carrier and the traders on what is good can lead to disagreement. To avoid this problem traders prefer to ask someone whom they trust. Jjemba said, *“ We Ugandans lack trust. The lack of trust starts in the family. A husband and wife in a*

Ugandan family prefer to have different bank accounts. This is mainly because they do not trust each other. This has an influence on the way we do business. For instance, it is not common for a footwear trader in Uganda to give credit to his customers. Most of the customers who take credit do not pay back. Besides people do not want to use formal business practices such as a letter of credit as they want to evade taxes.” Jjemba also buys footwear from wholesalers who operate in the domestic market. He said, *“The problem with the wholesalers who deal in the domestic market is that their profit margin is very high and this makes their price expensive. Besides due to the high inflation of the Ugandan shilling, the wholesalers continuously increase their price.”*

Jjemba sells footwear for both men and women. However he prefers to have more women’s footwear. When asked why he prefers to have more women’s footwear, he said, *“ While the average life of women’s footwear is six months, that of men is about one year. This means women buy footwear more frequently than men. The turnover is higher in women’s footwear than men’s footwear.”* He also mentioned that his classmates and friends often buy footwear from him. When asked if he buys footwear from domestic footwear producers such as Bata and the Uganda Shoe Company, he said, *“These companies produce reasonable quality footwear. Their problem is that they are not flexible. They produce the same kind of footwear for a long time. The footwear from the domestic producers cannot compete with the foreign imports as the foreign imports are superior in quality.”* Regarding the competition from the second- hand shoes he said, *“The competition is not stiff because the customers who buy from me are the one who want to follow the fashion trend, not durability.”*

Finally, when asked about business opportunities with Eritrean footwear manufacturers, he said, *“I heard that a good type of footwear is produced in Eritrea. I had a plan to visit Eritrea, to see what is there. My plan was interrupted because of the war between Ethiopia and Eritrea. When the war ends I may go there and look for business opportunities with Eritrean footwear manufacturers.”*

7.2.2 Footwear buying organisations

Footwear buying organisations in Uganda are informal social groups. Traders, who have a close personal relationship, usually friendship or blood ties, import footwear for each other. The interesting aspect of the arrangement is the cost-sharing scheme. When the trader asks the carrier, usually his friend or relative, to import footwear for him, he/she shares the transportation and accommodation costs. The percentage of the costs that the trader has to share depends on the strength of the relationship between the carrier and the rider. The stronger the personal relationship between the carrier and the trader the lower the cost the trader has to pay the carrier and vice versa. Sometimes when the carrier is the trader’s brother or sister the carrier asks nothing for his services. The traders always ask a carrier whom they trust.

7.2.3 Footwear retailers

In the following section we describe the interview results of two footwear retailers. These are Mike Tusibira Enterprises and Semuska Enterprises Ltd.

Mike Tusibira Enterprises

Mike Tusibira Enterprises is a footwear retail outlet shared by six entrepreneurs. According to Milly, one lady started the operations of the outlet in 1983. When she could not afford the rent, she allowed other five footwear retailers to operate with her. Milly is one of the footwear retailers operating in the outlet. She started her footwear retail business in 1988. To a visitor, Mike Tusibira Enterprises looks like a well-staffed shop with many sales persons. However, each of the entrepreneurs in the outlet has his/her own footwear and six different entrepreneurs receive a visitor. When asked how she started the footwear retail business, Milly said, *“Previously I was a house wife. My husband is a public servant. Because his salary was not enough to run the family I proposed to him that I should trade merchandise in the market. He was against it. One day he had a car accident and he thought that it was important for the family to have additional income. He gave me some money and I started buying and selling footwear in small quantities on the roadside. When I had made some money I started importing footwear myself.”*

Milly imports footwear from England and sells it retail in Kampala. However, the quantity of footwear she imports is not more than 500 pairs per month. When asked how she affords the transportation expense when she is importing no more than five hundred pairs of shoes per trip, she said, *“I go to England only once a year. When I go there I do two things. Firstly, I choose the footwear that I think is good for the Ugandan market. Secondly, I write down the serial number of the footwear I selected. I also write down the serial number of other type of footwear not included in my current choice but which could be good for the Ugandan market. When I return to Uganda, I see the market reaction to the footwear that I imported. If the reaction is good I just send a fax to the retailers in England that includes the catalogue of the footwear I need to buy. I deposit the money at a bank in Kampala and they send me the footwear.”*

She imports high standard footwear whose price range is from \$ 30-100 per pair. When asked how an average Ugandan citizen can afford to buy the footwear, she said, *“Ugandans believe that footwear imported from the foreign market is of high quality. They always want to have foreign made footwear. Even the low income citizens want to buy footwear from this shop.”* According to her most of her customers are women who want to keep up with the prevailing fashion. She said, *“Ladies like to have unique things and always want to change.”* When asked about the competition from the second hand shoe dealers, she started her explanation by classifying the imported footwear market into two groups. The first group is the new shoe market and the second group is the second hand shoe market. There are two classes of shoe in the new shoe market. These are fashionable leather shoes and synthetic shoes. The fashionable leather shoe segment is expensive and only the few top class customers can afford it. Usually the middle and lower class Ugandan customers purchase synthetic shoes. The market for the fashionable synthetic shoe is broader than that for the fashionable leather shoe. People in the middle class who would like to have durable leather shoes but cannot afford to buy new ones go to the second hand leather shoe market. In general, this group includes middle-income customers who like to have durable leather shoes at an affordable price and low-income customers whose income does not allow them to buy new shoes.

She also said that local made footwear is neither fashionable nor durable. The price is also not competitive. According to her there is no demand for non-fashionable leather shoes with bad finishing in the domestic market. The problem is that though they are expensive because of their leather content people would like to have them at a lower price. If not, they go to the

second-hand footwear market. She also said that in the Ugandan footwear market trademark of the footwear and the country where it is made are as important as the quality of the footwear. *“It is easier to convince customers by saying it is made in Italy or England than to explain the real nature of the footwear.”* When asked about her relationship with her suppliers, she said, *“ I go there and select the type of footwear I need to have and pay the money. There is no credit.”* Milly does not use a letter of credit to import the footwear.

A year ago Milly bought leather footwear from an Eritrean manufacturer. When asked how she felt about it, she said, *“ The price was good but the quality could not compete with the European shoes. If the Eritrean manufacturer is going to penetrate the Ugandan leather shoe market he has to improve his quality.”* According to her even the lower class Ugandan consumer wants to have good quality footwear. If he or she cannot afford to buy new they go to the second-hand market and get it at an affordable price. Thus for casual leather shoes either it has to be good or it will not be bought by Ugandans. Reputation, fashion and durability are important in the Ugandan footwear market.

Semuska Enterprises Ltd.

Like any other retail outlet in Uganda, Semuska Enterprise Ltd. is a collection of four footwear retailers. The objective of such an arrangement is to minimise the outlet rent so that each of the four retailers can afford it. Kyeyube Nmymbi is one of the retailers who operate in the shared retail outlet. He has been in the footwear retail business since 1996.

Nmymbi explained that before he came to the current retail outlet he used to sell footwear with his brother in the centre of Kampala where there were small shops owned by traders. When the government decided to demolish the small shops Nmymbi had to find another place. He said, *“During that time I had a small amount of money and it was difficult for me to rent a retail outlet individually. The difficult part of renting a retail outlet in Kampala is that the landlords ask a three-month rent in advance. To solve this problem I consulted with another friend who had a similar problem. We agreed to create a sort a joint venture. We combined our money and we were able to rent a space in a retail outlet where other people also operate.”*

When asked how he gets the footwear he sells, he said, *“ I get the footwear in two ways. First I ask friends or relatives who travel abroad to bring footwear for me. In this case I only pay some money for the accommodation and travel expenses of the carrier. The other source is to buy footwear from wholesalers in the domestic market. This is when I cannot find a friend or a relative who can import footwear for me. In this case the price is always higher.”* Although it was only for a short period Nmymbi and his partner also imported footwear from Dubai on their own. When he wanted to buy the footwear he always had to go there. When asked why he did not order the footwear while he was in Kampala, he said, *“ The problem with distance trade is that there is no guarantee of getting what you expected. Even when I go to Dubai there is always a problem on the side of the suppliers. They show me one type of footwear but they pack another.”* He stressed that checking before the footwear leaves the supplier's outlet is important. No agent is involved in the marketing chain.

At last Nmymbi and his partner were successful in accumulating enough money to rent a retail outlet individually. When asked how they managed to be successful, he said, *“In a joint venture business, faithfulness and continuous exchange of views is important. In short the partners should be open to each other. When you do not hide anything from your partner*

communication is fast. This helps to solve problems on a daily basis. When this is the case there is a high probability that the joint effort will become successful.” When Nmymbi and his partner had accumulated enough money to rent a space in a retail outlet individually they decided to split. Nmymbi said, *“ I was interested in staying in the footwear retail business while my partner wanted to shift into the textile business. For this reason we had to find our own way.”* Currently Nmymbi is buying footwear from wholesalers who import footwear from Dubai, China and Thailand. When asked about his business relationship with the wholesalers, he said, *“I deal mainly with wholesalers of men’s shoes. The advantage of dealing with men’s shoes is that fashion is not fast and you can sell the same type of footwear for a long time. Besides there is less imitation and it is possible to have the originals.”* According to Nmymbi ladies footwear fashion changes fast and he could not cope with it as he does not import himself.

According to Nmymbi credit from wholesalers depends on how long the wholesalers have known the retailer. They also want to know the place where the retailer is operating. However, even if these factors are met, the wholesalers hardly give any credit. He explained that in the Ugandan business culture few people settle their debts. Nmymbi also complained that the difficult part of dealing with footwear wholesalers is that they are reluctant to take back footwear damaged due to bad packaging and shipping. When asked about the competition from the second hand shoe dealers, he said, *“While the new men’s shoes that I am selling are synthetic and highly priced, the second-hand shoes are mainly durable and cheaper. People have a point when they prefer to buy footwear from the second-hand shoe market.”* He also mentioned that the tax rate is a contributing factor to the expensiveness of new shoes. In Uganda the tax rate for second-hand shoes is much lower than that for new shoes.

Finally, when asked what would be his answer if an Eritrean footwear manufacturer came to him and told him he could deliver the same type of shoe as that he was buying from the wholesalers, he said, *“First I would need to see the shoes. If the quality and price are ok I will do business with him.”*

7.2.4 Discussions of interview results

For convenience our discussion is divided into seven concepts. 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 Ugandan export market, (figure 5.1).

Buyer seller relationship

The cases discussed above show that the business relationship between the Ugandan footwear importers and foreign footwear sellers is short term. Previous business relationships or acquaintance between the buyer and the supplier is secondary (Table 7.4). The buyers (footwear wholesalers and retailers) in Uganda are more flexible than the footwear buyers in the Netherlands. They are more flexible in the sense that they do not have just one or two suppliers who supply footwear. They always shift from one supplier to another and even from one market to another market. The Ugandan traders pursue the strategy of risk spreading by trading with many wholesalers and retailers in the import market. The possibility of obtaining the best prices depends on the relative bargaining power of the Ugandan buyers and their suppliers. When there are many suppliers in the import market, mainly in Dubai, and there is

excess capacity in the industry it increases the probability that the Ugandan footwear buyers will get a better price in the import market. The need for flexibility originates from the lack of a definite plan as to what kind of footwear to buy and where. The Ugandan wholesalers and retailers travel to import markets such as Dubai and Bangkok without a detailed market study. There is no proper description of the type of footwear they want to buy, instead they buy what they think is good for the Ugandan customers. If it is profitable back home, they repeat. If not, they shift to another market or wholesalers and retailers in the same market.

In the Ugandan footwear market security is guaranteed through continuous presence of the wholesaler at the purchase point. The buyer's presence in the import market serves as a mechanism in making sure that the quality, quantity, and price of the footwear are satisfactory. In general we can conclude that the lack of distance trade between the Ugandan footwear importers and their foreign suppliers increases the transaction costs. This is aggravated by the lack of interest in using letters of credit and agents.

Organisations of import and sales

The Ugandan footwear market constitutes wholesalers, retailers and buying organisations. Although the purpose is the same, the footwear buying organisations in Uganda are informally constructed social groups. In Uganda membership of the buying organisation is earned when a retailer or wholesaler belongs to a certain social group. This group can be defined as (1) a group of wholesalers and retailers operating in the same retail or wholesaler outlet, (2) having a strong friendship with a footwear importer, and finally (3) having a personal relationship, mainly blood ties, with a trader who is engaged in importing footwear. In the cases of friendship or personal relationship they go beyond one retail or wholesale outlet. Often a friend or relative who operates in one footwear retail or wholesale outlet imports footwear for a friend or relative who operates in another retail or wholesale outlet. What we see here is that while the lack of distance transaction between the Ugandan buyers and the suppliers increases the transaction costs, the informal buying organisations in Uganda are useful in minimising the transaction costs.

The sales function of the wholesalers is organized in such a way that the wholesalers wait until the buyers come to them. There is no proactive sales promotion.

Competition

In the Ugandan footwear market we find four types of footwear. These are new footwear imported from Europe, new footwear imported from Dubai, second-hand footwear imported from the US, Europe and Canada and new footwear produced in the domestic market. While the footwear imported from Europe is targeted at the top-level segment of the market, the footwear imported from Dubai and produced in the domestic market is targeted at the middle segment of the market. The top-level segment in the Ugandan footwear market is limited in size since only a few people can afford to buy the footwear. It is a knowledge and capital intensive segment. The middle level segment has a large market size and is characterised by high competition. The domestic footwear poses some competition to the footwear imported from Dubai but often fails due to poor design. The second-hand footwear is targeted at the lower segment of the market. Because the second-hand footwear is durable and better in design it attracts customers even from the middle level segment. In the Ugandan footwear market design and price determine the competitiveness of a certain wholesaler or retailer

Table 7.4 Summary of fourteen elements of business relationships identified in the cases under study.

Description	Wholesalers		Buying organisations (Informal social groups)	Retailers	
	Fame Italian shop	Arafat agencies		Mike Tusbira Enterprises	Semuseka Enterprises Ltd.
Previous business relationship	Less important	Less important	Less important	Important	Less important
Importance of trust in the business relationship development process	Less important	Less important	Very important (With carriers)	Less important	Less important
Presence of agents in country of production	Not important	Not important	Not important	Not important	Not important
Design production by the buyer	Not important	Not important	Not important	Not important	Not important
Sample exhibition before placing an order by the buyer	Not important	Not important	Not important	Not important	Not important
Need for security	Important	Important	Important	Important	Important
Need for flexibility	Very important	Very important	Very important	Very important	Very important
Subcontracting agreement	Not important	Not important	Not important	Not important	Not important
Joint venture agreements	Not important	Not important	Not important	Not important	Not important
Flexible supply contracts with manufactures	Moderately important	Moderately important	Moderately important	Moderately important	Moderately important
Form of business establishment	Private Limited Company	Private Limited Company	Social organisation	Private Limited Company	Private Limited Company
Source of capital for establishing the organisation	Private capital	Private capital	No capital is involved	Private Capital	Private capital
Source of revenue to the organisation	Profit	Profit	Good relationship	Profit	Profit
Exclusivity of supply to the buyer	Less important	Less important	Less important	Less important	Less important
Willingness to establish direct business relationship	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)

(Source: Compiled by the author)

Moreover, wholesalers and retailers who handle foreign footwear have more competitive advantage. Ugandans think imported footwear is superior in quality. In both the Ugandan and Dutch footwear markets trademark stimulates demand. However, unlike in the Netherlands, the gap between wholesalers and retailers in the Ugandan footwear market is narrow. The wholesalers in Uganda are also retailers. Often the wholesalers diversify into retail when they want to clear stocks. This makes the competition between footwear wholesalers and retailers intense.

Trust and opportunism

Unlike the Netherlands footwear market the Ugandan footwear market is characterised by lack of trust. The exchange is concluded in the presence of the buyer and the seller. Distance transaction exchange hardly exists. Because the Ugandan importers buy footwear from wholesalers and retailers in the import market the quality of the footwear is checked on the spot. Agents and banks play no role in the exchange process. The payment for a specific transaction is made on the spot. Wholesalers and retailers hardly give credit to their customers. In Uganda it is normal for a customer to take credit and change his address. In this case allowing a customer to take a credit means losing possible future orders from the same customer.

In general, since there is no trust in the marketing chain the degree of opportunism is very high. The question here is whether the Ugandan buyers can shift from these short-term oriented tactical business relationships to long-term business relationships based on trust and mutual benefit. For Ugandan footwear importers to shift to long-term business relationship the volume of business in a specific transaction must increase. This can be done in two ways.

Firstly, the Ugandan buyers must develop a sense of specialisation so that one buyer can buy a large volume of footwear from one supplier, and secondly, the informal buying organisations should develop into formal buying organisations that supply their members with a large volume of footwear. If these two criteria are fulfilled the Ugandan buyers will be able to buy footwear directly from manufacturers at cheaper prices.

Contract enforcing institutions (conflict resolution)

The court is the only contract enforcing institution in Uganda. Because there is high level of corruption in the country it can take years before a case is completed. Buying organisations in Uganda have no role in enforcing contracts. They are informal social groups with no connection to the exporter. Because, there is no trust in the exchange process buyers and sellers prefer to take all the necessary measures, which they think will save them from the opportunist behaviour of their exchange partners. Some of these measures are internalisation of transaction, personal supervision of the exchange process, and avoiding exchange instruments such as the letter of credit. Because the volume of the transaction is very small and the buyer has little acquaintance with the supplier there is a high possibility for opportunism. This is further aggravated by the lack of internal conflict solving mechanisms in the business relationship.

Market requirements

The major market requirements in the Ugandan footwear market are good quality footwear, low price and willingness to accept small order size. The first two requirements have different

influences on the respective customer segments in the footwear market. While the high level segment in the Ugandan footwear market focuses on quality, the middle and lower segments focus on price. However, the last two segments always aim to maximise quality in a given price range. The Ugandan footwear buyers place small orders from each design and manufacturers do not want to deal with them because the small orders do not give manufacturers economies of scale. Consequently, the unit footwear productions cost are increased. To deal with the Eritrean footwear manufacturers the Ugandan buyers will have to increase their orders. If this does not work the Eritrean footwear manufacturers will have to make a study on the Ugandan footwear market, produce the appropriate footwear and deliver it to Uganda. This will help the manufacturers to enjoy economies of scale by collecting orders from all segments of the Ugandan footwear market. Another alternative way for the Eritrean footwear manufacturers to form business relationships with the Ugandan buyers is to display their products in a third market (Dubai). This alternative can give the Eritrean manufacturers a chance to meet buyers from other African countries.

7.2.5 Conclusion

The evidence given in the discussion stated above has shown that the business relationships between Ugandan footwear importers and their foreign suppliers is characterised by loose business network relationships. The business relationships are short term oriented and lack trust. This mistrust results in high transaction costs on both sides. Importers have to travel all the way to the import market to select the type of footwear they want to buy and make sure that the supplier is packing the right type of footwear for them, and the foreign suppliers always have to deal with new buyers. This means they have to repeatedly spend time on negotiating the price. The fact that they do not have customers who buy footwear on a continuous basis means that the footwear the foreign wholesalers make available for sale is always made scrutiny of by new customers in the import market. The following conclusion can be drawn:

1. There is market opportunity in Uganda for the footwear manufacturers in Eritrea. However, the order size from each product type is small.
2. The horizontal business network relationship between a group of wholesalers and retailers in Uganda is much stronger than the vertical business network relationship between foreign footwear suppliers and footwear importers in Uganda. The horizontal social bond between footwear wholesalers and footwear retailers in the Ugandan market contributes to the minimisation of the transaction costs.
3. The Ugandan wholesalers are not interested in joint venture and subcontracting agreements.
4. The Ugandan market is characterised by lack of trust and lack of institutions that facilitate transactions.

7.3 The Ugandan textile market

Uganda used to have a large and well-established textile manufacturing sector. Six large textile companies have formed the bulk of the domestic textile manufacturing sector in Uganda. These are Uganda Blanket Manufacturers (1987) Ltd., Nyanza Textile Industries Ltd., United Garment Industry Ltd., Uganda Rayon Textile manufacturers Ltd., Uganda Garment (1973) Ltd. and Mulco Textiles Ltd. These textile manufacturing firms used to produce quality textile for both the domestic and the foreign markets. In the 1960's and 1970's Uganda was producing enough cotton for the manufacturing firms to cater for a substantial portion of the local textile and garment demand. All school uniforms, security forces uniforms and garments for daily use were produced by the aforementioned six textile manufacturing firms (Eleazu, et al, 1995). The textile sector in Uganda ranging from cotton growing to garment making, used to employ more than 5000 people and earn more than US \$100 million per year. To day the sector barely employs 1000 people and hardly earns any foreign exchange (Ibid).

The textile market in Uganda is divided into three segments. These are lower end, middle end, and upper end. In the lower end segment of the market we find the second-hand clothes imported from Europe, the USA and Canada. Companies in the aforementioned countries, called sorters, collect the second hand clothes. The second hand clothes wholesalers in Uganda import the textiles in containers and distribute them to retailers and Hawkers. This segment has established itself as the most appealing market to the low-income segment of the population. The middle segment comprises polyester garments imported from Thailand, Taiwan, the Emirates, Korea, and Indonesia. Cotton fabrics imported from Kenya, Pakistan, India and China also fall in this segment. The upper end segment comprises cotton and blended suiting mainly from Kenya, superior cotton fabrics and garments as export only rejections from India, Pakistan, China and stock lots from Europe.

In 1995 the total demand for textiles in Uganda was estimated to be 144.57 million square meters. This demand was met almost entirely by imports of new fabrics and new clothes amounting to 20.4 million square meters and imports of second hand clothes accounting to for 100.3 million square metres. In 1995 there was no domestic production of new fabrics as all the textile mills in Uganda had closed down. Imports of second-hand clothes increased from 70 million square metres in 1993 to 100.3 million square metres in 1995 representing an annual growth of 15.5 %. Imported second hand clothes account for 52% of the domestic demand for textiles in 1993 as compared to 69.4% in 1995. The problem is further compounded by the fact that some of the parliament members and their spouses are important importers of second hand clothes. The customs duty for cotton fabrics and polyester is 30%. Cotton fabrics are not being imported to Uganda in a very large volume as they are expensive and the weather is mainly hot. Because cotton absorbs heat and Uganda has high temperature Ugandan customers prefer to have cotton and polyester blended T-shirts.

Textile wholesalers, retailers, and hawkers operate in the Ugandan textile market. To clear stock the textile wholesalers are also engaged in the retail business. The high quality textile importer, Wina Classic, lies in this group. Others are middle level wholesalers that import textiles from Thailand, the Emirates and Hong Kong. There are also small wholesalers that import textiles from Kenya and Tanzania. Generally textile retailers in Uganda are divided into three groups. These are: (1) textile retailers who import from foreign countries, (2) those who import through carriers, and finally (3) those who buy from wholesalers in the domestic market. However, it is common to see some retailers importing from foreign markets and

buying from the wholesalers in the domestic market. The retailer importers combine tourism with trade. They avoid taxes by pretending to be tourists.

7.3.1 Textile wholesalers

In the following sections we discuss the interview results of two textile wholesalers who import textiles from the Emirates, Thailand, and Tanzania. These are Ugandan General Merchandise and Muyinza Trading Company.

Uganda General Merchandise

Uganda General Merchandise is a textile wholesale company. It started its operations in 1998. The main activities of the company are import and wholesale of textiles for men, women and children. Like other wholesale outlets in Kampala six textiles entrepreneurs share Uganda General Merchandise. One of the wholesalers operating in the company is Tumwne Martin.

When asked how he entered the textile business, Martin said, *“After I graduated from Makerere University, I started working as an accountant for a private company. While I was working for the company my sister asked me to lend her some money. She wanted the money to start a textile business. I lent her the money and encouraged her to proceed with her idea. At the same time I had some problems with the company I was working for. Later, I resigned and decided to trade textiles.”* When asked why he chose textiles, he said, *“The reason I chose textiles was because I saw my sister making good money. I asked my sister to give me the money I lent her back. She gave me the money in terms of textiles. She gave me the textiles at cost so that I got my money and some profit by selling them. However, the timing was not good and I nearly lost all the money. The month was February, during which every Ugandan family tightens its spending to send its children to school. Finally, I managed to get through the month of February and obtain some customers. I took off from that and continued to make money.”* For some time Martin was depending on his sister for importing textiles. Martin started his foreign business by travelling to Dubai with his sister. He said, *“Previously she used to import the textiles for me. Later I asked her to take me with her. We went together to Dubai and that was my first time of importing textiles by myself.”* Later Martin changed his import market from Dubai to Thailand. When asked how he comes into contact with the suppliers in Thailand, he said, *“I get the address of the suppliers in Thailand from Ugandan friends who import textiles from Thailand.”* According to Martin, although there is a market for both expensive European textiles and cheap Asian textiles in Uganda, the latter has a higher sales volume.

Martin complained that the difficult part of dealing with textile suppliers in Thailand is that they tend to choose the textiles for the buyer. He said, *“Before I go there I always fax them to make some assortment for me. However, when I arrive there nothing is ready. Sometimes even if the textiles are ready, they are often not the textiles I requested. I always have to go and check the textiles myself.”* When asked what would happen if he ordered the textiles while he was in Uganda and the suppliers sent him a wrong type of textile, he said, *“There is no way I can return the textiles back. Often when they send me the wrong type of textiles they do it on purpose. Thus there is no way they will accept them back.”* Martin sells the textiles to customers in Uganda, Tanzania, Rwanda and Zaire. Although the price has to be adjusted to the prevailing market price, many customers from the aforementioned countries buy textiles from Martin regularly. Martin operates in the same outlet with six entrepreneurs and he only brings samples to the outlet. When a customer wants to buy in large quantity Martin brings

the textiles from the nearby store. According to Martin the difficult part of dealing in the textile business is to know what the customers want.

When asked if he had imported textiles from surrounding countries such as Kenya and Tanzania, he said, *“The problem with the textile manufacturing firms in the surrounding countries is that they imitate foreign made textiles. Who the hell is going to buy an imitated product while the original one is being sold in the domestic market? I prefer to import textiles from Dubai and Thailand. At least they will be unique in the market until other traders import them to the Ugandan market.”*

Finally, when asked what would-be his response if a textile manufacturer from Eritrea came to him and told him that he could supply textiles the same as those he is importing from Thailand, Martin said, *“ I do not care about the source of the textile if it is OK with my customers as far as quality and price are concerned.”*

Muyinza Trading Company

Muyinza Trading Company is a collection of seven textile wholesalers who operate in one sales outlet. The company is located in Ben Kiwanuka Street in Kampala. The entrepreneurs in Muyinza Trading Company have their own space in the outlet and share the rent and other related expenses. One of the traders who operate in the outlet is Lialigo Jamal.

Jamal started trading textiles in Muyinza Trading Company in 1996. Currently Jamal employs six people. He sells t-shirts, sweaters and other textiles for men, women and children. His main supplier is the Sun Flag Textile Manufacturing Company in Tanzania. When asked how his import is organised, he said, *“When I need to buy textiles I always have to go to Tanzania and place the order. It is not something I order and they make for me. I just go to the store and choose from what they have.”* Sun Flag does not give credit to Jamal. He said, *“ Why should they? They are not Ugandans.”* According to Jamal credit is possible only from a Ugandan supplier to a Ugandan buyer. When asked how he affords the transportation and accommodation cost in Tanzania if he has to go there every time, he said, *“I always have to pay for the transportation cost. However, my accommodation cost is low because I have a relative in Tanzania who takes care of me.”* Although Jamal is mainly a wholesaler he also sells textiles retail. When he sells the textiles wholesale he gives priority to the retailers operating in the same outlet. However, there is an implicit agreement that if Jamal does not finish selling the textiles, the retailers in Jamal’s outlet have to sell the textiles they bought from him to other retailers outside the outlet. This is done to avoid competition with Jamal. When asked why the retailers operating in the same outlet with Jamal do not ask him to bring the textiles from Tanzania for them, he said, *“ Most of the retailers are too small to raise money for import. Even when they buy the textiles from me they pay the money after they sell the textiles.”*

When asked about his business relationship with the Sun Flag Textile Company in Tanzania, he said, *“Sometimes they try to sell me textiles of different size to those I wanted to have. If I find out the textiles are wrong while I am in Tanzania I can automatically return them. However, it is difficult to return the textiles after they reach Uganda. Instead we renegotiate on the price and it is always difficult to reach into agreement.”* According to Jamal the price is very important in the textile business. Price negotiation is normal in Uganda because the list price is always twice as much as the selling price of the textiles. When asked why he chose to import the textiles from Tanzania, he said, *“The textiles produced by Sun Flag Company are*

fit for the lower and middle class Ugandan customers. I also import textiles from Kenya when I can not find the type of textiles I want to buy from Tanzania. The second reason is because Tanzania and Kenya are neighbouring countries and I can go any time I want and bring back the textiles. This means I do not need a large amount of money to conduct the business.”

Finally, when asked what would be his answer if an Eritrean textile manufacturer came to him and told him he could supply acceptable quality T-shirts and sweaters to him, he said, *“I am happy to buy textiles from Eritrea. This will help me to diversify my source. However, I must say that the price is a very important component of the transaction. For the same quality textiles the price should be at most equal to that of the Sun Flag textile company in Tanzania.”*

7.3.2 Textile buying organisations

The way the textile buying organisations in Uganda are formed and the benefits they give to their members is similar to what we have discussed in the footwear business. What we have seen different in the textile business is that even though the wholesalers are ready to bring textiles for their friends who operate in the same outlet, the retailers do not use the opportunity because they can not raise enough money for importing textiles. However, the textile wholesalers help the retailers who operate in the same outlet by giving them priority to buy the textiles that the wholesalers have imported. The retailers obtain the textiles on credit and pay back when they sell them. This is another arrangement made by the parties who operate in the same outlet to benefit each other. The wholesaler gives credit to the retailers who operate in the same outlet because they can be controlled easily.

7.3.3 Textile retailers

In the following section we discuss the interview results of two textile retailers. These are School Outfitters Ltd., and NOB Traders.

School Outfitters Ltd

School Outfitter Ltd. is a textiles retail company that supplies uniforms to schools, churches, and manufacturing organisations. It was established in 1984 in the centre of Kampala. The company showed rapid growth and currently it employs 30 people.

When asked how she entered the textile business, the owner and manager of the company, Munich Erapu said, *“Before I came here I used to live in Kenya. In Kenya all the schools had uniforms. There were also companies that supplied the schools with uniforms. However, when I came to Uganda in 1983 small disparate tailors that had limited production capacities were producing uniforms to the schools. I saw a business opportunity and I established this company to supply the Ugandan schools and other organisations with better quality uniforms.”* The company imports sweaters and fabrics. While the sweaters are imported from Kenya the fabrics are imported from China. The fabrics are sewn in the company in Kampala.

When asked how she contacts the schools, churches and other organisations that buy the uniforms, she said, *“We contact them in two ways. When the respective organisations have a role to play in buying the uniforms, we approach and tell them that we can supply the uniforms at a lower price. If there is a tender we participate. However, if the organisations do not play a role in buying the uniforms we ask them to tell the students or their employees that*

we have the uniforms at a lower price. On top of that, since we have been working in this business for many years they know us very well. Many customers come themselves.”

Two years ago the manager of the company met an Eritrean sweater manufacturer who was exhibiting his sweaters in Kampala. After a long discussion the Eritrean manufacturer agreed to sell sweaters to the School Outfitters Company. A verbal agreement stating that the Eritrean manufacturer was to supply the sweaters at \$3 per piece was reached. However, the agreement did not specify the price terms, and furthermore, the payment terms were not clearly specified. The understanding of the Eritrean manufacturer was that he had to deliver the sweaters F.O.B. Massawa¹³ and the transportation cost from Massawa to Kampala would be added to the price. Furthermore, the manufacturer assumed that the payment term was cash against documents. The manager of the School Outfitters understood the business dealings in a different way. The price term was C.I.F. Kampala and the payment term on credit. While the arrangement was in limbo the sweaters arrived in Kampala and School outfitter was asked to pay \$ 4 per piece, price plus transportation cost, and to take the sweaters. School Outfitters did not accept the sweaters and they were sold to another wholesaler in Kampala. Because of this misunderstanding the supply contract failed.

When asked about the incident, the Eritrean sweater manufacturer said, “ *We had a verbal agreement with the manager of School Outfitters that she would pay me as soon as I delivered the sweaters. However, later she changed her mind and started to deny what we had agreed.”* The answer to the same question by the manager of School Outfitters was different. She said, “*I could only buy the sweaters at \$3 per piece and that was my assumption. Because the transportation cost from Eritrea to Uganda is very expensive it makes the sweaters uncompetitive.”* She also explained that because of the location advantage Kenyan sweaters are lower priced.

When asked if the second-hand clothing market is affecting her business, the general manager of School Outfitters said, “*In principle the second- hand clothing market cannot affect the uniform business because it is difficult to find the same kind of second-hand clothing that can serve as a uniform. The problem is some schools, churches and manufacturing firms tell their students or members to wear uniforms in black or in blue. They do not care about the design of the uniform. In this case the buyers go to the second hand market and buy any clothes in black or blue.”*

When asked about the level of competition in the uniform business the manager of School Outfitters said, “*Previously my company was the only company that was supplying uniforms. Later those who were working with me, including my sister, have opened their own company and are competing with me.”* Finally, in response to the question about business opportunities for Eritrean textile manufacturers, she said that if the price was acceptable to the Ugandan customers she would buy the Eritrean sweaters. However, she stressed that because the schools open in February and the business is seasonal any delay in shipment can lead to cancellation of the contract.

NOB Traders

NOB traders are a group of textile retailers located in Benkiwanuka Street in Kampala. As mentioned in the previous cases, in Uganda 4-8 people usually share one outlet. All retailers share the rent and other costs and this makes the outlet rent affordable by the traders. NOB

¹³ Massawa is one of the two ports in Eritrea.

traders are five in number and all trade textiles. One of the traders in the outlet is Natouo Gerald. He is the only retailer importer in that outlet. Others buy from wholesalers and sell retail.

Gerald started trading textiles in 1997. When asked how he entered the textile business, he said, *“My father died while I was at school in grade six. I am the oldest son in the family and there was no one else who could take responsibility. I stopped going to school and I started buying and selling textiles with the money my father left. Mainly I was buying the textiles from the local wholesalers and selling them retail.”* Currently Gerald buys men’s, women and children’s wear from Kenya and sells these in Uganda. Gerald knows that his suppliers in Kenya bring the textiles from Thailand. The question here is why Gerald goes to Kenya to buy textiles imported from Thailand while there are wholesalers in Uganda who import the same textiles from Thailand. When this question was posed to him, Gerald said, *“ I do not know the reason but the same quality textiles imported from Thailand are a lot cheaper in Kenya than Uganda.”*

The reason the same quality textiles imported from Thailand are cheaper in Kenya than in Uganda is because of (1) the high profit margin of Ugandan wholesalers and (2) the higher VAT in Uganda. After the textiles arrive in Mombassa it takes another three days to transport them to Uganda. Coupled with the long delay in the custom office in the boarder between Kenya and Uganda the longer time to transport the goods hampers Ugandan wholesalers from getting the textiles on time. To cover this loss in time and capital (tied up) the Ugandan wholesalers charge higher prices. However, for the Kenyan wholesalers the transportation cost is lower and they have an advantage of 2% VAT. While the value added tax in Kenya is 15% it is 17% in Uganda. By going to Kenya Gerald is reaping the benefit of the difference between the higher profit margin of Ugandan wholesalers and the lower profit margin of Kenyan wholesalers, which is approximately 20%.

To import the textiles from Kenya Gerald has to go himself. When he travels to Kenya he has to change Ugandan Shillings to US dollars in Uganda and he has to change US dollars into Kenyan Shillings in Kenya. When asked how he contacts the suppliers in Kenya, Gerald said, *“ They are found in one vicinity in Nairobi. They have small shops where they display the textiles. I go and see the sample and if it is OK with me we negotiate on the price. If we agree on the price they bring the textiles from their stores.”* When asked how he knows which textiles are in demand in the Ugandan market, he said, *“ The customers always come and ask me if I have a particular textiles. From this I can understand which textiles are scarce in the market. Based on this information I go to Kenya and bring the textiles. In addition to the information from customers I make a survey on the market and see the type of textiles other wholesalers and retailers have. When I go to Kenya I try to bring something different.”*

Gerald sells the textiles to customers from Uganda, Rwanda, Zaire, and South Sudan. He also mentioned that his customers comprise the lower segment of the society that can afford to buy new textiles at a lower price. When asked how a low-income Ugandan family can afford to buy new textiles, he said, *“ It is true that compared to the income of an ordinary Ugandan family the textiles are expensive. However, when they have money Ugandans do not think about tomorrow.”* Gerald does not have any clue about the term letter of credit. His business practice is cash against delivery oriented. Gerald also mentioned that he brings textiles for his friends and relatives from Kenya. They also do the same for him when they go to Kenya. Gerald prefers to bring goods for friends who are engaged in trading other products such as footwear. The reason is that Gerald wants his textiles to be unique in the market at least for a

short period of time. If he brings the same textiles for his friends he loses the competitive advantage that emanates from the uniqueness on his textiles in the Ugandan market.

When asked what he could say if an Eritrean textile manufacturer came to him and told him he can supply T-shirts and sweaters similar to those he is importing from Kenya, he said, “ *In this market quality and price are important. If it is good and my customers can afford to buy it I will do business with the Eritrean manufacturer.*” According to Gerald when he goes to Kenya it does not matter from whom he is buying the textiles. He always looks for a textile supplier with good quality and affordable price.

7.3.4 Discussions of the interview results

Due to the similarity between the business practices in the footwear and textile markets in Uganda we will only compare the findings in the textile market with those in the footwear market and highlight the similarities and differences between the two markets.

Buyer seller relationship

The textile wholesalers and retailers in Uganda follow similar business practices to those of the footwear wholesalers and retailers in Uganda. The business relationship is characterised as short term and skewed towards “arms length” transactions. Among the major characteristics of the Ugandan textile importers are: (1) continuous travel to the textile import market and personal supervision of orders, (2) lack of long-term business relationship with suppliers and (3) purchase of small quantity of textiles from each textile design. The Ugandan importers travel every time to the import market to select and check the quality and quantity of the textiles they intend to import. The importers do not have long-term suppliers. When they depart from Uganda they do not have a definite plan as to what type of textile to buy in the foreign market. They visit large number of wholesalers and retailers in the import market to get the textiles they think are right for the Ugandan market. The textiles buyers in Uganda buy the textiles from the wholesalers and retailers in the import market. Because they buy in small quantities they cannot satisfy the manufacturers’ order requirements. This means the textile manufacturers in Eritrea need to study the Ugandan textile market and make an assortment suitable for the Ugandan consumers.

Organisations of import and sales

The textile wholesalers, retailers and buying organisations in the Ugandan textile market follow the same import procedures as the Ugandan footwear wholesalers, retailers and buying organisations. The difference here was a retailer who imports textiles from Kenya also expressed his reservations on importing textiles for friends and relatives. He explained that he prefers to bring goods for friends engaged in business other than textiles, e.g. footwear. This explanation helps us to pin point two important facts. First, even though a trader has reservations on importing similar textiles for his friends and relatives he still continues to do so. This shows that the social network between traders in Uganda is strong. When a trader rejects a request to import textiles for friends and relatives he can be considered to be someone who does not respect his friendships and personal ties. In this case the social sanction is tough. The second point is that importing similar textiles for friends and relatives has a penalty. It aggravates competition and erodes the competitive advantage of the importer. The interesting point in this arrangement is to see how social relationships influence the personal decision of a trader as to whether to accept or reject requests from friends and

relatives to serve them as a carrier. In this case we can say that the horizontal business relationship between traders is highly embedded in social relationships. This is an opportunity for the textile manufacturers in Eritrea if they can relate to a certain group, which is highly bonded with social relationships. The organisation of sales in the Ugandan textile market is the same as that of the footwear market.

Competition

The competition in the Ugandan textile market differs from the Ugandan footwear market in the sense that the textile importers do not face competition from domestic textile manufacturers. Unlike the domestic footwear industry, the textile industry in Uganda has been out of the market since 1995. The textile retailers in Uganda are classified into three groups. These are (1) importer retailers (2) retailers who import textiles through friends and relatives (carriers) and (3) retailers who buy textiles from the domestic market. The first group of retailers is financially strong. They import the textiles themselves and compete directly with wholesalers. This group of retailers has a competitive advantage over wholesalers because it owns retail outlets. Often they import small quantities of expensive textiles and this helps them to avoid taxes by pretending to be tourists. The second group of retailers is highly dependent on friends and relatives. Particularly when the retailer is a beginner, friends and relatives take the responsibility of importing the textiles for him. The help provided by relatives and friends can go as far as introducing the beginner to the import market. The last group of retailers is financially weak and always dependent on importers in the same outlet for supplies. In these cases the retailer's financial position or his business network with other importers are keys to the retailer being able to compete in the Ugandan textile market. He uses his social network with family members or friends to get the textiles at lower cost. By doing this he can sell textiles at a price similar to that of other importers. Often, given a certain quality level, the one who has a cheaper source of textiles wins the competition.

Trust and opportunism

The exchange process between the Ugandan textile importers and exporters in foreign countries such as Dubai and Thailand is characterised by personal supervision. This is mainly due to the lack of trust and long-term business relationship between the Ugandan textile wholesalers, retailers and foreign suppliers. The lack of trust and long-term business relationship between two business partners increases the transaction costs. Moreover, it blocks the smooth flow of information and finance between the buyer and seller. In Uganda it is the supplier (wholesaler or retailer in the import market) who is expected to give credit. This can be explained using two marketing concepts. These are the reverse marketing concept, and the traditional marketing concept. In the reverse marketing concept it is the buyer who helps the manufacturer to produce textiles according to the buyers specifications. In the traditional marketing concept it is the manufacturer who is expected to promote his products so that they will be demanded in the export market. This is similar to what we see in Uganda. The Ugandan wholesalers and retailers expect their suppliers to give them credit to buy the textiles. However, the stumbling block in this business relationship is that the Ugandan buyers are not ready to repay their debts. Because of the opportunist behaviour of the Ugandan

Table 7.5 Summary of fourteen elements of business relationships identified in the cases under study

Description	Wholesalers		Buying organisations (Informal social groups)	Retailers	
	Uganda General Merchandise	Muyinza Trading company		School Outfitters Ltd.	NOB traders
Previous business relationship	Less important	Less important	Less important	Less important	Less important
Importance of trust in the business relationship development process	Less important	Less important	Very important (with carriers)	Less important	Less important
Presence of agents in country of import	Not important	Not important	Not important	Not important	Not important
Design production by the buyer	Not important	Not important	Not important	Not important	Not important
Sample exhibition before placing an order by the buyer	Not important	Not important	Not important	Not important	Not important
Need for security	Very important	Very important	Very important	Very important	Very important
Need for flexibility	Very important	Very important	Very important	Very important	Very important
Subcontracting agreement	Not important	Not important	Not important	Not important	Not important
Joint venture agreement	Not important	Not important	Not important	Not important	Not important
Flexible supply contracts	Moderately important	Moderately important	Moderately important	Moderately important	Moderately important
Form of business establishment	Private limited company	Private limited company	Social organisation	Private limited company	Private limited company
Source of capital for establishing the organisation	Private capital	Private capital	No capital is involved (Social relationship)	Private Capital	Private capital
Source of revenue to the organisation	Profit	Profit	Good social relationship	Profit	Profit
Exclusivity of supply to the buyer	Important	Important	Important	Important	Very important
Willingness to establish direct business relationship with textile manufacturers in Eritrea	Yes (but small order)	Yes (but small order)	Yes (but small order)	Yes (but small order)	Yes (but small order)

(Source: Compiled by the Author)

buyers the foreign suppliers sell the textiles to wholesalers and retailers in Uganda on a cash basis. When this is not possible they establish a direct presence and integrate the export operations in Uganda. This shows us that the two markets are different and need different marketing approaches.

Contract enforcing institutions (conflict resolution)

The business relationship between the Ugandan textile buyers and their foreign suppliers is largely that of transactions at arms length. Consequently, relational dispute resolution mechanisms hardly exist. Agents are often seen as an instrument for the buyer through whom he controls the activities of the manufacturers. By doing this the buyer can minimise the opportunist behaviour of the manufacturer. However, while agents in the import market play a great role in facilitating the buying procedures followed by the buyers in the Netherlands, agents in Uganda have no role in the purchasing process followed by the Ugandan buyers (Table 7.5). This is due to three reasons. Firstly, the Ugandan wholesalers and retailers do not trust others. For this reason they prefer to perform all the activities themselves. Secondly, the Ugandan buyers do not have specifications. The lack of specifications prohibits agents from playing a role in the purchasing process as there is no basis for the agent to go to the suppliers and say what type of textiles are to be bought. Finally, the quantity of textiles purchased by the Ugandan wholesalers and retailers does not justify a role for an agent. Ugandan wholesalers and retailers buy in small quantities and the commission that could be generated from this small amount of purchasing does not attract agents. As the textiles are checked and the payment is made on the spot there is less possibility for a conflict to emerge. The seller is not responsible for any complaint that may come from the buyer after the goods pass title. This shows us that the exchange process in Uganda is “arms length” and is governed by the rules of the market.

Market requirements

As mentioned in the previous sections, the requirements in the Netherlands textile market are centred on the background of the manufacturer and his production competence. The requirements in the Ugandan textile market focus mainly on the characteristics of the product, and its price. If the aforementioned two factors are acceptable to the Ugandan wholesalers and retailers, exchange can take place on the spot. In the Netherlands market we have seen that wholesalers and retailers may take months before they transact with each other. The Netherlands buyers demand information from the manufacturers before they place orders. In the Ugandan case the background of the supplier and the business practices in the import market are secondary. First the Ugandan buyer wants to see the product. If the product is the right quality he negotiates on the price. If an agreement is reached the Ugandan wholesaler or retailer receives the textiles and pays the money. The Ugandan buyer leaves for Uganda after he makes sure that the textiles are on board the ship. The exchange process between the Ugandan buyers and their suppliers is short and fast. This is mainly because unlike in the Netherlands the Ugandan buyers buy the textiles from wholesalers and retailers.

7.3.5 Conclusion

The state of vertical and horizontal business network relationship in the Ugandan textile market is similar to that of the footwear market in Uganda. However the two markets differ in their market structure. While the domestic footwear production still has a market share of about 30% and it poses a certain degree of competition to imports, domestic textile

manufacturing plays no role in Uganda. The domestic textile production discontinued in 1995 due to lack of cotton and dilapidated machinery. Currently the domestic market is supplied almost 100% by imports. The absence of domestic textile manufacturing signals the importance of imports in the Ugandan textile market. However, it is important to note that few Ugandans wear tailor-made clothes. About 90 % of the Ugandan consumers wear ready-made garments. This tells us that while there is a market for T-shirts and sweaters the market for fabrics is minimal. Currently, the Asian suppliers are working to supply affordable textiles to the Ugandan consumers. If the textiles manufacturers in Eritrea are going to win the competition their textiles have to be cheaper than those supplied by Asians and the quality should be competitive. The following conclusions can be drawn for the case studies:

1. There is a market for T-shirts and sweaters in Uganda. However competition from Asian exporters and second-hand clothes dealers is high.
2. Many Ugandan wholesalers and retailers travel to Dubai to buy textiles.
3. Due to the lack of trust agents hardly operate in Uganda.
4. The horizontal business network relationship between a group of wholesalers and retailers in Uganda is much stronger than the vertical business relationship between foreign textiles suppliers and textiles importers in Uganda.
5. The Ugandan wholesalers are not interested in joint venture and subcontracting agreements.
6. The Ugandan market is characterised by lack of trust and lack of institutions that facilitate transactions.

