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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 9

Empirical Study of Export Marketing Problems of Manufacturing Firms in Eritrea: Case Studies

9.1 Introduction

Several case studies are conducted in this chapter. The objective is to examine and understand the export problems that are regarded as important by footwear and textiles manufacturers in Eritrea. Moreover, we look for vertical and horizontal business networking opportunities among leather and cotton producers, footwear and textiles manufacturers and footwear and textiles buyers. Six footwear and six textiles manufacturing firms in Eritrea were selected for this purpose. The footwear and textiles manufacturers were asked questions concerning the history of the factory, products produced, the production capacity, their export experience the relationship with suppliers, buyers and other footwear and textiles manufacturers and of course the problems they encounter in their operations.

This chapter has two main sections. The first section analyses the results of the interviews with the managers of the six footwear-manufacturing firms. This section ends with conclusions drawn on the findings of the studies of on the selected footwear manufacturing firms. Similarly, the second section analyses the results of the interviews with the managers of the six textile manufacturing firms and draws conclusion on the findings.

9.2 Footwear manufacturing firms

9.2.1 Case study results

The six footwear manufacturers are the Expo Shoe Factory, the Asmara Footwear Factory, the Negusse Shoe Factory, Dahlack Footwear Factory, Delux Shoe Factory and the Bini Shoe Factory.

Table 9.1 Some characteristics of the six cases

Name of the footwear factory	Set up year	Number of employees	Type of footwear produced	Exported to
Expo Shoe Factory	1992	90	Leather and plastic	Ethiopia, Kenya
Asmara Footwear factory	1998	30	Leather	Yemen, Kenya
Negusse Shoe Factory	1968	50	Leather and plastic	Ethiopia, Kenya
Dahlack Footwear Factory	1964	612	Leather and plastic	Ethiopia, Uganda
Delux Shoe Factory	1963	170	Leather and plastic	Ethiopia, Uganda
Bini Shoe Factory	1949	50	Leather	Holland, Ethiopia, Uganda

Note: The export to Uganda is carried out through Allied Afri Trading House.

Expo Shoe Factory

The Expo Shoe Factory was established in 1992. Its initial capital was 1,296,000¹⁸ Ethiopian birr with a total employment opportunity for 90 employees. The initial production capacity of the factory was 5000 pairs of plastic shoes and 600 pairs of leather shoe per day. Before the

¹⁸ 1 US dollar was equivalent to 6 Ethiopian birr.

owner established this factory, he worked as a sole importer. He was importing and distributing soles to footwear manufacturers in Ethiopia. Later he decided to diversify into footwear production. By importing the footwear parts from Italy and signing an assembling contract with artisans in Addis Ababa he managed to sell footwear to the Ethiopian consumers. Finally, he established the Expo Shoe Factory in Asmara. Although the factory was located in Asmara the target market was Ethiopia. While about 90% of the total footwear manufactured was exported to Ethiopia only 10% was sold in the domestic market. The factory had a sales outlet in Addis Ababa and sales growth was high. In 1997 the gross export sales for the Ethiopian market reached 3.5 million birr. Henceforth, to cope with the rapidly growing Ethiopian footwear market the owner of the factory decided to expand his production capacity. In view of this strategy he imported machinery worth of 5.5 million nakfa¹⁹ and the total capital in the factory has been raised to about 6.5 million nakfa.

Due to the border war it has been impossible for the factory to sell its footwear to Ethiopian customers since in 1998. An effort was made to sell to Kenya. It was not successful as the footwear shipped to Kenya was not appropriate to the Kenyan consumers. The footwear produced in Eritrea is suitable for thin and long feet where as the feet of most Kenyans are flat and short. According to the general manager another reason for the failure was that the factory did not contact wholesalers or agents who were knowledgeable about the Kenyan market. The Eritrean exporter did not study the strong and well-established business network of the Indians who sell footwear in Kenya. When asked if the Expo Shoe Factory can produce the type of footwear demanded by the Kenyan customers, he said, “*Yes, we have to make some changes to our machinery. For instance, the soles have to be adapted to consumers in Kenya. In order to do this we need to get an order that would justify the investment we would have to make.*”

In 1997, because of the declining export sales to Ethiopia the factory decided to close the plastic production department and to continue with leather production. “*The chemicals we use to make plastic shoes are imported. Due to the current border war between Ethiopia and Eritrea the bank has stopped offering foreign currency and we have to buy it from the black market at a higher rate. Leather is produced in Eritrea and it accounts for about 40% of the production costs. Consequently, leather footwear production is still profitable.*” However, the manager voiced a complaint about the quality of leather produced by the Red Sea Tannery in Eritrea. “*Although there is a problem in our animal husbandry system the tannery did not make an effort to correct it. No investment has been made to modernise the machinery and to improve its finishing capacity. Furthermore, because the factory is publicly owned there is no businesslike attitude on the part of the management. This is due to the monopoly power they have in the market. There is not enough room for discussion concerning the quality of leather and the means improving it.*” With regard to the factory’s relationship with other footwear producers, he said, “*In cooperation with eight footwear manufacturers we established a company called HAGL with the objective of solving our marketing problem. However, we still need to find qualified and trustworthy people who can run the company and help us to achieve this objective.*”

When asked what the factory would do if a buyer placed an order far greater than the capacity of the factory, he said, “*Currently we are working at 50% of our production capacity. Instead of working with one shift we can expand into three shifts. By working in three shifts we can increase our daily leather footwear production from 600 pairs per day to 1800 pairs per day. The fact that footwear production is labour intensive means we can add employees*

¹⁹ Nakfa is an Eritrean currency unit that was launched in November 1997.

and produce more. If all this effort was not enough to meet the order we would invite other producers to produce the footwear under our supervision.” Finally, the manager mentioned that the main strength of the factory is the skilled labour that can be updated easily. According to the manager, if this strength is supported by training and investment in machinery the factory can make footwear suitable for the African and European markets.

Asmara Footwear Factory

The Asmara Footwear Factory was established in April 1998. The factory had an initial capital of 1.1 million nakfa and offered an employment opportunity for 30 employees. An Eritrean investor contributed 600,000 nakfa to the initial capital and an Italian investor financed the rest. The objective of the investors was to take the market share of an Italian footwear company that was exporting footwear from Italy to Ethiopia. The Ethiopian footwear manufacturers were not in a position to make the footwear at home because they had to import the parts from Italy. This was expensive in Ethiopia because of the high import tax on footwear parts. However, in Eritrea the import tax of any raw material used for exports was only 2%. During that time there was a free trade agreement between Ethiopia and Eritrea for products assembled or produced in the domestic market.

About a month after production started the war between Ethiopia and Eritrea erupted. The Italian investor decided to quit the partnership. However, another Italian, who was supposed to supply the parts of the footwear, bought a share in the factory and the Eritrean investor purchased the rest. Currently, the factory is selling footwear to Yemen and the domestic market. When asked how he managed to establish contacts with customers in Yemen, he replied, *“ I did not contact them myself. They came to Eritrea and asked for samples from different manufacturers. Finally, they told me that they were interested in my footwear. They placed a trial order and it was sold immediately. Later, we decided to sign a supply contract for two years, after which they opened their own shop in Sana’a.”* The footwear is sold ex-factory and the customer uses airfreight to transport the footwear from Asmara to Sana’a. The payment arrangement is cash against order.

The factory uses leather from the domestic market. *“ I personally do not agree with the complaints of some footwear manufacturers concerning the quality of leather produced in the Red Sea Tannery. The leather is not too bad for export. The problem is that the manufacturers have to know what type of leather they would like to have and discuss with the personnel in the tannery. Recently the price of leather on the international market was low and I decided to buy leather from Italy. For this purpose I participated in a trade fair and it was very difficult for me to determine the type of leather that I wanted to buy. I tried to compare the leather I bought in Italy with the leather produced in Eritrea and there was no major difference. So my conclusion is the problem is not only at the tannery. We, the footwear manufacturers, should approach the management of the tannery and tell them what our need is.”*

With regard to the relationship with sole suppliers, other footwear producers and buyers he noted that, *“We have a good working relationship with the Red Sea Tannery as well as the supplier in Italy. I am also satisfied with the quality of leather from the tannery and the soles from the Italian supplier. As to my relationship with the buyers in Yemen, it is based on trust and honesty. They update us with market information continuously and we use this information to improve our product quality. Currently the shop in Sana’a is using our brand*

name and this will help to penetrate the Yemeni footwear market.” Asmara footwear factory is one of the founders of HAGL.

When asked what he would do if a foreign buyer gave him an order to produce footwear beyond his production capacity, he said, “*I do not know how big the order is going to be. However, we can make an arrangement to produce 500 pairs of footwear per day. Furthermore, it is possible to share the order with other footwear manufacturers. The problem in the export business is that every pair of shoes should be the same. Before any capacity sharing arrangement is made, it is important to make sure that the one who is sharing the order has the capacity to make the same kind of footwear.*” The owner also mentioned that the Asmara Footwear Factory is ready to be flexible with regard to the payment arrangement in line with the length of the relationship with the customer and volume of business. Finally, the manager noted that exporting requires a lot of finance. The bank and the government should help the manufacturers to solve the financial problems the footwear manufacturing firms are facing. According to him if there is demand the factory can allocate up to 70% of its production capacity for export.

Negusse Shoe Factory

The Negusse Shoe Factory was established in 1968. Currently it can produce 500 pairs of leather footwear per day in two shifts. When there is an excess order the production capacity can be extended to 750 pairs per day in three shifts. The factory employs 50 people. Explaining the history of the factory the general manager said, “*My father started making footwear when he was ten. He used to work with Italians as a messenger boy. Later he learned how to make footwear and he was hired as a shoemaker. After he saved some money he opened a small-scale, family owned footwear factory which is currently known as the Negusse Shoe Factory.*”

The Negusse Shoe Factory focuses on the middle and higher segment of the men’s, women’s and children’s footwear market. The footwear produced in the factory is known for its superior design. “*Previously we used to subcontract designers who were working in the public footwear factories in Asmara. However, the disadvantage with this method is that there is no exclusiveness. Besides, because the designers have acquired the knowledge through experience there is no flexibility. Thus we decided to subscribe to a footwear design magazine known as Arustoria. Although it is expensive it is the best way to cope with the rapidly changing footwear fashion.*”

Before the border conflict with Ethiopia started 80% of the factory’s output was sold in Ethiopia. Fifteen wholesalers distributed the shoes in Ethiopia. In the beginning the wholesalers used to come and purchase the footwear for cash. Later on, they placed orders by fax or telephone and paid as soon as the goods crossed the Ethiopian-Eritrean border. The general manager also reported that many wholesalers asked to buy footwear from the factory after the factory exhibited its footwear in Ethiopia in 1996. Although the Ethiopian market was a big market for the factory’s footwear the general manager indicated that it was a disadvantage as well. Because the footwear standard in Ethiopia was very low Negusse’s footwear formed part of the high quality segment in the Ethiopian market. According to the general manager the footwear was sold without any problem. In other words there was no competitor in Ethiopia that forced the Negusse Shoe Factory to improve the quality of its footwear. “*When we started to look for alternative markets we found that the quality of our footwear was below our expectations. From this we learned that although a good market may*

exist in one country it is important to diversify to other countries as well. In short we are just opening our eyes.”

Since the crisis with Ethiopia started, the factory has sent samples to Kenya, Uganda, Germany and Norway. When asked what the feedback was, the general manager said, “ *Our factory is a member of HAGL. The manager of HAGL studied the Kenyan market and reported to us that there was a market for Eritrean footwear in Kenya. Based on this report we collected different types of footwear from the nine members who established the company and we sent a container full of footwear. Because Christmas is the occasion when many Kenyans buy footwear we planned to make the footwear available during Christmas 1999. Although the container did not reach Kenya in time our footwear and that of the Asmara footwear factory was sold without a problem. The footwear that belongs to other footwear manufacturers had to wait for Christmas 2000.”*

The factory also sends footwear to Uganda through AATH. Nevertheless, the general manager thinks it is better to exhibit her footwear in the Dubai footwear market than taking it directly to Uganda. According to her the Dubai market offers the opportunity of meeting footwear buyers from all over the world, including Uganda. The samples that were sent to Germany and Norway were also accepted and the buyers in the two countries have 10,000 pairs of footwear each. Nevertheless, the Negusse Shoe Factory did not accept the order for two reasons. First it was beyond the capacity of the factory. Working in three shifts could have solved this problem. However, the second and major problem is that the Red Sea Tannery does not have the capacity to supply the type of leather that would be used to make the footwear. According to the general manager the Red Sea tannery gives a lot of priority to export.

The general manager commented that the leather produced in the tannery is becoming a bottleneck for export. The government has announced that it is going to privatise the Red Sea Tannery. If the only tannery in the country is privatised the problem of a monopoly will arise and could further harm the footwear production in the country. The general manager mentioned that the Negusse Shoe Factory had tried to import leather from Egypt. However, because of the high inflation in Eritrea the cost rocketed and the factory stopped its plan. A similar effort to import leather from Sudan failed because of the political tension between the two countries. Finally, the general manager concluded by saying that if the quality of leather produced in the tannery is improved and the footwear manufacturers work hard to solve their problems, she is confident that there will be demand for the Eritrean footwear. She referred to the failed orders from Germany and Norway as evidence.

Dahlack Footwear Factory

The Dahlack Footwear Factory is the largest footwear manufacturing firm in Eritrea. Raffaello Bini, an Italian investor, established it in 1964. The factory produces leather shoes, leather sandals, working shoes, military boots, jogging shoes and PVC shoes. The factory’s production capacity for leather shoe is 1200 pairs/day of which only 60% is utilised. The installed production capacity for plastic shoes is 15000 pairs per day, of which only 30% is utilised. The factory can produce 3000 pairs of canvas shoes per day. Since its nationalisation, in 1974, the factory remained in public hands until February 2001. Currently it is in transition from public to private ownership.

About 80% of the footwear manufactured in the factory was sold in the Ethiopian market. In the period 1964-1974 the factory used to distribute the products to Ethiopian small wholesalers located in different regions of the country. After its nationalisation, it was linked to the Ethiopian Domestic Distribution Corporation, (EDDC). A branch of EDDC, Ethiopian Retail Corporation, used to take all the products of the factory and distribute them all over the country. When asked about the factory's relationship with the Retail Corporation, the general manager said, "*During that time there was no discussion about the quality of the footwear. The main discussion with the Retail Corporation was about the production volume. The factory was simply a production entity, with no connection with the consumers of its products.*"

After liberation in 1991, the factory continued exporting footwear to the Ethiopian market in an indirect way. Five domestic wholesalers used to buy the footwear from the factory and exported it to Ethiopia. Later the factory decided to sell the footwear directly to the Ethiopian buyers. Army boot buyers in Ethiopia were the police and the army. About forty institutions in Ethiopia bought the working boots. In 1995, Dahlack Footwear Factory approached its old customer, the Ethiopian Retail Corporation and started doing business. Under the agreement made the Ethiopian Retail Corporation bought most of the footwear produced in the factory. When asked if he observed any difference in the business relationships with the Ethiopian Retail Corporations before and after independence, the general manager said, "*In our later relationship the Ethiopian Retail Corporation was more careful about the quality of the footwear. Our footwear has a well-established image in the Ethiopian market and this was an advantage to the Ethiopian Retail Corporation in doing business with us.*" The Ethiopian Retail Corporation was privatised in 1997 and Dahlack continued to sell footwear directly to the aforementioned institutions in Ethiopia. Even when the Ethiopian government ordered all Ethiopian buyers to open letters of credit (LC) for all imports from Eritrea, this did not form a problem to the Dahlack Footwear Factory. Its customers were ready to adopt the new rule and import from Eritrea. According to the manager the Ethiopian wholesalers were supplied his factory with information about the Ethiopian market and this was useful in its competition with the domestic footwear producers. After the start of the war the factory had to find alternative markets. It exhibited footwear in Kenya and managed to get one buyer. The wholesaler in Kenya came to Eritrea and placed orders. After placing an order three times, the customer stopped. "*A group of Eritrean footwear manufacturers (HAGL) delivered a container full of footwear to the Kenyan market and it was not necessary for our ex customer to come to Eritrea.*"

Uganda is one of the major target export markets for the factory's footwear. Currently, Dahlack Footwear Factory sells military boots through AATH. When asked about the factory's business relationship with suppliers and other producers, the general manager said, "*We buy the leather from the Red Sea Tannery. The leather processed in the tannery has quality problems. Thus, we always complain to the management of the tannery and they hardly accept this. I always felt that we the footwear manufacturers, should have discussed the problem and taken some measures to solve it. However, this did not happen because we do not have any organisation that brings us together. Recently, we have established an association of leather and leather products manufacturers and I hope this will help us to discuss such problems.*"

During his visit to some of the shops that import and sell footwear accessories in Asmara the researcher observed soles imported from Italy and Egypt. However, at least four footwear manufacturers in Eritrea, including the Dahlack Footwear Factory, produce soles. When asked why the footwear factories do not supply other footwear manufacturers in the domestic market, the general manager said, "*In this respect there are two problems. The first one is that the footwear manufacturers that produced the soles cannot produce all the types of soles required by*

the market. The moulds they use to make soles are expensive. Consequently, importing soles cannot be avoided. The second problem is the business strategy adopted by the sole producers. As the manufacturers do not get enough orders to cover the cost of the fashion sensitive moulds they produce soles only for their factories.”

Finally, the general manager stated that he has been in favour of co-operation especially since the Ethiopian market is closed. He stressed that although it takes time and money to bring footwear manufacturers with different backgrounds together, the footwear manufacturers in Eritrea do not have any other alternative. He concluded his remarks by saying, “ *While some manufacturers say it is going to be difficult, I continue to say we can do it.*”

Delux Shoe Factory

The Delux Shoe Factory was formed by a merger of Ethiopia Shoe Factory and Asmara All Plastic and Shoe Factory. Ethiopia Shoe Factory was established in 1963 as a share company of 36 Eritrean and three Italian investors. Its capital was 240,000 Ethiopian birr. Asmara All Plastic and Shoe Factory was established in 1971 by the Italian investors Senior Mario Mergeti, Aldina Mergeti and Sam Varisco with a capital of 300,000 Ethiopian birr. Senior Mario Mergeti was also a shareholder in Ethiopia Shoe Factory. In 1973 a shareholders meeting of the Ethiopia Shoe Factory was called and a loss was reported. After the report was issued the shareholders decided to lease the Ethiopia Footwear Factory to Asmara All Plastic and Shoes Factory for 30, 000 birr per year. The new factory was named Delux.

Mario Mergeti, one of the owners of the Delux Shoe Factory, had a tannery in Asmara. He exported semi-finished leather to Italy. However, the tannery did not have the capacity to finish the leather and consequently he imported finished leather from Italy. Using the imported finished leather, he made footwear in Eritrea for export to Italy and Yemen. In 1975 the military government of Ethiopia nationalised the factory. The Ethiopian Domestic Distribution Corporation (EDDC) was responsible for marketing all the plastic and leather footwear produced in the factory. The general manager said, “ *During that time the factory did not have to design the footwear produced in the factory. All the designs were sent from Addis Ababa and the factory’s responsibility was just to copy it.*” After independence the lack of designers was the main problem of the factory. A training programme funded by an NGO from Finland was organised and the factory managed to train two designers. However, one of the designers left because of a disagreement about salary and the factory still has a shortage of designers.

After independence in 1991 the factory resumed exporting to Ethiopia indirectly. It used to invite a group of wholesalers to present their total annual volume of footwear purchases from the factory. The one who proposed to buy the highest volume of footwear used to win the bid and distributed the footwear in Ethiopia. Dahlack Footwear Factory also followed this system, although later it decided to distribute the footwear by itself. The general manager of the Delux Shoe Factory said, “ *The advantage of this system was that we did not have to keep a stock of footwear.*” When asked what efforts the factory had made to find an alternative for the Ethiopian market, the general manager said, “ *Because the factory is owned by the government, the responsibility of finding alternative markets is assumed by the Ministry of Trade and Industry of Eritrea. The government privatised the factory and now we are in the process of winding up our activities.*”

The Delux Shoe Factory has participated in trade fairs in South Africa, Morocco, and Sudan.

“ We benefited a lot from our participation in the trade fairs. We really came to realise that we have been alienated not only from the rest of the world but also from Africa. For instance we did not know there were associations such as the African Federation for Leather and Allied Industries (AFLAI), and the East and South African Leather Industries Association (ESALIA). Many African countries have been getting technical and financial aid through these associations. After we returned from the trade fairs we called a meeting and established an Eritrean leather and leather products manufacturers association. Now we are participating in meetings of ESALIA through the association.”

When asked about his factory’s relationship with its leather supplier, Red Sea Tannery, he said, *“ Because of a lack of an alternative supplier we buy the leather only from the public owned Red Sea Tannery. During meetings of the public owned factories we always complain about the quality problems in the Red Sea Tannery. However, the problems are multi dimensional. The skin and hides the tannery is receiving from the Eritrean cattle has many defects. This is because of the lack of a proper veterinary and animal husbandry system. Besides, the tannery has old technology. To get good quality leather there is a need to improve the animal husbandry system in the country as well as to introduce new tanning technology. Having said this the “Grade A” finished leather is appropriate for export standard footwear.”* Because both companies were under public ownership, the Delux Shoe Factory used to get a three-month credit from the Red Sea Tannery.

Finally, the general manager commented that although there is a solid background in making footwear in Eritrea the footwear manufacturers have been alienated from the international market. The footwear technology in Eritrea has to be upgraded and there is a need to train people. The footwear manufacturers have to co-operate and organise themselves. *“ Co-operative institutions always face problems. However, in the Eritrean situation we do not have any other alternative.”*

Bini Shoe Factory

The Bini Shoe Factory, formerly known as the Eritrean Shoes Factory, was established in 1949 by an Italian investor called Giuseppe Cipolini. Its initial capital was 200,000 birr and it employed 200 workers. It produced men’s, ladies and children’s leather shoes. In 1950, the factory was renamed the Cipolini Shoe Factory. During this time the factory exported footwear to Arab countries. In 1974 this factory was nationalised with capital of 1,238,924 birr and 270 employees and was then renamed the “Eritrea Shoe Factory.”

After its nationalisation the factory showed a rapid increase in capacity. At the end of 1989 its state capital reached Birr 1,486,694 birr and it had 414 permanent employees. Its production reached 1200 pairs of shoes per day. This is because its customer was the Ethiopian Domestic Distribution Corporation (EDDC) and all the footwear made in the factory was distributed in Ethiopia. During this time quantity was more important than quality. Thus the factory’s production used to cover about 20% of the total shoe production in Ethiopia. In 1991 the factory came under public ownership and resumed the export to Ethiopia until 1997.

In 1997 the factory was declared available for privatisation. Two Eritrean investors and an Italian bought the factory at a cost of 5.4 million nakfa. The Italian partner has a footwear factory in Italy. Moreover, one of the Eritrean partners worked as a footwear quality control officer for a big footwear company in Germany known as Ricosta. He travelled to Rumania, Hungary and Czech Republic for quality inspections. The plan was to produce export

standard shoes for export to Italy. The general manager of the factory who is also one of the owners said, “ *Before we bought this factory we imported some machinery and we started producing footwear in a rented facility in Asmara. When the factory was declared available for privatisation we were very happy. We bought the factory and we started to produce quality shoes for export. Three months after we started production we received an order from a European aid organisation (Euronaid) based in Holland for about 24,000 pairs. After we shipped the last order the border war started and they stopped contacting us. Actually the shipment for the last order was late due to lack of ships coming to the port.*” When asked if the foreign partner, Bini, was useful in locating customers in the foreign market, the manager said, “ *We sent some footwear samples to Italy and we realised that we have a problem with the domestic leather that we use to make the footwear. If we are going to be competitive in the foreign market we must improve the leather.*” Later the researcher understood that Bini was instrumental in getting the order from Euronaid. Currently while the standard production capacity of the factory is 1500 pairs per day it is producing only 400 pairs. The factory has three distributors in the domestic market. These distributors take the footwear from the factory and sell it at a price agreed with the factory.

When asked what role his factory can play in improving the quality of the leather, he said, “*The tannery went for privatisation at least three times but no winner was declared. Our Italian partner brought in another Italian investor who had a lot of experience in leather tanning. The investor came here with his own consultants. He studied the tannery and finally proposed to buy the tannery at the cost of \$1 million. In his offer he promised to renovate the tannery. While the negotiation was going on the war started and the Italian investor disappeared. Now the tannery has been sold to an Eritrean investor and we shall wait and see what improvements he is going to make.*” Finally, the general manager commented that the Eritrean hides and skins are of good quality. The problem is lack of skill, old machinery and improper use of chemicals. According to him unless these things are improved the tannery will always remain a bottleneck to footwear export.

9.2.2 Discussions of the interview results

The case studies have shown that footwear manufacturers who entered into a loose business network relationship with buyers, suppliers and foreign partners are doing relatively better. The Asmara Footwear Factory and Bini Shoe Factory are evidence to this argument. Asmara Footwear Factory has entered into a business network relationship with the sole supplier in Italy and a buyer from Yemen. The Italian sole supplier is linked with the Asmara Footwear Factory through financial ties. This created a market opportunity to the sole supplier in Italy and a supply source for the Asmara Footwear Factory. This helped the factory to become the leading men’s footwear manufacturer in the country. Bini was also useful in getting orders from Euronaid. Correspondingly, the Yemeni footwear buyer signed a two-year supply contract and networked himself to the factory by naming his shop after the brand name of Asmara Footwear Factory. The choice made by the Yemeni buyer in regard to naming his shop after the brand name of Asmara footwear factory shows his interest for long-term business relationship.

Due to the lack of a business network relationship Eritrean footwear manufacturers such as Expo, Delux, and Negusse are not doing well. They are completely dependent on the domestic market. The case studies also have also shown that the lack of a business network relationship between the footwear manufacturers and the Red Sea Tannery has contributed to the poor quality of leather supplied by the tannery. All the managers in the five footwear

manufacturing firms have mentioned the leather quality problems in the tannery (Table 9.2). However, because of the good communications established between the Asmara Footwear Factory and the Red Sea Tannery, the former managed to get the type of leather it wanted. This is evidence of how an information exchange network between the tannery and the footwear manufacturers could alleviate the leather quality problems in the tannery. There is lack of finance and skilled labour in the tannery and the business network relationship has to fill this gap.

Table 9.2 Summary of the export problems that are rated as very important by the footwear manufacturers

Export problems	Footwear manufacturers included in the case studies					
	Expo	Asmara	Negusse	Dahlack	Delux	Bini
Internal export problems						
Lack of knowledge to locate foreign market opportunities	X	X	X	X	X	
Lack of specific information regarding foreign agents, distributors and prospective buyers	X		X	X	X	
Lack of export marketing research	X	X			X	X
Lack of experience in planning and executing export operations	X		X	X	X	
Lack of management exposure to other cultures and different methods of doing business	X	X	X	X	X	
Lack of personnel trained and qualified in export marketing	X		X	X	X	X
Inability of the firm to self finance exports	X	X			X	
Product quality problems	X	X	X		X	X
Lack of ability to supply required quantity on continuous basis	X	X	X		X	X
External export problems						
Lack of adequate quality of raw materials	X		X	X	X	X
Too small in size to initiate export operations		X			X	
Lack of export promotion programmes sponsored by the government	X	X				
Problems in shipment and meeting delivery dates						X

Note: X indicates the relevance of the export problem to each footwear-manufacturing firm. The results in the above table are the combination of the input from the case study and rating in the questionnaire.

The case studies also revealed that the footwear manufacturers have common export problems (Table 9.2). The manager of the Asmara Footwear Factory indicated that the government should offer financial help through low interest credit. The financial problems are more acute because most of the footwear manufacturing firms have been idle for at least the last two years. Moreover, lack of trained labour due to the defence mobilization programme has aggravated the shortage of personnel in the footwear-manufacturing firms. Due to the lack of exposure to the international market and poor market research, the Expo Shoe Factory sent footwear that was not appropriate to the Kenyan market. Although the companies have been operating in the shoe business since 1963 their links with the outside world are very limited and only to the Ethiopian market. Two orders from Europe and Scandinavia placed with the Negusse Shoe Factory were cancelled due to product quality and capacity problems. During the interview the manager of Asmara Footwear Factory mentioned product standardisation as a precondition to expanding production capacity through order sharing. However, only the manager of the Bini Shoe Factory has mentioned the problems in making shipments and meeting delivery dates (Table 9.2).

Three managers have explicitly mentioned co-operation among the footwear-manufacturers in Eritrea as a solution to the aforementioned export problems of the footwear-manufacturing firms. The manager of the Dahlack Footwear Factory, the Deluxe Shoe Factory and the Asmara Footwear Factory have clearly indicated that co-operation among the footwear manufacturers is the only solution left to the footwear manufacturers in Eritrea.

Table 9.3 Rating of footwear manufacturers in Eritrea to alternative business networks (n=6)

Alternative business network solution	Mean
Establishing a horizontal business network relationship among footwear manufactures	4.00
Subcontracting network agreement with foreign footwear buyers	3.33
Establishing vertical business network relationships with Eritrean leather suppliers	3.33
Concluding joint venture agreement with foreign buyers	3.16
Flexible supply contracts with wholesalers and retailers in foreign countries	3.33
Export promotion programme by the Eritrean government	2.33
Working to penetrate foreign markets on individual basis	2.89

(Source: Case study 2000)

We asked the footwear manufacturers to rate seven possible solutions in terms of their importance. The results are shown in table 9.3. The rating shows that establishing horizontal co-operation with fellow footwear manufacturers (4.00) is rated as very important. The other three solutions rated as moderately important are subcontracting network agreements with foreign footwear buyer's (3.33), establishing a business network relationship with Eritrean leather suppliers (3.33), concluding joint venture agreements with foreign buyers (3.16), and concluding flexible supply contacts with wholesalers and retailers in foreign countries (3.33). Finally, penetrating the international footwear market through individual efforts (2.89), and through export promotion programme initiated by the government (2.33) are rated as less feasible. These trends show that, in the perception of the managers, vertical and horizontal business networks can help to ease their common export problems.

9.2.3 Conclusion

The interview results confirm that the export problems identified in the aforementioned chapter are relevant to the footwear-manufacturing firms in Eritrea. The capacity problem, the problem of designers, the need for financial support, and finally the delay in shipment are some of the examples. The lack of management exposure to other cultures and different methods of doing business, lack of personnel trained and qualified in export marketing and lack of export marketing research are among the problems that are becoming a bottleneck to the internationalisation of the Eritrean footwear industry (see Table 9.1).

The case studies have also shown that the long dependence of the footwear manufacturing firms on the Ethiopian market and the lack of horizontal and vertical business networks have aggravated the difficulty of the export problems. Even the loose vertical business network relationship that existed between the government owned footwear manufacturing firms (Dahlack and Delux) and the Red Sea Tannery prior to privatisation is inspired by the common ownership of the factories. The government has encouraged exchange between public owned firms. The comments given by the managers of Asmara Footwear Factory, Delux Shoe Factory, Dahlack Footwear Factory and the high rating for horizontal networks (see Table 9.2) are evidence of the positive perception of the footwear manufacturing firms in Eritrea towards establishing horizontal and vertical business networks. The interesting point in the comments given by the three managers is not only that they believe networks are the

solutions to the export problems of the footwear manufacturing firms in Eritrea but also that they perceive the problems they may face in the future.

9.3 Textile manufacturing firms in Eritrea

9.3.1 Case studies results

The six textiles manufacturing firms selected for the case studies are the Asmara Textile Factory, the Asmara Sweater Factory, Eritrea Textile Factory, Barokco Textile Factory, Erikog, and Ambesa Sweater Factory.

Table 9.4 Some characteristics of the six cases

Name of the factory	Set up Year	Number of employees	Type of textile produced	Exported to
Asmara Textile Factory	1957	1500	T-shirts, fabrics, Blankets, Garments etc	Ethiopia, Uganda, Switzerland
Asmara Sweater Factory	1954	165	Sweaters, Garments	Ethiopia, Italy
Eritrea Textile Factory	1968	500	Fabrics, T-shirts, Garments etc	Ethiopia, Uganda
Barocko Textile Factory	1965	700	Fabrics, Garments	Ethiopia
Erikog Garment Factory	1995	300	Garments	DRC (Congo)
Ambesa Sweater Factory	1970	90	Sweaters	Ethiopia

Note: The export to Uganda is carried out through Allied AfriTrading House.

Asmara Textile Factory

Cotonificio Barattolo & Co. established the Asmara Textile Factory in 1957 with a capital of 110,000 birr. The factory was backward integrated into the Alighider cotton plantation to secure continuous supply of cotton. Currently it employs 1500 persons. The initial objective of the factory was to produce yarn for the internal market. Following expansion, new departments were added to weave cotton fabrics, blanket, and knitted articles. It is the largest producer of fabric and knitwear in the country. The factory has a diverse production structure, which is difficult to manage. This makes it difficult to identify the core business on which to concentrate the scarce resources. Initially the company had a vertically integrated spinning, weaving, and finishing mill. In 1987 more spinning, knitting and garment making machines were added. It also has a cotton ginning plant.

Like any other factory in Eritrea the target markets of the Asmara Textile Factory were both Ethiopia and Eritrea. Currently, the factory exports T-shirts to Switzerland and Uganda. In 1984 an Italian investor and the Asmara Textile Factory signed a contract manufacturing agreement. The agreement specified that the Italian investor would install new machinery that produced T-shirts and the factory would sell the product to the investor for seven consecutive years. In the meantime the investor would recover the cost of the machinery from the sales of the T-shirts. After six years the new government stopped the contract arguing that the factory was being exploited. The finance manager said, “ *When I evaluate the contract production arrangement I can say it was very successful. Because of the investment made on in the knitwear department our production volume rose from 1000 pieces to 10,000 pieces per day. Now due to the lack of proper maintenance and trained personnel, the daily actual production is only 3000 pieces. During the contract period we had seven Italian experts who were assigned to train the employees and guide the production process. Because the contract has been discontinued we are facing a problem of spare parts for the machines that were installed*

by the investor. For instance, last week a packing machine has been broken and we do not know where to get the spare parts. If the arrangement had been continued we would simply call the investor and ask him to send us the spare part. I am sure we could get it within five days."

After independence the factory has exported T-shirts to Italy, Germany, and Switzerland. When asked about the business relationship of the factory with the three buyers, the general manager said, " *At the beginning of 1992 we contacted old customers explaining them that we had T-shirts for export. By doing this we managed to get customers from Italy, France and Germany. Our business relationship with the customer in Italy discontinued because we could not reach agreement on the price. Our customer in Italy was not reliable and we did not want to continue with him. Our customer in Switzerland (ICPC) is the one with whom we would like to continue doing business. He is a person with long term vision and we like him very much. Last time our factory sent T-shirts with some defects. After detecting the defective T-shirts our customer in Switzerland asked us to reduce the price but only for the defective T-shirts. We were surprised by his positive attitude. If he were another customer he would send the whole container back. In response to our customer's effort to maintain a good business relationship with us we made a price reduction more than the amount he requested.*" To solve packaging problems ICPC sends us cartons from Switzerland.

The Asmara Textile Factory requires its customers to pay cash with order or open irrevocable confirmed letter of credit. " *We run a public owned factory. None of us wants to take responsibility for any loss that might occur due to default on the part of the customers. Although we know that it is going to be a problem to attract more customers we are always forced to stick to the aforementioned payment arrangements.*" The Asmara Textile Factory buys cotton from the Alighider cotton plantation. The business relationship between the Alighider farm and the Asmara Textile Factory is broad. Asmara Textile Factory has two ginning machines and the cotton produced in the Alighider farm is sent to the factory for ginning. Ginning is a process of separating the seed from the flesh. Asmara Textile Factory charges Alighider some money plus the seed of the cotton for its ginning service. The seed are useful for making oil. The Asmara Textile Factory gets some money by selling the cottonseed to oil factories in Asmara. After the ginning process is completed the Asmara Textile Factory negotiates prices with Alighider and buys the cotton that it needs.

Two years ago the Alighider cotton plantation installed its own ginning factory worth \$40 million at the plantation site. The Ethiopian army destroyed it in May 2000. When asked why the Alighider cotton plantation took such a decision while the Asmara Textile Factory had two idle ginning machines, all the finance, production and commercial managers of Asmara Textile Factory agree on one point. They said, " *It was a mistake because it makes the ginning facilities in Asmara Textile factory idle.*" However, the general manager of the Alighider cotton Plantation Company responded by saying it was important to have the ginning factory in Alighider because there was a plan to export the cotton directly from the plantation. Although Asmara Textile buys cotton from Alighider there is still a pricing problem. According to the general manager of the Asmara Textile Factory the cotton produced in Alighider is of high quality and it is superior to the type of cotton that the Asmara Textile Factory wants to buy. While Alighider wants the Asmara Textile Factory to buy the cotton at the international market price, the later wants to buy it at a lower price.

The current problem of the Asmara Textile Factory is lack of investment to replace the ageing machinery. Because of the government privatisation policy no investment has been made for

the last ten years at least. Currently the factory is exporting far less than it could. According to the production manager this is because the machines are not well maintained and the employees who were trained by the Italian contractor left the factory due to a disagreement on salary. Consequently the current export capacity of the factory is only 15% of what is supposed to be exported. According to the general manager the factory's strength is the availability of the raw material in the domestic market and the large, low cost labour force that can be easily upgraded.

During the interview with the Sweater producers in Eritrea, almost all of them complained about the high cost of importing yarn. Using information, when asked if the Asmara Textile Factory could supply yarn to the sweater producers, the production manager said, "*Different types of yarn are used for making sweaters. The type of yarn the sweater producers are using now is called acrylic. It is synthetic and cheaper in price. We cannot make this type of yarn because we do not have the technology and the chemicals. However, for those who want to use cotton yarn we can produce it for them provided some investment in machinery is made. Because we are going to use cotton as the raw material the price will be higher than sweaters made of acrylic.*" Price is the decisive factor in the domestic market. Thus it may not be advisable for the sweater factories to use cotton to make sweaters for the domestic market.

Asmara Sweater Factory

Italian nationals established the Asmara Sweater Factory, formerly known as "Industria Maglieria Asmara (IMA)", in 1954 in Asmara. The objective of the factory was to produce standard size sweaters of a model already decided for the domestic and export markets. The initial capital of the factory was 10,000 Ethiopian birr and reached 100,000 birr in 1955 and 1,600,000 birr in 1965. It produced sweaters in all types of yarn for men, women and children. In February 1974 the Ethiopian military rulers nationalised the factory and it was administered under the Ethiopian Textile Corporation. All the sweaters produced in this factory were shipped to the corporation's head office in Addis Ababa and the factory did not have any authority on marketing its sweaters. The factory lost the marketing skill that had been developed by the Italian investor. No investment was made to modernise the machinery and train the employees.

After independence the factory revived its marketing activities. Because of the postcolonial legacy it was easier for the factory to export to Ethiopia than to any other country. The Ethiopian consumer already knew the sweaters and there was no need to invest in additional promotional activities. In view of this the factory opened a shop in Addis Ababa to sell its sweaters. It also assigned an Asmara based company called SACHI to sell its sweaters in Ethiopia on commission basis. The domestic market was supplied in two ways parallel to the Ethiopian export market. The factory has a boutique shop in the centre of Asmara. This shop sells sweaters and other garments produced by the factory and other imported textiles. Customers who visit the shop and cannot find their size can go to the factory and order tailor made sweaters. The main customers of the Asmara Sweater Factory in the domestic market are the Ministry of defence and Police. The factory makes sweaters for the Ministry of Defence and jackets for the Air Force and the Police.

Until 12 May 1998 the factory was under government ownership. However, in line with the governments' privatisation policy, the factory was privatised on 13 May 1998, at a cost of \$500,000. The current owner of the factory is an Eritrean who has a textile shop in Milan. The new owner imports fabrics and yarns from East and Southeast Asia for sale in Italy and other

by the Ethiopian wholesalers. In this case there was no need to invest in establishing our own distribution channel to the Ethiopian market.”

Concerning the factory's relationship with other foreign customers the general manager stated: *“In 1995 a dedicated Eritrean who resides in the US came to Eritrea to visit his relatives. During his visit he came across the T-shirts produced by our factory and he thought that they could be sold in the US market. Up on his return to the US he took three T-shirts and exhibited them at a cultural show organised by the Eritrean community in the US. Fortunately, another Eritrean textile trader who was participating in the cultural show became interested in the T-shirts and he contacted us. A few weeks later we signed a supply contract. In the contract our obligation was to produce and send the T-shirts according to his specifications. When the T-shirts reached the US he used to make all the labelling himself and distributed the T-shirts to his customers. We had a telephone conversation every week and he made comments including on the type of yarn we had to use to make the T-shirts. He also sent us the packaging materials from the US.”* According to the general manager the importer was a member of a textile-importing consortium in the US known as VIKAS. He also mentioned that the importer ended the contract because of his internal company problems.

Another market was opened in Germany in the year 2000. According to the general manager the factory participated in the Hanover trade fair. Importers who were interested in the factory's T-shirts placed an order. They wanted the Eritrean Textile Factory to finish everything and make the T-shirt ready for the German market. Eritrea Textile Factory did not accept the offer because it did not have a machine to make the packaging material. It was not possible even to purchase the machine because all investments were frozen due to the privatisation policy of the government.

Concerning his company's relationship with the cotton suppliers, the general manager said, *“The problem with the cotton producers is that they demand a higher price. However, due to the lack of foreign currency it is even advantageous for us to accept a higher price set by the domestic cotton growers.”* According to the general manager The Eritrea Textile Factory had co-operated with sister companies such as the Asmara Textile Factory. They were sharing the raw material in case a shortage occurred. However, after the Eritrean textile factory was privatised, the sense of co-operation has been deteriorating. He said, *“Previously it was free even to share designs. Now it is impossible.”* This is mainly because the Asmara Textile Factory is still under public ownership and the managers do not have the authority to decide on this matter.

The factory was offered for privatisation in July 2000. Although he did not win the auction the Eritrean citizen in the US who bought T-shirts from the factory also participated in the bid. Currently the new owners are modernising the factory. They are importing new machinery and inviting experts to train the employees. Finally, the general manager commented that because of the financial problems and lack of know how about the international market it would be helpful if the factory were to open itself to a joint venture arrangement with investors who have marketing knowledge and good financial leverage.

Barokco Textile Factory

Italian, British, American and Ethiopian investors established the Barokco Textile Factory, which was formerly known as the Ethiopian Fabrics Share Company. The factory started operations with an initial capital of 50,000 birr and 460 workers. The objective of the factory was to produce quality man-made fibre and pure cotton material for the domestic and foreign

countries in Western Europe. The objective of the new owner is to create a vertical business network between the sweater factory in Asmara, the shop in Italy and the boutique shop in Asmara. Sweaters produced in Asmara are sold both in the shop in Italy and the shop in Asmara. Some of the textiles from Far East countries for sale in Italy are also sent for sale in the shop in Asmara. During the study period the factory was making sweaters ordered by a buyer from Italy. The buyer sent the yarn from Italy and the factory was making sweaters from it. The factory only charges the buyer for labour and other miscellaneous expenses. When the sweaters are shipped from Eritrea the buyer pays only 2% import tax for the yarn. The capacity of the factory is 1500 sweaters per day. The current problems of the factory are obsolete machinery, lack of trained labour and lack of foreign currency. The machinery was installed 46 years ago and it needs to be upgraded. In view of this the new owner is computerising the old machinery. He has also imported new machinery from Italy. However, due to the defence mobilisation programme the factory lost some of its employees and currently it is operating at half of its production capacity. The factory also has a lack of designers. To solve this problem the owner has employed a freelance designer from Italy. The factory uses imported yarn to make the sweaters. However importing raw materials has become difficult due to the lack of foreign currency.

Before its privatisation the factory used to import yarn from different customers in the Far East. However, after privatisation the firm has one supplier in China named “Artsline”. According to the deputy manager Eritrea has advantages with regard to the manufacturing of sweaters. *“The labour cost in Eritrea is low. Coupled with the potential for sales in the domestic market, export is useful to generate foreign currency that could be used to import good quality yarn.”* The shop in Italy provides market information to the factory in Asmara. It also buys yarn and sends it to Asmara. Because of the unreliability of sea transport the factory uses airfreight to ship the sweaters to the shop in Italy and the shop distributes the products to customers. Currently, the demand is greater than supply. According to the deputy manager, while the skill of the employees is adequate to make sweaters for the domestic market they need more training to make sweaters that are fit for the European market. So far the factory has trained 15 employees. At present the factory has 165 employees but if it were to work at full capacity it could employ up to 350 workers.

Eritrea Textile Factory

The Eritrea Textile Factory was formed by a merger between ‘Industry Tesisconsfision Asmara and Ethio-Textile.’ Previously the two factories were established to produce T-shirts. When the two factories merged in 1968 they had a capital of 5, 500,000 birr and employed 1100 people. Consistent with the objective of its parent companies the major product of the Eritrea Textile Factory has been T-shirt.

Like any other private manufacturing firm in Eritrea the Ethiopian military rulers nationalised the factory in 1974 and placed it under the Ethiopian Textile Corporation. According to the general manager of the factory, because of the strong ideological alliance between the then socialist government of Ethiopia and socialist East Germany all the T-shirts produced in the Eritrea Textile Factory were exported to East Germany. The factory’s management did not have any say or participation on the export decision process. In 1991, after independence, the factory came under public ownership. In 1993, the factory resumed its export of T-shirts to Ethiopia, which used to absorb 85% of the factory’s output. When asked how the export to the Ethiopian market was arranged, the general manager said, *“We sold the T-shirts to wholesalers in Ethiopia. The factory produced T-shirts based on the orders that were placed*

market. The term man made fibre includes both regenerated fibres, such as viscose and rayon that are made from wood or cellulose and synthetic fibres such as polypropylene, polyester, nylon and acrylics. While the raw material used to make the man-made fibre was imported, cotton was supplied from the domestic market. According to the production manager of the factory the owners exported the fibre to the Middle East and Ethiopia. The factory was also engaged in producing fabrics and garments. The factory showed rapid growth in investment and its capital reached 2,250,000 birr in 1966.

The factory was nationalised by the Ethiopian socialist government in 1974 and renamed as Ethiopian Textiles. During this time the factory was limited to producing military clothing. Unlike other factories in Eritrea the factory received direct orders from the Ethiopian military, police and Air Force. Little was sold through EDDC, which assumed legal responsibility to sell the products. Ethiopian Textiles did have a sales outlet neither in the domestic market nor in Addis Ababa. In 1991 the factory came under control of the Eritrean government and was renamed as Mereb Textiles. The Eritrean military, police and Air Force purchased its production. It also sold a small amount of its output to the Ethiopian military. Under the privatisation policy of the Eritrean government an Eritrean lady who used to sew and sell garments in California bought the factory at a cost of 12 million nakfa in 1998.

Before she bought the factory she owned another factory in Eritrea. The new owner used to import fabric for making garments. During that time the domestic fabric was not suitable for making the required garments. The manager said, “ *The objective of the new owner is to get good quality fabrics from the knitting section of the factory to make garments. To get good quality fabric we had to change the obsolete machines. We also made an improvement in the spinning section of the factory to get good yarn. Currently the factory has partially modernised spinning, weaving and knitting departments. The total additional investment was about 12 million nakfa.*” Another problem to the factory was the fabric width being produced. While the acceptable fabric width standard in the international market is about 1.90-2.60 meters, the width of the fabric produced by the factory was only 90 cm. The general manager said, “ *To correct this problem we imported weaving looms that have the required width and we are planning to export 40% of the fabric produced. We are going to export the fabric in grey because we are not good enough at dyeing and printing.*” When asked if he has already done any market research for the 40% of the production capacity that his factory is planning to export, he said, “ *We changed the machinery because we can not use it any more. We can do the market research after we finish modernising the machinery.*” Currently the sole customer of the factory is the Eritrean military.

The fabric produced by the factory is 35% cotton and 65% polyester. The factory buys cotton from the domestic market. When asked about his business relationship with the cotton suppliers, the manager said, “ *After the cotton is ginned in the Asmara Textile Factory we order the amount of cotton that is enough for our current operations. The problem in our relationship with the cotton suppliers is the price. To get a higher price they always threaten us by saying they will export the cotton. There should be some mechanism that brings us into agreement in pricing the cotton so that we buy cotton from them continuously. This way they will have a guaranteed market and we do not have to worry about buying cotton.*” The manager also commented that the separate ownership of the cotton plantation and the textile manufacturing could be a problem in the future. Although the cotton is produced in the domestic market, the cotton producers always take the international cotton price as their reference price. This can erode the competitiveness of the textile manufacturers in the country since cotton accounts for about 50% of the production costs.

When asked if his factory has a plan to supply acrylic yarn to the sweater producers in Eritrea, he said, “*The type of acrylic used by the sweater producers is more technology intensive. If I had money I would buy a factory that makes the acrylic yarn and distribute it in the domestic market. It is possible to import unfinished acrylic yarn and finish it here. However, you need to make some investment in machinery. For those who have money this could be a potential area for investment.*” Later it became clear that a British consulting firm (BTTG) has been suggesting the production of yarn in Eritrea.

EriKog

Erikog is a garment factory established in 1995. It was established as a joint venture between the Eritrean government and Korean investors but is now owned by the government. The factory employs 300 people and has a total capital of about \$ 8 million. The production capacity of the factory is 1200 suits (top and bottom) per day. Initially the objective of the factory was to make garments for both the domestic and foreign markets. Due to the eruption of the border war between Ethiopia and Eritrea the Ministry of Defence, who is also a 51% shareholder, became the major customer of the factory. The fact that the war was started and one of the owners became a customer forced the Korean partners to sell their shares to the Ministry of Defence. The Koreans considered this as a way out from the war and uncertainty that prevailed in Eritrea.

Currently all the garments made in the factory are for the Army. The general manager said, “*During the struggle for liberation the Eritrean army used to wear clothes imported mainly from Italy. The imported clothes were of different colours but they were OK during that time. Now Eritrea is a country and the army has to have a formal uniform. For this reason we now have a huge market in the country. The Ministry of Defence buys fabrics and we make the garments.*” The factory charges the Ministries of Defence 35 nakfa per suit for the sewing service. During its establishment the factory had designers from Korea and the Philippines. Currently Eritrean staff are running the factory. The general manager said, “*The payment rate in the factory is flexible. Every employee has a fixed base salary. When there is a large order the employees work on overtime basis. The factory can accommodate orders which are far greater than its capacity.*” The factory is equipped with relatively modern machinery and has good working space.

When asked what the factory would do when the domestic demand is satisfied the general manager replied, “*Initially the factory was established to make garments for both the domestic and foreign markets. Because of the war between Ethiopia and Eritrea the size of the Eritrean army has been increased rapidly and this created huge demand for the factory. However, if peace prevails the size of the army will decrease and ultimately we will need foreign customers. Before the war started, we received orders worth \$ 70,000 from the Democratic Republic of Congo. After we shipped garments worth \$ 20,000 the Ethiopian Eritrean border conflict started and we were forced to satisfy the huge demand from the Ministry of defence.*”

When asked if the factory has the capacity to sew garments other than for the military, the general manager said, “*In this factory the important assets are our employees. The employees are in two groups. The first group comprises employees who have been working as tailors for many years. This group has rich experience in tailoring. The second group is employees who are trained in the factory. Before they are trained as tailors we let them see every procedure in the factory. Later we train them how to sew. After a few months they become perfect. So I can say that we have enough skill to accommodate an order other than that of the military.*”

Finally, the general manager observed that the factory's efforts to improve its staff and machinery is not sufficient unless the fabric produced by the textile companies in the country is improved. The factory uses fabrics from the Barokco Textile Factory and has complaints on its quality. He said, "A few minutes ago I went to the Barokco Textile Factory because they send us a poorly printed fabric. I returned the defected fabric and brought a better one." When asked if it would be possible to return the defective fabric if it was another supplier, he said "We have worked with the factory for more than four years and we understand each other."

Ambesa Sweater Factory

Ambesa Sweater Factory was established in 1970 as a small-scale family business. During the last thirty years it has gone through a lot of changes. Currently it is the second largest private sweater factory in Eritrea. It produces sweaters made of acrylic, "chrnylra" for men, women and children. It has a capacity of 250 sweaters per working shift per day and employs 90 workers.

Explaining the history of the organisation the manager of the factory said, "In the 1960's my father used to work in a sweater factory owned by Italian nationals known as 'Industria Maglieria Asmara (IMA).' After he acquired sufficient knowledge he went to Addis Ababa and started making sweaters. However, after a short stay in Addis Ababa he came back to Asmara and opened the Ambesa Sweater Factory." The Ambesa Sweater Factory is replacing the old styled machines with modern ones. Recently, the factory imported two new machines, which were the first to be imported in Africa.

Before the border war started the factory's sweaters were directed at the Ethiopian market. "We were not directly involved in the Ethiopian market. Two Ethiopians and an Eritrean used to buy our sweaters. When they were distributing the sweaters in Ethiopia they used to cut off label. This was done to conceal the source of the sweaters. If the immediate buyers in Ethiopia knew the sweaters were imported from Eritrea they could come and buy them themselves." He explained the exclusive distribution rights for the three intermediaries as follows: "The three customers were our big buyers. They knew the Ethiopian market very well and had good reputations. If we had refused to sell them our sweaters they might have established contact with our competitors." The factory has two sales outlets in the domestic market. The shops also sell Italian shoulder wraps, long sleeved cardigans and pullovers. It also sells sweaters directly from the factory. Because of the good quality sweaters produced by the Ambesa Sweater Factory other sweater producers in Asmara also buy sweaters from the factory for resale at a profit. However, according to the manager the best quality sweaters are always sent to the factory's shops. Although the Ethiopian market is closed the factory is working at full production capacity. This is because the quality of its sweaters is good and it receives orders from several shops in Asmara.

The factory has sent samples to Libya and Uganda with Allied Afri Trading House taking the samples. When asked if the factory had received orders, he said, "I do not think only showing a sample is enough to get orders. The people in Allied Afri Trading House have to approach the buyers and convince them that they can supply good quality sweaters. Because Allied Afri Trading House takes so many types of products (salt, house furniture, shoes, textiles etc) they cannot spend much time with one buyer. The lack of follow up could be the main reason why we did not get an order." The factory also participated in a trade fair in Germany. When asked about the results from the trade fair the manager said, "The sweaters we make in the Ambesa Sweater Factory are of good quality. However, we have a problem in finishing. The European manufacturers are good with finishing. Thus a buyer in Germany asked us to send him

unfinished sweaters so that he can finish them himself. However, this was possible only if we had an agent in Europe. Finally, we found out that the agency cost was very high and given our small production capacity we could not generate enough return out of it. In view of this we are now working to increase our production and finishing capacity.” The manager mentioned that the factory could export light sweaters to Europe.

The factory imports the yarn it uses to make sweaters from Italy. When asked about his relationship with the yarn suppliers in Italy, he said, “ *We have a very good relationship. We have been buying yarn from one supplier for about twenty years. The problem is, even though we are big sweater producers in Eritrea, compared to other yarn buyers in Europe and Canada the size of our order is very small. Our suppliers process our order by adding it with other orders from the aforementioned countries. Currently they have sent us an invitation to visit their firm at their expense.*” When asked if his factory has any plans to produce the yarn in Eritrea, he said, “*Currently we are using different kinds of yarn. Although we have cotton in Eritrea we can produce only a limited type of yarn out of it. We cannot avoid import since it is difficult to produce all kinds of yarn in one factory.*”

Finally, the manager explained that the lack of foreign currency is constraining the factory’s operations. The fact that the factory buys the foreign currency on the free market, which is much more expensive than the normal bank rate, is making its sweaters expensive. He also mentioned that the employees working in the factory acquired their knowledge through experience. For that reason they need to be trained to make sweaters, which are competitive in the foreign market and meet the rapidly changing fashion.

9.3.2 Discussions of the interview results

The case studies have shown that signing a long-term supply agreement between the textiles manufacturer in Eritrea and a European textiles buyer could facilitate the entry of Eritrean textiles manufacturers to the international textiles market. In this way the Eritrean textiles manufacturers could benefit from the marketing experience, distribution channel, financial assistance and regular orders of the foreign partner. Whereas the foreign partner would get low cost textiles, reliable production facilities and locally available cotton. This is what happened in the Asmara Textile Factory in 1984. With the cancellation of the contract the production capacity was reduced to 3000 T-shirts per day. This was mainly due to lack of maintenance of the machinery installed by the investor and the trained personnel left the factory because of the low salary paid by the factory.

Foreign partners could also play a major role in distributing textiles in the European market. The distribution and marketing of textiles is the most profitable segment of the textile industry. In Europe the distributor margin amounts to at least 37% of the manufacturers price (see Table 8.3). The profit to the textiles distributor and retailer in Europe is much higher if production is carried out overseas rather than domestically. Because of the lower labour cost of overseas production the textiles are less expensive than the one produced in Europe. Asmara Sweater Factory is a typical example. The factory has networked itself to a Textiles shop in Italy, which is owned by the same person. The shop receives sweaters from the factory in Eritrea and distributes them in Italy. By doing this it retains the profit margin that was taken by the wholesalers and retailers in Italy. Furthermore, the shop in Italy collects orders from customers and sends these to the sweater factory in Asmara. It also purchases yarn from China and sends it to the Asmara Sweater Factory. The shop also sends textiles purchased from countries in the Far East to be sold in the boutique shop in Asmara, which

distributes sweaters for the domestic market. The same person owns the boutique shop in Asmara. Regardless of the ownership structure this is evidence for our argument as to how a business network relationship between European buyers and Eritrean textiles manufacturers can help the Eritrean textile manufacturers to penetrate the European textile market.

Table 9.5 Summary of the export problems that are rated as very important by the textile manufacturers

Export problems	Textile manufacturers included in the case studies					
	Asmara textile	Asmara Sweater	Eritrea Textile	Barokco Textile	Erikog Garment	Ambesa Sweater
Internal export problems						
Lack of knowledge to locate foreign market opportunities	X		X		X	X
Lack of specific information regarding foreign agents, distributors and prospective buyers			X		X	X
Lack of export marketing research	X		X	X	X	X
Lack of experience in planning and executing export operations			X	X	X	X
Lack of management exposure to other cultures and different methods of doing business	X		X		X	X
Lack of personnel trained and qualified in export marketing	X	X	X	X	X	X
Inability of the firm to self finance exports	X	X	X	X		X
Product quality problems	X	X	X	X	X	X
Lack of ability to supply required quantity on continuous basis	X	X	X	X	X	X
External export problems						
High cost of cotton	X	X	X	X	X	X
Too small in size to initiate export operations			X	X		X
Lack of export promotion programmes sponsored by the government		X	X	X		X
Problems in meeting delivery dates		X				

Note: X indicates the relevance of the export problem to each textile manufacturing firm. The results in this table are the combination of the input from the case study and the rating in the questionnaire.

The case studies have also shown how social networks can be instrumental in generating business for the textiles manufacturers in Eritrea. According to the case study the Eritrean who resides in the US took samples from the Eritrea Textile Factory and exhibited them at an Eritrean social gathering in the US. This served as an instrument to link the factory to an Eritrean textile buyer residing in the US. Through the contact that was established the Eritrea Textile Factory sold textiles to the US for a couple of years. Given the half million Eritreans residing in foreign countries and the large number of social gatherings taking place every year, the above experience could show an alternative way of introducing the Eritrean textiles to the European market. The aforementioned points indicate how network relationships are useful in generating market opportunities. However the case studies have also shown how lack of network relationships has become an obstacle to the internationalisation of the textile manufacturing firms in Eritrea. Because of the limited production capacity, the Ambesa Sweater Factory was unable to sign an agency agreement in Germany. The agency agreement was a precondition for supply sweaters to a buyer in Germany. If there was a horizontal business network relationship between the sweater manufacturers in Eritrea, the Ambesa Sweater Factory would have contacted another sweater manufacturer to solve the capacity

problem and exploit the market opportunity. Another example that strengthens our argument is the lack of a vertical business network relationship between the Alighider cotton plantation and the Textile Manufacturers. When the plantation was established about 50 years ago it was vertically integrated with the Asmara Textile Factory. This helped the Asmara Textile Factory receive low cost cotton. This idea that was introduced 50 years ago now lacks attention from the government. The ownership structure has been changed. For the future this will be a major obstacle to the internationalisation of the textile manufacturing firms. The price dispute between the textiles manufacturers and the Alighider cotton plantation is prime evidence. The case studies have indicated that the export problems rated as very important in the preliminary study are relevant to the cases discussed above (see Table 9.5). However, one manufacturer mentioned lack of shipment arrangement and meeting delivery dates as an export barrier.

In order to understand the reaction of the textile-manufacturing firms included in the case studies with regard to possible solutions to the export problems they are facing the managers were asked to give their opinions. Later, after combining their proposal with solutions adopted by manufacturing firms in developing countries (see chapter 3) we asked the textile manufacturers to rate seven alternative solutions in terms of their importance to each respective company. The results are shown in Table 9.6.

Table 9.6 Rating of textile manufacturers in Eritrea to alternative business networks (n=6)

Alternative business network solution	Mean
Establishing a horizontal business network relationships among textile manufactures in Eritrea	4.00
Subcontracting network agreement with foreign textile buyers	3.50
Establishing vertical business network relationship with Eritrean cotton suppliers	4.00
Concluding joint venture agreement with foreign buyer	4.33
Flexible supply contracts with textile wholesalers and retailers in foreign countries	3.67
Export promotion programme by the Eritrean government	2.83
Working to penetrate foreign markets on individual basis	2.88

(Source: Case study 2000)

The rating shows that establishing horizontal co-operation with fellow textiles manufacturers (4.00), establishing a business network relationship with cotton suppliers (4.00) and concluding a joint venture agreement with a foreign investor (4.33) is rated as very important. The network alternatives rated as moderately important are a subcontracting agreement with foreign textiles buyers (3.50) and establishing flexible supply contracts with textiles wholesalers and retailers in foreign countries (3.67). In our market research in the Netherlands and Uganda we did not find evidence to show that the textiles buyers are interested in subcontracting and joint venture agreements. Finally, penetrating the international textile markets through individual effort (2.88) and through an export promotion programme initiated by the government (2.83) are rated as less feasible. The results in the textiles industry are in agreement with the findings in the footwear industry.

9.3.3 Conclusion

The objective of this chapter is to conduct an in-depth study on the export problems rated as very important (see chapter 8). The interview results in this chapter confirm that the export problems identified in the aforementioned chapter are relevant to the textile manufacturing firms in Eritrea. The cancellation of an agency contract by the Ambesa Sweater Factory due to limited production capacity, the lack of trained labour in the Asmara Sweater Factory and the Asmara Textile Factory, the lack of foreign currency mentioned by all textile manufacturing firms and the poor design of textiles are some evidence of this. The problem of

lack of shipment and meeting delivery dates that have been mentioned by the Asmara Sweater Factory and a lack of export promotion programmes sponsored by the government are among the problems mentioned by the textile manufacturing firms included in the case studies. From this we can conclude that most of the export problems mentioned in the preliminary study in chapter eight are common to the textile manufacturing firms in Eritrea.

Unlike capital and technology intensive industries where multinational corporations frequently set up facilities for overseas production, the order based textile buyers are shaping the growth and evolution of the textiles industry in a more indirect way. This is mainly because the buyers of textiles make the specifications and supply to the big retail outlets in Europe. Unless the textiles manufacturers in Eritrea enter into such types of business network relationship with the buyers in Europe there is little probability that they will enter the European market. However, before the textiles manufacturers enter into vertical business network relationship they should first improve their product quality and expand their production capacity through resource mobilisation, information exchange and product standardisation. In other words, the manufacturers have to establish horizontal business networks among themselves, which is instrumental to achieving the aforementioned objectives.

Concluding remarks on mutual goals (figure 5.1)

-Common export market opportunities

The interview results in chapter six show that all the footwear and textile wholesalers and retailers and one textile buying organisation in the Netherlands are willing to have a direct business network with the footwear and textile manufacturers in Eritrea. The wholesalers and retailers in Uganda are ready to deal with the Eritrean manufactures as long as the price is competitive and the quality of the footwear and textiles is suitable for the Ugandan buyers. However, the footwear and textiles wholesalers and retailers in both countries are not interested in joint ventures and subcontracting agreements.

-Export marketing problems

In chapters eight and chapter nine of this thesis we discovered several export problems that are common to the Eritrean footwear and textiles manufactures. These export problems can be solved through horizontal and vertical business networks. However, from our study of the Eritrean footwear and textile manufacturing firms in chapters eight and nine, we concluded that the state of horizontal and vertical business network relationships in the footwear and textiles manufacturing firms in Eritrea is poor.

-Willingness to act together

In chapter eight we measured the attitude of the footwear and textile manufacturers towards business networks, which was found to be positive. They are willing to form horizontal business networks. We also observed that because of the limited size of the domestic market, the export of footwear and textiles is really important for the income formation of the footwear and textiles manufacturers in Eritrea. While the Dutch and Ugandan wholesalers and retailers are willing to do business with the Eritrean manufacturers the buying organisations in the Netherlands, except Intres, prefer to buy from wholesalers located in Europe.

