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Final Report

Garment SMEs in Ethiopia

Improving quality standards and marketing to enter the export market

September 2016 - April 2017

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Garment SMEs in Ethiopia:

Improving quality standards and marketing to enter the export market

Maastricht School of Management (MSM) has supported in 2016 and 2017 a group of Ethiopian small and medium-sized garment enterprises based in Addis Ababa towards improving their quality standards and marketing. This resulted in increased productivity, better branding, and a more professional business management. Ferehiwot Garment, being an example for many enterprises, started to enter the international market.

The core aim of this project was to assist 11 small and medium-sized companies to improve their operations, thus increasing their competitiveness, first for the local market, and subsequently for the international markets. The prime beneficiary was Ferehiwot Garment, employing 40+ workers, complimented by two to three enterprises

with 10+ workers, and others with 1 to 5 workers. Nine out of the 11 owners were women with the overarching majority (95%) of workers being a woman as well.

Although the government of Ethiopia is promoting production for export, doing business domestically is for most of the Ethiopian garment SMEs financially much more lucrative.

The project was financially supported by the Netherlands government (NUFFIC) in the framework of a program that was specifically meant to enhance the overall functioning of Ethiopian SMEs (small and medium-sized enterprises). This document reports on the activities undertaken and results achieved.



ACTIONS UNDERTAKEN	TIMING	GARMENT ENTERPRISES INVOLVED	RESULTS ACHIEVED
Business Plan development	November 2016 - March 2017	Ferehiwot Garment GAMI'S G.S.H. Garments TG Design Johannies Group	<ul style="list-style-type: none"> • 2 x solid business plan completed for Ferehiwot Garment and GAMI'S • Approval of loan for GAMI'S from financial institution -> project helped in linking GAMI'S with Ethiopian SMEs Federation resulting in a larger factory space in government sponsored manufacturing centre • Ferehiwot Garment will move to a government sponsored Industrial Park as result of project support, growing substantially • Targeted coaching to 5 companies • Companies challenged to define core competitive advantages in a formal (measurable) way
Review of costing methods	November 2016 - January 2017	Ferehiwot Garment GAMI'S G.S.H. Garments	<ul style="list-style-type: none"> • At Ferehiwot, costing system / strategy formally in place and documented, resulting sometimes in margins as much as 20% higher
Quality / manufacturing standards: group training and company-specific manual development	September 2016 - March 2017	Training for 11 enterprises Manual developed for Ferehiwot Garment, G.S.H. Garments, GAMI'S	<ul style="list-style-type: none"> • Increased understanding of productivity improvement • 3x Manufacturing operations and QA / QC manual completed and used
Branding: coaching on branding	February - March 2017	Ferehiwot Garment GAMI'S G.S.H. Garments ALMAZ YOBL Traditional Design TG Fashion	<ul style="list-style-type: none"> • Targeted coaching to 6 companies • Brand names Ferehiwot changed/aligned 1 unique logo of GAMI'S chosen • New YOBL brand and boutique
Leadership / HR strategy: training on Business Management and Leadership Skills	November - December 2016	9 garment enterprises	<ul style="list-style-type: none"> • Improved leadership and business management skills; operations changed at several of the enterprises
Certifications: awareness of certifications / standards that will become necessary	February 2017	Ferehiwot Garment YOBL Traditional Design	<ul style="list-style-type: none"> • Guidance on potential certification
Upgrade of boutique	November 2016 - December 2017	TG Design	<ul style="list-style-type: none"> • Boutique of TG Design revamped
Membership in professional bodies / networking	February 2017 and onwards	Ferehiwot Garment GAMI'S G.S.H. Garments	<ul style="list-style-type: none"> • Networking among the group of entrepreneurs involved in the project • Relations with Ethiopian SMEs Federation built/improved • Relation built with BeConnected, a Dutch company established in Ethiopia since 2016, to support the local apparel industry and make it more competitive in terms of supplying labels, printing and quality inputs www.beconnectedindustrial.com

The Ethiopian textile and apparel industry

For some years Ethiopia has been determined to become the new sourcing hub for apparel and textiles in Africa. The ‘buzz’ in the international market has not gone unnoticed and the international interest to source or even invest and produce in Ethiopia is present but unfortunately already declining. Ethiopia is not yet visible in the international market in trading volumes, is hardly represented on the major international sourcing platforms or trade shows and is hardly attracting mainstream buyers. The Ethiopian government has spearheaded the sector and set a target in its Growth & Transformation Plan 2 to grow from the current 160 million USD in exports to 1 billion in 2020.

The Ethiopian textile and apparel industry is therefore growing fast, aided by the presence of a cheap, skilled and highly-motivated workforce. This surge has been helped by the country’s impressive economic growth over the past years. Ethiopia’s enormous export potential is made possible by the availability of raw cotton and other natural fibers and Ethiopia’s access to domestic, regional and international markets. The ‘Business Opportunity Report Ethiopia Textile & Apparel Industry (EKN/CBI, 2015) presents a detailed overview of the current situation and growth potential, but also indicates a listing of constraints, some of them directly applicable in the context of this project. In particular, the lack of middle management, inefficient production, lack of IT, social compliance issues, bad housekeeping, and lack of Personal Protective Equipment. It is clear that the sector is undergoing a steep transformation process, from small scale production for the local market, towards more sophisticated production for both local and international market.

Group training delivered

TOPIC	DATE	# FEMALE participants	# MALE participants
 Production Quality Standards and Product Development System	18 - 22 September, 2016	12	5
 SMEs growth, core competitive advantages and market opportunities	November 18, 2016	4	4
 Training on Business Management and Leadership Skills	November 28 - 30, 2016 and December 7 - 8, 2016	6	6



As the majority of Ethiopian garment manufacturers currently produce standard garments where competition is primarily based on price, Ethiopia faces stiff competition from other developing countries of South and South East Asia (India, Bangladesh, Pakistan, Indonesia, Cambodia, Laos and Vietnam). China has emerged as a dominant force in the global apparel industry with its massive supply capability and low costs of production. These countries have a lower ranking in terms of cost of production in comparison to Ethiopia. Given this situation, there is a need for Ethiopia to move to the top end of the market as a reputable and dependable supplier of garment with an industry able to produce good quality products and increased labor productivity. Even though Ethiopia's advantages of low labor cost, competitors who have higher wage cost structures are more competitive because of their high levels of productivity. In general, Ethiopian garments manufacturers have been estimated to have a substantially lower level of productivity than their main Asian competitors.

In addition, Ethiopia has not yet been able to build an "upstream" supply chain element, and most components, fabrics and accessories have to be imported, thereby increasing prices and decreasing efficiency and speed to markets.

In this context, an increasing number of SMEs are emerging. They are commonly referred to as CMT's (Cut Make and Trims), which also applies to the 11 companies that have benefited from this project. These enterprises culminated often because of retrenched workers from the clothing and textile industry starting their own businesses. A major concern is that they lack of successful implementation of quality management culminating in a degradation of the quality of the industry.

Total Quality Management

To help overcome this situation, the project organized training on Total Quality Management for all 11 companies. A Quality Management system is defined as "coordinated activities to direct and control an organization in order to continually improve the effectiveness and efficiency of its performance with regard to quality" (ISO 9000: 2000). The eight principles as used in ISO certification have been explained (see figure 1).

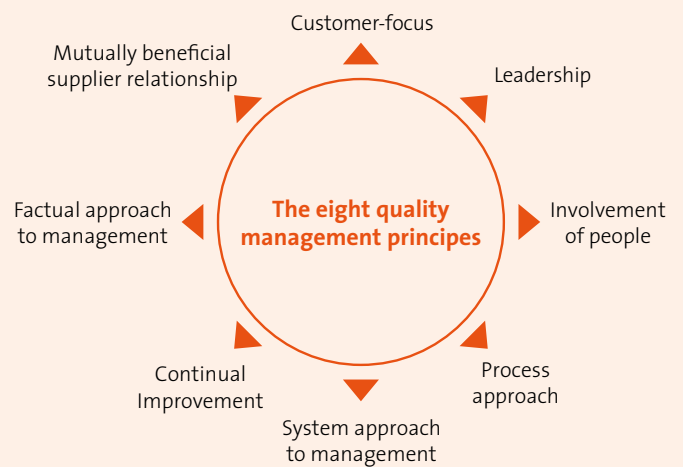


Figure 1: Eight principles used in ISO certification

The training has been highly appreciated, mainly because the applicability on the work floor. In addition, Quality Control Manuals have been developed for three companies: Ferehiwot Garment, GAMI'S and G.S.H. Garments. At Ferehiwot Garment, the manual had already resulted in improved procedures on the work floor during the project.

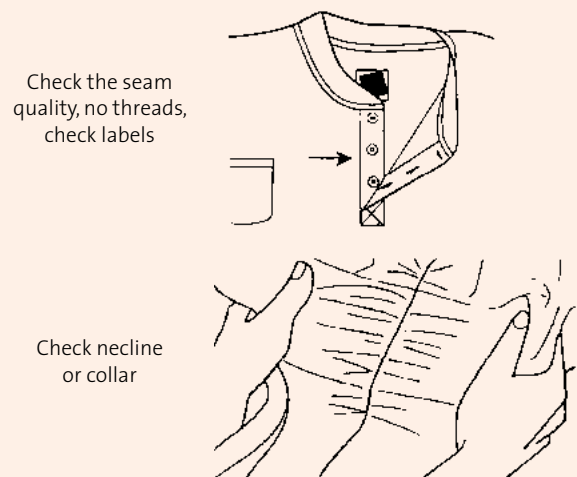


Figure 2: Impression of the Quality Management Manual: part of instructions for quality inspection of garments

Ferehiwot Garment

Company profile

Sector: Textile/Garment

Location: Addis Ababa, Ethiopia

Production: Textile/Garment (children, women and men)

Supply: from Turkey and China

Estimate Turnover: over 2 million ETB

Estimate number of Employees: 43



The company 'Ferehiwot Garment' (named after the owner Mrs Ferehiwot) has been in operation for slightly more than 3 years and started with 15.000 ETB and 3 machines. It is officially registered and all official documents/tax forms are filed regularly. The company is considered as an example for other garment start-up entrepreneurs. Ferehiwot Garment, as a comparatively well-organized SME, formally registered, has the ambition to benefit from the current market opportunities and wants to invest in staff development and business processes for this purpose.

At the start of the project, the company had 34 full time workers and 6 part timers. Ideally, each shift should have 46 workers, thus this means efficiency is low. The company owns a small range of equipment, including simple, overlock and interlock sewing machines from Korea. At the time of the start of the project, all patterns were made in house by the owner.

At the start of the project, Mrs Ferehiwot had two main sales channels: i) Tutu, a Mercato based buyer for her core line of 3 or 4 styles, and ii) Sales of her own brand EKO through four main bazaars annually (with a wider range of about 12 styles).

The EKO brand is a "high quality" line of products, officially registered in 2015 and owned by Mrs Ferehiwot. The sales to Tutu has developed into a very low margin. Ferehiwot Garment actually loses money (negative margin) with this customer when studying the gross margins which amount to 20% to 5% only. Sales of her own EKO branded products have a gross margin of about 50%. Thus, making it a much more interesting, profit making proposition for the company. Mrs Ferehiwot's aim is to expand the company through sales of own designs and brands and to go from a large bazaar sale arena every three months to a regular, permanent distribution centre.



Activities undertaken according to project proposal	Results achieved
Formulation of a business plan	DONE, application for a loan in process (at time of writing this report). Costing system formally put in place and documented, resulting sometimes in margins as much as 20% higher
Development of a quality improvement implementation process	Quality Production Manual developed
Formulation of a marketing strategy and implementation plan	Marketing advice given
Implementation of first quality improvement measures	Changed lines of the workers, the layout of the factory Changed the design of the produced clothing. Improved electric cabling -> it used to be on the floor, but is now leading above the workers towards the ceiling (safer)
Implementation of first marketing activities	Diversified EKO brand introduced: EKO Kids: already brought on the market EKO Women's wear: to be introduced Mid 2017 with labels made in China
Enhanced knowledge of quality standards, business marketing & management	Achieved: the business assistant of Ferehiwot went to the training, and - according to the owner - she now understands what managing a business implies
Understanding of practical applicability of the acquired knowledge in their work	Everything has been applied
An implementation plan for cascading the acquired knowledge to all employees	Cascading all lessons learned to all employees is partly relevant: the workers need to know relevant aspects of quality procedures. Guiding the workers is now done more efficiently, including changing the physical work floor. The management will also change some of the workers and/or give them other tasks to be more efficient.

Outcomes of the project for Ferehiwot Garment

At the end of the project, Ferehiwot Garment formally has been upgraded from small to medium sized company. It is the first Ethiopian SME that managed to do so and seen as a model for others. The company is now ready to move to an industrial zone (Bole Lemi) with a focus on export: the owner has signed the contract for 1000 m², apparently as first 100% Ethiopian medium-scale enterprise. Other tenants are large-scale companies, mostly from international origin. In April, the owner has participated in a training about exporting delivered by the Ethiopian SME Development Agency (FEMSEDA). This thus implies that she will have to move from the current government-subsidized location, because that facility is deliberately meant to support small enterprises to grow.

The move into the industrial park has become more interesting for the company because of a change in government policy. Although the rent is considerable, the government will offer additional services, in particular access to working capital, machines, and matchmaking with international clients. In addition, the government will allow the company to produce a certain percentage for the domestic market.

As of Mid 2017, Ferehiwot Garment will start exporting to Nigeria (men's underwear), as a first attempt to enter the African market. In first instance this will not under the own EKO brand, but a new brand expressing the partnering with the Nigerian business lady. This is linked to the decision of using the manufacturer's versus the retailer brand, which is one of the issues the SMEs face.

Mrs Ferehiwot explicitly stated that because of the project she can act and think more strategically, taking into account a longer-term perspective. She learned how to add value to her products, and how to comply with international standards. Besides the production for export, Ferehiwot Garment will continue to serve the domestic market. However, given the new status of middle-sized company, she has no longer access to the bazaar sales. Therefore, she is in process of renting two venues for opening her own shops in Addis Ababa. She cleverly recruited a Turkish employee to sell the products, because people may then think that the product is of higher quality.



Ferehiwot Garment: the electric cabling has been improved. It used to be on the floor, but the work space is now safer because electricity cables are now leading towards the ceiling.



Bole Lemi Industrial Zone: an impression of how the future Ferehiwot Garment company could look like



GAMI'S

Company profile

Sector: Textile/Garment

Location: Addis Ababa, Ethiopia

Production: Uniforms for 4 / 5 star hotels and suits

Supply: Indonesia made polyester fabrics

Estimate Turnover: ETB 3,480,000

Estimate number of Employees: 5

Market: local

Brand: GAMI



Mr Gami has some 20 years of experience in the garment sector, following the experience of his father who earned his living as a tailor. Mr Gami started his company eight years ago, specialized in designing and manufacturing uniforms for hotels, banks and schools as well as suits. His father and brother also work in the company. In 2015, the company manufactured and sold about 2500 units.

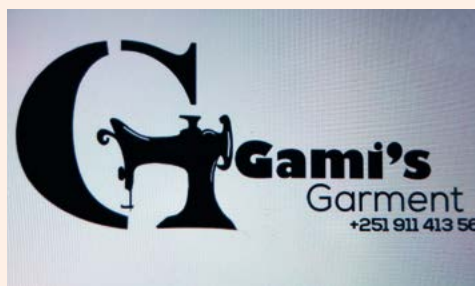
The company is located in a busy, dusty part of Addis Ababa and in addition has an outlet shop for walk-in customers at Piazza. The walk-in business is how the company began, with sewing machines and a fitting area still existing. Increasingly, GAMI'S focusing on servicing hotels which is a growing business.

Outcomes of the project for GAMI's

Mr Gami is very positive about the impact of the project for himself and the company. He stated that because of the training and coaching, he now feels and acts as a manager. "In the past I just did the job. I spent my time in sewing, I would continue to do as usual, but now I play my managing role. This training has opened my eyes, I have ambition to grow big."

As result of the project, Mr Gami has already recruited four new employees and delegated operational management tasks to them (March 2017: 13 employees). That allowed him to focus on business acquisition and longer-term strategy. The training has taught him how to manage the organization, how to better handle employees and how to better meet customer needs.

Through the project, Mr Gami has been connected with the Ethiopian SME Development Agency (FEMSEDA) which resulted in a formal recognition by FEMSEDA of his company. As a direct consequence, GAMI'S will move to a government subsidized location that will allow the company to grow. This is a similar facility as the one in which Ferehiwot Garment is located, especially meant to support small enterprises to become medium-sized enterprises. At that new location he will start to implement the quality manual as developed for his company with project support.



From the use of different designs of the company logo to the consistent use of a unique brand across all marketing communications

Mr Gami expects to have 40 to 50 workers within a rather short period of time. He stated that the demand is overwhelming with new hotels ordering their uniforms. At project end, Mr Gami is expecting to receive a loan, the application of which has been supported by the business plan made for GAMI'S.

At project end, Mr Gami has set the ambition to move within two to three years towards exporting, mainly to four and five star hotels in Eastern Africa. First however the company will focus on quality improvement, consistent branding and servicing the unsaturated domestic market.

Activities undertaken for GAMI'S	Results achieved
Formulation of a business plan	DONE, application for a loan in process (at time of writing this report)
Development of a quality improvement implementation process	Quality Production Manual developed
Formulation of a marketing strategy and implementation plan	Marketing advice given
Implementation of first quality improvement measures	Changed management with recruitment of new staff, the owner delegated operational tasks
Implementation of first quality improvement measures	Changed management with recruitment of new staff, the owner delegated operational tasks
Implementation of first marketing activities	Signage and logo critically reviewed and choice made for 1 unique logo
Enhanced knowledge of quality standards, business marketing & management	Achieved
Understanding of practical applicability of the acquired knowledge in their work	Everything has been applied



Impression of other participating garment enterprises, women owned



TG Fashion



G.S.H. Garments



YOBL Traditional Design



ALMAZ

The remaining SMEs in the project differed a lot with respect to the marketing needs and as such, customized visits were organized to provide marketing advice in the areas of branding, store design, customer attraction, and consistency in marketing strategies linked to products, pricing, promotion and distribution. The biggest issue with respect to the products is the fact that most garment shops offer the same type of products and design. What makes the product or design unique or more attractive? Quality of the product, innovative design, functionality, etc. This differentiation is very important. With respect to pricing, the importance of price reflecting quality rather than a cheap product is vital if you want to attract a more diverse and affluent market. A unique design or a quality product justifies a better price, but there needs to be an added value for the customer.

Branding and promotion were also concepts to be learned. The branding of Ethiopian products in the international market in general has an influence on the buyer, especially when the concept of "Made in Ethiopia" is considered. Likewise, a brand cannot be built without a consistent marketing and image. Finally, distribution in the form of boutique shops versus distributors was discussed. What resources or expertise does the SME have that makes it unique? This has a direct influence on the distribution strategies and image that need to be built up. Managing resources and capacity building is of key importance in all these marketing and branding strategies. It supports the final positioning that each SME is able to identify for its own business in such a competitive market. It also emphasizes the need to network and partner amongst each other in certain areas.



Before
YOBL Traditional Design



After
2 training participants and another partner have opened a new boutique selling children apparels. They have the plan to sell more products in the near future.

Project partners

The project of professionalizing garment SMEs in Ethiopia has been implemented by Maastricht School of Management in collaboration with AIM-DG Management Consultants and EITEX, the Ethiopian Institute of Textile and Fashion Technology.



MAASTRICHT SCHOOL OF MANAGEMENT (MSM)

MSM is a leading international management school, engaged on a global scale in management training and institutional development. For over 40 years, the school has been operating at the intersection of institutional development, capacity building, research and advisory services in areas of leadership and management, business administration, sustainable economic development and economic reforms. Operations are conducted on a world-wide scale, operating in more than 40 countries, within the European Union, and Eastern Europe, and in Asia, Africa, Latin America and the Middle East. MSM has an extensive portfolio of international capacity development projects, both for the public and private sector and works extensively with international donor organizations (Dutch Government, World Bank, EU). MSM offers institutional capacity strengthening through educational and advisory interventions in a variety of fields such as higher education, public administration, entrepreneurship, private sector development, labour market, international trade, environmental management, sustainable tourism development and gender. MSM's approach in higher education, research, technical advice and consultancy balances business administration, organizational and institutional management development theory with practical experience and applied research in a multicultural and multidisciplinary setting. One of its main focus areas is sustainable business development.



THE AFRICAN INSTITUTE OF MANAGEMENT DEVELOPMENT AND GOVERNANCE (AIM-DG)

AIM-DG is an indigenous African consulting and training Institute which was established in December 2004 to respond to an ever changing challenge of today's managers by undertaking studies, and providing advisory services to public, private and non-governmental organizations. Through its advisory and consulting services carefully designed training programs, AIM-DG aims to support to those entrusted with steering the twin process of development and management. This would require leaders and managers' cutting-edge skills to formulate and implement change strategies, anticipate and cope with emerging development challenges and operate successfully in the hyper-turbulent environment they face daily. To realize the above endeavors, AIM-DG draws on its extensive network of national, African and international expertise and seasoned trainers and educators which it can call as partners in its training and consultancy services



THE ETHIOPIAN INSTITUTE OF TEXTILE AND FASHION (EITEX)

EITEX is located in Bahir Dar and originates from the 1963 textile technology Department of the Bahir Dar Polytechnic Institute. It has the mission to create a suitable and excellent academic environment, train students with a high level of competence taking social and industries' needs to consideration, build the capacity of students to be morally concerned about the environment, economic and social progress, and conduct problem solving research, proper community service and technology transfer programs. EITEX offers undergraduate and graduate academic programs and a PhD program. It has four Research and Innovation Centres on i) Textile Chemistry, ii) Textile Production; iii) Apparel Production, and iv) Basic Science and Engineering.



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