Africa Can Compete!
Export Opportunities and Challenges
in Garments and Home Products in the U.S. Market

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The views and interpretations expressed in this study are solely those of the authors. They do not necessarily represent the views of the World Bank or its member countries and should not be attributed to the World Bank or its affiliated organizations.
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Foreword

One of the lessons which has emerged from structural adjustment efforts in Africa is that macro-level reform is a necessary, but not sufficient, condition for private sector development. There are enterprise-level constraints that inhibit the growth of existing firms and impede the growth of new ones. A major activity of the Africa Technical Department is the Regional Program on Enterprise Development (RPED), which is designed to get a better idea of the constraints that inhibit enterprise development in Africa.

The RPED seeks to do this in two ways. One way is to collect panel data over a three year period from a sample of 200 firms in each of the following countries: Burundi, Cameroon, Côte d'Ivoire, Ghana, Kenya, Tanzania, Zambia and Zimbabwe. RPED focuses on four manufacturing sectors: textiles and garments, food processing, wood working and metal working. Survey questions seek general information on the firm, and on issues relating to technology, labor, financial markets, conflict resolution, infrastructure, regulation and business support services. The second component of the program is a series of case studies on selected aspects of the research agenda, such as finance, technological capability and business strategy. Africa Can Compete! Export Opportunities and Challenges in Garments and Home Products in the U.S. Market is a study in the business strategy series.

By highlighting supply side constraints to the growth of manufactured exports in Africa, the study pinpoints an important problem facing many African economies today. Even in countries where policy reforms have changed the structure of incentives in favor of exports, the proportion of manufactured exports to Gross Domestic Product continues to be small. This has led to pessimism about the potential for Africa to significantly increase manufactured exports in the near term. Africa Can Compete! Export Opportunities and Challenges in Garments and Home Products in the U.S. Market offers some hope. As the study points out, recent trends in the U.S. retail market are offering African producers of textiles, garments and home products an opportunity to commence and expand manufactured exports. In addition to Afrocentric products, opportunities are also opening up for export of standardized garments. In countries with favorable policy environments, garment factories managed by experienced foreign investors have worker task-level efficiencies and unit labor costs comparable to those in Asia. Constraints at the enterprise level, such as production and marketing know-how, access to finance and the institutional structure of production continue to hamper supply response. The study documents these bottlenecks by way of actual case studies of interactions between foreign buyers and suppliers. It chronicles some of the basic difficulties of private sector development in Africa and identifies critical areas to which the efforts of the World Bank and other international aid agencies should be directed.

Kevin Cleaver
Director
Technical Department
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March 11, 1994
Note to the Reader

This study took place prior to the January 1994 devaluation of the CFA Franc. Therefore, the U.S. Dollar exchange values quoted for CFA Franc countries do not reflect the new official rates.
Acknowledgements

This study, one of the Regional Program on Enterprise Development’s (RPED) business strategy case studies, was sponsored by the Africa Technical Department, Private Sector Development and Economics Division, and a group of bilateral donors: The Belgian Administration for Development Cooperation, Canadian International Development Agency, Danish International Development Agency, Finnish International Development Agency, French Ministry of Cooperation, French Ministry of Foreign Affairs, Italian Ministry of Foreign Affairs, Netherlands Ministry of Foreign Affairs, Norwegian Agency for Development Cooperation, Swiss Development Cooperation, Swedish International Enterprise Development Cooperation and the Overseas Development Administration of the United Kingdom.

The idea for the study was conceived by E. Diane White of the World Bank, Public and Private Sector Division, East Africa Department. Tyler Biggs, RPED Program Manager, guided the study, and wrote the report along with E. Diane White, Gail Moody (Consultant) and Jan-Hendrik van Leeuwen (Consultant). We would like to thank several representatives of the private sector who participated in a seminar at the World Bank in November 1993 at which initial results of the study were presented: George Barbour (African Heritage House), Malcolm Benjamin (Independent Consultant), Hilliard Brewitt (Associated Merchandising Corporation), Tom Keith and John Smith (Keith Enterprises, Inc. and Rayshian Apparels, Ltd.), Jasperdean Kobes (Bamboula), Carol Norman (Pier 1 Imports), Mozella Perry (African Eye), Meg Rist (Sears), Claire Smith (Aid to Artisans) and Clint Stack (International Development Systems). Special thanks are also due to companies in the U.S. for taking the time to share their valuable information: African Eye, A.L.L. International Clothing, Associated Merchandising Corporation, Bamboula, Dayton Hudson, Eastern Art Arcade, IBN, JCPenney, Keith Enterprises, Kmart, Montgomery Ward, Pier 1, and Sears. Thanks are also due to the companies interviewed in Côte d’Ivoire, Ghana, Kenya, Senegal and Zimbabwe.

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Executive Summary

A window of opportunity has emerged for African manufacturers to supply major U.S. retailers, most notably in Afrocentric merchandise (garments and home products). Interest in these products is driven by profitable opportunities in the African American consumer segment of the market. Unfortunately, while a large and growing market is there to be served, U.S. retailers are having a difficult time sourcing these products from African producers.

This study is motivated by the notion that assisting African producers to take advantage of this emerging market opportunity, particularly in countries where recent structural adjustment efforts have enhanced their competitiveness, could result in immediate short-run employment and income benefits, as well as longer run gains from learning-by-doing and reduced transaction costs. Specifically, by successfully learning how to meet the cost, quality and delivery requirements of important U.S. buyers in the Afrocentric market, African firms could develop the technical and marketing expertise to enter more mainstream export markets for standardized products. Early U.S. buyers of Afrocentric products would, in effect, be acting as catalytic agents, spurring prospects for future growth.

It was learned during the course of this study that graduation from Afrocentric to mainstream production is only part of the intermediate prospects for manufacturing in Africa. In fact, mainstream garment production is already emerging as a significant opportunity for African exporters. U.S. importers are aggressively searching the globe for quota free, low cost producers to serve the low and medium price segments of the apparel market. Foreign-owned firms, experienced in offshore production, have already begun establishing large scale manufacturing facilities in Africa to serve U.S. retail buyers.

This study examines the size, structure and trends of both Afrocentric and mainstream export opportunities and determines what Africans must do to meet market demand. It also assesses the facilitating role the World Bank and other donors can play in removing market constraints and strengthening African production capability.

How Changes in U.S. Retailing and Demographics Created Export Opportunities for Africa

The competitive intensity of the U.S. retailing industry has increased significantly in response to several fundamental changes in its operating environment, causing wide disparities in company performance. Retailers have been forced, as a consequence, to rethink their strategic objectives. Their new emerging retail strategies reflect:

- the necessity to offset stagnant general consumption patterns by building a niche market for African Americans;

- the drive to offer more value oriented, low priced goods to their customers, utilizing a global sourcing network that increasingly favors low wage, quota free countries, including selected African nations.
These shifting strategies are creating opportunities for African manufacturers to become suppliers.

Two major demographic shifts are occurring in the U.S. which underlie retailers' choice of these new strategies: (a) the rapid growth of minority groups—by the early 21st century, one quarter to one third of all Americans will belong to a racial or ethnic minority; and (b) the demographic trends which fueled consumption in the 1970s and 1980s are reversing — baby boomers are moving into middle age and consuming less, while the proportion of Americans between ages 25 and 44, the prime years of household formation and spending, is declining.

Until recently, mainstream retailers virtually ignored the African American market, America's largest minority group, which has a purchasing power of US$223 billion. African American spending patterns differ from general market consumers—studies indicate that they allocate a higher portion of income to apparel and services versus white consumers. There is also a resurgence of cultural identity among African Americans, which provides a marketing opportunity for retailers in the Afrocentric products category. The authenticity of the products — the fact that they are sourced in Africa — has proven to be a key selling point. In addition to the demand for these products from African Americans, these products potentially have crossover appeal, selling to consumers who are not of African descent.

Supply Side Constraints to the Growth of African Exports

African manufacturers of Afrocentric products are presented with two possible strategies dictated by the requirements of the market: (a) produce high volumes with consistent quality at low cost — "volume producers"; or (b) produce low volume, design-intensive, specialty items for high income retailers — "boutique producers". Long term competitive viability depends on producers' ability to achieve the balance of cost, quality, output and design capabilities required by the retail segment they seek to serve.

The challenges of pursuing a high volume strategy in Afrocentric garments are illustrated by a case study of JCPenney's experience in sourcing Afrocentric goods from a small African firm in Senegal. The difficulties encountered in meeting JCPenney's requirements provide lessons for future efforts of this kind: (a) mismatch in scale and technical competence of the African exporter and the U.S. buyer; (b) inability of the African exporter to negotiate a realistic price; (c) lack of familiarity on the part of the African exporter with financial institutions and instruments in international trade; (d) differences in "business culture"; and (e) an inexperienced intermediary. The second strategy, high-end, designer garment production, is illustrated by several West African clothing designers, who produce fashions for small U.S. boutiques on a limited scale. Their challenges, to increase marketing access to U.S. boutique owners and improve managerial skills, could be addressed through small assistance programs.

In the Afrocentric home products market, the case of Kenya's growth as a supplier of these goods stands out. The key success factors included an interested buyer (AMC),
government commitment and private sector involvement, foreign technical assistance, and a graduated scaling up of orders.

The largest impediments to growth in Afrocentric home products are the difficulty in organizing the production of many remote small producers, the need to provide working capital, and unfamiliarity of small African producers with market standards. The production constraints emanate from a void in the African supply chain. Demand from large U.S. retailers is relatively new. Thus enterprises need to be created or upgraded to serve this demanding market.

**Africa’s Role in the Global Standardized Garment Industry**

Africa's participation in the manufacture of standardized garments for export to the U.S. offers an excellent opportunity for Africa to get started in an early stage manufacturing industry. Africa's competitive advantage is based on low labor costs and quota-free access to the U.S. market. The entry of foreign garment manufacturing firms in Sub-Saharan Africa will act as a catalyst by training local workers and bringing in foreign capital.

Standardized garment manufacture is a mobile, labor intensive and systematic form of production, which is not dependent upon heavy capital investment or long lead times to come on stream. Fabric is the single largest input in garment production, ranging from 52 percent to 62 percent of the finished product. However, this input can be readily sourced worldwide by all manufacturers at roughly similar prices. Hence, cheap labor is the determining factor in locating a garments factory. While import quotas imposed under the Multifibre Agreement have hindered large traditional supplier nations from expanding their exports, they have created significant opportunities for new low cost manufacturers in quota free apparel producing countries in Sub-Saharan Africa, provided manufacturing in these countries can meet international standards of competitiveness.

In actual practice, buyers rate competitiveness and make purchasing decisions based on a balance of factors: product cost, product quality and reliability of supply. This study illustrates how a growing number of African firms successfully meet these criteria on a regular basis. Unit labor costs of African workers in garment factories run by experienced managers are well within the range of Asian rivals. Task-level worker efficiencies are also comparable to those in Asian economies — an African worker can produce shirts within the globally acceptable range of 16 to 24 shirts per day, confirming that with proper management, African workers can compete in the global economy.

The competitiveness of garments manufacture in such countries as Kenya, Zimbabwe and Ghana does not yet translate into significant exports, but they are beginning to increase at a much higher rate, albeit from a low base, than exports from such East Asian countries as Sri Lanka and Bangladesh. Indications are that this trend will be sustained for some time. To put the present size of the African garment exports in context, and at the same time give an idea of the magnitude of the potential: a 1 percent rate of growth in U.S. apparel imports would represent an increase of US$275 million, more than ten times the current exports of the five African countries examined combined.
Of the five countries that form part of this study — Zimbabwe, Kenya, Senegal, Côte d'Ivoire and Ghana — the three that have made the most progress in policy reforms — Ghana, Kenya and Zimbabwe — also show the greatest promise of developing an export garment industry. Yet, in none of these countries has the industry reached a critical mass, involving a significant number of manufacturers both foreign and indigenous. Remaining constraints in the regulatory and economic environments, including obstacles to procuring inputs from abroad at world prices, overly cumbersome bureaucratic procedures and lingering doubts about investment security, and potentially serious infrastructural bottlenecks need to be addressed to create a solid base for future growth of the industry.

Experience in other countries which have achieved success in garments exports, indicates that a significant degree of indigenization of the industry is required to ensure its sustainability once real unit labor costs begin to rise. The process of indigenization could be accelerated by programs that address the main barriers to entry to local entrepreneurs, including restricted access to trade finance and foreign exchange, and firm-level shortcomings in technical and management expertise.

The study outlines the major impediments to the growth of African exports. For Afrocentric products, the main challenge is to counter the lack of technical design and management capabilities, finance related problems, inadequate market information and institutional coordinating mechanisms. In mainstream garments exports, foreign investors — who are the main players — are concerned primarily about labor and import/export regulations, the exchange rate regime, the security of their investments, the management of quotas and the level of infrastructure development in the countries where they locate their factories.

By highlighting supply side constraints, the study makes clear that macroeconomic policy reforms in an export oriented direction (Kenya, Ghana, Zimbabwe), are necessary but not sufficient to induce a domestic supply response in Africa. At present, enterprise level constraints, particularly in the production base itself, but also in financial markets, hold back expansion of manufactured exports. Enterprise level assistance programs are needed to complement macroeconomic and trade reforms currently underway. The World Bank has only recently begun to focus attention on the non-price aspects of export policy at the firm level (quality control, production technologies, market access, etc.). This kind of support remains uncharted territory. Intervention will require a more hands on role for donors than has traditionally been the norm. The report concludes with suggestions on the appropriate role of the World Bank and donors.
I. INTRODUCTION

ORIGINS OF THE PROJECT

In December 1991, JCPenney, a large U.S. general merchandiser (1992 sales US$18.0 billion) opened 20 boutiques in its stores featuring African clothing, art, and home products sourced from Senegal and The Gambia. Ten months later, another U.S. retailer, K mart (1992 sales US$37 billion\(^1\)) launched its “Authentic African Merchandise Program” in 17 stores. This had expanded to 44 stores by August 1993. These early initiatives were followed by authentic African merchandise programs at other retailers — Montgomery Ward opened boutiques in 15 stores and Dayton Hudson in 50 stores.

African designs are hot! Export opportunities for African manufacturers to the U.S. are increasing sharply. The success of African exports has been made possible by structural changes in the demand patterns of the U.S. retail industry. Facing slumping sales and changing demographics, U.S. retailers are beginning to pursue a number of new strategies to boost revenues, including targeting previously ignored demographic groups and market segments. African Americans, the largest ethnic group in America, representing nearly 30 million consumers, are being wooed with marketing campaigns and specialty products, reflecting African American culture and heritage. JCPenney’s efforts in this respect were hailed in the media as an important strategic innovation:

“Buying Black” JCPenney. . . discovers the benefits of targeting when it set up 20 experimental boutiques with products imported from Africa. (Time: August 31, 1992.)

Wake up to a Major Market: Penney’s authentic African boutique features goods from The Gambia & Senegal. (Business Week: June 12, 1992.)

“JCPenney decided to expand its sales of African-style clothing after test that began in December 1991.” (New York Times: July 26, 1992.)

The story of this strategic turn in the road and the growing general trend in popularity of African designs among mainstream U.S. consumers was exciting news. This emerging market opportunity might provide the entry vehicle for African producers into international markets for manufactured goods — a way to get started. After all, most of the 19th and 20th century developers began with textiles and garments exports as early stage industries. In these countries, it provided the mechanism for learning basic production skills and for developing capabilities to compete in international markets. Furthermore, the fact that JCPenney, K mart, Montgomery Ward and Dayton Hudson were all emphasizing product authenticity — that is merchandise sourced directly from Africa — in their Afrocentric programs gave African manufacturers a unique competitive advantage.

\(^1\) 1 billion equals 1,000 million.

Africa Can Compete!
The a priori hypothesis at the beginning of the study was that the U.S. Afrocentric market might provide the springboard for African manufacturers to move into the production of standardized manufactured goods, such as mainstream garments. In Asia and elsewhere, catalytic agents in the form of foreign investors, trading companies and buyers have assisted developing country exporters to manage entry into international markets. The expectation was that these early “catalysts” might play a pivotal role by providing African exporters with financial support, technical advice in such areas as product design and development and quality control and marketing. Such collaboration could help some African firms initiate exports, and help diffuse this experience and know-how to other firms in the country.

While interviewing several large U.S. retailers and buyers about sourcing in Africa, the study team learned that the manufacture of mainstream garments was, in fact, already beginning in Africa. We learned that a number of foreign retailers were interested in investigating the potential for developing supplier relationships with factories located in Africa for producing quota-sensitive goods, such as cotton shirts. Lack of quotas, low unit labor costs, task-level efficiencies comparable to Asian workers and liberalized policy environments in countries that had undertaken structural adjustment have, it seems, created “pockets of competitiveness” in Africa. Mainstream garment manufacturing thus appears to be emerging as an opportunity for increasing exports from Africa. Hence, our research was undertaken to document ongoing activity in both Afrocentric goods and standardized garments.

JCPenney, Montgomery Ward and Kmart have achieved measurable success in their dealings with African manufacturers. However all have encountered problems. Product quality has been uneven, deliveries have been unreliable, trade finance has been difficult to access and “cultural distance” has hindered communication. A number of questions also remain about the Afrocentric market in terms of its size, structure, products, special features, future trends and sustainability. This study seeks to address questions relating to these issues and to determine what, at a minimum, Africans must do to achieve export success.

Drawing from lessons learned in the JCPenney, Kmart and Montgomery Ward “pilot” programs, as well as from the experience of other U.S. retailers sourcing Afrocentric products in Africa, the study evaluates how current African manufacturers of these goods are performing in meeting buyer cost, quality and delivery requirements. What are their key problems and how are they being addressed? How wide is the gap between current manufacturer performance and buyer expectations? What will it take to move African manufacturers to the required level of production capability? And what role can the donor community play? For mainstream garment manufacturing, our primary interest, given that some foreign investment is already in place, is in assessing the underlying sources of competitiveness of these firms. We collected internationally comparable cost data and information on other factors influencing competitive advantage so as to evaluate what are the barriers to increased foreign investment and local entry into this important export activity.
RESEARCH METHOD

The research method chosen for this investigation is the case method. Case studies were conducted of selected U.S. retailers and buyers for three categories of exports — Afrocentric garments, Afrocentric home products and decorative accessories and mainstream garments — as well as of their African suppliers in five countries — Côte d'Ivoire, Ghana, Kenya, Senegal and Zimbabwe — to ascertain market trends and to detail the problems occurring on both the demand and supply sides of the market. The findings provide a good picture of the current situation in the Afrocentric and mainstream markets, but, as with all case studies, the results are not meant to represent an exhaustive analysis.

For information on Afrocentric exports, interviews were conducted in the U.S. with senior management at JCPenney, Montgomery Ward, K mart, Dayton Hudson, and Pier 1. Meetings were also held with a number of industry intermediaries, such as Associated Merchandising Corporation (AMC), the largest buying office in the U.S.; A.L.L. International Clothing, an importer of African clothing and home furnishings which JCPenney and K mart both credit for introducing the Afrocentric merchandising concept; IBN, the largest importer of African fabric in the U.S.; and Eastern Art Arcade, the largest importer of African sculpture and crafts. In Africa, visits were made to the primary source countries for Afrocentric merchandise including Zimbabwe, Kenya, Ghana, Senegal and Côte d'Ivoire. Interviews were conducted with manufacturers working to produce orders of Afrocentric goods for large U.S. retail buyers. For mainstream garments manufacturing, discussions were held with buyers and sourcing managers at Montgomery Ward, Sears and AMC and with owners and production managers of garment factories in the five African countries selected for the investigation.

The study is organized as follows: after the Introduction in Section I, where we discuss how the project began, and the methodology used, we analyze changes in U.S. retailing and demographics in Section II and show how they have created a demand for Afrocentric products. Section III illustrates, through case studies of retailers' experiences, the supply side constraints to the growth of Afrocentric exports. Africa's role in the global standardized garment industry is discussed in Section IV. Section V outlines the impediments identified to the growth of African exports. Section VI suggests a role for the Bank and other donor agencies.
II. HOW CHANGES IN U.S. RETAILING AND DEMOGRAPHICS CREATED EXPORT OPPORTUNITIES FOR AFRICA

AN OVERVIEW OF THE U.S. RETAIL INDUSTRY

This section briefly describes the U.S. retail industry, analyzes recent changes and shows how these changes translate into export opportunities for African manufacturers. Three major periods can be identified in the evolution of the post-war U.S. retail industry. During the 1950–65 period, homogeneous demand supported traditional retailers with a full line of products, such as Sears, Roebuck and Co.; from 1965–80 population migration to the suburbs led to the development of malls, and the rapid expansion of retailers, such as Kmart and Lerners, which focused on middle income suburban consumers; 1980–92 was an era of wide disparities in income, which seemed to favor retailers at opposite ends of the spectrum. Both up market retailers, such as the May Co., and low end retailers, such as WalMart, flourished. Specialty stores, such as Toys R Us, have also prospered in this period.

The industry is now segmented into five major tiers: department stores, such as JCPenney and the May Company Stores; discount outlets, such as Kmart; mass merchandisers, such as Sears and Montgomery Wards; “softlines” specialty stores, such as The Limited and The Gap; and “hardlines” specialty stores, such as Toys ‘R’ Us and Service Merchandise. Appendix 1 lists major stores in each category. All tiers are characterized by strong competition. Partly, this is caused by the expansion of retail stores, which occurred during the roaring 80’s; partly it is caused by new entrants offering discounted merchandise. Consequently, there is now a glut of retail outlets, dominated by a few large winners. Suppliers who have the scale to supply the large chains are becoming dominant, while the smaller suppliers struggle to remain competitive. Substitutes to shops, such as mail order catalogs, which eliminate the need for a shopping trip, have also adversely affected retailers. In addition, consumer preferences have changed, with less time being spent on shopping.

Because of intensive competition, the fallout of retailers within each tier has been severe. As Appendix 2 shows, of the top ten specialty stores in 1978, only two — Woolworth and Melville — were in the list of top ten performers in 1991. Similarly, only three of the top performers in 1978 could claim that status in 1991. Top performing department stores demonstrated greater staying power, with seven of the top 1978 stores reappearing in the 1991 list. This shakeout has been apparent for some years now: Dunn and Bradstreet estimates that a record 17,315 retail businesses failed in 1991, an increase of 35 percent over 1990. In 1992, more than 20 percent of the companies on Store Magazine’s Top 100 list were filing or rumored to be considering Chapter 11 protection. Moreover, throughout the 1980–92 period there were wide disparities in the performance of each tier. As Table 2.1 shows for the year 1992, specialty stores — both “softlines” and “hardlines” — have performed strongly, as have discount outlets. Department stores and mass merchandisers have lagged in overall “GAFO” sales growth.

4GAFO is a term used in the retail industry to cover general merchandise, apparel and accessories, furniture and home furnishings, and other items such as sporting goods.
## Table 2.1: Performance Differences by Retail Tier for U.S. Retailers, 1992

<table>
<thead>
<tr>
<th>Retail Tier</th>
<th>Number of stores in base</th>
<th>Sales ($ billions)</th>
<th>Sales as a percentage of total</th>
<th>Profits ($ billions)</th>
<th>Percent to total</th>
<th>Median return on equity (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>10</td>
<td>45,746</td>
<td>14.2</td>
<td>455</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Discount Outlets</td>
<td>16</td>
<td>138,298</td>
<td>42.9</td>
<td>3,815</td>
<td>46.7</td>
<td>16.1</td>
</tr>
<tr>
<td>Mass Merchandisers</td>
<td>2</td>
<td>34,606</td>
<td>10.7</td>
<td>-2,915</td>
<td>n.a.</td>
<td>5.5</td>
</tr>
<tr>
<td>Softline Specialty Stores</td>
<td>36</td>
<td>59,239</td>
<td>18.4</td>
<td>2,257</td>
<td>27.6</td>
<td>12.8</td>
</tr>
<tr>
<td>Hardline Specialty Stores</td>
<td>34</td>
<td>44,354</td>
<td>13.8</td>
<td>1,639</td>
<td>20.1</td>
<td>11.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98</strong></td>
<td><strong>322,243</strong></td>
<td><strong>100</strong></td>
<td><strong>5,251</strong></td>
<td><strong>100</strong></td>
<td><strong>10.9</strong></td>
</tr>
</tbody>
</table>


Competition from new entrants has compounded the challenges posed by rivalry among existing retail firms. Traditional retailers are entering non-traditional format retail businesses to remain competitive. For example, WalMart now owns Sam’s Warehouse, Kmart owns Office Max, ⁵ and RH Macy is launching its own television shopping network. As Table 2.2 shows, non-traditional format retail sales are now quite substantial, accounting for over $100 billion in 1992.

Those retailers that have emerged intact are “pace-setters” for the rest of the industry. Many have become successful using an approach described by Joseph Ellis of Goldman Sachs as a “productivity loop.” ⁶ This entails having low cost structures, which enables retailers to lower their prices and drive sales ahead at a higher rate. This, in turn, gives them higher volumes, greater economies of scale and market power on both the buying and selling sides, which lets them keep their costs down and profits high, and the cycle continues. Examples of stores which have survived following this strategy include discounters, such as WalMart, softline specialty stores, such as The Gap, and hardline specialty stores, such as Toys R Us.

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⁵Sam’s Warehouse is a wholesale club selling food and general merchandise at low prices in a no frills warehouse environment; membership is required to enter and purchase merchandise. Office Max is a discount office supply store.

⁶“The Top 100 Retailers”, *Stores Magazine*, op. cit.
STAGNANT CONSUMER DEMAND AND THE LINK TO DEMOGRAPHICS

Why has the U.S. retail industry in recent times been subject to the severe competitive pressures described above? One major factor is the overall decline in consumer demand, driven partly by a faltering economy, and partly by a demographic changes.

The strongest indicator of consumer demand is total annual retail sales. Since 1980, retail sales have been declining. As a percentage of disposable personal income, retail sales have declined from 50 percent in 1980 to roughly 44 percent in 1992. This reflects a general unwillingness on the part of consumers to spend as enthusiastically as before. Three basic factors have contributed to this lack of interest in shopping: a lessening of conspicuous consumption; a sense that time and money are scarce; and practical-mindedness in an increasingly middle-aged population. Demographic changes are the driving force behind those changes. First, "baby boomers", who accounted for much of the 1980s' consumer spending on wardrobes and home products, are now established and are spending more frugally. Household formations, an indication of overall consumption, have also slowed down. New household formations grew 27 percent during the period from 1970 to 1980, but dropped to 16 percent in the 1980-90 period. Compared to a peak of 1.6 million annually in the 1970s, growth in new household formation in the 1990s has been sluggish, totaling just under 1 million annually in both 1991 and 1992. All of these factors have contributed to a change in household priorities, leading to a decline in consumer expenditures on apparel and services. Consumer expenditures allocated to these categories declined from 8.4 percent in 1972-73 to 5.9 percent in 1991.

Table 2.2: Non Traditional Format Retail Sales, 1992

<table>
<thead>
<tr>
<th>Format</th>
<th>1992 sales ($billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalog Retailing</td>
<td>60.0</td>
</tr>
<tr>
<td>Warehouse Clubs</td>
<td>35.0</td>
</tr>
<tr>
<td>Off-Price Apparel</td>
<td>14.3</td>
</tr>
<tr>
<td>Outlet Malls</td>
<td>8.3</td>
</tr>
<tr>
<td>Home Shopping Networks</td>
<td>2.2</td>
</tr>
<tr>
<td>Infomercials</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120.8</strong></td>
</tr>
</tbody>
</table>

Source: Authors' estimates based on the following reports: (a) Discount Industry Annual Reports, Discount Store News, (New York: July 1992), 54; (b) Outlet Centers, Value Retail News, (Clearwater, Florida), 5; (c) With Big Book, Advertising Age, (New York: February 1993); (d) Infomercial Industry, Marketing News, (New York: August 1992)

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8Ibid.
9Ibid.
Nor is this likely to change much in the coming years. During the next two decades, the percentage of young adults (the most likely consumers) in the population will decline. The fastest growing segment of the population will comprise people between the ages of 45 and 54. The vast majority of people in this age group are relatively settled in their homes and do not spend as much on retail goods as those in the 35–44 age group. According to the U.S. Bureau of Labor Statistics, households headed by 45 to 54 year olds spend 7.2 percent less annually on apparel, accessories, furniture, and home furnishings than do 35 to 44 year olds. As shown by Table 2.3, growth in the number of 45 to 54 year olds is expected to be nearly 45 percent between 1993 and 2004. In contrast, while the population of 35 to 44 year olds will grow by about 9 percent between 1993 and 1998, their numbers are expected to decline between 1998 and 2004 for an overall increase of only about 4 percent over 1993 levels. In partial reflection of these demographic trends, retail sales growth is projected to continue at a slow pace in the 1990's, growing as little as one percent to two percent in real terms. GAFOS sales rose at an annual compound rate of 7.2 percent between 1980 and 1990, but are anticipated to slow down to an annual compound rate of 3.5–4.0 percent through the remainder of the 1990s.

Table 2.3: U.S. Population Projections

<table>
<thead>
<tr>
<th>Age Group</th>
<th>1993</th>
<th>1998</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (thousands)</td>
<td>Percent of total</td>
<td>Number (thousands)</td>
</tr>
<tr>
<td>Under 25 years</td>
<td>92,703</td>
<td>36.0%</td>
<td>95,203</td>
</tr>
<tr>
<td>25-34 years</td>
<td>41,808</td>
<td>16.2%</td>
<td>39,487</td>
</tr>
<tr>
<td>35-44 years</td>
<td>40,760</td>
<td>15.8%</td>
<td>44,436</td>
</tr>
<tr>
<td>45-54 years</td>
<td>28,644</td>
<td>11.1%</td>
<td>34,528</td>
</tr>
<tr>
<td>55-65 years</td>
<td>53,677</td>
<td>20.8%</td>
<td>57,101</td>
</tr>
<tr>
<td>All ages</td>
<td>257,592</td>
<td>100.0%</td>
<td>270,755</td>
</tr>
</tbody>
</table>


The Browning of America

From the point of view of African exporters, the single most important demographic change has been what is commonly referred to as the “browning of America.” Historically, whites have made up in excess of 85 percent of the population, but this majority share is shrinking, and is slowly being replaced by minority groups, such as African Americans. According to the U.S. Census Bureau, the average annual growth rate for white Americans is projected at 0.6 percent during the 1990s and 0.3 percent after the year 2000, attributable, in the main, to longevity and immigration rather than increases in the birth rate.10 This sluggish growth is in sharp contrast to the 5 percent annual growth projected for Asian Americans, 3 percent for Hispanics and 1.3 percent for African Americans during the 1990s.11 As a result of these demographic shifts (driven by an influx of Asian immigrants and higher birth rates for African American and Hispanic women (86.8 and 107.7 per 1,000 respectively vs. 68.3 for white women), the white majority share of the U.S. population is projected to decline from 75

11 Ibid.
percent in 1992 to 72 percent in 2000 and 68 percent in 2010.\textsuperscript{12} By the early 21st century one-quarter to one-third of all Americans will belong to a racial or ethnic minority,\textsuperscript{13} as shown in Figure 2.1.

**Figure 2.1: Population Distribution by Race/Ethnicity — 1992, 2000, 2025 and 2050**

![Population Distribution by Race/Ethnicity](image)

*Source: U.S. Bureau of the Census, 1992*

This "browning of America" has attracted the attention of a growing number of U.S. retailers who see opportunities for new consumer markets. African Americans are the largest ethnic group in America, representing almost 30 million consumers or just over 12 percent of the American population. Until recently, mainstream marketers have virtually ignored this growing African American market, with relatively low amounts spent on targeted advertising to African Americans. Persuading marketers to target African Americans has been hampered by bold misconceptions about this segment of the population. One problem has been media coverage of African Americans. Most press reports focus on poverty among African Americans and its attendant problems. The widespread stereotype of African Americans is that they live in crack-ridden, violent neighborhoods and come from dysfunctional families. There is another side to the coin, though. The countervailing reality — that of success and affluence among African Americans — is compelling but was, until recently, largely ignored. The percentage of African Americans living in poverty has dropped from 62.5 percent in 1959 to 31 percent in 1991.\textsuperscript{14} Thirty nine percent of all African American households now have incomes exceeding US$25,000 per year.\textsuperscript{15} Over 14 percent or roughly 2 million households

\textsuperscript{12}Ibid.
\textsuperscript{15}Ibid.
have incomes of US$50,000 and over, up from 10.8 percent in 1980.16 African Americans are moving into better paying jobs with about half of the working population in higher-salaried positions (white-collar and precision crafts) compared to 70 percent for whites.17 The rate of young African Americans completing high school has increased to 80 percent in 1991 up from 60 percent in 1970 and the number who have completed college has almost doubled to 2.1 million over the last decade.18 Between 1970 and 1987 (the last year for which figures are available), the number of African American owned businesses more than doubled, the number of African American managers and administrators nearly tripled and the number of African American lawyers increased more than six fold, all translating into greater consumer power.

These statistics and industry studies indicate that there is a growing middle and upper middle class African American population which spends a large share of its discretionary income on luxury goods. African Americans, thus, are a market waiting to be wooed. Yet, mass marketers have traditionally focused their efforts on reaching African Americans with products that were aimed primarily at whites without making any efforts to target the African American consumer. Tobacco, alcohol and automobile companies, for example, have used mass print and broadcasting media to sell African American consumers the same products positioned slightly differently. No attempt was made to differentiate the customer base by special interests or needs. African Americans were thus added inconspicuously to advertisements for the sake of potential crossover appeal. The underlying assumption was that a consumer was a consumer. Now, however, retailers have realized that targeted advertising works. As a result, African Americans are now being targeted by marketers with advertising campaigns and specially made products reflecting African-American culture and heritage.

**AFRICAN AMERICAN SPENDING PATTERNS**

Moreover, several recent studies have shown that African Americans spend more and spend differently than general market consumers. The newly released Burrell/Yankelovich *African American Monitor*, a comprehensive study of the attitudes and values that define African American buying behavior (based on a nationally representative sample of 1,003 African Americans), found that African Americans spend a larger proportion of their income on self gratification/image enhancement items and that lower average incomes do not mean that higher ticket items are excluded from purchase. Compared to whites, African American consumers have not reduced their spending in the recent recession. About half of whites (51 percent) report that they make fewer impulse purchases of nonessential goods compared to 41 percent of African American consumers. Shopping in general is more of a social experience for African Americans than for whites, who regard it as a chore to be accomplished as efficiently as possible. African Americans also spend more once they get to the store. According to shopping center consultants Stillerman Jones and Co. of Indianapolis, African American consumers spend on average $51.21 on a trip to a mall, about 5 percent more than whites. Fifty-six percent of African Americans enjoy shopping for clothes and like viewing a store’s new merchandise compared to 29 percent for whites.19 This is supported by the 1991

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16 *ibid.*
17 *ibid.*
18 *ibid.*
19 Carrie Goerne, “Retailers Boost Efforts to Target African American Consumers,” *Marketing News*, (June 22, 1992)
Consumer Expenditure Survey which shows that African Americans spend 9 percent of their income on apparel and services compared to 5.6 percent by whites.\(^{20}\)

Other studies reinforce the notion that African Americans actually demonstrate higher consumption patterns than the general market in many areas. *Black Americans in the Nineties*, a study detailing, among other things, African American consumer preferences, found that over 2.1 million African Americans own three or more cars and that many of these cars were purchased new. Claritas Corporation, a market research company, in a study of African American middle class buying behavior, found that African American consumers spend heavily on dress suits, overcoats, and slacks and are more likely than the average person to own a satellite dish and have an American Express card. In fact, almost half of the entire U.S. African American population (12.9 million or 43 percent) holds some type of credit card and 3.3 million African American card holders have gold and platinum cards indicating potentially higher credit lines and greater spending power.

Market research indicates that African Americans respond more favorably to “personalized” products and messages that appeal to their sense of black pride, as well as address their ethnic features and needs, than they do to non-differentiated advertising. The source of this is a resurgence of black pride and, while “black pride” is difficult to measure, there are a number of manifestations. One that has received extensive media attention is the switch from the racial label “black” to African American. The campaign to change the name was launched by the National Urban Coalition in 1988 and has gained widespread acceptance, gaining ground more quickly than any of the former terms for African Americans. The Burrell/Yankelovich study corroborates this figure in showing overall that 30 percent of the total African American population prefers the term African American to the term “black.” The significance of the new term is that it gives African Americans a cultural identification with their heritage and ancestral homeland, an identification that in the past was shunned. In fact, not too long ago, to call “black” Americans Africans was to insult them. For a third or more of the total African American population to now favor African American over all other racial terms is thus one sign of growing cultural awareness.\(^{21}\)

Another sign of growing cultural awareness in the African American community, which bodes well for retailers trying to capitalize on this heightened cultural awareness is the celebration of Kwanzaa, an Afrocentric Thanksgiving that takes place from December 26th to January 1st. According to *The Marketer’s Guide to Consumer Behavior*, an estimated five million African Americans celebrate this holiday which incorporates African culture, language and food to celebrate African Americans’ African heritage. Until recently, Kwanzaa cards and gifts were sold primarily by small Afrocentric shops, but mainstream retailers have now begun to take Kwanzaa seriously, as shown by the fact that Hallmark, a major greeting card company, recently introduced of a line of cards celebrating the holiday.


\(^{20}\) As Romona Edelin, president of National Urban Coalition observed, "calling ourselves African American is the first step in the cultural offensive."
Small Business Guide to African American Events identifies 200 such festivals. Black Gold, the most comprehensive national directory of Afrocentric artists, book stores, museums, festivals, merchants, and dealers, lists an additional 100 festivals. In addition, Black History Month celebrated in February of each year, is widely observed within the African American community with numerous special events and programs celebrating African American art and culture. As it falls in February, a traditionally slow retail period, Black History Month is viewed by mainstream market corporations as an opportunity to strengthen their marketing and public relations strategies directed at African American consumers.

The significance of all of these events is that by raising cultural awareness among African-Americans, there is now a large pool of consumers who are willing to spend on Afrocentric merchandise. For such consumers, product authenticity appears to be important, if not vital. Given the relative newness of the Afrocentric market, there are no studies that address the authenticity issue head on. However, a look at available statistics on African American consumer buying behavior, while not providing an answer, does provide some interesting clues on the importance of product authenticity.

The Burrell/Yankelovich study cited above showed that 17 percent of African Americans compared to 10 percent of whites agree strongly with the statement “I will spend more for the best even if the best is not widely recognized by most.” As the Afrocentric merchandise market is in the early stages of development, it is reasonable to assume that most African Americans have not been exposed to a wide assortment of products. However, given that identification with heritage is a significant factor in the purchasing decision, it is probably reasonable to assume that a majority would consider authentic African merchandise to be better from a cultural/heritage point of view than non-authentic merchandise sourced outside of the continent. This, in turn, translates into expanded market opportunities for African exporters.

U.S. retailers have grasped the significance of product authenticity, and have realized that the key to developing the African sourced segment of the Afrocentric market will be product information. Retailers of such merchandise consistently state that identifying merchandise by origin, traditional use or function is a strong selling point. Kmart, JCPenney, Montgomery Ward and Dayton Hudson include such information on hang tags on the merchandise. Small retailers also emphasize the importance of providing product information to customers. During interviews, one retailer of African artware and supplies pointed out, “If I can’t tell a customer where a piece comes from and what its significance is they’re not going to buy it.”

The importance of information to African American consumers is corroborated by statistics that show that African Americans, much more than other consumers, seek out information during the shopping process. In another recent study, African Americans were 86 percent more likely to want an information booth inside a store than whites and were prepared to pay for this extra amenity. This suggests that to expand the African segment of the Afrocentric market in the U.S., dissemination of product information by both manufacturers

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22In “Marketing to the Motherland”, an article by Leslie Hunter-Gadsen in the May 1991 issue of Black Enterprise, a survey of 20 small Afrocentric retailers revealed that one thing all the merchants had in common was the belief that they had responsibility to teach their customers about the origin of African-made products.
and retailers will be crucial and that African Americans will be very receptive to such campaigns.

Moreover, African Americans are likely to be willing to spend more for authentic Afrocentric items. African sourced products, particularly apparel, tend to be more expensive than comparable general market merchandise. The reasons are many — the high cost of inputs, greater transport costs, relatively inefficient production technology in Africa, and so on. Statistical data indicates that African Americans are less price sensitive than other consumers and are willing to spend a higher proportion of their disposable income on image enhancement products. Market Segment Research, a consulting firm specializing in ethnic markets, found that in a representative cross sample of African Americans, Asian Americans, and Hispanics, only 21 percent of African Americans said that price was the most important factor in their buying decision (compared to 26 percent for Hispanic and 30 percent for Asian Americans). This suggests that premium prices for quality African merchandise are unlikely to deter interested African American shoppers.

**Retailers' Response: Niche Marketing**

Not surprisingly, major retailers have begun to capitalize on the emerging market for Afrocentric goods. Department stores like JCPenney, Kmart, Montgomery Ward and Dayton Hudson, and discounters, such as Target, have launched Afrocentric merchandise programs offering apparel, accessories and/or home products in the last year. Their primary objective is to get greater loyalty from African American consumers in selected store locations where such consumers constitute a disproportionate number of households in the area.

Niche marketing of this type is not entirely new to retailers. The major U.S. retailers who have entered the Afrocentric apparel market have employed this as one of a number of strategies to tailor their assortments to local market tastes in locations heavily populated by minority consumers. For example, many of them have instituted special merchandising programs for Hispanic communities in Florida, Texas or California, states with large Hispanic populations. Retailers have few of the romanticized notions about the product that a small Afrocentric boutique owner might have, but view these “niches” as new businesses (with the normal start up delays and costs) which they expect should eventually function normally with minimal handholding. Thus, merchandise managers expect to eventually treat this business like any other from a sourcing perspective, with competitive costs, good quality and timeliness of delivery. But in view of the fact that some special attention is required to properly capitalize on such “niche” markets, JCPenney, Kmart and Montgomery Ward have established positions such as “Director – Ethnic Merchandising” to oversee the implementation of these types of programs in the short run.
Retailers are also taking other steps to improve their ability to match their merchandise offerings with the patterns of demand exhibited by target consumers. Since there was no road map to follow, key issues such as "price point tolerances\textsuperscript{23}," seasonal fluctuations in demand, and fashion/design preferences could be resolved only after initial orders were received and sales results could be analyzed. As we learned in our interviews, Kmart, for example, realized that cotton Afrocentric goods competed unsuccessfully with back-to-school purchases in September, and then had to remove their Afrocentric apparel until the holiday selling period began in November. Dayton Hudson learned that there are limits to "crossover" demand in Afrocentric home products—and are pulling back from an overly aggressive expansion to 44 stores, which included larger stores in predominantly white markets (i.e., Fargo, North Dakota), to core stores in cities with a large African American population base, such as Detroit, Michigan. The performance to date of four retailers' Afrocentric programs is summarized in Table 2.4.

Table 2.4: Afrocentric Merchandise Programs Within Mainstream Retailers

\textbf{A Summary}

<table>
<thead>
<tr>
<th>Start Date</th>
<th>JCPenney</th>
<th>Montgomery Ward</th>
<th>Kmart</th>
<th>Dayton Hudson</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current</td>
<td>20</td>
<td>30</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>- Goal</td>
<td>up to 170</td>
<td>70</td>
<td>50</td>
<td>3-4</td>
</tr>
<tr>
<td>Merchandise Scope</td>
<td>family apparel, accessories, home garments</td>
<td>family apparel, accessories, home products</td>
<td>women's and children's apparel and accessories</td>
<td>home products, women's apparel</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>$500,000 (estimate)</td>
<td>$1.5 million</td>
<td>$750,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Chain Demographics</td>
<td>350 stores have African American populations of 25,000 or more</td>
<td>65 to 70 stores have African American population over 35%</td>
<td>50 stores have African American population of over 50%, 420 stores 25% to 50%</td>
<td>Not available</td>
</tr>
<tr>
<td>Lessons Learned</td>
<td>Women will pay up to 100 percent price premium for unique high quality apparel</td>
<td>Items too fashion forward or high priced are inconsistent with their customer profile</td>
<td>Adult AA consumers who previously only purchased apparel for their children will buy these items for themselves</td>
<td>Newness in design in home products is key to attracting business from repeat customers</td>
</tr>
</tbody>
</table>

Source: Authors' interviews.

After an initial enthusiastic start, retailers have begun to downsize the scope of Afrocentric merchandise programs. Part of the reason is the problems encountered in sourcing goods from Africa, which are described in the Section III.

\textsuperscript{23}Price point tolerances is retail industry jargon for the range of prices consumers are willing to pay for a given item being offered for sale.
Thus, there is now an established market for authentic African merchandise. But future growth depends on how large and sustainable this market is likely to become. In the next section, we estimate the size of the Afrocentric market.

**THE SIZE OF THE MARKET**

From the point of view of African exporters, the U.S. offers an opportunity to reach a large mass of consumers. What exactly is the size of this market, and how large can it be expected to grow? We estimate the current size of the market by looking at retail sales of Afrocentric stores (the largest component of the market), sales by large wholesalers of Afrocentric merchandise, sales made by major department store retailers, and sales through events, such as Black Expo and other heritage festivals. As the greatest market potential for African exporters appears to be in the areas of apparel, jewelry and home accessories, we estimate market size for these products.

In the U.S., there are an estimated 350-600 Afrocentric stores selling a range of products — clothing, home accessories, art and sculpture.²⁴ Things Graphic and Fine Art (TGFA) supplies 4,000 outlets of which it estimates 600 to be exclusively Afrocentric. Assume that the size of an average store is about 500 square feet, typical for the stores surveyed by Black Enterprise and also the average size of Afrocentric boutiques in major department stores. Industry sources estimate that Afrocentric merchandise generates between $300 and $400 per square foot, about twice the retail industry average of $175 per square foot. Assuming 350 Afrocentric stores with an average size of 500 square feet, generating $300 per square foot annually — the estimated minimum current Afrocentric market size would be approximately **US$52 million**. If we accept TGFA’s estimate of 600 retail stores, each averaging 500 square feet and generating US$400 per square foot — the estimated market size is **US$120 million**. Sales from such stores are the largest component in overall Afrocentric product sales. The second largest component of the market is the business generated by wholesale distributors of Afrocentric merchandise whose sales equal $95.9 million annually.

Retail sales through established Afrocentric stores and wholesalers, however, tell only part of the story. Bandele’s 1993 Small Business Guide to African American Events identifies 200 major festivals and shows around the country organized to sell Afrocentric merchandise. Black Gold, another industry journal, identifies another 100 such events. Interviews by the authors of participants in such shows suggest that on average there are 100 vendors per show each generating on average US$1,000 per show. Annual Afrocentric sales through this source are estimated at **US$30 million**. Black Expo, an annual event focused on Afrocentric merchandise, has sales of approximately **US$19 million** based on an estimated annual attendance of 380,000 persons and estimated per person expenditures of $50. Again, these estimates are on the low side as they do not include Afrocentric products sold through mainstream channels. Sales of Afrocentric apparel, jewelry, textiles and home accessories

²⁴The lower figure is based on estimates provided by Black Enterprise. The higher figure is an estimate provided by Things Graphic and Fine Art (TGFA), the largest wholesale distributor of Afrocentric art, cards and some gift items in the country.
through major retailers are estimated at US$3.5 million. The total size of the market, then, using sales from different sources, is approximately US$200.4 - 268.4 million. (See Table 2.5).

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sales volume ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afrocentric Retail Stores</td>
<td>52–120</td>
</tr>
<tr>
<td>Large Wholesalers26</td>
<td>95.9</td>
</tr>
<tr>
<td>Festivals</td>
<td>30.0</td>
</tr>
<tr>
<td>Black Expo</td>
<td>19.0</td>
</tr>
<tr>
<td>Major Department Stores27</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200.4–268.4</strong></td>
</tr>
</tbody>
</table>

Source: Authors' estimates.

While the $200 million figure is in itself encouraging to African exporters, the potentially huge size of the market offers even more impetus for the development of African export capabilities. One way to estimate the potential size is to assume that a certain percentage of African American expenditure on clothing and accessories is devoted to Afrocentric garments and accessories. Even if we were to assume that this percentage is as low as 2 percent, the total estimated size of the market would be $540 million, given that the total expenditure by African Americans on clothing is approximately $27 billion.28

In ascertaining the size of the market, African exporters should be aware of interest, however limited, in Afrocentric products by non African American consumers. The potential exists that Afrocentric products could “crossover” and gain mainstream acceptance by consumers who are not of African descent. This potential, only partially-tapped, implies that market size estimates are conservative. Has there been any demonstration of this “crossover” appeal? An impressionistic survey suggests that there is indeed growing interest in Afrocentric designs among non African Americans, particularly in home accessories.

The African aesthetic in design in home accessories is perceived as one of the signature looks of the 1990s. The confluence of three basic trends has contributed to the growth in demand for traditional African design artisan home products. These are growing multicultural awareness in the U.S., emphasis on home decoration, and environmental awareness.

23Figure based on data gathered through interviews with retailers.
26Examples of large wholesalers are Cross Colours, Spike's Joint, IBN, Sotiba. Cross Colours is a wholesaler of mens’ and womens’ casual sportswear which had 1992 sales of $89 million. Spike's Joint is a retailer of Spike Lee-inspired clothing and accessories which had 1992 sales of $1.5 million. IBN and Sotiba are wholesalers and retailers of African fabric in the U.S.
27Examples of major department stores are: JCPenney, Montgomery Ward, Dayton Hudson, KMart.
As noted earlier, U.S demographics are changing dramatically with the rapid growth of minority groups. According to the U.S. Census Bureau, by the early 21st century, one-quarter to one third of all Americans will belong to a racial or ethnic minority. This change in the composition of the population has encouraged businesses to implement new marketing themes such as “diversity” and “inclusiveness,” which are striking a chord with all consumers. This new multicultural consciousness is showing up in the average American living room in the form of African masks and sculpture, animal motif place mats, nomadic weavings, and rattan chairs.

There is at the same time an increased emphasis on home decoration, due partly to the age of the “baby boomers.” According to census data, the median age in the U.S. will reach 36 at the turn of the century, hitting 40 around 2020. As the baby boom generation has matured, the emphasis has shifted away from self to home and family. The trend toward “home” has expanded the market for reasonably priced decorative accessories and housewares, items well suited to artisan production.

Environmental awareness has also helped to increase the attractiveness of African exports. Recycling, clean technology, and renewable energy are major themes of the 1990s. Translated into a fashion trend, the “environmental” look is natural and unfinished. In the home furnishings market the focus is on decorative accessories made of natural materials (especially wood and ceramics), natural dyes, and hand painted earthy colors. African masks, gourds, baskets, etc. easily fit this new aesthetic and have, thus, become important elements of contemporary interior design.

The crossover potential of Afrocentric apparel is viewed by retailers as more limited than in the home products markets because wearing an Afrocentric garment is viewed as a much more dramatic statement than purchasing an African decorative accessory to update one’s home. The decision to wear Afrocentric clothing is driven at its core by an increased awareness of and pride in one’s heritage, but is also to a large degree motivated by the currently popular ethnic fashion trend, especially in the youth market. Because of the fickleness of the fashion consumer, the sustainability of demand for Afrocentric clothing depends upon the degree to which the marketers of this product can transcend trendiness and communicate the legitimacy of the product as a permanent statement of cultural awareness. The ability of African Americans to set fashion trends which are then adopted by the mainstream population could work to make African apparel more acceptable to the average consumer. Thus, if the crossover potential of Afrocentric goods is a sustainable trend, the size of the market is potentially even larger than the figures estimated above.

According to Forbes, “Companies most likely to profit from boomers now are those that help them around the house. Among the most promising, analysts say, is Pier 1 Imports, a retailer of home furnishings that has already had success marketing to baby boomers in their earlier years. The company has adapted its product line to their maturing needs by adding such items as table settings and decorations for dinner parties.”
III. SUPPLY SIDE CONSTRAINTS TO THE GROWTH OF AFRICAN EXPORTS: CASE STUDIES

As indicated in the preceding section, there is, increasingly, demand for Afrocentric garments and home products in the U.S. But the market, as we also indicated, is by no means uniform. There are different segments (retail, heritage, festivals), each with particular requirements. Consumer product preferences and purchasing criteria differ by demographic and market segment. Entrants into the Afrocentric market must, therefore, determine their competitive posture—how and where can they meet the requirements of the market?

Discussions with a number of U.S. retailers, wholesalers and experts in the garment trade and home products industry suggest that the long-term marketability of Afrocentric products in the U.S. will depend on: (a) the ability of African exporters to overcome serious quality, output and financial constraints at the enterprise level; and (b) the successful evolution and adaptation of product design to changing Western tastes and preferences. More generally, African exporters of garments and home products must, at a minimum, be able to deliver products that meet exacting design, color, and grade specifications in the right volumes and size assortments, with the right packaging and labels. In addition, the exporters must be able to meet deadlines, and most importantly, offer their products at a competitive price.

African suppliers of Afrocentric garments to the U.S. market could pursue one of two options in terms of production and marketing strategy: (a) meet rigid cost, quality, and volume requirements of large U.S. retail buyers ("volume producers"); or (b) differentiate their products from those produced for the mass market and produce smaller volumes for quality conscious consumers, who would typically be less price sensitive than the average consumer ("boutique producers"). In our interviews, we uncovered examples of African successes in both types of endeavors. Among the firms currently producing Afrocentric clothing for large U.S. retailers, there are mid to large scale manufacturers who can deliver decently designed products, in a timely manner, at a competitive price. The dilemma retailers face is that there are only a few such producers who are ideally positioned to supply the Afrocentric segment of the market — either the producers are too small and struggle with the management of the process, or they are too large and volume-oriented, and thus are weak on flexibility, design, and product development. In the following section we present the chronology of a large U.S. retailer’s experience in sourcing garments from Africa, as well as the experience of boutique producers. The section also discusses exports of home products and ends with practical recommendations that could increase exports of these products from Africa.
EXPORTS OF AFROCENTRIC GARMENTS

Volume Producers

Problems in Importing Garments from Africa: JCPenney's Experience

To understand the problems that can bedevil an actual export transaction, we undertook interviews with a major retailer — JCPenney — that is trying to source goods from Africa. The particular transaction we studied involved an order of garments from a Senegalese company. We also interviewed the garment manufacturer in Senegal to understand the constraints such manufacturers typically face. The difficulties we outline in the case below emanate from a fundamental mismatch between a large retail buyer requiring sizable volumes with adherence to strict delivery schedules and quality specifications, and a small, inexperienced garment manufacturer using an international intermediary also with limited experience and capabilities. This case is indicative of difficulties which arose in all three Afrocentric garment programs studied.30

Background. JCPenney is an $18 billion retailer with 1,283 stores in the U.S. The company embarked upon its “Authentic African” merchandise program in November 1991 with a test order of African apparel in 20 stores. The program was the brainchild of JCPenney’s Director of Minority Supplier Development, whose task it was to identify and nurture minority-owned businesses that could supply JCPenney with goods or services. After identifying an intermediary31 in Dallas who was relatively new to garment production and importing, JCPenney ordered goods from Sodaco (Société Dakaroise de Confection) in Senegal. JCPenney’s Director of Minority Supplier Development typically worked with domestic suppliers, and so was unfamiliar with the normal factory evaluation procedures employed by JCPenney for new importers. Typically, the Operations and Sourcing divisions of the company are involved in any new foreign relationship to certify production capabilities. But because JCPenney viewed this program with enthusiasm and was anxious to get underway, procedures were expedited and exceptions made to facilitate order approval and financing. Once the initial small order of goods arrived from Senegal, the test program was deemed a success, with strong sales of the merchandise. The decision was then made to increase the program from 20 to 100 stores, with the same intermediary and manufacturer. This is when the major difficulties began.

There are five fundamental issues which contributed in varying degrees to difficulties in the pilot phases of “Authentic African” garment programs at JCPenney. These issues were also relevant to K mart and Montgomery Ward, the other two retailers with major Afrocentric programs: (a) mismatch between the scale and technical competence of the African exporter

30The three programs are JCPenney’s, K mart’s and Montgomery Ward’s.
31The story of how the intermediary got into the business is an interesting one. The JCP Director of Minority Supplier Development read an article in the Dallas newspaper about a local African American entrepreneur who was planning to source apparel from the Gambia and Senegal. In fact, this entrepreneur was an owner of a limousine company in Dallas, had transported some Gambian officials who were visiting Dallas, and was invited to their country to explore export opportunities. Following some unsuccessful investments, the entrepreneur finally settled on garment production, based on some previous experience as a regional sales representative for a midwestern garment manufacturer. He included Senegal as a possible base for his investment after learning of its relatively high skills level.
and the U.S. buyer; (b) inability on the part of the African exporter to negotiate a realistic price; (c) lack of familiarity on the part of the African exporter with financial institutions and instruments in international trade; (d) differences in "business culture," and (e) an inexperienced intermediary.

Mismatch in scale and technical competence of supplier and buyer. JCPenney is accustomed to sourcing products from medium to large multinational manufacturers with the scale to produce thousands of dozens of units and the skill to deliver them throughout the year on a timely basis. Because Sodaco, the initial supplier of Afrocentric clothing to JCPenney selected by the Dallas intermediary, had successfully completed the JCPenney test order in 1991, it was selected to produce for the 100 store expanded program. Sodaco, founded in 1974 with 10 workers, had at the time of the order doubled its staff to 20 permanent workers and 30 part time workers. It had a managing director who was experienced in production and design. Prior to JCPenney, the company's primary customer had been Gentleman Uniformes, a supplier of uniforms to Air Afrique. Since 1984, Sodaco had been exporting goods worth between US$7,200 to $10,900 annually to France and Spain and to the U.S. through small intermediaries and was producing 13,200 garments per year with a sales value of US$80,000.

The expanded 100-store program order from JCPenney entailed producing 70,000 garments a year, a 545 percent increase over previous production levels. The scale and complexity of this order was far greater than anything Sodaco was accustomed to. The orders were placed by 15 different divisions of JCPenney, such as men's casual sportswear, women's hats, etc., creating a total production order that, from the point of view of a firm like Sodaco, was fragmented and difficult to abide by. Individual orders had come from each division's buyer and consisted of various combinations of styles. An example is shown in Figure 3.1.

Sodaco was not accustomed to adhering to detailed size specifications for each garment set by its buyers. Typically, it worked against rough standards for its garments with a margin that allowed for error. JCPenney, on the other hand, requires that all suppliers adopt its standards on their orders so that customers can rely on consistency across its vendors when selecting their size. The intermediary operating between JCPenney and Sodaco did not point out the importance of this practice to Sodaco on the first round of garments produced, prompting JCPenney to send a quality control person to Sodaco to train tailors for the second order. Incorporating these specifications into Sodaco's production process added a layer of complexity that the tailors were unfamiliar with, thus lowering productivity.
Inability on the part of the African exporter to negotiate a realistic price. Sodaco was unaccustomed not only to large orders but also to tough negotiations. JCPenney is a tough negotiator on price with its suppliers, as are most large retail organizations. In general, it is crucial for retailers like JCPenney to minimize costs to facilitate competitive pricing for the consumer, given the fiercely competitive nature of retailing in the U.S. In addition, JCPenney's positioning at the lower end of the department store tier imposes a ceiling on the price of goods it can legitimately offer. The company is accustomed to negotiating with manufacturers who can produce large quantities at low cost.

Sodaco lacked the management skills to develop a proper negotiating strategy. Its management was not financially adept enough to figure out its actual costs on each garment and to grasp the implication of the slim profit margins on the JCPenney garments order. The company manufactures smaller quantities per order at relatively high costs. Its previous customers had been less sensitive to price competitiveness. Because of this fundamental mismatch, it was not possible for Sodaco to meet the prices negotiated by JCPenney and deliver its normal quality. Sodaco had to compromise on the quality of the raw materials used (e.g., thread and some fabric). Thus, some of the garments could not withstand JCPenney quality tests (i.e., thread would unravel after washing) and had to be remade, sold as close-outs or discarded at a loss.

Lack of familiarity with financial institutions and instruments. From Sodaco's perspective, the financing of this transaction was the greatest obstacle to successful completion of this order. The letter of credit (LC) was finalized only four months after the original order was placed. This delay in financing delayed production. Sodaco had no previous experience financing exports using letters of credit, and was overwhelmed by the financial aspects of this transaction. This was compounded by the complex structure of the US$364,000 letter of credit for this transaction, which involved the buyer, the manufacturer, an intermediary and three banks, two of which were Senegalese and one was a U.S. bank. Figure 3.2 illustrates the structure set up for this transaction.
The primary complications in the letter of credit structure were:

(a) The LC opened was an “unconfirmed” LC, which is standard operating procedure for JCPenney. Without this confirmation from JCPenney, CBAO Senegal, one of the two African banks involved, did not feel secure about JCPenney’s commitment to this order, and was reluctant to enter into the transaction. Despite JCPenney’s insistence that the placement of a JCPenney order should be sufficient to make CBAO feel confident, the real risk in the transaction from the Senegalese bank’s perspective was whether Sodaco could fulfill the commitment to ship.

(b) Thirty percent of the total LC amount was made available to Sodaco for working capital through a "red clause" in the LC, a courtesy that JCPenney rarely extends to suppliers. But the amount of the working capital financing initially negotiated for Sodaco was insufficient to cover their needs given the size of this order. Additional funding had to be arranged to cover emergencies during production, causing delays in the work schedule.
(c) The US$364,000 master LC was transferable, so as to facilitate subcontracting. There were at least 15 sub-LCs to correspond with each JCPenney buyer, subdivision and contract number. After two to three months of production, there were at least 10 LCs open simultaneously. Sodaco had difficulty segregating styles by individual LCs, and thus shipments made by Sodaco were driven by production flows, not the structure of the LCs. Therefore, invoices sent by Sodaco with the merchandise shipments did not correspond to the LCs on file with the banks or JCPenney. JCPenney, having used transferable LCs with sub-LCs several times before, viewed its use as a simple process and could not understand Sodaco's difficulty in matching invoices with LCs. It thus delayed payment until errors in the documents were corrected by the intermediary. Due to the overall level of confusion caused by these errors, Sodaco received payment only months after delivery of the bulk of the merchandise.

(d) Slow payment was exacerbated by the extra layer of banks involved. The documents had to move through Sodaco, CBAO Senegal, Credit Lyonnais Senegal, Credit Lyonnais U.S., and JCPenney. Because of the errors in the documents, various parties in the transaction took longer than normal to forward or confirm documentation, further delaying the payments to Sodaco.

The JCPenney Operations Vice President, CBAO Senegal executives and those experienced in financing exports from Africa view the problems encountered in this transaction as unusual and due to a lack of experience. These are not perceived as symptomatic of a general barrier to trade between U.S. retailers and African manufacturers. For example, the selection of Citibank by JCPenney instead of Credit Lyonnais would have eliminated one party in the communication network due to Citibank’s ability to work directly with CBAO Senegal, but JCPenney chose Credit Lyonnais because it presumed that it would be familiar with business transactions in a Francophone country.

Inexperienced intermediary. In addition to the lack of experience of the African producer, the Dallas entrepreneur who negotiated with JCPenney had no experience working with a retailer of such scale and with such demanding product and operating specifications. He also lacked the administrative support to oversee the transaction and quickly became overextended. Moreover, he was undercapitalized, having relied solely upon the securing of bank financing for startup capital. The importance of detailed product specifications, to which JCPenney expected adherence, were not understood by the intermediary in advance, necessitating remanufacture of hundreds of garments in the earliest stage of production. Instead of facilitating communication, he became a bottleneck unable to communicate the details of the order. In retrospect, both parties acknowledged it would have been much more efficient if JCPenney personnel had communicated with Sodaco directly.

Differences in “Business Culture”. A fundamental problem that caused JCPenney and Sodaco to fail to fulfill each other’s expectations in this transaction is the difference in the “business culture” of each party. In the U.S. retail industry, particularly in the era of what in the industry is called “Quick Response Inventory Management”, there is minimal room for flexibility in the fulfillment of a contract (though importers by necessity are given more leeway). In the indigenous African business culture, contracts incorporate flexibility to insure each party against shocks and delays caused by such things as infrastructure problems—poor
phone service, strikes, malfunctioning ports, social obligations, and the like. In addition, the working habits of the Senegalese manufacturer did not adapt to reflect the urgency of the situation, even after it was clear that JCPenney was making every effort to move quickly to facilitate the completion of the transaction. For example, managers of Sodaco were not accustomed to working on orders of this magnitude or with such time constraints, thus did not “gear up” for this order as experienced manufacturers typically do. The work began at 9:30 a.m. as usual, with no overtime and no Sunday schedule even when the order was months late. When the delivery was running months late, JCPenney called Sodaco to reprioritize its production schedule midstream so as to rush completion of key styles, a disruptive but common fact of life when supplying a large U.S. retailer. This sense of urgency was viewed as highly unusual by Sodaco and difficult for it to comply with.

The final chronology of the JCPenney/Small Intermediary/Sodaco transaction was as follows:

- February 1992: Original order of garments for 100 stores placed by JCPenney
- April/May 1992: Letter of Credit opened by JCPenney
- July 1992: Production began by Sodaco
- October 1992: Original due date set by JCPenney
- December 1992: Goods arrive at JCPenney
- June 1993: Sodaco receives final payment from CBAO Senegal

Current Status of the “Authentic African” Program. JCPenney has concluded that strong demand exists for Afrocentric garments based on strong sales of the Sodaco merchandise eventually delivered in 1992 and subsequent sales in four mail-order catalogs. But operational difficulties encountered working in Senegal have forced the Company to rethink its strategy. As a result, its Afrocentric merchandise program has been scaled back considerably. The merchandise is no longer sold in stores, but is currently limited to five garments in the company’s Fall 1993 African American-oriented catalog, Fashion Influences, which is mailed to 800,000 African American homes. The strategy is to rebuild the business with a more manageable assortment bought “narrow and deep” (fewer styles in larger quantities) at high quality levels until a reliable vendor structure can be built. It is clear demand outpaces supply of these garments—30 percent of the demand (measured by orders outstanding) generated by the 40 page Fall 1993 catalog has been generated by the five pages of African apparel. Reorders have been placed and at present, the company and its suppliers are working to fill the reorders in sufficient time to meet the catalog’s final deadline.

The largest barrier to growth of the “Authentic African” program is identification of qualified suppliers. While challenging, this problem is not insurmountable — other regions of the world have demonstrated that it can be done. One such case is that of the export of ethnic garments from Bali, which is described in Appendix 3. The majority of potential suppliers approaching JCPenney are small entrepreneurs who lack experience in volume production and export finance. The original intermediary and producer are no longer being used. New domestic intermediaries who produce in Ghana and Cameroon are participating in the catalog. Meanwhile, JCPenney is still searching for the appropriate balance of volume and design in its suppliers. The company’s sourcing group in Florence has engaged a consultant to search the African continent for potential garment suppliers for the Authentic African program as well as
for mainstream garment import programs. JCPenney has identified 170 stores as special segment locations which could eventually offer authentic African merchandise, but the evolution to broad distribution nationwide will proceed cautiously this time.

Boutique Producers

In addition to suppliers like Sodaco, there now exists in West Africa a small cadre of designers and tailors whose participation in the export sector is small but important. This sector, which we refer to as the "boutique" sector, has evolved spontaneously, with its roots in the tradition of tailoring enterprises that make garments. The sector is a natural candidate for early stage high-priced quality exports. A group of designers already exists who are well known in their local markets as well as among followers of Afrocentric fashion in France and the U.S.; they are responsible for West Africa’s reputation as the center of style on the continent. They use primarily authentic African fabric; items may be hand painted or adorned with African trading beads or cowrie shells; finishes are perfect and premium prices are charged.32

The greatest obstacle to increased exports by this sector is its lack of market information on and access to the American retail distribution system, which is much more complex than a similar structure in African countries. As these designers lack sales/marketing representation in the U.S., their exposure in the U.S. at present is limited to Afrocentric boutiques in major cities with large African American populations. An example of an upscale Afrocentric boutique is provided by African Eye, a store of this type in Washington, D.C. (see Appendix 6).

Collective efforts to formally expose African designers to greater numbers of U.S. boutiques, through specialized trade shows or marketing “road shows” in key cities would be an efficient mechanism to disseminate information on their products and tap potential distribution channels. Technical assistance on managing increased export and production levels are necessary to prepare these microenterprises to reach the next phase of development.

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32 A few of the better known designers are: Abraham (Liberia); Alphadi (Niger); Angibel (Côte d’Ivoire); Chris Seydou (Mali); Mawuli Kofi Okudzeto "Kofi" (Ghana); Pathe O. (Côte d’Ivoire)
LESSONS: AFROCENTRIC GARMENTS

The experience of JCPenney is instructive. It highlights a number of lessons that have general applicability for African exporters of Afrocentric garments:

(a) Large U.S. retailers’ orders are complex and require adherence to detailed instructions. African suppliers must realize their local market experience has not prepared them for these challenges and realistically assess their readiness to deal with developed country market requirements.

(b) U.S. orders also require adherence to strict quality standards. Exporters must therefore set up stringent quality controls, especially for artisanal products, along every step of the way. The quality control should extend to every aspect of the operation, including packaging goods in accordance with international shipping norms.

(c) U.S. retailers operate in markets with extreme price competitiveness, unlike the markets which domestic African producers supply. Thus, price negotiations with U.S. retailers are crucial; to negotiate effectively, producers must understand all elements of their production costs.

(d) Letter of credit financing for garment trade between the U.S. and Africa are integral to the process. African producers need experienced financial management to deal with the complexities in the structure of multiple LCs and they need to build strong local banking relationships.

(e) The issue of business culture differences does not suggest that JCPenney — or any other company — cannot source in Africa, nor that companies should reduce their orders to lower levels. If anything it is the other way around: African producers are going to have to learn to change their ways if they are going to be successful in international markets. However, those companies making initial forays into Africa must realize that early-stage development problems exist and be prepared to deal with startup delays.

(f) Strong intermediaries can play an important role in facilitating early stage garment exports to large retailers. They bridge key knowledge gaps such as: making the producer aware of buyer timing and specifications; keeping the buyer abreast of the status of production and monitoring export finance flows. Conversely, a weak intermediary can jeopardize a transaction, for both parties assume these issues are being handled when they are not, thus causing costly mistakes.
**EXPORTS OF HOME PRODUCTS**

In addition to garments exports, African manufacturers are now making home products and decorative accessories for the U.S. market. The purchasing strategy employed by retail and department store buyers for home products is, in important respects, different from that of apparel. The large home products buyer is driven by the need to find a wide assortment of products. In a newly exporting country, individual firms are typically too small and narrowly focused to provide a range of products. Thus, unlike the apparel market, where a large buyer may source from a single supplier, home products buyers typically source from a number of producers (wood carvings from one source, baskets from another, etc.). Home product buyers, thus, shop in a country the way consumers shop in a department store.

This “country focus” has important implications for the role of government in artisan product exports. In the absence of other commercial intermediaries, large buyers look to the government to provide basic support functions. While this road has many pitfalls, there are examples where a government (with donor support), working closely with a large buyer, has achieved remarkable export success. In this section, we present a case study of one country — Kenya — that has developed a track record in exporting home products.

**Success in Exporting Home Products**

*AMC in Kenya*

In Subsaharan Africa, Kenya's craft industry is by far the most developed in terms of production capability and the range and quality of its artisan products. Typical products include wood products, basketry, stone carvings, ceramic pottery and ethnographic work. The Kenya External Trade Authority (KETA), working with Associated Merchandise Corporation (AMC), a major buying organization, has been instrumental in putting Kenya on the map as a major supplier of artisan crafts. Kenya's experience with AMC may be instructive for other African countries seeking to expand artisan product exports. The evolution of the AMC/Kenya commercial venture and the key factors contributing to its success are discussed below. They are: an interested buyer; the availability of diverse products; government commitment to the project's success; realistic assessment of production capability; private sector involvement; foreign technical assistance; graduated scaling up of orders; reasonable infrastructure and communication links; and tourism.

An interested buyer. In late 1976, a senior executive from AMC visited the Nairobi offices of KETA. This initial meeting resulted in a visit by a KETA marketing specialist and a UN advisor to the AMC “One World” merchandising meeting which was held in Hong Kong. After the meeting KETA was asked by AMC to prepare a merchandise brief describing the range of products offered by Kenyan suppliers and to provide company profiles detailing production capabilities, export accomplishments and other factors that would aid AMC in

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33 "One World" is an AMC meeting during which buyers from all AMC shareholder retailers meet to view and evaluate product samples gathered from around the world by AMC merchants, the objective being to place orders on products for their stores.
identifying potential suppliers. Thus, AMC's interest in sourcing from Kenya was established as early as 1976, before other corporations had begun to source from Africa.

**Availability of diverse products.** As most buyers are short of time and resources, they prefer to buy products from destinations that offer a wide range of potentially marketable products and where transportation costs are relatively low. Kenya's product offerings are extensive and transportation costs are not prohibitive. A strong tradition of crafts making is supported by local demand for functional utilitarian products such as carryalls, millet carrying and cleaning baskets as well as varied containers for holding maize and other grains. Demand for wood carvings, particularly of wildlife, has been sustained by a growing tourist market. Soapstone, a kind of soft marble found in western Kenya, has proven to be an ideal carving material for decorative functional products (picture frames, candle holders, ash trays, etc.). Fashioning of containers and artware from local clay is extensive throughout Kenya. Beadwork skills are considered world class and have been successfully incorporated in jewelry production for export. Materials used in craft production are readily available and for the most part, are renewable resources. Most importantly, there are already established private sector services that buyers like AMC could approach as Kenya boasts many medium and large artisan organizations, both indigenous and foreign owned, such as African Heritage House (AHH). AMC has played an important role in AHH's growth and remains its single largest customer.

**Government commitment to the project's success.** In the formative years, the Government (usually through the export promotion agency) can play an important role in launching artisan product exports. KETA, assisted by a UN advisor, facilitated AMC's visit in many ways including arranging transport from the airport, recommending (and sometimes paying for) hotel accommodation, carrying out a production survey, and organizing major trade shows and buyer-seller meetings in key market centers in Europe and the USA.

KETA's most significant contribution was a survey it undertook for AMC which provided a realistic picture of the supply constraints in Kenya. KETA relied on AMC to identify artisan products with market potential. The trade liaison that developed between Kenyan suppliers and AMC was demand driven. KETA itself did not try to "pick winners" or otherwise intervene directly in the market. However, in the absence of other institutions in Kenya to provide key services to importers, the onus fell on KETA to function along the lines of a merchandising or commission agent. KETA's other main contributions were in training local staff and entrepreneurs in organizing production, quality inspection, packaging for

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34Buyers from a large department store may spend 2-3 days at most per country at an estimated average cost of US$200 per hour (for hotel, food, travel, compensation, etc.).
35Founded 22 years ago and co-owned by an American, AHH with annual sales of US$4.4 million, is the largest most organized craft wholesale and retail operation in Africa. AHH showcases a wide assortment of contemporary hand worked gift items, jewelry, decorative accessories and housewares in soap stone, wood, bone, brass, and traditional textiles. It is known for the high quality and good design content of its products. It is a pioneer, having raised African handicrafts from the level of souvenir trinkets to objects d'art with world class appeal.
36It is important to emphasize that KETA faced many of the constraints typical of export promotion agencies in developing countries—understaffing, underfunding, lack of a commercial orientation, etc. The galvanizing effect of outside technical assistance on the department should, therefore, not be underestimated.
export, preparing required documentation, negotiating preferential tariff rates for air and sea transportation, and playing the agent’s role as consolidator and communicator with AMC.

Realistic assessment of production capability. The KETA survey of supply, capacity and production capabilities among crafts producers allowed AMC to have a realistic assessment of production capabilities. In wood carving, for example, the survey determined how many carvers there were, how many additional workers entered the production process as “finishers” and laborers, the level of productivity and output, the location of the most skilled carvers, their export history and other factors relevant to choosing those who could produce for the export market. The survey, in addition, took into account a number of externalities in determining supply. For example, because women in Kenya commonly do basketry outdoors, the rainy season adversely affected production. Similarly, family and farming responsibilities had to be factored into time availability. The quality of production had to also be considered. An artisan organization that produced 500 grade C glass beads per month would be of little interest to a buyer looking for grade A quality. The survey also provided a needs assessment to determine whether artisans required skills enhancement and possessed the proper tools and equipment.

The survey turned out to be critical to the commercial production of artisan crafts. By undertaking the survey, artisan organizations and buyers were able to accurately gauge the supply capabilities of producers, and prevent short shipments and late deliveries, which would have been the result had orders been accepted without prior research.

Role of foreign technical assistance. Foreign technical assistance through UNCTAD was crucial to the success of the project. After reviewing a merchandise brief prepared by KETA, AMC sent its senior product manager for the home division, an experienced AMC troubleshooter, to Kenya. The visit resulted in the presentation of a Kenya collection at the “One World” AMC buyers meeting, which at that time was held in Munich. KETA agreed to have product specialists on hand at the Munich meeting to work with the respective store buyers to organize required adaptations, delivery, schedules, packaging innovations and promotional information. In addition, KETA, as mentioned earlier, acted as a merchandising agent for AMC, a function it could not have performed without technical assistance. The costs of KETA’s support to developing the export sector for crafts products was approximately US$400,000 over a six year period and was financed under an UNCTAD project.

Graduated scaling up of orders. KETA’s first year at the “One World” meeting resulted in approximately US$30,000 in orders, all of which was delivered on schedule. The following year, an expanded line of samples resulted in a doubling of orders with a focus on new and original merchandise developed exclusively for AMC stores. In the fourth year, AMC accepted KETA’s offer to host an AMC committee review in Kenya. The committee comprised of AMC’s merchandise representative and six seasoned buyers from AMC’s American stores and a senior buyer from Canada’s largest retailing chain. This resource review organized by KETA in collaboration with the private sector resulted in the first consolidated AMC order in excess of US$100,000. Thus, unlike the JCPenney case, where large orders were given after an initial trial run, orders in this case were increased slowly over time, after the delivery abilities of the producers had been tested.
Reasonable infrastructure and communication links. Kenya's geographic position and port facilities provide reasonable access to air and sea routes to world markets. Nairobi remains a stopping point for most carriers traversing the north-south corridors between Europe and South Africa. In addition, Kenya's well developed commercial infrastructure has been an asset to the export industry. Telecommunications are adequate and accessible throughout the country, except in remote rural areas. The postal service is reasonably reliable and sample shipments could be sent from cities in the interior as well as the nation's capital.

Tourism. Tourism has played an important role in accelerating the development of Kenya's artisan industry. Outstanding beach and wildlife attractions, a supply of good quality hotels and direct air service to and from Europe have established Kenya as an important vacation destination. Kenya's influx of tourists has exposed small artisan producers (who would otherwise have no access to the international market) to a steady stream of foreign customers. Competition in Nairobi and Mombasa is fierce with hundreds of shops and market place concession stands selling artisan products of every description. In addition, Kenya's large expatriate community guarantees artisans a permanent customer base. This demand for new and better products has raised the design and quality standards of the local handicraft industry.

Conclusion. The time that elapsed between the first attempts at exporting crafts from Kenya to gaining a foothold in the American marketplace is almost a decade. The formative years were utilized in honing the skills of exporters, large and small, and in building the credibility of Kenyans as efficient suppliers of quality merchandise. A conservative estimate of handicraft exports from the period 1989 to 1992 is US$8 million to the North American market and US$2 million to Europe, Japan and elsewhere. In addition, few products can match the value added content of artisan crafts products made from indigenous local resources and the utilization of under-employed, predominantly rural labor.

While Kenya's achievement in handicraft exports is a successful case study in how to stimulate artisan production, it is an isolated instance of export success in handicrafts. Far more common are the kinds of problems outlined below in the case study of Pier 1's attempt to import handicrafts from Ghana.

An Attempt to Import Handicrafts

Pier 1 in Ghana

Early in 1993, Pier 1, North America's largest and fastest growing specialty retailer of decorative home furnishings, gifts and related items (1992 sales US$629 million), began to explore the idea of importing handicrafts from Ghana. Pier 1 operates about 600 stores in the U.S. and Canada and sources traditional crafts from 43 countries. Growth plans are ambitious with a target of 1,000 stores by the year 2000. It is looking for new sources of supply to diversify from India and China from where it obtains a significant proportion of its products. Following a visit of the Ghanaian Export Promotion Council (GEPC) to the U.S., at which Ghanaian artisans had been introduced to potential buyers, Pier 1 scheduled a reconnaissance visit of two senior buyers to Ghana. GEPC arranged a trade show with exhibits from 15 to 20 small producers. Pier 1 was impressed with what it saw and placed a US$400,000 order on
the spot, later increasing it to US$500,000. Products included kente cloth hand bags and accessories, tie dyed garments, glass bead jewelry and other accessories. This order has a retail value of US$2–2.5 million and is considered a “serious” test order.

Aware of difficulties in sourcing from Africa, Pier 1 tried to keep the process simple. For the most part, it bought only what it was shown and did not modify or adapt products. Goods were to be shipped between September 1993 and January 1994, the normal lead time for products such as these. Pier 1 agreed to pay GEPC 6 percent of FOB (its standard payment) to coordinate the shipment. Notwithstanding the simplicity of the transaction, problems at the supplier level were apparent by September 1993. By then, thirty percent of the program had already fallen apart. Our view, based on interviews in the field, is that the problems are probably related to difficulties in organizing the supply from small producers.

Pier 1 is a retailer which specializes in crafts and has organized its business to deal with small producers.\(^{37}\) One therefore would have expected it to be able to surmount such problems. That it could not is indicative of the difficulties in sourcing from Africa. Typical problems include the following: difficulties in coordinating input supply; poor quality; and packaging problems.

**Difficulties in coordinating input supply.** The logistics of coordinating production among artisans scattered in different rural communities can be daunting. The following example is illustrative. A large U.S. company ordered hand worked glass beads necklaces from Ghana. To meet this order, large quantities of local beads had to be purchased from the market. The local markets, however, were depleted quickly, and not all of the local beads purchased met the buyers’ quality standards. The area from which beads were purchased had to be expanded to include other neighboring countries. The scale problem in situations such as this emerges very fast. So does the supervision/management problem considering that once beads were obtained it still took a long time to assemble, string and pack them. Coordinating supply in situations such as this is difficult.

**Poor quality.** Ensuring consistent quality, particularly uniformity of output, is a persistent problem, especially for larger production runs. U.S. buyers with experience in Ghana complain of baskets tilting like “leaning towers of Pisa,” candle holders too small or big to fit standard candles, necklace cords painted blue when black was required and so on. For large buyers visiting a country for 2–3 days, direct purchase of finished products from artisan producers is virtually impossible. Orders therefore must be closely supervised at every stage of production; as such, it is not unusual for large wholesale buyers to station someone in the rural areas not only to oversee an order but also to prevent product “poaching” from competitors. A second quality problem is related to raw materials. For example, cast bronze artisans in Ghana do not generally use good quality materials. As a result, product quality is often uneven.

\(^{37}\)Over the last 30 years of operation, it has developed considerable experience in dealing with typical small producer problems. For example, its warehouse is set up to repack merchandise into smaller quantities to distribute to its 600 stores.
Packaging problems. Too often, even when orders are shipped complete, products are damaged in transit due to inappropriate packaging. One buyer reported receiving shipments packed in hay or grass instead of foam which presented a problem with customs officials in New York. A major packaging problem cited by a major retailer was the need to open, divide up and repack merchandise sourced from Africa when it arrived at its warehouse so that it could be shipped in the right quantities to individual stores. Major retailers are accustomed to goods arriving from the supplier already repacked for its stores. The extra step of opening and repacking boxes resulted in significant breakage, an incorrect number of goods being sent, and mistakes in shipping to the right location.

Impact of the Pier I order. Already the Pier 1 order, notwithstanding initial difficulties, has begun to have positive effects on the small enterprises charged with the carrying out of the order. One can already see evidence of how attempts to meet the cost, quality and delivery requirements of U.S. buyers is teaching enterprises the particular skills needed to compete in the global marketplace. Thus, despite the financial bottlenecks, the suppliers have responded with speed and have demonstrated flexibility. This rapid supply response has been possible, in large part, because the traditional nature of most of the products ordered has not called for new skills development. Many suppliers are themselves middlemen and have enjoyed the flexibility of sourcing from a large pool of smaller, often rural based, production groups. Some suppliers have also had to set up production units to complement these sources, if only for finishing products to specifications.

For these suppliers directly involved in production, greater division of labor and use of machinery has enhanced production efficiency. One supplier of wood carvings was able to reduce his per item cost from $3 to 80 cents by sub-contracting a machine workshop to cut out the basic shape of a carving using a band saw, thereby significantly reducing the relatively expensive hand carving component. Subcontracting the cloth cutting task to an industrial cutting workshop and greater job specialization for a cloth bag manufacturer has led to a major improvement in labor productivity. Considerable scope for further improvements in production exist, but in many cases would require a capital investment in premises, machinery, etc. One small producer of fashion accessories succeeded in gearing up his productive capacity to meet the Pier 1 order by using labor intensive methods. Within three months, his work force increased from 10 to 80. He has avoided the need for capital investment in the short term by borrowing machines from friends, conducting most of the production in the open air — problematic in the rainy season — and modifying simple second hand motors as specialized machine substitutes. If he is to continue to produce larger volumes competitively, capital investment is necessary.

While the Pier 1 order may have limited financial benefit for the suppliers due to unforeseen costs and poor initial costing, it has been of significant benefit as a learning-by-doing exercise, enhancing the ability of both the suppliers and intermediary to handle future export orders and highlight the constraints that need to be addressed. The overall employment impact of the Pier 1 order has been considerable. Firms have (perhaps temporarily) increased direct employment as much as eight-fold, underemployment of rural artisans has been reduced, some urban school leavers have been trained in simple tasks, and some unemployed garment workers employed. There have also been subcontracting linkages to local workshops, kilns, packaging producers, as well as input suppliers.
LESSONS: AFROCENTRIC HOME PRODUCTS

The experience of Pier 1 highlights a number of lessons for producers of Afrocentric home products:

(a) Intermediaries between producers and buyers have an important role. It is not enough for a potential exporter to know the Afrocentric market exists. The market itself is large and fragmented. The home furnishings and decorative accessories segment covers a wide range of products. To expect small, largely rural based artisan producers to have the access, information and know how to manage market entry is unrealistic.

(b) If the government assumes the role of intermediary, it will need technical assistance to help artisan groups to: identify market opportunities for particular products; develop appropriate pricing strategies; devise and implement marketing plans; identify new sources of strong competition; locate, approach and maintain contact with foreign buyers, importers, and retailers; participate in trade and trunk shows; master trade show presentation techniques; and develop promotional materials.

(c) Non-profit organizations can serve as intermediaries. If artisan producers work through an experienced NGO, they can obtain fee-based consultation, on-site workshops, business training and access to the U.S. market. Since organizations like Aid to Artisans already provide these services, what is needed are resources to expand their capacity to reach greater numbers of producers.

(d) Improvements in production techniques and upgrading of technological capability are required. Once marketable products are identified, a census should be undertaken to determine producer supply capacity. As part of the census, a needs assessment which identifies what producer craft skills need upgrading, which production techniques should be improved, what equipment should be introduced or redesigned and so on, should be conducted.

(e) Technical assistance is required for a range of areas: on-site training on production methods, quality control, technical craft skills, etc. Programs to send skilled artisans, or “masters” abroad for short training sessions to further hone their skills can be useful. Upon return, they in turn can train apprentices and fellow artisans. Technical assistance is also needed to coordinate supply once orders have been procured. This includes teaching artisans how to manage production schedules, accurately judge material input requirements and get goods to a preestablished collection point on time.

(f) Increased access to working capital is required. This is essential if small and medium enterprise suppliers are to meet export orders which call for production of thousands of units. Banks are typically reluctant to lend to small and medium enterprises, because

38Aid to Artisans is a non-profit, non-governmental organization that aims at preserving indigenous crafts and arts in developing countries through developing business support services, such as training, product development and provision of information on foreign markets.
they lack collateral and because the costs of monitoring loans is too high. To alleviate such constraints, targeted credit programs that benefit exporters may be appropriate.

(g) Producers need information on specific aspects of exporting, such as packing instructions, labeling requirements, etc. Artisan producers also need assistance navigating this system. They and their agent also need information on changes in import regulations and complex foreign customs rules that might affect exports of their products.
IV. AFRICA’S ROLE IN THE GLOBAL STANDARDIZED GARMENT INDUSTRY

Previous sections detailed export opportunities for African manufacturers of Afrocentric products. What is less well known, but perhaps more important for the long term growth of export industries in Africa is its ability to compete in the global standardized garment industry. Unlike Afrocentric products, the market for standardized garments is not driven primarily by the purchasing preferences of one segment of the market. It is, therefore, potentially much larger. In this section we explore the advantages that Africa can bring to the manufacture of standardized garments, based on interviews and case studies focusing on Ghana, Kenya, Senegal, Côte d’Ivoire and Zimbabwe. Before examining what particular advantages African exporters have, it is worth elaborating a few points on the nature of the garment industry. These are essential for understanding the sources of Africa’s competitive advantage.

CHARACTERISTICS OF STANDARDIZED GARMENT MANUFACTURE

Garment manufacture is generally considered to be one of the “starter industries” for a country’s industrial development. It is a highly labor intensive and systematic form of manufacture which does not depend on heavily sophisticated technical skills or technology. Since most standardized garments are manufactured according to buyer designs and specifications, no advanced design expertise is required locally. Thus, most standard garments can be manufactured with relative ease. Buyers source standardized garments from all corners of the globe, using established purchasing criteria. Appendix 5 illustrates how a major U.S. retailer allocated a large order to several factories worldwide. The industry does not depend on heavy capital investments nor long lead times to come on stream. Fabric is the single largest input of a garment, representing up to 62 percent of the cost of the finished product (as shown in Table 4.1). Because of its weight and volume characteristics, fabric can be transported over long distances without a significant impact on the unit cost. For instance, using fabric imported from China to manufacture a shirt in Kenya would not add more than US$0.15 to the cost of the garment. Thus, garment manufacturers can locate in Africa irrespective of whether there is a local supply of fabric. Nor is the industry’s mobility constrained by a requirement to be close to the market — by all accounts, it costs a maximum of US$0.25 to transport a shirt from a port in the Far East to New York!

39 Although it is hard to judge to what extent garment manufacture has contributed to the overall industrial development of countries, the historical record suggests that garment exporters do aid development by the creation of local industrial capacity and skill formation. Experience in countries such as Bangladesh, Sri Lanka and Mauritius has borne this out.
Table 4.1: Components of Cost in a Man's Casual Long-Sleeved Shirt

<table>
<thead>
<tr>
<th>Component</th>
<th>Approximate Range of Costs as a Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabric</td>
<td>52-62</td>
</tr>
<tr>
<td>Direct/Indirect Labor</td>
<td>17-18</td>
</tr>
<tr>
<td>Miscellaneous Materials</td>
<td>12-14</td>
</tr>
<tr>
<td>Labels/Packaging</td>
<td>3-8</td>
</tr>
<tr>
<td>Garment Washing</td>
<td>2</td>
</tr>
<tr>
<td>Transport (from factory to nearest port)</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Composite of five companies in Africa and Asia, without commissions and quota premiums.

Source: Authors’ estimates based on interviews with manufacturers in Kenya, Ghana and Zimbabwe.

Of all inputs, labor is the one input where cost differentials do matter greatly. Consequently, the cost of labor is one of the most important determinants in locating a garment factory. Countries such as Bangladesh, Sri Lanka and Mauritius — all of which offer low cost labor but no significant local sources of textiles, are far removed from their principal markets and lack elaborate infrastructures — have developed a substantial export garment manufacture industry, based primarily on labor cost advantage. But, even where labor costs have increased significantly, as in the case of Mauritius, there has not necessarily been a decline in output. A recent study illustrates how garment manufacturers in Mauritius, faced with higher labor costs, adopted a strategy to move upstream into the production of higher value apparel with positive results: while employment growth in the textile and garment industry in Mauritius leveled off between 1988 and 1990, the value of exports increased by 44 percent during the same period. In other words, even when the cost of a particular input goes up, production can be redesigned to take advantage of different market niches.

In addition, the industry offers opportunities for indigenous entrepreneurs to develop local capacity. Even in the case of Mauritius, where most of the pioneering manufacturers came from abroad, over time they contributed to the development of an indigenous garment industry by encouraging local entrepreneurs to follow their example, and particularly by providing opportunities for subcontracting. Thus, garment manufacturing is an industry which is relatively easy to enter, and has the potential for creation of local capability. For the reasons outlined below, African exporters can compete successfully in this industry, provided certain conditions are met.

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**Sources of Africa's Competitive Advantage in Exports of Mainstream Garments**

Sub-Saharan Africa's participation as a supplier in the global garment industry is driven primarily by its low unit labor costs. In addition, access to the global market is easier than it is for Asian manufacturers due to the quote-free status of most African countries. Shipping costs and transport time are not unreasonable. Moreover, the increasing competitiveness of selected liberalized policy environments makes Africa a potential competitor in the global marketplace as a supplier of mainstream garments.

**Low Unit Labor Costs**

To compare the manufacturing costs of different garment producers in the 5 countries, a profile was developed of a typical standard garment — in this case a man's long-sleeved shirt — which can be produced by manufacturers at various levels of expertise. The profile is shown in Table 4.2. A total of 10 manufacturers in the five countries were interviewed regarding cost data for this generic product, using a typical cost breakdown per item that goes into the manufacture of a shirt.

<table>
<thead>
<tr>
<th>Fabric: sheeting (60 x 60, 16 singles)</th>
<th>Spare buttons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic solid color</td>
<td>Single-needle</td>
</tr>
<tr>
<td>Long sleeves, double-pleated</td>
<td>Collar band</td>
</tr>
<tr>
<td>1 chest pocket</td>
<td>Tail bottom</td>
</tr>
<tr>
<td>Double yoke</td>
<td>Box pleat</td>
</tr>
<tr>
<td>Standard placket</td>
<td>Packing:</td>
</tr>
<tr>
<td>Single cuff</td>
<td>in individual polypropylene bags,</td>
</tr>
<tr>
<td>7 buttons</td>
<td>stand-up pack, bags/box,</td>
</tr>
<tr>
<td></td>
<td>24 inner cartons</td>
</tr>
</tbody>
</table>

*Source:* Interviews with manufacturers.

To put the results in perspective, similar data were gathered for a factory in India and the United Arab Emirates, the former being a country which is traditionally considered to be a low-cost producer, the latter being a newcomer to the garment export scene. For reasons of confidentiality and where possible, a composite number was developed for each country which was made easy by the relatively small divergence between the costs of different manufacturers within each country. The total costs reflect the manufacturing costs without markup, including delivery costs to the port of departure.

Table 4.3 shows the results of this survey. The cost of fabric is the largest component of the cost of the finished garment. But, as we pointed out earlier, fabric, because of its weight and volume characteristics, can be transported over long distances without adding significantly to cost. The numbers for Kenya, Ghana and the United Arab Emirates are based on fabric that is imported from the Far East. A comparison with the fabric cost in India where fabric tends to be procured domestically, illustrates how little effect transportation even over long distances.
has on the final cost of fabric. The numbers for Senegal were provided by the sole exporter of standard garments in that country whose current client has explicitly requested fabric from France which explains the higher fabric costs. It should be noted that a manufacturer in Senegal or other countries like Zimbabwe would face even higher fabric costs if it were to procure its fabric exclusively from domestic sources. For example, after a recent series of price increases by Zimbabwe's principal textile manufacturer, the cost of the domestic fabric component would approximate $5.70 per shirt.41

Table 4.3: Cost Comparison (US$) for Men’s Casual Long Sleeved Shirt

<table>
<thead>
<tr>
<th>Country and Item</th>
<th>Zimbabwe</th>
<th>Kenya</th>
<th>Senegal</th>
<th>Ghana</th>
<th>India</th>
<th>United Arab Emirates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabric</td>
<td>3.28</td>
<td>3.00</td>
<td>4.31</td>
<td>3.18</td>
<td>2.90</td>
<td>2.95</td>
</tr>
<tr>
<td>Misc. Materials</td>
<td>0.31</td>
<td>0.40</td>
<td>0.55</td>
<td>0.42</td>
<td>0.39</td>
<td>0.37</td>
</tr>
<tr>
<td>Washing</td>
<td>0.10</td>
<td>0.12</td>
<td>0.11</td>
<td>0.11</td>
<td>0.12</td>
<td>0.12</td>
</tr>
<tr>
<td>Labels/Packaging</td>
<td>0.16</td>
<td>0.31</td>
<td>0.36</td>
<td>0.36</td>
<td>0.40</td>
<td>0.42</td>
</tr>
<tr>
<td>Dir./Indir. Labor</td>
<td>1.72</td>
<td>1.34</td>
<td>2.36</td>
<td>1.22</td>
<td>1.22</td>
<td>1.60</td>
</tr>
<tr>
<td>Transport to Port</td>
<td>0.18</td>
<td>0.20</td>
<td>0.15</td>
<td>0.05</td>
<td>0.15</td>
<td>0.17</td>
</tr>
<tr>
<td>Subtotal</td>
<td>5.75</td>
<td>5.37</td>
<td>7.73</td>
<td>5.34</td>
<td>5.18</td>
<td>5.63</td>
</tr>
<tr>
<td>Quota Cost42</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.00</td>
<td>1.50</td>
</tr>
<tr>
<td>Total Costs</td>
<td>5.75</td>
<td>5.37</td>
<td>7.73</td>
<td>5.34</td>
<td>8.18</td>
<td>7.13</td>
</tr>
</tbody>
</table>

Note: No figures are included for Côte d’Ivoire because the only remaining garment exporter in that country has found itself unable to compete for standard shirt export orders.

Source: Authors’ estimates, as discussed previously.

Table 4.4 illustrates the differences in some of the most important average costs of inputs among the five countries that are the subject of this study: Côte d’Ivoire, Ghana, Kenya, Zimbabwe and Senegal. Factor costs in U.S. dollars in Senegal and Côte d’Ivoire put these countries at a general competitive disadvantage.43 The higher labor costs in Senegal and Côte d’Ivoire are also caused by government regulations and unions. The nominal wage data for these two countries was gathered from several formal sector factories that pay “official” wages. Outside the formal sector, nominal wages are similar to Ghana and Kenya, which can be characterized as low labor-cost countries, having the lowest nominal wages in the sample. While labor costs in these two countries are relatively low, Zimbabwe’s wage rates are slightly higher, although still below the wages for semi-skilled labor in Mauritius, which currently average $110 per month. Low cost of labor is an important advantage because, as we noted earlier, labor differentials among countries are where competitive advantage is gained, given the fact that other inputs can be sourced abroad by all competitors at the going world price.

41 As a result, one particular factory which has recently fulfilled its first export order using domestic fabric, has recognized that to maintain its competitiveness it has to start looking for cheaper sources of fabric abroad.

42 The quota costs shown here are the costs of quota in the secondary market for an allocation in 1993.

43 This study was conducted before the devaluation of the CFA Franc. Given the recent devaluation, Senegal’s labor cost now appear to be more in line with its neighbors.

Africa Can Compete! 37
Table 4.4: Factor Costs in Selected Countries

<table>
<thead>
<tr>
<th></th>
<th>Zimbabwe</th>
<th>Kenya</th>
<th>Côte d'Ivoire</th>
<th>Senegal</th>
<th>Ghana</th>
<th>Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor/month^1</td>
<td>$60</td>
<td>$40</td>
<td>$175</td>
<td>$130</td>
<td>$40</td>
<td>$110</td>
</tr>
<tr>
<td>Electricity^2</td>
<td>1.25¢</td>
<td>2.48¢</td>
<td>12.00¢</td>
<td>12.50¢</td>
<td>3.00¢</td>
<td>9.00¢</td>
</tr>
<tr>
<td>Water^3</td>
<td>*</td>
<td>*</td>
<td>$1.28</td>
<td>$1.44</td>
<td>$0.70</td>
<td>$0.46</td>
</tr>
<tr>
<td>Diesel Fuel^4</td>
<td>$0.29</td>
<td>$0.40</td>
<td>$0.89</td>
<td>$0.77</td>
<td>$0.42</td>
<td>*</td>
</tr>
</tbody>
</table>

Notes: ^1 Semi-Skilled Machine Operator; ^2 Industrial rates per KwH during peak load period; ^3 Per cubic meter; ^4 Per liter

Source: World Bank Private Sector Assessments, publications of Investment Promotion Centers, interviews with manufacturers.

Moreover, we found in our interviews that task-level efficiencies of African workers are comparable to those of Asian rivals. We estimated the relative efficiency of African workers by gathering data on the output figures that are being achieved by a number of firms that participated in our survey. We were able to get data from enterprises in Zimbabwe, Kenya and Ghana. No comparable data were available from garment producers in Senegal and Côte d'Ivoire. The results are presented in Table 4.5 below in terms of the number of garments produced per machine operator in an eight hour period.

Table 4.5: Manufacturing Efficiency Achieved by Selected Companies in Africa

<table>
<thead>
<tr>
<th>Number of Garments Produced per Machine Operator in 8 Hour Day</th>
<th>Zimbabwe (Company A)</th>
<th>Company B</th>
<th>Kenya (Company C)</th>
<th>Company D</th>
<th>Ghana (Company E)</th>
<th>China (Export Processing Zone)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men's Casual Shorts</td>
<td>12.5</td>
<td>12.5</td>
<td>24</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Men's Casual Shirts</td>
<td>12.5</td>
<td>n.a.</td>
<td>20</td>
<td>16</td>
<td>12 (Target: 18)</td>
<td>20 - 24</td>
</tr>
</tbody>
</table>

Source: Interviews with manufacturers.

The relatively low efficiency achieved by the two companies in Zimbabwe that participated in the survey may reflect the insular nature of their management which has not had much international technical assistance. In Company C, an expatriate factory manager has introduced an innovative production system involving separate production lines that are made to compete with each other using a combination of money and time off incentives. Since the introduction of this system, efficiency has improved by 30 percent. According to this manager, who has experience managing garment factories in Asia and Latin America, African workers can be as efficient as workers anywhere else in the world, provided they are properly supervised and motivated. Company D is a joint venture with an Indian firm that operates garment factories in India and the Middle East. According to the manufacturing supervisor of...
this firm, the output figures achieved by Company D in Kenya are comparable or slightly superior to those achieved by their factories in India. At the time of the survey, Company E, the Ghanaian firm, was still in a start-up phase with factory personnel being trained by a team which had been sent in for the purpose by the parent company in Hong Kong. Based on their experience so far and the general level of “trainability” of the Ghanaian work force as observed by the team, the factory manager was confident that a target output of 18 casual shirts per day per machine operator was reasonable. At that rate, the factory would have unit labor costs (nominal wages/labor productivity) similar to some of the more efficient garment factories in the export processing zones in China which now achieve a daily output of 20 to 24 shirts per operator but pay wages that are more than twice as high as in Ghana.

Quota Free Status

In addition to low unit labor costs, access to global markets is assured by Africa’s quota free status which presents obvious opportunities for potential garment producing countries. Apart from Lesotho and Mauritius, no country in Sub-Saharan Africa has a quota agreement with the U.S. Why are quotas so important?

Import quotas can be imposed on a general group of textiles or on specific categories.44 Once a quantitative ceiling has been imposed on imports from a specific country, it is left to the government of that country to allocate export quotas to individual manufacturers. When the United States imposes quotas on imports from a specific country, as a rule it uses the exports during the previous 14 months from that country as a base for determining the size of the initial quota. After that, quotas are usually increased by six percent each year. Once imposed, quotas are rarely reduced. The U.S. government uses a number of criteria to decide whether to impose quotas.45 The test of “significant market disruption” is used to determine which product categories to protect with quotas. This rates the degree of import penetration of a particular product and the rate at which the U.S. market for that product category is growing. A country’s share of the total imports of a particular product is the next criterion used. Generally, a country is put on notice or “called” when its share of total imports for a category, as expressed in quantity rather than value, approaches one percent. The suspicion that a country is used for transshipment of goods produced elsewhere would be another important reason to impose quotas. To determine whether a product is manufactured locally, the U.S. uses the “substantial transformation” test. In practice this means that the U.S. generally accepts the country where a garment has been assembled as the country of origin independent of whether the fabric was imported or not. Though quota programs have been around for more than 30 years, it is only in the last decade that the number of countries affected by quotas has increased significantly. As of June 1993, the United States has imposed quantitative restrictions on apparel imports from 45 countries and is considering introducing quotas on four more.

44Textiles and apparel are excluded from the Generalized Systems of Preferences, which accords duty free status to goods from a number of countries on a pre-determined list.
45Although on the face of it, discretionary elements are kept to a minimum in the decision making process, political considerations undeniably play an important role. Turkey for instance, saw its textile and apparel quota to the U.S. market double in size as a reward for its support in the Gulf War. The import of knitted products is considered to be particularly vulnerable because of a highly effective lobby of domestic knitwear producers.
While U.S. apparel imports from such traditional producing countries as Hong Kong, Korea and Taiwan have been governed by quotas for many years, other more recent garment exporters such as Bangladesh, Sri Lanka and Mauritius now also appear on the list. At present, there is not a single important garment producing country in Asia whose exports to the U.S. and Europe are not restricted by quotas. As a result, a lively secondary market in quotas has sprung up in some countries: in India, export quotas for shirts on the secondary market reportedly fetch up to $3 per shirt.

Ironically, a system which originally was introduced to restrict textile and apparel imports from the traditional low cost producing countries, has become a driving force behind the development of garment and textile industries elsewhere in the developing world as garment manufacturers relocate to countries with fewer quota restrictions. Thus, Hong Kong, Chinese, Korean and Indian apparel manufacturers have moved into Bangladesh, Sri Lanka and Mauritius, which have relatively fewer quotas imposed on them. A similar process is beginning to drive these producers to relocate in Subsaharan Africa.

Several international garment producers have already set up or are in the process of establishing manufacturing facilities in Africa to take advantage of unrestricted export opportunities. The quota-free status of a country also represents an important advantage to buyers who are constantly alert to the possibilities of sourcing from quota free countries. As retailers' internal "quota watch" departments recognize that a particular category of garments is becoming difficult to source from traditional countries, agents or scouts are sent from regional overseas offices to quota-free countries to identify potential supply sources. Africa is an obvious choice for such quota watchers. Major U.S. retailers have begun sourcing garments in selected African countries during the past two years, prompted by the need to avoid quota restrictions. Large buyers, like AMC, have established offices in Harare. The local office's role is to identify and evaluate factories who may qualify as suppliers, and oversee compliance with quality and delivery standards once orders have been placed.

Shipping Costs and Transport Time are not a Disadvantage

As Table 4.1 showed, the cost of transport is a tiny percentage of overall manufacturing cost. Nonetheless, since most transportation of garments for export is conducted by ocean, the cost of ocean freight, its duration and its availability become considerations in the decision on where to locate a garment factory. As part of this study a survey was conducted of the freight and port charges from the five countries to the port of New York/Newark and a comparison made with similar charges from Sri Lanka and Bangladesh, two countries which have succeeded in building up a significant export garment industry over the past decade. As Table 4.6 indicates, the impression that ocean freight

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46 The two categories most frequently sourced, where limits have been reached in quota restricted countries, are category 340, Men's Cotton Woven Shirts and Category 347/348, Cotton Woven Bottoms.

47 Those with ongoing purchase programs from Africa include Sears, WalMart, Montgomery Ward, Target, Mervyn's and The Gap. Other retailers who are exploring this option include J.C. Penney, which will shortly be sending a sourcing consultant to identify potential African suppliers. Mervyn's made its first buying trip to Africa in 1993 to visit current and potential suppliers, including factories in Zimbabwe, Lesotho, Botswana and Kenya.
charges from Africa are prohibitively high is not generally supported by the facts. Freight charges from countries in East Asia, and East and West Africa generally reflect their relative distances to the port of destination and appear to give West African countries a slight competitive advantage. However, port charges in the principal ports in Africa are higher than the comparable charges in the two Asian ports. Consequently, when freight and port charges are added up, the costs of transportation from some ports in Africa may actually be higher than from ports in East Asia.

Table 4.6: Shipping Costs from Selected Ports to New York/Newark for a 40' Container Filled with Garments

<table>
<thead>
<tr>
<th>Country</th>
<th>Côte d'Ivoire</th>
<th>Senegal</th>
<th>Ghana</th>
<th>Sri Lanka</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port</td>
<td>Durban</td>
<td>Mombasa</td>
<td>Dakar</td>
<td>Accra</td>
<td>Colombo</td>
</tr>
<tr>
<td>Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ocean Freight to NY/Newark (US$)</td>
<td>3,360</td>
<td>4,600</td>
<td>4,380</td>
<td>4,330</td>
<td>4,580</td>
</tr>
<tr>
<td>Port Charges (US$)</td>
<td>2,060</td>
<td>2,044</td>
<td>1,580</td>
<td>1,411</td>
<td>578</td>
</tr>
<tr>
<td>Total (US$)</td>
<td>5,420</td>
<td>6,644</td>
<td>5,960</td>
<td>5,741</td>
<td>5,158</td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration of Sailing (Days)</td>
<td>38</td>
<td>35</td>
<td>15</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Overland Transportation (Days)</td>
<td>5-10</td>
<td>1-2</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total Transport Time (Days)</td>
<td>43-48</td>
<td>36-37</td>
<td>15</td>
<td>17</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Authors' estimates based on interviews with shipping agents.

In any case, the per garment cost of ocean transportation is only a fraction of overall cost (Table 4.1). As garments are usually bought FOB (port of shipment or factory gate), the buyer's inventory costs are directly affected by the time required for transportation. Hence, the duration of transport may actually be a more important consideration than its cost. In this respect, the ports in West Africa have a clear proximity advantage over ports in East Asia, while shipments from Kenya and Zimbabwe are somewhat handicapped by the fact that the principal ports for these countries (Mombasa and Durban, respectively) are at some distance from their main manufacturing centers, requiring overland transportation of between 2 and 10 days.

Interviews with a number of large shipping agents indicate that the frequency of sailings from the principal African ports to New York/Newark is also not a constraining element in the ability of African manufacturers to meet delivery requirements of American buyers.
Africa’s competitive advantages outlined above, which are emerging as structural adjustment efforts take hold, are just beginning to translate into significant exports. As Table 4.7 indicates, apparel exports to the United States from the five countries surveyed are still minuscule compared to the export figures achieved by Sri Lanka and Bangladesh. Moreover, practically all the exports from the two major Sub-Saharan exporters consist of the basic items—shirts and shorts—whereas both Sri Lanka and Bangladesh have achieved a much higher degree of diversification in their apparel exports to the U.S.

Table 4.7: U.S. Apparel Imports from Selected Countries for the 12 Months Ending July 1993
(U.S. Dollars -- Thousands)

<table>
<thead>
<tr>
<th>Item</th>
<th>Zimbabwe</th>
<th>Kenya</th>
<th>Côte d'Ivoire</th>
<th>Senegal</th>
<th>Ghana</th>
<th>Sri Lanka</th>
<th>Bangladesh</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men's Shirts</td>
<td>229</td>
<td>3,109</td>
<td>0.3</td>
<td>69</td>
<td>2</td>
<td>70,728</td>
<td>111,089</td>
<td>2,282,000</td>
</tr>
<tr>
<td>Men's Bottoms</td>
<td>8,034</td>
<td>10,550</td>
<td>0</td>
<td>97</td>
<td>3</td>
<td>80,715</td>
<td>102,836</td>
<td>3,520,000</td>
</tr>
<tr>
<td>Total Apparel</td>
<td>8,803</td>
<td>14,497</td>
<td>45</td>
<td>466</td>
<td>126</td>
<td>697,067</td>
<td>742,988</td>
<td>27,460,000</td>
</tr>
</tbody>
</table>

Shirts & Bottoms as percent of total apparel: * 94% 94% 22% 29% 21%


However, exports from Africa are on the rise. Encouraging signs include the fact that exports from Zimbabwe and Kenya are growing at a much higher rate than in the two Asian countries, of course, from a much lower base (see Figure 4.1). In Kenya in particular, the expansion in manufacturing capacity that is currently underway would indicate that this growth rate may be sustained for some time. While apparel exports from Ghana are negligible at present, they are expected to rise. At the same time exports from Sri Lanka and Bangladesh to the U.S. have slowed down, in part because of the general slowdown in garment imports into the U.S., but mostly due to the effect of quotas. As imports from the established garment producers are constrained by quotas, there is a growing need for imports from elsewhere in the world as the U.S. market expands and quota-constrained countries try to move up to higher value items.
In spite of the recent encouraging trends, exports from Africa are limited. Africa's full potential has yet to be tapped. In the next section we analyze some possible reasons for this.

V. IMPEDIMENTS TO THE GROWTH OF AFRICAN EXPORTS

What are the current impediments hindering exports from Africa? Part of the answer lies in the macroeconomic policy framework in the countries which we surveyed. That the macroeconomic environment in many African countries needs further reform is a well known fact. What is less well known, but is equally important, are the microeconomic constraints to growth of African exports. In this section, we briefly discuss microeconomic constraints on export growth, which are particularly relevant for exporters of Afrocentric goods and home products, followed by a discussion of the main areas of concern for foreign investors — the main players in mainstream garment manufacturing.

AFROCENTRIC PRODUCTS: MICROECONOMIC CONSTRAINTS ON EXPORT GROWTH

Microeconomic constraints on export growth are well illustrated by the experience of retailers profiled earlier in this study. The main impediments to increased exports of Afrocentric goods are the lack of technological capability, finance related problems, and the lack of market information and institutional coordinating mechanisms. Obviously, some of these are also relevant for standardized garment manufacturers. Retailers are cautious about expanding because they have encountered barriers to establishing reliable sources of supply.

Lack of Technological, Design and Management Capability

Most African producers cannot meet specific requirements of the market, such as volume production, stringent production specifications, tight delivery schedules and product development. An African producer entering the export business today is in for a rude awakening. International markets are buyers' markets and buyers have little reservation about switching sources if their purchase criteria are not met. After years of catering to a domestic market which, depending on local demands and policy conditions, absorbs merchandise irrespective of quality or price, most potential exporters in Subsaharan Africa are totally unprepared for the demanding and highly discriminatory nature of the international marketplace.

Moreover, buyers familiar with the range of African artisan products cite "lack of product development" as a major constraint to future growth. Most African artisans have little or no access to market information and thus, their basic designs, while imaginative, tend to remain unchanged over time. The current status of JCPenney's "Authentic African" program (detailed in the second section of the report) is illustrative of U.S. retailers' frustration at their inability to find producers capable of filling mid-sized orders of 5,000 or more per item who also have the in-house capability to develop and present new products.

48 A senior buyer from Pier 1 visiting Ghana recently for the first time commented that he saw virtually the same wood carvings and baskets that his father had collected while stationed in Ghana over 40 years ago.
In addition, high-end African designers as well as factories seeking to serve large retailers need specialized management skills. While foreign manufacturers can often tap into a world-wide pool of management and technical expertise, local entrepreneurs' access to this type of expertise is restricted by a lack of information. What a potential exporter needs is access to specialized knowledge and services from outside the firm to compensate for limited expertise inside the firm. What little expertise indigenous manufacturers have obtained is often through subcontracting arrangements with other foreign companies, which may be a possibility in garment manufacture, but not in artisan products. Assistance is needed not only in selling the product but in ensuring that it meets all the purchase criteria of the U.S. buyer. An illustration of such subcontracting is provided by the experience of a Kenyan manufacturer outlined in Appendix 4.

Finance-related Problems

Shortcomings in the banking system, shared by all countries surveyed, severely restrict the opportunities for obtaining working capital, specifically pre and post-export finance. Access to export financing remains a major hindrance to exporters of non-traditional products, particularly for small exporters. Working capital is also critical for garment manufacturers, but access to it is often limited. Inexperience, both within the exporting community and in the banking system, has led to ineffective timing in granting export credit, which in some cases has led to delays in payment as in the JCPenney case. Most local banks take two weeks, and often longer, to process an LC. Banks typically are uninterested in adapting financial products to meet the needs of viable small or medium enterprises. The tendency is to try to mold the customer to an existing set of financial products. As a result, bankable small and medium enterprises have a hard time accessing overdrafts and short term capital, let alone credit for expansion.

Restrictions on foreign exchange transactions that continue to exist in parts of Africa disproportionately affect local manufacturers. Expatriate manufacturers tend to be less affected by a restrictive local banking system as they have easier access to off-shore financing through arrangements with a parent company and can obtain their raw materials through internal transactions with the parent company or off-shore partner. Moreover, foreign exchange restrictions have the effect of isolating a local manufacturer from developments in equipment and technology elsewhere in the world.

Market Information

Indigenous manufacturers hoping to compete in the global market often are handicapped by a lack of information on the complexities of foreign retail systems. None of the indigenous firms interviewed had sponsored a sales trip to the U.S. nor did they employ sales representatives in the U.S. or Asian markets that multinational manufacturers rely upon. They lack familiarity with the positioning of retailers and knowledge of which retailers offer the greatest potential as customers. Nor did they have information on particular requirements, such as those having to do with the intricacies of shipping, for example. Products for export to developed countries generally have different specifications than products for the domestic market. Typically, these exports must be shipped as complete packages and meet all buyer
specifications in terms of labeling, packaging materials, printed materials, etc. Available evidence suggests that the failure of many African firms to develop distribution channels for export via direct contacts with foreign buyers puts them at a severe disadvantage compared to firms in other parts of the world who have been more successful at gathering information and feedback. African firms are then forced to rely upon larger firms who grant subcontracts for production or upon buying agents who may not fully convey information on the market.

Institutional Coordinating Mechanisms

The problems Pier 1 is facing sourcing in Ghana are not atypical and reflect the difficulty in organizing small craftspeople in non-factory production environments to fill large volume orders. Producing the thousands of masks, baskets and other decorative art pieces for the home in the quantities demanded by the U.S. market requires coordination of thousands of workers dispersed in villages and in small production facilities in non-urban areas. This has proven challenging on two fronts. First, it is difficult to accurately estimate the production capabilities of far-flung artisan producers to avoid overcommitting on quantities and timing. Weather, funerals, planting seasons, and other household responsibilities can interrupt a production schedule and are often hard to anticipate. Second, managing the quality standards applied to each item produced by workers who are unaccustomed to such rigid specifications on color, measurements, consistency of design, etc. is also a challenge.

MAINSTREAM GARMENTS: AREAS OF CONCERN FOR FOREIGN INVESTORS

There is a clear link between the investment strategies of most of the enterprises surveyed and the policy environment in which they operate. According to the investors interviewed for this study, several factors in the policy environment figure prominently in their investment decision: labor/work force regulations; import/export regulations; the exchange rate regime; managing quotas and the level of infrastructure. All of these highlight the role that government can play in creating a policy environment conducive to export growth.

Labor Regulations

Existence of a large, trainable and mobile work force is critical to the establishment of a competitive garment industry. The garment factories visited in Kenya, Zimbabwe and Ghana cited no problems with labor force availability or suitability of local laborers for core machinist positions. Recent liberalization of labor regulations in these three countries has made it much easier to hire and fire workers but there are still some lingering problems of labor regulations which limit production flexibility and create barriers to entry and exit.

Flexible labor regulations concerning permits for expatriate workers are also essential since foreigners can provide the critical technical know-how needed to set up and manage the manufacturing process. In some countries there is still a fear of “being overrun by foreigners,” and the manufacturers interviewed in Kenya, Zimbabwe and Ghana cited problems in obtaining labor permits for expatriate staff.
Import/Export Regulations

The ability to import raw materials at world prices and do so with the minimum amount of difficulty is a key factor for success in global trade. While this is not as much of a concern for Afrocentric goods, which depend primarily on local inputs, it is crucial for mainstream garment exports.49 Although it would be optimal to purchase fabric on the local market to produce mainstream garments, countries like China, Taiwan, Hong Kong and others can ship fabric which meets buyer specifications at US$0.15 per garment, which can be delivered in time to meet production and exporter delivery schedules. Until local backward integration into fabric production can meet world standards, multinational garment producers in Africa will continue to use imported fabric. In addition, the ability to move export goods through customs with the minimum amount of paperwork delays and other hassles is critical for meeting delivery dates. This is clearly an area where government has the power to create an enabling or disabling environment with the level of regulatory support it lends the garment trade and through its management of the infrastructure for exports. In many countries, bureaucratic restrictions and red tape still abound. An interview with the one major garment manufacturer in Ghana suggested that it takes the manufacturer at least one week to clear goods through the port while two days is the norm in more efficient ports!50 Transaction costs such as these can add significantly to the cost of doing business and deter potential entrants.

Exchange Rate Regime

Closer inspection of the policy environments in each of the five countries reveals some significant differences in their approach to managing the exchange rates of their currencies. While Zimbabwe, Kenya and Ghana have allowed the value of their currencies to fluctuate and approach a market-determined rate, Senegal and Côte d'Ivoire have maintained a rigid link between their currency and the value of the French Franc. The recent decision to restrict the convertibility of the Franc CFA has greatly diminished one of the main advantages this arrangement had to offer.

In addition, firms in all countries, particularly local enterprises, have difficulties obtaining foreign exchange or can access it only at high cost. For exporters who earn foreign exchange, this problem needs immediate attention. Government has a key role to play in encouraging exports by undertaking an overall program of economic liberalization to remove any anti-export bias.

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49 Even for Afrocentric goods, some inputs, such as machinery, need to be imported; and producers of these goods would also benefit from liberalization of import regulations.
50 Moreover, during this period, a representative of the factory needs to visit the port daily to make sure that the paperwork progresses.
Security of Investment

Foreign investors worry about the security of their investments. In Kenya, for example, the investment climate has suffered from reports of political interference and arbitrary government decisions affecting the security of investment. This image has started to improve somewhat recently, judging from a renewed interest by foreign investors particularly in the garment export industry.

Managing Quotas

Exporters need information on potential market opportunities. For instance, garment exporters need to monitor the status of quotas in each country, as garment manufacturers in Africa are at a particular risk for being suspected of transshipment. A rapid increase in exports from any country in the region, especially one without a history of apparel exporting may quickly raise suspicions, particularly if the manufacturers are from abroad as would likely be the case. This is what happened in Lesotho, where Chinese-owned manufacturing investment was suspected of being used for transshipping Chinese-made garments. Without access to U.S. trade statistics, manufacturers in a particular country may not even be aware that their country has come under suspicion until it is too late. Therefore, a concerted strategy on the part of a government, a trade association or individual manufacturers may be necessary to alleviate any suspicion of transshipment.

Level of Infrastructure Development

Although neither the standardized garment industry (judging from the experience in countries such as Bangladesh and Sri Lanka) nor the Afrocentric goods industry require particularly sophisticated infrastructure for their development, improvements in basic infrastructure are needed in all five countries surveyed. Infrastructure, particularly telecommunications, is weak. At the present level of operations, it does not seem to pose significant obstacles for the manufacturers which are all located within the major industrial centers. Nevertheless, each of the five countries has infrastructural deficiencies that could hamper the growth of their industries. For example, Beira — the principal port of Mozambique and the closest ocean port to neighboring Zimbabwe — is still difficult to reach because of security risks, and transport from Nairobi to Mombasa frequently suffers from the poor condition of the main road or breakdowns in the rail system. At the current level of exports the port facilities seem to be adequate, but any significant increase would quickly cause bottlenecks in ports such as Mombasa and Dakar. For the moment, manufacturers are planning for these “shocks” in their overall time schedules and are able to maintain a satisfactory delivery record. However, unless addressed, infrastructural deficiencies could put a quick halt to further growth of exports. What is noteworthy is that the level of infrastructure development required is not extensive. Exporting does not require rebuilding the whole road or port system in a country; for example, the addition of a few extra cranes in Mombasa port and improvements in the road and rail system connections to Nairobi would suffice in the short term.
SUMMING UP

What have we learned about Africa’s competitive position in exports? For Afrocentric products, available evidence suggests that U.S. demand is large and growing. Demand for “authentic” African merchandise appears to be assured, particularly for African American consumers, where cultural considerations influence purchases. Thus, the U.S. Afrocentric market represents a window of opportunity for African manufacturers who can meet this standard. Africa can compete in this market provided enterprise level constraints are overcome. Consistent quality and uniformity of output is a persistent problem, especially for large orders. Artisan crafts skills need upgrading to meet stricter export market requirements. In addition, institutional inadequacies such as lack of access to credit to finance material inputs, especially for large orders, remains a binding constraint in many cases. Market impediments—lack of access, information and buyer contacts, also hamper expansion of nontraditional exports.

Despite these problems, U.S. buyers continue to test the African waters. The magnitude of the opportunity now presented by the American market, however, will not last forever. Mainstream buyers have made it clear that they are prepared to source Afrocentric products in Asia if African country supply problems cannot be sorted out. This would indeed be unfortunate if African producers are unable to capitalize on a market trend inspired by their own culture and, in artisan crafts, based largely on existing capabilities.

As in Afrocentric goods, we have shown that Africa can compete in the global market for mainstream garments. The worldwide search for low cost manufacturing locations has intensified in recent years because of a combination of three factors: (a) the pressure to control costs; (b) the increasing wage rates in some of the traditional garment producing countries; and (c) import quotas which have capped the exports of garments from traditional producer countries to the major export markets. As we indicated, material inputs in garment production can be transported over long distances without significantly affecting the cost of the final product. This enables manufacturers to locate their operations where labor costs are low. As a result, during the past decade major garment industries have sprung up in countries that had little or no garment manufacturing before.

Given the task-level efficiencies of African workers, which can be comparable to that of Asian garment producers provided there is capable management, African garment producers can become potential competitors in the global garment trade. Unit labor costs are low, and the quota-free status of virtually all Sub-Saharan countries offers them a distinct competitive advantage. Years of structural adjustment policies including the adoption of a market determined exchange rate, simplification of regulations covering the import of raw materials and export of finished goods, and liberalization of labor regulations have resulted in “pockets of competitiveness” that are beginning to draw the attention of international investors in the garment industry. Of the five countries that formed part of the survey, Zimbabwe, Kenya and Ghana are now offering conditions that are starting to become comparable to some of the successful garment exporting countries in Asia. However, Senegal and Côte d’Ivoire have failed to eliminate the main obstacles that continue to hamper the development of a competitive garment export industry. Garment manufacturers in the first three countries are able to produce at levels of cost, quality and efficiency that are comparable to...
to Asian manufacturers. Taking into account the quota premiums that manufacturers in Asia risk having to pay, these countries now offer a competitive advantage that is only partially offset by the deficiencies that continue to exist in their infrastructures and policy environments.

As the traditional garment exporters see their labor costs increase and their exports being capped by quotas, they are increasingly moving into the manufacture of higher value added items leaving the manufacture of basic items, such as woven shirts and bottoms to low cost and/or quota-free producers, as exist in Africa. Garment producers in Africa are thus presented with an significant opportunity. To give an indication of the magnitude of the potential: apparel exports to the U.S. from Bangladesh, Sri Lanka and Mauritius — all countries that have developed a garment export industry within the last ten years — are now approaching annual levels of $750 million, $700 million and $145 million respectively; just a one percent growth in U.S. apparel imports would represent an increase of close to $275 million, more than ten times the current apparel exports of all five African countries combined! How the World Bank and other donors can help African producers capitalize on these opportunities is the subject of the following section.
VI. THE ROLE OF THE WORLD BANK AND OTHER DONOR AGENCIES

Because the export industries in these countries are still in their infancy, the World Bank and other donor agencies have an important role to play, as they can influence policy at this crucial stage. Traditionally, the World Bank and other donors have focused on reform of price incentives to stimulate investment, employment, and export growth. The Bank’s core program of policy measures has aimed at maintaining a realistic exchange rate, guaranteeing exporters’ access to input and output markets at world prices and improving the efficiency of domestic production by reducing protection and thereby introducing market competition. However, there is increasing recognition within the international donor community that “getting the prices right” is a necessary, but not a sufficient condition to stimulate export growth. This section discusses briefly reforms that governments should undertake, and then details practical supply side measures that the Bank and other agencies could use to increase the effectiveness of their interventions in Africa.

Donor agencies need to continue to stress the importance of economic liberalization and concomitant reform of the regulatory framework for exports. For example, the foreign investors that were interviewed uniformly emphasized the importance of simplification of regulations. Complexities in labor regulations, investment approvals, taxation, and the trade regime create uncertainties and the potential of rent seeking. As one foreign investor in Ghana put it: “it often seems as if the bureaucrats want to get rid of me rather than support me.” While some progress has been made, further liberalization of investment, trade and labor regulations is required to attract foreign investors. But, a successful export strategy requires getting a wide range of policies right not only at the macroeconomic level, but also the microeconomic non-price aspects of export policy at the firm level and logistics including transport, customs procedures and institutional support. Even when macroeconomic policies have begun to move in an export oriented direction, the domestic “supply response” will not occur automatically or simultaneously. Supply-side constraints at the enterprise level, such as lack of technical, marketing and managerial know-how and access to established world market networks continue to be critical impediments to export growth. Enterprise level programs may therefore be needed to complement macroeconomic and trade reforms.

The World Bank has only recently begun to focus attention on the non-price aspects of export policies at the firm level. In countries like Ghana, where adjustment has created a macroeconomic environment more conducive to export expansion, provision of technical, financial and infrastructural support along the lines outlined below is what is needed to “jump start” exports now. In the Bank, work on the non-price aspects of export policy is in the earliest stages of development and in many respects, remains uncharted territory. Intervention at the enterprise level brings the Bank closer to the turbulence of the marketplace than it has ever been before. This implies a more hands on role for the Bank and other donors than has traditionally been the norm. Fast paced innovation is called for which will require a different mind-set, and new “tools” for private sector development.

Contrary to conventional wisdom, direct assistance to private entrepreneurs is within the mandate of IDA. Article V, Section 2, para (c) of the Articles of Agreement states “The Association may provide financing to a member, the government of a territory included within
the Association's membership, a political subdivision of the foregoing, a public or private entity in the territories of a member or members, or to a public or regional organization" and para (d): "In the case of a loan to an entity other than a member, the Association may, in its discretion, require suitable governmental or other guarantee or guarantees." There would, thus, appear to be more scope than commonly assumed for designing innovative approaches to address firm level deficiencies in areas crucial to export success.

However, to date, the Bank has used mainly traditional lending instruments (adjustment, investment and hybrid operations) to carry out its policy reform objectives. While approved private sector development projects have also included standard intermediary lending as a major tool for indirect assistance to the private sector, there is only one case in which the Bank, on an experimental basis, channeled resources directly to the private sector. The pilot Exporter Assistance Scheme in the Kenya Export Development Project, helps potential exporters directly by providing, on a matching grant basis, expert advice on production technologies, product design, packaging, etc. It is administered through an independent company managed by foreign consultants. However, the Bank's limited intervention in the private sector is slowly changing.

A paper entitled "Strengthening the World Bank Group Effort on Private Sector Development,"51 identifies key approaches and criteria that should be considered in the design of country strategies and relevant operations. These criteria include "direct assistance to private entrepreneurs without introducing harmful distortions." According to the paper this "implies strengthening financial systems, providing finance for private investors, and supporting the development of private technical, managerial and marketing skills and resources." The paper also suggests providing support for government efforts to implement projects through private rather than public sector channels. This involves "active efforts to channel financing through private providers, including NGOs; to contract out public functions to private enterprises; to employ private contractors and to increase the use of private financial intermediaries for on-lending operations." There has been no further elaboration on the design of actual instruments, but there is no reason that individual task managers cannot come forward with specific proposals. AF2PE's comprehensive pilot on new tools for PSD in Eastern Africa, for example, "tests" a number of innovative approaches including new financing instruments, business incubation, private match-making schemes, and business information networks. This approach—pilot driven innovation—is what is needed now.

What does such assistance mean in broad terms for the World Bank and other donors?

- **Information on investment opportunities in Africa needs to be disseminated to potential investors.** Of the five countries surveyed, the three that have made the most progress in policy reforms — Ghana, Kenya, and Zimbabwe — also show the greatest promise of developing an export garment industry. Yet, in none of these countries surveyed has the garment industry reached a critical mass, involving a significant number of manufacturers, either foreign or indigenous. Part of this stems from a lack of information on investment opportunities in Africa. While most of these countries offer reasonably attractive investment incentives to foreign investors, investment

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promotion programs sponsored by the World Bank and other donor agencies to "spread the word" about the newly-found competitiveness of these countries might help accelerate the inflow of foreign investment into the sector.

- **Investments in physical infrastructure and better management of existing infrastructure.** Despite investment programs in infrastructure in several of the countries, infrastructural bottlenecks continue to exist, particularly management of current capital, such as ports and railroads. The service level flows from these facilities are often impaired by poor management. For example, the main port of Ghana was recently rehabilitated and expanded but suffers from mostly human inefficiencies. Manufacturers habitually post employees in the port for several days on end to make sure that the goods move in and out of the port on time. Infrastructure may not be particularly constraining at the current levels of exports, but would quickly become so once exports take off. The port of Mombasa for instance, has only two cranes one of which is frequently out of commission. There is only one rail system linking Nairobi with the port. Earlier this year, severe flooding washed out a bridge and paralyzed the freight flow. In addition, telecommunications facilities are very poor, roads are bad and electricity is uncertain. Addressing some of the more serious bottlenecks, such as the ones identified above, would solidify the base for industrial development.

- **Building the links between foreign and local entrepreneurs.** Experience in other countries indicates that a significant degree of indigenization of industry is required to ensure its sustainability once real unit labor costs begin to rise. In mainstream garments, for instance, local manufacturers are more likely to stay put than foreign ones who may move their operations once quotas get imposed or more attractive cost options become available elsewhere. The Bank and donor agencies can help accelerate the process of indigenization by promoting programs that address some of the main barriers to entry for local entrepreneurs.

- **Funding of training and technical assistance programs focused on existing market opportunities.** Donors should consider funding training programs in areas that had been identified as requiring extensive assistance. The biggest current barrier to increased trade between Africa and the U.S. is the lack of enterprises with the proper mix of skills to meet market requirements. For instance, large U.S. buyers of garments are seeking a balance between the cost, quality, and delivery capabilities of standardized garment production and the creativity of clothing designers. One strategy for filling this void of qualified producers is to identify a cadre of mid-sized African factories with the potential to advance to the next level of volume and bolster their skill level through training and technical assistance programs. The areas for focused training and technical assistance are:

  (a) **Production:** Prepare factories to advance to a higher level of production by providing technical expertise on production line set-up, order scheduling, production plans and improvements in machinery. For producers of home products, an intermediary should help producers to identify marketable product classifications, based on buyer feedback. Once identified, a survey should be undertaken to determine producer supply capacity and production scales. As part of the survey, a needs assessment should be conducted to identify what
producer craft skills need to be upgraded, what production techniques need improvement, whether equipment should be introduced or redesigned and so on. Technical assistance will then be required to conduct on-site workshops for training in production methods, quality control, and technical craft skills. As producers typically work in groups, one way to diffuse know-how is to send the most skilled artisans, or “masters” to the U.S. or Europe for short training sessions to further hone their skills. Upon return, they in turn can train apprentices and fellow artisans.

Artisans also need to be taught how to manage production schedules, accurately judge material input requirements and get goods to a pre-established collection point on time. Production services should, thus, include support for: production management systems including survey and needs assessment; product development and adaptation; quality standard systems; equipment/tool design purchase/manufacture; supply coordination; and overseas training.

(b) **Finance:** There are a host of things that need to be done to get export finance to producers. Financial skills within firms needs attention. Training managers and bankers to use letters of credit and other export finance tools, as well as encouragement of local banking relationships are necessary first steps. In the end, however, the effects of training will be limited if the basic problems of information and contract enforcement in financial markets are not addressed. Banks on their own are just not going to lend to small, new exporters. First, they do not have good information on the creditworthiness of these borrowers (and it is very costly to gather such information). Second, the cost of monitoring these borrowers is also quite high. And third, enforcing the loan contract (i.e., ensuring repayment) in an environment where the ability to put up collateral is small, where firms are new at the export game (and thus there is a high risk of not being able to ship on time), and where the legal system is not developed is a very difficult matter.

Hence, there may be a need to “target” credit to exporters (particularly small and medium-sized firms) through various means to address such market imperfections. Particularly in cases where proven market opportunities present themselves, for example in the Pier 1 case in Ghana, a targeted export finance program might help get things going (see the Pier 1 case below under Funding of Pilot Programs). The ultimate terms and conditions for a targeted financial program will depend on local conditions. In general, the main problem small and medium exporters seem to have is access to finance on a timely basis. With a foreign letter of credit (LC) in hand, or a domestic LC or guarantee based on the original foreign LC, producers should be able to get preshipment working capital up to, say, 50 percent of its face value quickly. The foreign buyer would pay the lending bank directly, which would in turn pay the exporter. In the case of very small enterprises, this could all be arranged through larger firms, trading companies or middlemen. The cost of such short-term working capital loans at current market rates for overdraft facilities (approximately 30–40 percent) in most countries would not be prohibitive for
most small enterprises in that they generally borrow at much higher rates informally.

(c) International Trading Norms: African exporters are often uninformed about the requirements of shipping to developed markets. For example, U.S. buyers often have very specific packing instructions, labeling and documentation requirements. U.S. Customs has rules about what constitutes acceptable packaging materials (no hay or grass, for example). There are, in addition, many restrictions on the use of certain chemicals, dyes and glazes. Artisan producers, in particular, will need assistance navigating through this system. Garment manufacturers, for instance, will also need information on the above as well as on changes in import regulations, tariff, quota and other quantitative restrictions.

(d) Marketing: Training would be geared at teaching firms how to present their production and design capabilities to U.S. buyers. What information do retailers need to assess a producer’s suitability as a supplier? What needs are specific to a particular category of goods? In addition, organizing and sponsorship of meetings with major U.S. retailers in the U.S. to expose African producers to the demands of the U.S. market would be helpful for producers of home products and garments. The first step is for the government to assume the role of intermediary a la KETA in Kenya. The second step is for producers of home products to work through an experienced NGO such as AID to Artisans which provides artisan producers fee based consultation, on-site workshops, business training and access to the U.S. market. If the government is utilized, it will need technical assistance to help artisan groups to undertake a variety of tasks, including to: identify market opportunities for particular products; develop appropriate pricing strategies; devise and implement marketing plans; identify new sources of strong competition; locate, approach and maintain contact with foreign buyers, importers, and retailers; participate in trade and trunk shows; master trade show presentation techniques; and develop promotional materials. Since organizations like Aid to Artisans already provide these services, what is needed are resources to expand their capacity to reach greater numbers of producers.

- Funding of Pilot Programs. Donors might consider funding pilot programs to facilitate exports on a small scale to get things going. In Ghana, there is an immediate opportunity for this type of donor intervention. AMC, Pier 1 and Bamboula are

52Bamboula is a medium size wholesaler of West African textile arts and crafts targeting the high end segment of the Afrocentric market. Bamboula sells home products and personal accessories to stores like Neiman Marcus and Henri Bendel, and catalogs like Horchow, Red Rose and Sundance. Bamboula also sells to a large base of small retailers — individual boutiques, gift stores and museum shops. With the explosion of demand for Afrocentric products, Bamboula's sales have quadrupled in the last two years. Based on discussions with U.S. marketers, there is only scope for so many "Out of Africa" promotions featuring traditional masks, baskets and wood carvings. Long-term, indigenous African crafts must be infused with a contemporary feel to achieve widespread U.S. market acceptance. Bamboula focuses on product development and design, adapting traditional artisan crafts to western tastes and sensibilities. Volume production is important, but in the design
representative of firms with potential “deals” in the pipeline. AMC has been in contact with offices of the nonprofit NGO, “Aid to Artisans,” in Accra with a view to sourcing products. Pier 1 and Bamboula are already working with small artisan producers in Ghana and have encountered a number of teething problems that need immediate attention. At hand are three buyers who together account for U.S. sales approaching US$2 billion. Each has significant experience working with small artisan producers in countries in the early stages of export development. From AMC’s experience in Kenya, it is clear that there is an important facilitating role the Government can play to get the ball moving. It is also conceivable that the Ghanaian Government may not be aware of the magnitude of the opportunity being presented through the Pier 1 order and what to do about it. It is, therefore, crucial (before the opportunity is lost) to get the “message” to the Ghanaians and provide practical assistance in putting together a strategy and institutional framework for dealing with the problems on the supply side.

Pier 1 has expressed interest in working with the World Bank or other international agencies on a pilot program to facilitate craft exports from Ghana. For its part, it would guarantee a certain level of demand—repeat orders of a pre-agreed amount. It would like the Bank to work with the Ghanaians in putting in place the institutional structure to coordinate supply. Once in place this structure could also serve other importers as Pier 1 would not require exclusivity from its suppliers. This is an interesting opportunity and proposition. Seldom in the “real world” is demand guaranteed. Working with Pier 1 it would be possible to learn what strategies have worked in other places and how they could be adapted to fit Ghana. Starting small, it may be possible to design a demand driven, transaction oriented pilot project that could be modified based on actual market feedback and results. Once the problems of the “test” order are unraveled, elements of the pilot project might include: a) supply coordination; b) execution: new product development and adaptation; c) operation of quality control inspection with producers; d) financing production if required; e) export administration; and f) packing/shipping/documentation assistance.

At present, there appear to be few World Bank funding vehicles that offer the flexibility and quick response needed to fund the kind of applications-oriented pilot tests referred to above. One such vehicle is the Bank’s Institutional Development Fund (IDF) grant facility. According to Operational Directive 8.41, IDF provides a “quick response instrument for funding action-oriented schemes identified during (and closely linked to) the Bank’s economic and sector work and policy dialogue in low and middle income countries where institutional development is a significant country assistance objective.” Grant amounts range from US$50,000 to US$500,000. Eligibility criteria is broad and processing procedures appear straightforward. IDF resources, however, are very limited. While the Bank Group’s conscious high end market segment, product quality and uniqueness are the keys to success. To meet this requirement, Bamboula sends designers to Africa to work directly with producers. In Mali, Bamboula works directly with traders in the informal sector. In Ghana, Bamboula worked with the NGO Aid to Artisans to design and test market new products.
instruments for supporting investment, employment and export growth are expected to evolve slowly in response to the specific challenges that individual countries face in creating more dynamic private sectors, other donors may have more flexibility and should continue to work towards developing new tools for private sector development in Africa.
Appendix 1. U.S. Retail Tiers and the Top Five Stores in Each Tier

<table>
<thead>
<tr>
<th>Discount Stores</th>
<th>1992 Sales (Millions of US$)</th>
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</thead>
<tbody>
<tr>
<td>WalMart Stores</td>
<td>55,579</td>
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<tr>
<td>K mart Corp.</td>
<td>37,724</td>
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<tr>
<td>Dayton Hudson Corp.</td>
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<tr>
<td>Fred Meyer</td>
<td>2,853</td>
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<td>Caldor Corp.</td>
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<tr>
<th>Department Stores</th>
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<tr>
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<td>18,009</td>
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<tr>
<td>May Company</td>
<td>11,150</td>
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<tr>
<td>Federated Department Stores</td>
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<td>Dillard Department Stores</td>
<td>4,713</td>
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<td>RH Macy</td>
<td>6,449</td>
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<table>
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<tr>
<th>Specialty — “Softlines”</th>
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<tr>
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<td>Woolworth Corp.</td>
<td>9,962</td>
</tr>
<tr>
<td>The Limited</td>
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<tr>
<td>The T.J.X. Companies</td>
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<td>The Gap</td>
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<table>
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<th>Specialty — “Hardlines”</th>
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<td>The Home Depot</td>
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<td>Lowe’s Companies</td>
<td>3,846</td>
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<td>Service Merchandise</td>
<td>3,712</td>
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<td>Circuit City Stores</td>
<td>3,269</td>
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<table>
<thead>
<tr>
<th>Mass Merchandisers</th>
<th>1992 Sales (Millions of US$)</th>
</tr>
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<tbody>
<tr>
<td>Sears Merchandising Group</td>
<td>37,724</td>
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<tr>
<td>Montgomery Ward</td>
<td>5,760</td>
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Appendix 2. Top Ten U.S. Retailers
1978 Vs. 1991

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<thead>
<tr>
<th>Specialty Stores</th>
<th>Discount Stores</th>
<th>Department Stores</th>
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<tbody>
<tr>
<td>Melville</td>
<td>Limited</td>
<td>K mart</td>
</tr>
<tr>
<td>Interco(^2)</td>
<td>Toys R Us</td>
<td>Woolco(^1)</td>
</tr>
<tr>
<td>Genesco(^1)</td>
<td>Melville</td>
<td>Gibson(^1)</td>
</tr>
<tr>
<td>Rapid Am(^2)</td>
<td>Woolworth</td>
<td>Zayre(^1)</td>
</tr>
<tr>
<td>Brown Group</td>
<td>Tandy</td>
<td>WalMart</td>
</tr>
<tr>
<td>Zale</td>
<td>Circuit City</td>
<td>Gemco(^1)</td>
</tr>
<tr>
<td>Woolworth</td>
<td>TJX Cos.</td>
<td>Target</td>
</tr>
<tr>
<td>Edison Bros.</td>
<td>Gap</td>
<td>TG&amp;Y(^1)</td>
</tr>
<tr>
<td>W. Auto(^3)</td>
<td>U.S. Shoe</td>
<td>Korvettes(^1)</td>
</tr>
<tr>
<td>Hart, Sch&amp;Mx</td>
<td>K mart</td>
<td>FedMart(^1)</td>
</tr>
</tbody>
</table>

Notes: 1 = Out of business; 2 = Filed Chapter 11; 3 = Acquired

Source: Stores Magazine, various issues.
Appendix 3. Bali: Success in Garment Exports

Bali, Indonesia has experienced an export boom in ethnic garments since the 1970s, which have become by a considerable margin the largest of Bali’s new export categories. Exports of garments grew from negligible levels in 1975 to US$ 65 million in 1990, with roughly 50 percent emanating from official exports and the remainder from tourist garment purchases. Employment in manufacturing in Bali increased 70 percent from 1980 to 1985 (attributable in the main to garment production), while nationwide increases were less than 24 percent during the same five year period. In addition, this growth was achieved with significant indigenous (Malay) participation as entrepreneurs - more than 50 percent of existing garment enterprises are operated by Malays.

Context. Bali’s development process was spurred by a growing tourist trade, a liberal regulatory environment that granted access to foreigners and an entrepreneurial spirit among tourists/expatriates and local traders/ producers. Though many characteristics of this situation are unique to Bali, it provides a model for evolution of labor intensive industries and suggests solutions to classical problems of industrial growth in developing nations.

Elements of an orderly development process. The evolution of the Bali garment export trade occurred in four phases:

1) Tourist trade, 1971-1974
2) Organizational Learning, 1975-1980
3) The Fruits of increasing Returns, 1982-1985
4) Regulation, Replication and Lower Margins, 1986-1988

The key elements of successful transition from cottage industry to a major export sector were:

- Access to information on export market preferences—by selling to tourists, local producers tapped visitors for direct product feedback (color, design) representative of a market still unfamiliar to them, leading to the enhancement of their product offer. Producers also learned later that rapid changes in foreign tastes had to be anticipated.

- Local producer collaboration with foreign partners - local traders reduced their exposure to risk in the early stages of development by taking on expatriate partners with relevant skills, foreign contacts and low-cost venture capital. The foreign partners offset their risk by the pleasant Bali lifestyle and the potential of high returns.

- Matching of each venture’s strategic direction with the skills of the expatriates - In some cases, a high quality, low volume strategy was employed by a partnership. This relied on the highly developed design skills of a European partner. It was recognized that this model was not easily replicated, so few attempted it. The low value, high volume strategy was easier to execute, relying more on energy and entrepreneurial talent, thus became the predominant model.

- Subcontracting as a method of diffusing know-how - widespread adoption of the subcontracting model bred a rapidly expanding pool of workers who understood the production process. Manufacturers could “piggyback” production onto an existing network of small tailoring shops to avoid the labor difficulties which would have been involved in setting up a larger facility.

- Market downturn weeded out weaker participants - expatriate entrepreneurs who were energetic but unsophisticated left the business after a brief downturn, leaving the next phase of growth to stronger players. The local producers who continued were more confident about continuing independently. The next wave of expatriates were more highly skilled foreigners.

- A critical mass of activity encourages the development of support businesses - as the sheer number of industry participants grew, it also gained useful infrastructure. Specialized legal, shipping, printing, dyeing and other services sprung up to serve producers, assured of a customer base just by the sheer number of potential clients.

- The importance of a deregulated immigration policy - Bali’s success can be attributed to the presence of foreign buyers/consultants. When regulation became a factor again in the late 1980s, movement upmarket to higher unit values was halted, forcing firms to merely sustain rather than improve their knowledge.

- Established reputations (and reasonable maintenance of standards) will ensure a pool of buyers - despite the leveling off of average unit values, the volume of exports continued to rise after the influence of foreigners diminished after re-regulation due to an established reputation among boutique buyers for quality products.
Appendix 4. Fahari Fashions Ltd.
The Case of an Indigenous Manufacturer

Mr. Gitahi Ngaruro started Fahari Fashions 4 years ago when he bought the factory which is located in the outskirts of Nairobi on the grounds of Kenya Cooperative Creameries where he was General Manager at the time. Prior to that, Mr. Ngaruro had a career in government culminating in his position as Assistant Secretary of Agriculture. He and his wife are partners in the business and gradually built up their investment by renovating the building and acquiring new equipment. At present, the factory has 165 machines and employs 300 people which makes it a mid-size company.

Fahari's first export order came from Keith Sportswear International, a U.S. manufacturer and distributor of basic garments. This order was for a rather complicated model pair of shorts and Mr. Ngaruro felt that he was being tested by Keith. When he proved to be able to fulfill the order satisfactorily, more orders followed, all subcontracting on CMT (cut, make and trim) basis. During its peak year, Fahari produced 92,000 shorts and 240,000 shirts. However, when Keith decided to invest locally in its own manufacturing facility, the orders stopped. Unable to build up his own export business, Mr. Ngaruro made the rounds of the other expatriate manufacturers until he landed an export order with Wings, a U.S. owned manufacturer of inexpensive young men's sportswear. Again, this order was on CMT basis.

Mr. Ngaruro feels he has benefited much from the subcontracting relationship with expatriate manufacturers. Keith allowed him to adopt some aspects of its manufacturing system and helped him identify and hire an Indian manufacturing manager. As a result, he was able to improve his efficiency significantly and obtain a new order independently of Keith. Manufacturing under CMT allowed him to fulfill relatively large orders without requiring much working capital.

According to him, the environment in Kenya has improved in recent years but it is still difficult for him to develop into a full fledged independent manufacturer. Because of the export retention scheme it has become easier to obtain foreign exchange for spare parts and small equipment items. His factory is bonded and this system has proven to be far less complicated than the duty drawback scheme and also allows him to be a subcontracter for export items. Finally, the Kenya Investment Centre was very helpful in securing a work permit for his expatriate manager.

Mr. Ngaruro has high ambitions for Fahari, wanting it to become internationally competitive and graduate from CMT to "FOB manufacture". However, for that to happen he needs to know where to obtain inputs at competitive prices, where to find good management and technical expertise or what would be the best equipment to buy and where to get it. For instance, he has heard of time and motion studies that supposedly could do wonders for the efficiency of his factory but does not know where to get that kind of expertise. When he was asked to calculate the cost of producing one shirt, he admitted that he had never done such a calculation before but quickly recognized its usefulness and assembled his management team to complete the exercise.

Apart from his internal constraints, Mr. Ngaruro feels he is handicapped by outside obstacles and most important of these by far, is the lack of access to finance. Without support from a bank, he does not see how he could invest in productivity improving equipment or become an independent exporter. For example, he knows that an automatic buttonhole machine would solve one of the main bottlenecks in his factory and improve its efficiency by as much as 20 % but he does not have the cash to buy this $40,000 piece of equipment and cannot get the finance for lack of collateral. He cannot use his building for that since it is already mortgaged and evidently confirmed export orders are not enough of a guarantee. And if he wants to realize his ambition of becoming an FOB manufacturer, he needs to figure out where to get the working capital to buy the fabric and other materials which so far have been supplied by his clients.
Appendix 5. Buyer’s Purchasing Criteria

1. Examining a buyer’s Import Item Worksheet (Page 2 of Appendix 5) on a typical order reveals:
   a) the categories of information gathered;
   b) the range of countries that compete with Kenya for production of a basic shirt;
   c) the degree to which selection of suppliers reflects a balance of costs and other factors.

2. On the shirt costed in the example, 16 factories in 9 countries were asked to submit bids for the production of a shirt. Two Kenyan firms were under consideration: one manufacturing in its own factory, the other a firm from Qatar subcontracting in Kenya (the preference is to work with a firm using its own factory unless the subcontractor is someone the buyer has prior experience with). The piece goods are identical and sourced from China in all but one case, despite the diverse countries of manufacture, which reinforces the point that origin of raw materials is irrelevant in the worldwide sourcing market.

3. The buyer’s target cost was US$4.25; her planned retail was US$14.99. The quoted first costs (fob factory gate) range from US$4.10 to US$5.66; Kenya quoted a relatively high cost of US$4.70. After adding duty and freight costs, an estimated landed cost is established of US$5.25 to US$7.15.

4. In order to reach the necessary total quantity, 780,000 units, seven factories received part of the order, with minimums of 2,000 dozen. The factors driving the decision-making process: Source Q (Singapore and Hong Kong), 49 percent—despite higher price, quality and delivery are always excellent; never any problems in this long standing relationship; Source G (Bangladesh), 15 percent—produced significant amount last year with good quality and delivery; use of this supplier’s quota for difficult quilted item prohibited a larger order being given; Source A (Kenya), 13 percent—produced a small successful test order last year; good quality and delivery; U.S. representatives to oversee follow through; Source M (El Salvador), 13 percent—established supplier moved production here last year after Myanmar quota closed; good quality, price and quick transportation/low freight cost; Source K (Mongolia), 7 percent—produced small test order last year; factory has been inspected and passed company quality control tests; no quota yet; Source P (Laos), 3 percent—test quantity; no quota yet.
Appendix 5 (continued)
Buyer’s Import Item Worksheet

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<td>21%</td>
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<td>6.00</td>
<td>35</td>
</tr>
</tbody>
</table>

Reading horizontally, line 1: Company A in Kenya, producing in its own factory with fabric with China, submitted a bid on the shirt of US$4.87. After adding 21 percent duty and 34 cent load for retailer’s office overhead and average freight costs, the estimated landed cost is $6.23. It received an order for 13 percent of the 780,000 shirts purchased.
Appendix 6. African Eye

African Eye Designer Studio, located on Wisconsin Avenue, N.W., in Washington, DC just above Georgetown, features high fashion clothing in traditional African fabrics. The boutique, which opened in 1989, is co-owned by Mozella Perry Ademiluyi and her two sisters. Ms. Ademiluyi, who splits her time between Lagos, Nigeria and Annapolis, Maryland, works closely with African designers to create garments that blend African fabrics with European styling. The African designers of relevance here typically own and operate small factories which employ 15-20 people. To gear up for the U.S. market, African Eye has begun to "matchmake" these small and medium enterprises with large underutilized Nigerian garment manufacturers (who have been hurt in recent years by used clothing imports). In this way, the designers are able to increase their production capacity without sacrificing design. In Ghana, J.C. Penney adopted a similar strategy matching a small local clothing designer with Accra-based Akasambo Textiles/Volta Garments. Recently, African Eye hosted African designers Abraham (Liberia) and Alphadi (Niger) at the prestigious annual Black Caucus Show.
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