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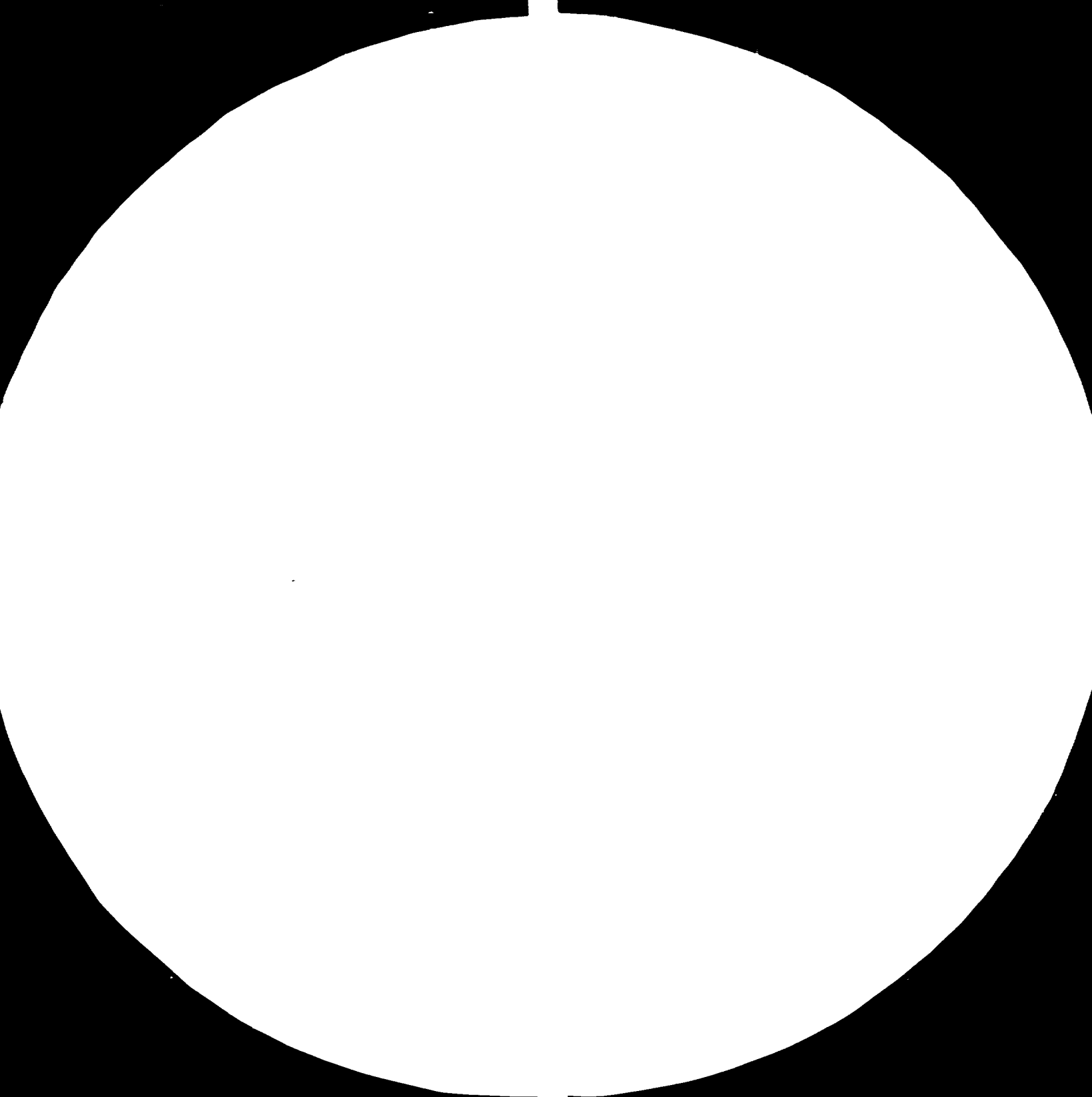
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ASSISTANCE TO THE TEXTILE INDUSTRY

DP/URT/78/018

TANZANIA

Terminal report *

Prepared for the Government of Tanzania by the
United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

Based on the work of K.V. Vahtokari
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Vienna

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SUMMARY

Tanzania's annual textile consumption is about 4 metres per capita and out of the local production the TEXCO group - mills owned by the parastatal holding company National Textile Corporation - accounts for more than 90%. TEXCO has got 6 composite mills with a potential production capacity of about 22 mill. kg of cotton yarn and about 146 mill.m of cotton fabrics a year. Its actual production volume in 1982 was much lower, 10.6 mill.kg of yarn and 57.6 mill.m of cloth representing an efficiency of 49% in spinning and 39% in weaving.

This report is concentrated in TEXCO's export drive to the EEC market, and in its approach to the problems encountered, it is management orientated.

The export drive was successful and produced more orders than the mills have been able to deliver. There simply is not enough of export production capacity at TEXCO mills qualified enough to meet the rather sophisticated requirements of the EEC market. Upto now, only one mill has met these requirements in volume production of cotton yarns, and none in volume production of cotton fabrics.

Availability of exportable products won't change drastically before the new spinning and weaving units now in the pipeline, start their commercial production. They will add some 9.4 mill.kg of yarn and some 43 mill.m of cloth, to TEXCO's production capacity. The new spinning mills will be completed in the second half of 1983 and the new composite mills in the course of 1984 and 1985. Additional yarn production of the new spinning units must be exported as there will be no corresponding weaving capacity within the country to consume it.

Presently the mills cannot export at a profit. Admittedly, their costs are higher than those at mills running at a good 80 - 90% efficiency. However, the present overvaluation of the Tanzanian shilling locally, most likely matters much more to the unprofitability of textile exports. Instead of devaluation, the Government has used a more innovative approach to the

problem of incongruency between production costs and export price and introduced an Export Rebate Scheme as a compensatory measure. As textile exports represent a potential of some 370 - 450 mill. Tsh. in export earnings when fully developed and some 350 - 430 mill. Tsh. in net inflow of foreign currency (export earnings minus production inputs in foreign currency), the TEXCOgroup can bring into the country considerable amounts of foreign currency when made competitive in export sales.

Increasing export deliveries from a few containers a month to 35 - 40 containers a week, will make the TEXCO group a volume supplier to export markets. That calls for a creation of a marketing unit strong enough to handle this business. The present 3-man-unit at TEXCO's head office won't be able to do so. It has to be strengthened in personnel, in office facilities and most important, it must get a godown in Dar es Salaam for transit goods. As a proposal has already been made about strengthening the marketing unit, it is to be hoped that a decision about it will be made at TEXCO without further delay together with resource allocation for its speedy implementation.

TEXCO's marketing performance would also benefit from adding a Director of Marketing to its management structure. The DM should be made responsible for the development of all marketing activities of the group and naturally, act as chief executive of TEXCO's export marketing unit.

INTRODUCTION

Tanzania is one of the main cotton producing countries in Africa only Egypt and Sudan being far more prominent suppliers. The best part of her output is exported (about 75%) and out of the local consumption, the TEXCO group - mills owned by the government of Tanzania through National Textile Corporation - accounts for more than 90%.

In 1982, the TEXCO group produced 10.6 million kg. of cotton yarn and 57.2 million m of cotton fabrics in her six composite mills. Besides that, 713,000 blankets were produced by her blanked factory and 3.4 million bags by her bag factories. The group is also a producer of garments, about 650,000 units of them were produced in 1982, by one garment making factory and two garment making units at the composite mills.

In 1982, the group exports totalled T.Shs. 18.9 million and consisted of 72 tons of carded cotton yarns, 438,040 m of grey cloth, 10,000 m of Java prints and 1000 pcs of bleached bedsheets (to West Europe) and 505,410 m of printed khanga and 529,800 m of printed kitenge (to Mozambique).

The TEXCO mills have 150,486 spindles and 4,126 looms installed and they have a potential capacity of producing about 22 million kg. of yarn and about 146 million m of cloth annually. In 1982 the mills were running at 49% efficiency in spinning and 39% efficiency in weaving.

At the end of 1982, the Tanzania economy was in a bad shape. The world wide recession had pressed commodity prices down in international markets and although also oil prices showed signs of softening, the Tanzanian oil bill still consumed about 60% of her export earnings. That led to a tremendous shortage of foreign currency within Tanzania which meant shortage of spare parts, chemicals, dyestuffs, fuel and engine oil, etc. The shortage affected practically every walk of the economy and forced mill efficiencies drastically down. No wonder the total output of yarn and fabrics could not be kept at former levels, and to increase them became an impossibility.

Tanzania has chosen socialism as a means to build up her economy but a considerable part of economic activities is still in private hands. The contribution of the private sector to the gross National Product was 78.4% in 1980 (including agricultural units).

I. THE PROJECT

A. Unido assistance

The textile sector is the largest industrial sector in Tanzania and it is growing. To improve its capacity utilization and to ensure a sound future development of the Tanzanian textile industry, a UNIDO project URT/78/018 was established in 1979 and started functioning the following year. The aim of the project is to assist TEXCO's Headquarters to exercise its supervisory function over its textile factories and to implement changes in production management and thereby, to improve their capacity utilization, financial control of the operations, and the distribution of the products.

The team of internationally recruited experts, attached to TEXCO's Headquarters, consists of the following experts:

- Industrial Engineer who also acts as team leader
(Chief Technical Adviser)
- Training Expert
- Textile Technologist
- Mechanical Engineer
- Marketing Expert.

At the end of 1982, these experts had been working for the project for 98 man-months altogether, with 55 man-months to go.

The experts (OPAS) are part of the TEXCO organization except for the last six months of their assignment when they turn to advisers in their respective fields, advisers to their Tanzanian counterparts, who will take over the job the expert used to hold.

In agreement with the latest revision of the project document (of Dec. 1982), the project is going to be terminated in June 1984.

B. Marketing expert

According to the job description of the textile marketing expert, he has to assist the textile mills and the bag factories of TEXCO with the marketing of their products. More precisely, he is expected to:

- Analyse the demand and supply situation and the prices in the domestic market and relate them to developments in international markets;
- Examine the present marketing methods in purchasing, storage, transport and distribution, in order to recommend and subsequently implement changes in these systems and to increase the efficiency of operations;
- Examine the institutional arrangements for marketing and the present constraints hampering the expansion and development of the sector and recommend changes;
- Analyse the potential for exports of textile products with emphasis of neighbouring countries, develop an export promotion programme and supervise the implementation of the same.

The expert arrived in Tanzania in April 1981 and was supposed to work for the project for 35 months. Unfortunately, the stay had to be cut to 24 months due to financial constraints at the project. The work programme of the expert was affected accordingly with a heavy concentration on export trade as a result.

From April 1981 to the end of September 1982 the expert worked at TEXCO as Group Marketing Manager having all the time his Tanzanian counterpart as his deputy. In the last six months of his stay in Tanzania, the expert switched over to Group Marketing Adviser and his counterparts was made Group Marketing Manager as envisaged in the project document. The expert enjoyed all the two years through, excellent working relations with his

counterpart which made the on-the-job-training of the counterpart a rewarding and successful exercise. It is regretted, however, that the original training plan could not be fulfilled because of the shortened stay of the expert. Nevertheless, the counterpart should be well qualified to tackle most of the problems he is going to meet as the head of TEXCO Marketing Division given the additional resources both human and material the division so badly needs especially in export sales now at the threshold of a major expansion.

II. CONTENTS OF THE REPORT

This report covers the 24 months the marketing expert stayed in Tanzania and gives an account of his work, analyses his findings, and ends with recommendations for increased marketing performance. As the expert worked at TEXCO as Group Marketing Manager for the best part of his assignment this report is management orientated and, hopefully, gives to the present marketing management at TEXCO, a relevant check-list of existing problems and useful suggestions of how to attack them.

III. TEXCO AND THE TEXCO GROUP

National Textile Corporation better known as TEXCO, is a parastatal holding company for the following textile mills (each of them a separate legal unit):

- (1) Friendship Textile Mills Ltd. (URAFIKI) in Dar es Salaam;
- (2) Kilimanjaro Textile Corporation Limited (KILTEX) in Dar es Salaam and Arusha;
- (3) Tanganyika Dyeing & Weaving Mills Ltd. (SUNGURATEX) in Dar es Salaam;
- (4) Mwanza Textiles Limited (MWATEX) in Mwanza;
- (5) Musoma Textiles Limited (MUTEX) in Musoma;
- (6) Blankets Manufacturers Limited (BML) in Dar es Salaam;
- (7) Tanzania Bag Corporation Limited (TBCL) in Moshi (2 mills) and;
- (8) Ubungo Garments Limited (UGL) in Dar es Salaam.

Out of the eight companies (10 production units) mentioned above, the first five ones are traditional composite mills for spinning, weaving and finishing of 100% cotton products (Kiltex is also using polyamide as raw material). BML is a blanket manufacturer with spinning, weaving and finishing facilities using local cotton/cotton waste and imported acrylics and rayon as raw material. TBCL makes sisal bags of local raw material. spun and woven at its two mills; bags are also made of imported jute (hessian) cloth; for crop authorities and other industrial users. UGL is a garment making unit using both local and imported fabrics but mainly imported ones, as raw material. Also KILTEX Dar es Salaam and SUNGURATEX are making garments. KILTEX Arusha and URAFIKI have got bedsheet making units using fabric of their own make as raw material.

KILTEX, MWATEX, MUTEX and to some extent SUNGURATEX are managed by expatriate management teams. KILTEX and MWATEX by SAIGOLS Limited (Pakistan) MUTEX by SCHAEFFER Engineering (France) and SUNGURATEX by Tootal International (U.K.). The performance of the expatriate management teams seems not to exceed that of all Tanzanian ones, in any respect. Their existence might best be explained by a shortage of suitable Tanzanian manpower.

At present, there are five large-scale TEXCO projects under implementation i.e.

- (a) Ubungo Spinning Mill in Dar es Salaam
- (b) Tabora Spinning Mill in Tabora
- (c) Mbeya Textile Mill in Mbeya
- (d) Morogoro Polyester/Cotton Textile Mill in Morogoro
(using no polyester in the first stage of the implementation)
- (e) Kilimanjaro Textile Corporation Limited expansion in Dar es Salaam.

From the marketing point of view, only the two new spinning mills are of practical importance for the time being as they are expected to start production at the end of 1983, with an annual capacity of 9.4 million kg. Practically all of their production must be exported as there is no corresponding new weaving capacity in Tanzania. The other three projects

are far behind their schedule and are not likely to start commercial production before 1984 or 1985.

Although TEXCO is the majority owner of all the factories now in operation, it does not participate in the day-to-day management of the mills. That is left to the mills themselves. Neither is TEXCO heavily engaged in any service activities toward its mills. It concentrate in far-away controls of mill activities through board meetings, one of TEXCO members always holding the Chairmanship.

At TEXCO Headquarters, each mill has got a specific operations officer but his involvement in management activities either at TEXCO or at mill level, is not substantial.

The management of TEXCO is left to the Executive Chairman, to the Managing Director and to the five directors reporting to the Managing Director: Director of Operations (both technical and marketing operations), Director of Development (in charge of all the new project until they have been handed over to the Director of Operations for commercial operations), Director of Planning and Finance, Director of Manpower Development, and Director of Administrative Services.

There is no Director of Marketing at TEXCO, the Director of Operations being responsible also for marketing operations. In practice, the Group Marketing Manager is in charge of marketing operations but he has not got the authority of a director neither the decision power of one. From the marketing point of view, that must be considered as a weakness in TEXCO's management structure.

IV. THE MARKETING SCENE

A. Local sales

Local sales are in the hands of the mills. As far as fabrics are concerned, mill production is sold through 20 Regional Trading Companies (RTC's) for further distribution to the retailers. Licenced garment manufacturers and

other similar industrial users of fabrics do buy directly from the mills as do authorized industrial users of yarn. Garments are sold directly to wholesale and retail shops and other bulk buyers, e.g. sizeable users of uniforms. The mills are not forced to use RTC's as distribution channel for garments as is the case with the distribution of fabrics.

There is a huge potential for sales increase in the home market as Tanzania's present consumption of textile fabrics is estimated at 4 m per capital. To increase consumption to international levels, a much higher production level is a must. At the same time quality level and variety of fabrics offered for sale, have to be increased. There is much to be done in these respects at TEXCO mills, to meet the challenge of coming years. The mills have been working far too long in the seller's market and therefore, lost the best part of their ability to give good customer service so essential for product development and for reaching and maintaining satisfactory quality standards.

B. Exports

1. Strategy

Export performance within TEXCO group of companies in 1978 - 82, has been as follows:

| | |
|------|----------------------|
| 1978 | 11.8 million T.shs. |
| 1979 | 91.7 million T.shs. |
| 1980 | 126.0 million T.shs. |
| 1981 | 23.2 million T.shs. |
| 1982 | 18.9 million T.shs. |

The drop in export receipts since 1980, to a great extent, is explained by the loss of the Mozambique market. The loss was anticipated and measures were taken to compensate for it. Since 1981 TEXCO has been engaged in exporting grey cloth and grey carded yarns to the European (mainly EEC) market. The choice of the market, products and producing unit are in accordance with the newly adopted marketing strategy that calls for among other things:

- establishment of new volume market to export the output of additional spinning capacity of 9.4 million kg annually (that cannot be sold locally);
- establishment of a new volume market that is not too sophisticated for Tanzania to be conquered and not demanding substantial inputs in foreign currency in the production of export goods;
- the quality of the goods selected for export should be high enough to meet the strict standards of the European market; hence selection of MUTEX, the newest TEXCO mill, as the main production unit in the exercise (the good-will thus gained should make it easier for the new mills to enter the EEC market and catch its acceptance);
- All export marketing operations should be initiated and handled by TEXCO's marketing unit, to secure conformity with the newly adopted export marketing strategy.

2. Organization

TEXCO's marketing unit consists of three persons, one marketing manager and two marketing officers. It has already been found out that so small a unit won't be able to handle all the work connected with selling and delivering 8 - 9 million kilos of yarn and 10 - 20 million metres of cloth annually. As the delivery of export goods also calls for stocking the merchandise in Dar es Salaam after delivery from up-country mills, a suitable warehouse must be found and staffed to meet this requirement, to pack and re-pack the goods etc. Temporarily, the premises of URAFIKI are being used for this purpose but the arrangement has not been satisfactory enough and besides that URAFIKI needs the same premises for her own use. It is emphasized that enough of resources both material and human, must be allocated for the establishment of an export marketing organisation strong enough to manage the job it is expected to do in a volume market that calls for a delivery of some 35 - 40 containers a week when fully established.

3. Potential

The EEC market has got an import potential of some 300 million kilos of cotton yarn and some 500 million kilos of cotton cloth annually. It is, therefore, big enough to consume the targeted exports from Tanzania without difficulty - supposing that they can enter it without any constraints in the form of import duties or quantity quotas (as now is the case according to the regulations of the Lome Convention). Unfortunately quota restriction are expected as soon as Tanzania exceeds the 1% limit of total EEC imports of yarn or cloth, i.e. when Tanzania exports to the EEC exceed 3 million kilos of yarn or 5 million kilos (20 million metres) of cloth. Most likely, in 1985 when the Lome Convention comes for review Tanzania will be given a quota for yarn to the EEC, as our exports are expected to have exceeded the limit of 3 million kilos considerably. Whether a quota on cloth exports from Tanzania also will be imposed, depends on the volume of that trade.

It looks like TEXCO cannot count on the EEC market only, due to expected quota restrictions. It is not wise either to be heavily dependent on a single market. All of that calls for further market research activities in Europe (e.g. in the Scandinavian and in the Socialist countries), in the Far East (Hongkong, Singapore etc.) and why not in China which has already shown interest in Tanzania's cotton products. These markets should be big enough to secure the disposal of TEXCO's export production at an acceptable price.

As the present cloth production at TEXCO mills is not big enough even to meet the local demand and as its quality level does not yet correspond with the standards of sophisticated markets, in volume production, present marketing efforts are concentrated in yarn sales. Cloth sales are being maintained, however, to make it easier for TEXCO to enter the market when the new composite mills in Mbeya and Morogoro start their commercial production. Another reason for keeping in close touch with the market and collect market information, is the need to advise the new mills about their export production programme. The product development activities hereby initiated, should produce new varieties

for sale both in export and local market and by doing so, should increase the market potential of TEXCO fabrics.

It is always risky to make projections about the size of export potential. It is fair to estimate, however, that when all the new production units now in the pipe line are in full operation, some 8.5 million kilos of yarn and 20 - 30 million metres of grey cloth could be produced and sold for export purposes. That would earn the country foreign currency to the tune of 200 million T.Shs. a year in yarn sales (at 24 T.Shs./kg) and 170 - 225 million T.Shs. a year in grey cloth (at 8.50 T.Shs./m). Total export earnings would thereby amount to 370 - 450 million T.Shs. a year. Considering the low share of inputs in foreign currency to produce this, TEXCO exports should create a net inflow of foreign currency to Tanzania at the pace of some 350 - 430 million T.Shs. a year.

4. Results

Judging TEXCO's marketing performance on the basis of export deliveries only, one is inclined to rate it low. But there is more to the picture. In the course of the export drive and especially in 1982, TEXCO has been able to build up an impressive network of customer contacts in the EEC countries that has resulted in trial orders worth 56.0 million T.shs. as follows:

| <u>Item</u> | <u>Quantity</u> | <u>Value in T.Shs.</u> |
|--------------|-----------------|------------------------|
| Carded yarns | 1.5 million kg | 36.0 million |
| Grey cloth | 2.35 million m | 20.0 million |

It had been possible to collect even more trial orders but because of production constraints (volume-wise and quality-wise), it had not served any purpose. These production constraints have really been a severe handicap for TEXCO in its efforts to increase export sales.

In the very beginning, export orders were accepted at any (reasonable) price. From September 1982 on, severe attempts have been made to increase the price level of yarns. The customers approached have accepted

the proposed price increases of 5 - 10% except one who has not yet given his full approval. Two important customers have not yet been presented with the new price formula, as a part of their confirmed orders has not yet been delivered.

It must be noted, however, that a big share of trial orders has been given at a price not acceptable any more and/or on the condition that the quality of the deliveries remains the same as in the sample accepted by the customer. Therefore, the best part of these trial orders cannot be considered as confirmed ones and it can well be that a considerable part of them remains undelivered. They are basically only a firm intention of the buyers to use TEXCO as a supplier. No doubt, some of the trial orders will be effected as such and these deliveries will lead to further orders. There is also a hidden potential for further orders from customers that have already accepted both the price and the quality of the goods, as deliveries to them have already started on that basis.

All in all, sales prospects seem to very satisfactory, at the present slightly increased price level. But there is one real and very big problem that still remains unsolved: how to get the TEXCO mills produce export goods in accordance with the demand quality-wise and quantity-wise.

Up to now, all the deliveries to the EEC market have been from MUTEX and it is fair to say that by now MUTEX has been well accepted as a supplier of 100% cotton yarns to that markets. Yarn samples from other mills have not been acceptable to the EEC. Cloth deliveries have been negligible and it must be admitted that MUTEX or any other TEXCO mill has not yet succeeded in getting the quality of its grey cloth accepted by the demanding EEC market (that refers to grey cloth both for printing and dyeing purposes). Neither have we much capacity for export production due to low capacity utilization at TEXCO mills for the time being. It may well be that the main break-through won't take place in the EEC market, volume-wise, before the new spinning mills (Tabora and Ubungu) and the new composite mills (Mbeya and Morogoro) start their

commercial production. What is done now should in the first place to be considered as introductory marketing activities aiming at successful marketing of the volume production of the 4 new mills, in export markets. Already in 1984, there should be some 200 million T.Shs. at stake in yarn sales.

In this context, barter trade and its possibilities for creating export sales for TEXCO group of companies, should not be forgotten. TEXCO has been engaged in these activities in several markets. First, it has sold 1.2 million sq. metres of bleached bedsheet fabrics to the GDR at a price of 7.8 million T.shs. The fabrics will be produced by MUTEX but no deliveries have not yet been made due to delays in signing the final contract. Second, Tanzania has got a barter trade agreement with Bulgaria with a provision of 0.7 million US Dollars for exporting cotton yarn and cloth from Tanzania. TEXCO has been in contact with the Bulgarian buyers that have visited Tanzania and received our samples with price quotations. However, the Bulgarians have not yet indicated what they are willing to buy, how much and at what price but they have let us to understand that the final deal could be bigger than 0.7 million US dollars. Third, as MUTEX has been unable to pay for services of its French management team in foreign currency, payment has been made about the fees being paid in the form of grey cloth. That payment calls for a delivery of 2.0 million metres of grey cloth worth 12.4 million T.Shs. Only a fraction of it has been delivered up to now.

Although the barter trade agreement between Tanzania and Mozambique did not lead to any new orders in 1982, it might do so in 1983 and 1984. At the time of writing this report, negotiations are being held in Dar es Salaam about its further implementation. As TEXCO is taking part in these negotiations, it is in a position to make use of any sales opportunities that might thereby be opened.

As barter trade agreements can offer considerable sales opportunities without such constraints as non-availability of hard currency and restrictive import quotas, they are followed closely by TEXCO's marketing

unit as a possible source for new orders.

V. MARKETING CONSTRAINTS

Due to vigorous marketing efforts, TEXCO has been able to remove the two most common marketing constraints hampering the way to successful export business, i.e. lack of know-how about market requirements and lack of buyers willing to purchase the goods offered for sale. It can be stated without hesitation that market requirements in Europe are now well known to TEXCO and that it has also got enough of buyers ready to purchase all the production volume that presently can be offered for sale in a quality level high enough to meet these requirements.

At present the most severe marketing constraints are insufficient production volume in export products partly caused by inability to reach and maintain the quality level required, too small a marketing unit to handle the volume business to come, and unprofitability of export sales from the exporting mill point of view. Each of these constraints will be discussed now in more detail together with a few other ones not of the same importance but detrimental enough to the seller if not removed timely and properly.

As the mills are not facing any difficulties in selling their produce in the home market, the following discussion will be concentrated in the constraints encountered in export sales.

A. Low production volume

At present, TEXCO's supply of yarns and fabrics of exportable quality doesn't meet the demand for them in Europe. As far as yarn exports are concerned this is quite understandable. All the TEXCO mills now in operation are composite mills with spinning sections geared to their own weaving needs. There is some extra capacity in spinning, true, but not enough of it to satisfy the demand of volume buyers. The supply situation won't change decisively before additional production facilities have been completed, and started their deliveries in a commercial scale.

Secondly, composite mills do not always have facilities for producing yarn for outsiders. For example, because of technical constraints, TEXCO cannot export knitting yarns much in demand in the market. Out of TEXCO group companies, only MUTEX can meet the specifications and quality requirements of European buyers of carded single yarns on cones. MWATEX cannot supply its customers with yarns on appropriate cones (4⁰57'). The other TEXCO mills have not got much extra capacity in spinning and technically they have deteriorated to a stage where the requirements of sophisticated buyers cannot easily be met quantity-wise or quality-wise without major refurbishing of their production units.

In cloth production, TEXCO's weaving efficiency of 39% in 1982 speaks for itself. The mills are technically in a bad shape and are in urgent need of spare parts not produced or available in Tanzania. Even at the newest mill, MUTEX, 25% of the looms are staying idle for lack of spares and shortage of prints is making it difficult to run the rest of the looms satisfactorily. In these circumstances it is not surprising that cloth exports to the European market, have been negligible. With declining production the mills are facing difficulties even to meet the local demand quantity-wise. There are quality-constraints, too, in the export market but they will be discussed later on.

To a great extent, lack of spare parts can be explained by the severe lack of foreign currency Tanzania is facing today. It is self evident, however, that mill managements of the respective mills must take a part of the blame on themselves. It is the duty of the top management to make sure that the production unit under its command is well maintained and will be supplied with the rather insignificant amount of foreign currency absolutely needed, to keep it running. It may well be that unsatisfactory planning and execution of maintenance programmes and lack of proper supervision needed in this context, are far more relevant reasons for the low efficiencies shown by TEXCO mills.

No doubt, failing infrastructure is a significant cause for production cuts. For example, MWATEX has stood idle for 30 weeks in 1982 because of TANESCO's

inability to supply electricity (generators out of order). MUTEX production has also been severely restricted in 1982 for a similar reason (shortage of fuel oil at TANESCO's power station in Musoma), although the factory has not been completely at a standstill for more than one week. Cuts in water distribution have knocked down processing capacity and so has lack of dyes and chemicals at all TEXCO mills. Luckily, constraints in the processing capacity have not had much impact on TEXCO's export performance as these constraints were foreseen by the marketing unit and, therefore, the main emphasis in exports was laid on yarn and grey cloth sales.

B. Low quality level

It is not surprising that TEXCO mills are facing difficulties in meeting the high quality requirement of the European markets. They have been operating for long in the seller's market that puts no pressure on them, to produce quality goods. Practically anything they produce can be sold locally, even rejects, at a good price. Their production units are not geared to produce quality goods and neither can they be changed overnight to do so. Their technical refurbishing will take time and so does changing the attitude of their workforce (including supervisors) towards a more disciplined workmanship - a necessity for the production of quality goods.

That leaves us for the time being only MUTEX yarn to be sold in quality - conscious export markets. For volume sales most likely we must wait for the production of the new spinning, weaving and processing units in Dar es Salaam (Ubungo Spinning Mill and Kiltex Expansion), in Tabora (Tabora Spinning Mill), in Morogoro (Morogoro Polyester/Cotton Textile Mill) and in Mbeya (Mbeya Textile Mill). Both of the new spinning units are expected to start their commercial production in the last quarter of 1983, the Morogoro mill in the second half of 1984 and the Mbeya mill in 1985. The Kiltex Expansion is still without a detailed financing plan and therefore, it's too early to make a guess about its completion.

C. Undersized Marketing unit

The 3-man marketing unit at TEXCO is not facing any difficulties in handling the present turnover. The situation will change drastically when the total production of the new spinning mills must be sold and delivered to foreign buyers.

Increasing sales and deliveries to 35 - 40 containers a week means entering into volume export sales never before experienced by the Tanzania cotton textile industry. That calls for a creation of a marketing unit strong enough to sell the highly increased production and big and experienced enough to take care of the many-sided paperwork needed in export business and to arrange for the delivery of goods in an effective way. A new godown must be found, too, to store the merchandise in Dar es Salaam after arrival from up-country mills and before shipment to the final destinations. Before shipment, tests must be made to make sure that the quality is in accordance with export requirements. The present marketing organization won't be able to handle a 8.5 million kg traffic in yarns and some 20 - 30 million metres of fabrics besides that.

The new situation has been foreseen by TEXCO's marketing division and a proposal has been made to the top management about strengthening the present marketing unit. As time is running short it is to be hoped that a decision will be made and build-up of the new marketing unit can get started without any further delay.

D. Unprofitability

The present world market prices for yarn and grey cloth are much lower than those attainable in the local market. That means that the mills are not motivated to export - they earn less on that - and when export sales are made, the price don't cover the cost to produce the goods.

It has been estimated that on an average, the mills are making a loss of T.Shs. 6.17 per kg on yarn exports and a loss of 12.90 per metre on cloth exports. The estimates are based on the rate of exchange of T.Shs. 4.00

to a German mark.

Considering the low efficiencies of TEXCO mills, it is understandable that their costs tend to be higher than those of well - run mills. But low efficiency explains only a part of the loss. Another reason for the unprofitability of yarn and grey cloth exports is the fact that the Tanzanian shilling is grossly overvalued and, correspondingly, the exporters earn less on their sales. On the other hand, overvalueing of the Tanzanian shilling does not have much effect on production costs as production of grey yarns and grey cloth calls for insignificant inputs in foreign currency.

To boost export sales, the government of Tanzania has introduced a system of Export Rebates which compensates a part of the loss. Presently, the rebate is 7.5 - 25% on FOB value, lowest for yarns and highest for processed fabrics. The rebate though welcomed by the exporters does not yet offer enough of motivation for textile exports, as a considerable gap between the price achieved and costs of production still remains.

It is possible that by increasing their efficiencies TEXCO mills might reach a cost level that makes exports for them profitable, taking the prevailing export rebate into consideration. It might also be that the new spinning mills hopefully running at a high efficiency with their brand-new machinery, will find export prices profitable. Profitability in export sales is a must for them as they do not have any other income to live on.

As present prices are on the low side because of a world-wide recession, prices most likely will recover when the economies of the importing countries start recovering and gaining more strength. For TEXCO's marketing unit, this recovery might offer the best opportunity to increase the profitability of export sales.

Exporting yarn and grey cloth is going to be a 370 - 450 million T.Shs. business with a net inflow of foreign currency of some 350 - 430 million T.Shs. These exports surely are one of the best vehicles for Tanzania

to earn foreign currency. Hopefully all the obstacles in textile exports have been removed when TEXCO mills are ready to supply export markets in volume.

E. Transport problems

It takes fifty Tanzanian cents (0.50 T.shs.) per kilo to transport yarn by rail from Musoma to Dar es Salaam and 9.00 T.sh. per kilo to do the same by truck. So export goods travel by rail even if it takes one month to reach the local destination. Shipment in a container from Dar es Salaam to main European ports adds T.Shs. 2.50 - 3.00 per kilo to the costs when the least expensive transporters are used - the most expensive ones charge for the same job T.shs. 6.00 - 7.00 per kg. Clearly it is most important to the profitability to choose the right type of transportation and the cheapest transporter. Transportation charges fluctuate widely and not according to the magnitude or reliability of service given.

From the marketing point of view, long distance to the producing unit and slowness of transport are a nuisance but not a decisive handicap. We are dealing in staple products with rather a stable market and not with one with swift fluctuations of demand. Therefore, what matters to the buyer is the reliability of delivery time. As TEXCO mills are producing export products at a certain rate (in kilo) per week and as on an average the same amount reaches our export warehouse weekly, the potential delivery capacity per week becomes easily predictable. The mills can concentrate on production and send export goods in carriage - loads to the export warehouse in Dar es Salaam for further dispatch to export markets according to sales contracts.

As long as rail transports are working normally, export deliveries are not threatened. Dependence on one transport link only becomes troublesome when the line is cut by floods or for other reason of similar effect. Luckily, cuts of this nature do not usually last for long in Tanzania and therefore, they do not impose a constraint of permanent nature to rail transport.

There are reasonably good sea connections to Europe (the present main market) and to Far East (a potential new market) with enough of shipping capacity to transfer all of TEXCO's export production to these markets without difficulty. It is important to study the network of sea transports before starting a sales campaign or even before accepting a new customer, because a direct transport link to the respective market usually is a must. Reloading adds to the cost considerably and easily makes TEXCO products uncompetitive.

The present recession has had its impact on the rates of sea freights, too. The rate are expected to rise when the economies of the importing countries start recovering and demand for sea transports starts picking up. Consequently prices of textile products should also gain from the recovery of the market and price increases should thereby well pay for the increase in transport cost.

F. Communication problems

Most of the present communication problems are within the borders of Tanzania. Mail service is slow, it easily takes a couple of weeks of a letter from an upcountry mill (say Mutex) to reach TEXCO Headquarters in Dar es Salaam. As TEXCO's reply travels the same distance in about the same time, other forms of communication must be used to keep the information flow running satisfactorily.

Telephones are very often out of order which restricts their use as a means of fast communication. The low level of education and lack of proper training of telephone operators, adds to the difficulties in telephone contacts.

All TEXCO mills can be reached by telex except the ones in Mushi. In export business, orders and sales correspondence in general is received by telex and the same refers to our communications to the customers. TEXCO's own telex is working satisfactorily but not that at MUTEX which creates difficulties and delays in the information flow to and from the main export mill. A solution is yet to be found to make the line working on a more

permanent and reliable basis.

G. Problems in bank affairs

There is an acute shortage of foreign currency in Tanzania and one would expect, therefore, that opening of a letter of credit is made known to the exporter without delay once received by the National Bank of Commerce. Unfortunately it is not so. For the exporter, it is difficult to trace the L/C's opened and when he at least learns about its existence at the bank, very often its validity time has expired or there is too little time left for the dispatch.

As a result, deliveries are delayed and so is the availability of the corresponding amount of foreign currency. Constant extensions of the L/C's are detrimental to the customers who don't get their deliveries in time. In the worst case they will cancel their order or worse still, turn to other suppliers.

Shortage of foreign currency has also led to restrictions in its availability for business trips. Applications for foreign currency for visiting export markets are turned down by the Bank of Tanzania or the allocated amounts are too small to pay for the expenses. For customer entertainment, foreign currency is allocated only exceptionally. All of these travelling restrictions although understandable in difficult economic conditions result in fewer visits to export markets and severe restraints in public relation activities.

H. Lack of experience

Tanzania like most developing countries feels the shortage of people experienced in export business. Experience is useful, of course, but it explains only a part of export performance. Secondly, it is a deficiency that decreases continuously once a person has got involved in practical work in export sales.

More important for a person's success in export marketing are both the

theoretical and practical knowhow about export business and the right kind of attitude to the work itself incl. willingness to learn more. Proper education and training make it easier to learn more and more quickly and so does the right kind of attitude to one's work. Experience in itself, without proper background that makes a person willing and capable to utilize it as a tool for improvement, can be a merit of much less importance.

I. Motivational problems

In day-to-day operations, TEXCO and its member mills are not a closely integrated unit. The mills are rather independent in their technical operations as well in local marketing activities. Only in export marketing activities TEXCO employees are engaged in practical day-to-day operations. It is therefore not surprising that there are motivational problems within TEXCO and TEXCO group of companies.

TEXCO is heavily top-management orientated in its daily operations which may explain why little attention is paid to the motivation of its less influential employees - e.g. by taking them into confidence and giving them an opportunity to play a more challenging role at TEXCO. If the officers are treated more like messenger boys than as an important part of a team, they feel frustrated and start losing their motivation. The top management thereby easily loses the support of its subordinates which leads to operational inefficiency and lack of suitable candidates for top positions, within the company, once they become vacant.

In the field of marketing, the organizational looseness of the TEXCO group, comes out in lack of interest in export business. Exports in itself are not a must to any of the mills now in operation. They can easily sell their whole production in the local market and at a far better price. Their attitude is understandable and even acceptable. Why should they get involved in extra work and pay more attention to the quality of their produce if they are not paid for it? How can the management of a mill defend its decision to be engaged in export business if that means a loss to the company? For this reason, it is most important that exports are made just as profitable

as local marketing operations from the mill point of view. And if by exporting, a mill as an extra benefit can benefit from an easier access to foreign currency, there is a strong motivation for the mill management to develop export business. For the time being, the mills lack this incentive.

J. Lack of raw materials

In the next few years, TEXCO will increase its production capacity considerably by building new mills and rehabilitating old ones. That calls for increased availability of raw materials and especially, of the locally produced cotton.

Tanzania is a cotton producing country and at the first sight, there should be no shortage of cotton even with a much higher local consumption. It should be kept in mind, however, that production of cotton has steadily gone down in the last few years and that the quality of ginned cotton has deteriorated, too. With a downward trend in the availability of first-grade AR cotton and upward trend in the demand for it, there might soon come a point where availability of first-grade cotton is insufficient for TEXCO needs. Already to-day, Tanzania Cotton Authority does not deliver orders according to specifications given by the customers if these specifications call for a delivery from a particular ginnery. That creates problems in the blow-room and thereby, in reaching and maintaining the required quality level in spinning.

Problems in the availability of first grade cotton might not be very severe to-day. As correcting measures take a lot of time, it might well be that they should be started to-day. It would be a shame to find a major producer of cotton in a situation where it cannot supply her own textile industry with all the cotton it needs.

VI. RECOMMENDATIONS

To overcome the negative impact of the constraints discussed in this report or at least to lessen their impact to a manageable level, it is recommended that TEXCO group of companies should:

- (1) Pay greater attention to the maintenance of the mills to counteract untimely deterioration of their production facilities and thereby declines in the volume and quality of their production. By doing so, the new production units will add to the total group output with all their capacity as no part of their production volume will be needed to compensate for the decline in the output of badly maintained mills.
- (2) Take measures to increase the quality level of their production not only in export products where it is a must for sales success but also in the production destined to local markets. An overall raise of the quality level should increase the quality consciousness of the labour force and thereby, make it easier to meet the high requirements, quality wise, of our hard-currency customers.
- (3) Strengthen the existing export marketing unit at TEXCO.

As building-up of the unit takes time, decision about it should be made soonest possible, followed by resource allocation at the same time to avoid unnecessary delay in the implementation.

- (4) Increase the number of directors at TEXCO, by appointing a Director of Marketing to be responsible for the development of marketing activities of the TEXCO group and to act as a director for TEXCO's export marketing unit. The present operations department would thereby split into two separate but closely cooperating departments, one for technical and one for marketing operations. This arrangement would most likely increase the effectiveness of TEXCO's marketing activities as well as that of technical operations - and just at the right time when the group is at the threshold of a major growth period.
- (5) Have further negotiations with the government about amendments to the present system of Export Rebate, to compensate for the losses in export business. As those losses to a great extent are caused by the overvaluation of the Tanzanian shilling in the local currency market and devaluation is not acceptable to the government, the

necessary subsidy can well be given in the form of an export rebate. Another possibility would be the use of differential rates of exchange of foreign currency, both in selling and buying, e.g. to make it possible to sponsor the export performance of those industries that have the best inflow of foreign currency in their export business (export earnings minus production inputs in foreign currency).

- (6) Negotiate with Tanzania Railways Corporation about preferential treatment of export deliveries, on a continuous basis. It must be admitted, however, that rail transports have improved lately to the effect that nowadays we can count on getting yarn deliveries in two weeks to Dar es Salaam once the wagons have been loaded in Musoma. A clear commitment from the railways side is to be preferred, however, especially as rail transports will experience a tremendous upswing from end 1983 on when Tabora Spinning Mill starts sending its produce to export markets via Dar es Salaam.
- (7) Make a strong effort to refurbish the ill-functioning telex equipment at MUTEX. The telex connection is disturbed so often that there must be some fundamental weakness in the equipment itself, its location, or supply of electricity etc. which if not corrected will prevent MUTEX telex connections ever to work satisfactorily.
- (8) Put more emphasis on the selection and training of TEXCO's telephone operators in order to make them more capable and enthusiastic in their work, and thereby generate a major uplift so badly needed in TEXCO's telephone service.
- (9) Hold discussions with National Bank of Commerce about removing the constraints presently causing delays in L/C distribution. It is most important to have these constraints removed before bulk deliveries of yarn do get started in the fourth quarter of 1983.
- (10) Set up a training programme for the personnel of TEXCO's export marketing unit once fully established, to increase its ability to tackle the ever increasing marketing problems bound to be met with increased production volume and growth of export markets.

- (11) By job-enrichment and a more employee centered management approach, increase the motivation of TEXCO's personnel to reach the targets clearly set by the top management and finalized in cooperation with the subordinates, and hereby to introduce a more positive and more vigorous working climate.
- (12) Hold discussions with Tanzania Cotton Authority and Ministry of Agriculture to make sure that they are well aware of the increased needs of cotton by TEXCO group of companies and of its doubts if found justified, about availability of cotton and especially of first grade AR cotton in sufficient quantities in the second half of 1980's.

VII. FINAL COMMENTS AND ACKNOWLEDGEMENTS

Working for the project has been a challenging experience for the writer of this report and it has been encouraging to notice the progress that has been made in the export field at TEXCO during his stay as Group Marketing Manager and Group Marketing Adviser. It is sad to leave the project at a stage when a major break-through is expected to be made in export markets made possible by keen sales efforts aiming at selling the production of two new spinning mills with a capacity of 9.4 million kg a year.

However, as a further stay cannot be financed from project funds, termination of the assignment is a fact and the expert cannot but leave the country with a feeling of a mission uncompleted.

The expert wishes to thank his counterpart Mr. S.F. Mwalongo, Group Marketing Manager, for professional assistance and fruitful cooperation in the execution of the work plan and in the build-up of export sales and export marketing organization for the TEXCO group of companies.

As the Structural Adjustment Programme (SAP) of the Government of Tanzania calls for increased efforts and results in export sales it is the wish of the expert that the TEXCO group of companies will succeed in its export drive and earn the country the badly needed foreign currency to the tune of T.Shs. 400 million a year as projected in the export estimates presented in this report.

