HOW TO ENTER ETHIOPIAN MARKET:
A STRATEGIC CASE STUDY

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Abstract
This study concentrates on international expansion of Gul Ahmed Textile Mills Limited (Gul Ahmed) based in Pakistan to Ethiopia. As the target country is facing huge scarcity of textile industry which this case study shall focuses in a greater detail with the help of PESTEL and CAGE frameworks applied. Moreover, this study will also evaluate the competition and threats of the new market and determine the marketing strategies to be implemented considering the norms and culture of Ethiopia. At the end, the authors conclude with the major risks and threats vulnerability that are associated in the international trade and plausible recommendations to diminish and logically reduce the risks to run business operations successfully.

Keywords: PESTEL, SWOT, risks, investments, textile market, Ethiopia

JEL Codes: M10, M16, M19

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Introduction
Textile industry is one of the most important sectors in the development of Pakistan. It is one of the biggest trade sectors, which has contributed in the multiple aspects towards the economy of Pakistan such as, investment, occupation and export (Kazmi and Takala, 2014). Gul Ahmed Textile Mills Limited is vertically integrated textile company that primarily manufactures, markets, and distributes yarns, fabrics, apparels and garments. Gul Ahmed initiated the first trading in textile industry in the early 1900s. Later in 1953, the group established manufacturing plant naming Gul Ahmed Textile Mills Limited with its clear vision and mission statement that enriching lives by delivering high quality value to their stakeholders (Gulahmed.com, 2019). Since the company has been listed on the Karachi Stock Exchange in 1970, it has been making rapid great progress and has a leading position in the world of textiles. According to Kazmi and Takala (2014), in Pakistan the textile industry contributes to more than 60% of the country’s earnings from export. Pakistan’s textile industry is ranked world’s top 10th textile producer and yields for 9% of the world’s global textile needs. Gul Ahmed has established subsidiary companies in UAE, UK and USA. The company started to plan expansion as soon as the company has achieved local success in the market. Moreover, in the current era the significance of going international can be described by global transformation and change made possible through innovation in logistics. Gul Ahmed considered expanding globally into new markets, not only to diversify the revenue or to attract new customers but also to support clients across the time zones and cultures, and to take the business to the next level.
**Target Country Overview**

The target country, Gul Ahmed Textiles have selected to penetrate the business is Ethiopia. The country is based in north eastern part of Africa. It shares its border with other African countries. Ethiopia is the most populous landlocked country in the world with over 100 million inhabitants and the second-most populous nation on the African continent. It covers a total area of 1,100,000 square kilometres (420,000 sq. mi) having Addis Ababa as its capital and largest city (Gebreeyesus, 2016). Its GDP in 2017 was over 86 billion USD (Figure 1).

![Ethiopia: Gross domestic product](Source: World Bank (2019))

**Target Business Overview**

The government of Ethiopia wanted to diversify exports from primary sector like agricultural product to strategic sectors like leather goods, textiles and garment manufacturing. Ethiopian country data base states that, in the last 5 to 6 years, the textile, and apparel industry have grown at an average of 51% and more than 65 international textile investment projects have been licensed for foreign investors, during this period. According to Gebrewolde and Rockey (2019), the step of the Ethiopian Government in prioritizing designing policies and incentive benefits to attract investment in view of the worldwide competition has played a huge role in the development of their economic status overall (Table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total FDI (USD billion)</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>0.95</td>
</tr>
<tr>
<td>2014</td>
<td>2.13</td>
</tr>
<tr>
<td>2015</td>
<td>2.22</td>
</tr>
<tr>
<td>2016</td>
<td>3.00</td>
</tr>
</tbody>
</table>

*Source: Guesh et al. (2016)*

**PESTLE Analysis**

According to Ġirma and Singh (2019), in 2015, elections that were held in Ethiopia, it resulted in a term in office for a ruling party. Ethiopia went through transformation in open economy which is heavily depended upon agriculture industry. This may positive consequences on the Gul Ahmed entering in to the market with core
competency and resource utilization. Major infrastructure projects are carried out that with the scope of new opportunities in international trade that will facilitate international trade in high level.

Ethiopia has benefitted from the lower taxation policies over the last two decades. It can be a favourable factor to invest which may result in higher profits and enhance the spending in research and development (Guesh et al., 2016). However, the political stability is at stake which may result in adverse effects on foreign investments. Due to above issue, Ethiopian government is under global pressure to adhere to international regulations. Clearly, there is a scope but at the same time there is danger of company being under a significant risk due to unforeseen political issues such as corruption, unforeseen riots, freedom of the press, government instability, labour law and restrictions and trade restrictions and barriers.

In the research conducted by Hardy and Hauge (2019), Ethiopia has turned into one of the fastest growing non-oil producing economies in the African continent due to its strong economic performance since the mid-2000s with average annual growth rates above 11% between 2010 and 2018. Like many sub-Saharan African countries, the country has enjoyed a period of rapid growth with prominent changes and the recent period of rapid growth, initially led by agriculture, has become more broad-based with openness, with mining, services, and manufacturing sectors generating an increasing share of output. Ethiopia can leverage good labour skill level of employment in the present situation which may in turn reflect a positive impact on the consumer disposal income stability (Naschold, 2013). This may lead to consumers spending more in the economy due to higher employment rate. This factor leads to overall positive impact for Gul Ahmed to enter the market.

Ethiopia has 43.5% Ethiopian Orthodox and 33.9% contributes to the Muslim population which is the significant chunk of the 2nd most populous country of Africa (Okereke et al., 2019). The biggest age wise population sector is between the ages of 25 and 54, which is the target market for the products of Gul Ahmed. With an increase attention from global corporations in Ethiopia, the society is now more prone to enhance education standards and levels. Also the attitude towards health and safety has drastically been increased which indicates a positive factor for Gul Ahmed to enter the market. According to Partzsch and Kemper (2019), in the last decade, half the wider population is getting access to basic essential needs and services. Clothing being one of the fundamental needs represents high demand in the country.

According to the Woubante et al. (2019), the government of Ethiopia has been investing in communications infrastructure to improve higher level communications penetration (Asgedom et al., 2019). A vendor credit scheme supported by US$1.5 billion in finance from the Export-Import Bank of China (EXIM) in 2007 and implemented by the Chinese firm Zhongxing Telecom Corporation (ZTE), has generated 10,000 kilometres of fibre. Telecommunications and technological investments have broken many barriers of international trade in in terms of knowledge, data, and fast information sending, easy data access in overall betterment. Thus it is a favourable factor to invest in Ethiopia.

Ethiopia has its share of environmental issues ranging from deforestation, soil erosion and desertification in rural areas and many more to high levels of air pollution plus there is mismanagement of domestic and industrial wastes in the capital Addis Ababa polluting the environment. Ethiopia has been making an effort to counter
environmental degradation, like adverse effects of deforestation, they have signed over ten international multilateral agreements on improving environmental awareness about environment. Although Ethiopia has adopted various international standards to adhere to, they are rarely enforced in action. Moreover, extreme weather conditions may lead to cotton rot perishes earlier than its expected life since they are perishable goods. Unforeseen natural calamities as well destroy crops. Hence, based on above factors, environmental issues seem to affect the company adversely.

Ethiopia is a federal state that follows a parliamentary system of government. The country follows a civil-law legal system with the federal constitution being the supreme law of the land (Woldeyohannes et al., 1991). The business practices are informal and do not have standardised approach and hence do not necessarily measure up to international standards for international trade. A number of pieces of legislation have been passed by the Federal government in this area – like a competition law and an urban land lease law with the objective of increasing transparency and improve trade overall to produce a more conducive and open environment for private sector development and attract international investment and trade opportunities.

SWOT Analysis of the Gul Ahmed Textile Mills Limited shows its strengths, weaknesses, opportunities, and threats (Table 2).

<table>
<thead>
<tr>
<th>Strengths:</th>
<th>Weaknesses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO and other compliance certification</td>
<td>International Branding, needs more recognition</td>
</tr>
<tr>
<td>Cotton yarn quality is supreme due to the soil.</td>
<td>Management hierarchy (Seth culture)</td>
</tr>
<tr>
<td>Economy of scale is definitely a strength</td>
<td>Lack of workforce training leads to untrained labours increasing cost and decreasing efficiency.</td>
</tr>
<tr>
<td>Brand Name</td>
<td>Poor marketing making less popularity spread overall.</td>
</tr>
<tr>
<td>Availability of cheap workforce and labour.</td>
<td>Capacity utilization.</td>
</tr>
<tr>
<td>Diverse and variety of product range</td>
<td>Supply chain</td>
</tr>
<tr>
<td>Strong supplies and effective manufacturing.</td>
<td></td>
</tr>
<tr>
<td>Higher standards of reputation over the years.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>New style and trends demands in market.</td>
<td>Strong local competitors have an already established name.</td>
</tr>
<tr>
<td>New market segments around the world that requires according to their wants and needs.</td>
<td>Economic downturn which could affect whole economy.</td>
</tr>
<tr>
<td>Abolition of quota and other trade barriers.</td>
<td>Change in government policies and legal policies that might be potential difficulty.</td>
</tr>
<tr>
<td>Existing production capacity.</td>
<td>Rise in utilities expenses.</td>
</tr>
<tr>
<td>Lower cost competitiveness</td>
<td></td>
</tr>
<tr>
<td>Advanced technology improves overall efficiency saving time.</td>
<td></td>
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</table>

**CAGE framework**

The CAGE framework is based on four key factors that evaluate between the countries which company should consider before in making international strategy successful. It is used here to understand the factors and distance in globalized markets.

**Cultural Distance**

According to Kroeber and Kluckhohn (1952), it is defined as collective beliefs,
social norms or values. These shape individual behaviours and pertain from country to country. Below factors indicate how cultural factors differentiate in the host country:

- Standards of living are mediocre;
- Product quality and packaging;
- Food consumption pattern and behaviours;
- Diverse traditional and norms;
- Variation in perspective (Advertising);
- Higher linguistic content (TV, Radio).

**Administrative Distance**

This factor focuses on the differences between the both countries in terms of historical and present legal status (Ghemawat, 2001). It helps to demonstrate that whether the relationship between the native and international country will lead to favourable conditions or would lead to obstacles. Following factors portrays administrative differences:

- The law enforcement is rare;
- High criminal activities;
- Low stability;
- Low literacy rate;
- Giant employers in the market.

**Geographical issues**

This factor enhances the details about physical aspects between both the countries such as size of the country, the nature of resources available, the infrastructure in place, the climatic and weather conditions that affect the countries and how the information is disseminated. However, in the modern digital era the internet has closed the gap between the nations drastically. The invention of social media and technology had shrunk the distance immensely. The factors identified are as follows:

- High piracy rate;
- Weak infrastructure and roads;
- Time zone difference;
- The size is drastically different;
- Low dispensable income hence may affect the sales;
- Products are durable which could be re used or re cycled.

**Economic issues**

The fourth and last aspect of the CAGE distance frameworks describes about the factors affecting the income level earned by the individuals, the purchasing power of the target market and individual tastes and interests. This can be one of the major obstacles as the native would have different interests and priorities. The factors identified are as follow:

- Mediocre lifestyle and low earning;
- Low GDP;
- Weak and poor economy (Kobylianska, 2019);
- Scarcity of economic resources (Asgedom et al., 2019);
- Low profits (Lambert, 2018);
- High competition (Olasiuk, 2017).
With help of CAGE framework, above differences were identified, the marketing strategy must ensure that above factors are considered in greater detail at the time of forming a business plan.

**ERPG Framework**

According to research conducted by Shoham et al. (1995), the ERPG framework is used to analyses how the strategic decisions are made and how to maintain the relationship between the parent and subsidiary company. It scans the international environment of the target company in terms of four phases. Each phases focuses on independent factor in evaluating the results. Ethnocentric orientation is phase where it is believed that practices and policies of the headquarters company become the default standard to which all the subsidiary companies should adhere. For Gul Ahmed it is beneficial to have more decentralized mechanism in Ethiopia because of various differences highlighted earlier in the CAGE framework. Regiocentric orientation is defined as company finds economic and cultural similarities among the region to satisfy the needs. For instance, Ethiopia’s cultural and traditions are way more different than Pakistan (Naschold, 2013). Thus, it would be advisable to adapt to the target country culture to be more successful. Geocentric orientation targets on the efficient use of human capital irrespective of the country of origin. Global marketing is seen superior as compared to national marketing. Gul Ahmed being already a global player would have key advantage here in terms of marketing the target country from the global perspective. Polycentric orientation encourages decentralized operations from the international company giving equal opportunities to the domestic market. Although, Gul Ahmed is a local leader but it may not have necessary expertise in the African market (Zeleke et al., 2019). Therefore, it would be recommended to hire the local expertise to target relevant market.

**Market Analysis**

Market entry is one the key area to be considered. There are several market entry options available. However, the best one should be opted for based on the target market needs and environment. Gul Ahmed has already successful ventures in UK, UAE and USA (Woldeyohannes et al., 1991). The company entered in to earlier markets with direct acquisition method. It was favourable as the target countries were more politically stable and in good position. However, when entering in Ethiopian market the company should be more sceptical because of the above noticed instability of the government and rare compliance activities. Therefore, it would be suggested to enter the target market with minimal initial cost by having set up a franchise or joint venture which would result in safe entry into the market (Grönroos, 1997). With this entry mode, Gul Ahmed would have enough time to evaluate the unsystematic risks attached to the region and may overcome it in timely fashion.

**Product Lines, Pricing, Branding Strategy, Place**

Gul Ahmed is offering variety of the products in the local market but mainly three types of products are being exported to the foreign markets. Gul Ahmed possess core competency in the manufacturing of Yarns, Fabric and variety of made ups which suit the requirements of the society. Based on the above market analysis, it is recommended to keep the product adapted according to the target country. The reason
being this is, Gul Ahmed possess the knowledge and competencies desired by local market of Pakistan. When moving foreign the local expertise should be adopted to best match the needs and requirements of the market.

Since Ethiopia is poor country with more than average population earning less than below average income. The study shows that 62% of the population has no disposable income (Gebrewolde and Rockey, 2019). However, clothing and textile industry is the basic necessity of the society to live on (Tursunov, 2017). Therefore, it is recommended to enter the market with penetration pricing strategy. This would ensure that maximum population can have an easy access to the product offered. The skimming pricing strategy would not be so suitable keeping in mind the target country has poor income level. Moreover, in addition to pricing, branding is also one of the essential components of the marketing mix. Brand awareness leads to positive impact on the sales and growth of the company which certainly results in high profits (Rao et al., 2004). Gul Ahmed has established brand in the local regions. Therefore, it would be advisable to enter the market with same brand but adapt it to the local linguistic which would impel more sales as people would be considering it as their own product.

Furthermore, due to the research and innovation in the technology the global society is connected with each other by just a click away. In such era the place is largely substituted with internet and social media taking place of reachability to the wider community rather than just stay stagnant to particular society (Gebrewolde and Rockey, 2019). However, it would be recommended to establish the retail outlet in the Addis Ababa which is capital and the largest city situated in the heart of Ethiopia.

**Market Objectives / Target Market Segment**

Marketing objectives can be defined as the goals that are set by business in order to achieve certain marketing goals (Grönroos, 1997). For instance, one of the main marketing objectives could be promotion of the product in the right market and to the right market segment (Marcone, 2014). It is the marketing strategy to provide the goods or services to the potential consumers. For Gul Ahmed, one of the main marketing objectives would be to gain the market share initially and develop the brand awareness in the market.

![Textile Market Segmentation](image)

**Figure 2. Textile Market Segmentation**

*Source: Gebrewolde and Rockey (2019)*
Study has shown that Ethiopia has not local textile mills as the major competitor, but most of the major competition is being challenged by the foreign investors of Europe and USA in the African market. Thus, competent strategy should be implemented in place to combat the challenges raised by foreign European companies. A marketing segment is an approach to break up the population into segments that consists of group of people with common characteristic of such as age, demography, behaviour or particular interests (Rao et al., 2004). Gul Ahmed market segments could be broken down to the product wise segments such as Yarn, Fabrics and Fibres (Figure 2). The segment for advertising could be based upon target age group.

**Market positioning and Distribution Channels**

Product positioning is the one of key concept in the international marketing. The concept is based upon factors such as unique selling proposition, risk reversal and concise precise customer education (Asgedom et al., 2019). Gul Ahmed in current market is already well known for the quality product production. However, to position itself in the target market, the cost approach should be adopted which would enhance positive impact on profits. The company should position themselves as the cost leader in the market with utilizing the available resources efficiently in order to optimize the production levels.

Moreover, the distribution channel is the link between the manufacturer of the product and its final consumer. This is an integral part of the business which has to be optimize to function ideally. It comprises of functions such as transactions, logistics and facilitation. For Gul Ahmed it will be favourable to sell through intermediaries.

**International Advertising & Sales Promotion Strategy**

International advertising is most important aspect creating a brand. In order to create global brand, strong communication should be targeted in concise and precise manner (Rao et al., 2004). For instance, the best way is generating the catchy slogan. The slogan could be something like “Buy now or cry later.” or “Stay classy.”

International sales promotion basic includes communication activities such as to add value to the product being marketed. Most of the time, these promotions include the incentives to the final consumers, retailers or wholesalers. For Gul Ahmed, it would be great to use the combination of Push and Pull strategies. The product delivered may have short lifecycle depending upon various factors such as the need, utility and delivery. However, with the use of both methods the company extract the various sales opportunities available at their disposal.

The pricing strategies are influenced and decided by various factors like competitor pricing, the amount invested with the expected return, market demand, economy etc. (Gebrewolde and Rockey, 2019). The African market is ready welcome new investors hence offer high incentives. Setting out price should definitely consider other market competitors plus the available market demand therefore Ethiopia definitely welcomes new entries to their market in textile industry thus providing scope for investors. The customers often opt for a great quality with cheap price therefore these factors should be considered in fixing the price.

Since the trends are evolving worldwide, new trends are emerged, especially in the field of fashion industry like clothes and apparels, like in depth leather and textile. Therefore, customer needs and wants keep changing and need to be altered according
to that (Guesh et al., 2016). So it’s a necessity that the emerging market thoroughly carries out a market research and complete study of the market sector and target segment. Conduct an in-depth study to yield the demands of each segment without compromising our place in market and to emerge and fix a strong position in the market. Ethiopia is in a tropical zone between the tropic of cancer and equator. Since it has extreme summer people most often prefer cotton clothes, which are certainly the demand and a variety of diversified product mix can be definitely a big plus in the successful strategy.

High marketing is demanded in bringing out popularity of the new foreign investors. There are already existing players in the market of textile industry so in order to successfully bring out the emerging company in the industry, strong marketing need to be carried out. Generally marketing promotions can be done through a lot various effective channels like visual and audio penetration (Grönroos, 1997). Through television advertisements in local channels and local advertisements in local newspapers and big banners in people crowded places etc. also through radio channels that would reach a lot audience through a highly reaching channel.

Initial offers in the first week of the business plus constantly distributing booklets of new products help customers easily choose from the new products. Also offering big sale discounts and offers from time to time definitely helps in bulk promotion of sales in textile industry followed by a word of mouth due to good quality maintaining.

The major risks to Ethiopia's growth outlook are limited access to credit for businesses, an informal local approach .an over-reliance on government and Chinese investment, and threats such as water scarcity and land disputes to the dominant agricultural sector (Asgedom et al., 2019).

Ethiopia is prone to numerous number of diseases, due to lack of hygiene food and cleanliness. The medical facilities in the region are remotely available leading to the high risk factor.

Conclusion and Research Implications

Overall, the analysis uses various frameworks and standard specific analysis we can conclude that Ethiopia as a Federal nation definitely has infinite scope and vast opportunities in the area of textile industry for foreign investments. Ethiopia as country could have a better infrastructure overall to improve their market to facilitate international trade. Though poor resource wise Ethiopia has relatively strong and stable political environment than other African countries, and a generous amount of incentives for foreign investments definitely attracts a large pool of investors and makes it attractive for investors as well. Getting a large number of manpower for low cost is definitely a better opportunity to invest and efficiently do their operations in textile industry in a low cost and quicker. However, it is understood that an initial training is important and it would be a useful initial investment although a little bit expensive and is a must in order to carry out their business successfully further. A keen study and choosing the right target segment would definitely be a big plus in the success of the business. Diversifying the products, availing of rich labor source and great opportunities, definitely show that Ethiopia is potentially a great market and opportunity to new investors in textile industry. However, the risks involved have to accessed and successfully tackled to potentially emerge as a successful company in the
market.

Gul Ahmed Textile Mills Limited, Pakistan however found Ethiopia as a great possibility and therefore decided to enter Ethiopian market. In the process of entering Ethiopian market, the organization adopted different strategic perspectives in terms of culture, demography, socio-political and economic aspects. The company found labour forces locally. However, managerial positions were kept in the hand of Pakistani investors. The company also assessed the market and took appropriate decisions in terms of choosing the product market and also found investors to expand the operations. It was definitely a great initiative and can be used as real landmark case of successfully entering African market by an Asian, mainly the south Asian organization.

The present study has been an elaborate attempt to explore the international expansion strategic challenges and opportunities in a specific overseas market. The research can be practically utilized in understanding the international market expansion of a company from a developing economy to another developing economy with many similarities and dissimilarities.

References


