

**A Project Report on**  
**MARKETING AND SALES STRATEGIES**  
**OF**  
**ELFORA AGRO-INDUSTRIES PLC**

**A Thesis Submitted to the School of Graduate Studies of**  
**Addis Ababa University in Partial Fulfillment of the**  
**Requirements for the Degree of**  
**Masters of Business Administration (MBA)**  
**in The Department of Management**

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## **CERTIFICATE**

This is to certify that **Getinet Hailu** has worked on “**Marketing and Sales Strategies of ELFORA Agro-Industries Plc**” under my supervision. This work is original in nature and it is suitable for submission in the partial fulfillment of the requirement for the Degree of **Master of Business Administration.**

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Dr. Rakesh Belwal

## DECLARATION

I, **Getinet Hailu Adera**, declare that the study entitled “**Marketing and Sales Strategies of ELFORA Agro-Industries Plc**” is the result of my own effort in research undertaking. The study has not been submitted to any Degree or Diploma in any college or university. It is submitted in the partial fulfillment of the requirement of the Degree of Master of Business Administration.

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Getinet Hailu

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## **ABSTRACT**

The main purpose of the research was to analyze the marketing and sales strategies of ELFORA Agro-Industries Plc. Since its establishment, the company's profitability and return on investment has been very low, even when it is compared to the current bank saving rate of 4%. The study tried to identify the major marketing and sales problems that contributed to such unsatisfactory level of financial performance.

In order to address those problem issues, the researcher conducted interview with the relevant company managers and referred secondary data sources. The collected data and information were compiled and analyzed for possible indications of problem areas.

It was found that the main marketing and sales factors that contributed to the low profit level to be the under utilization of existing production and auxiliary facilities, inconsistency in product supply and delivery, inadequate and inconsistent demand for some of the company's products, high cost of production due to low capacity utilization and untimely purchase of raw material inputs, which resulted in higher prices than competitors leading to loss of market share.

It was finally recommended a series of measures that the company should take in order to improve the current situation. These measures will ultimately provide the company with the advantage of cost-leadership that will strengthen its market position in terms of market share, price competitiveness, and eventual customer satisfaction.

# CHAPTER ONE

## INTRODUCTION

### 1.1 OVERVIEW

Ethiopia is a country endowed with a long history of an independent statehood. It has a landmass of 113 million hectares. Its strategic location at the center of the Horn of Africa renders it a bridge between Asia and Africa. Its physical proximity to the vast and rich Middle East markets offers opportunities that are yet to be exploited.

Ethiopia is also a country that is endowed with abundant natural resources. Mineral resources including precious gold, platinum and base metals are being discovered in quantities sufficient to render the deposits economically feasible. Its huge water resources remain largely untapped.

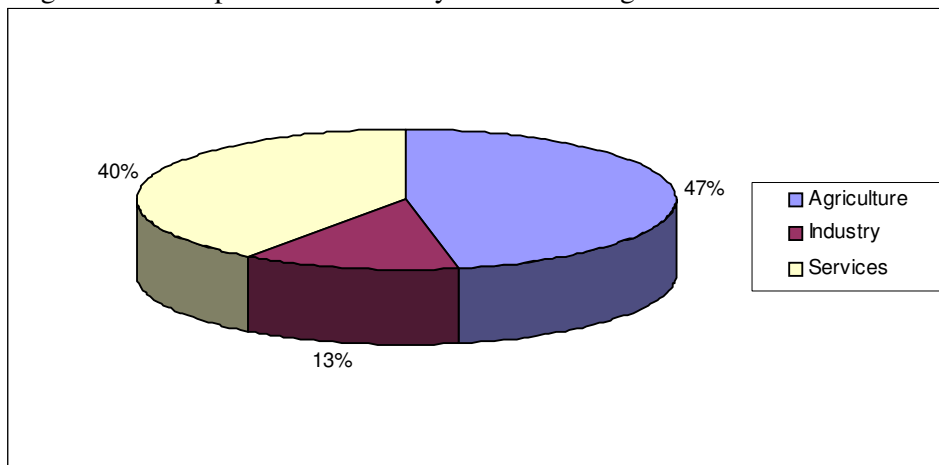
With a population of 75 million (CSA, 2005), Ethiopia is the third most populous country in Africa after Nigeria and Egypt. Agriculture is the mainstay of the Economy. It accounts for the bulk of the gross domestic product (GDP) and employs about 80 percent of the population. Agriculture is subject to chronic cyclical drought, which has affected the stability and rate of overall economic growth. Exports are dominated by coffee, the price of which has been on the decline in recent years.

On a sector-by-sector basis, the share of agriculture in GDP declined marginally from 49.8 percent in 2000/01 to 48.8 percent in 2001/02 and to 44.8 percent in 2002/03. The share of agricultural GDP increased to 47.4 percent in 2003/04 and averaged 48 percent for the

period as a whole. Such fluctuations in the share of agriculture in GDP results not from structural changes but is due to periodic fluctuations in agricultural production arising from aberrations in weather conditions which affects crop production (CSA, 2005).

Manufacturing industry has historically been weak and its growth has remained insignificant with contribution to GDP averaging 13 percent in recent years. On the other hand, the share of the services sector in GDP has been rising and peaked at 41.5 percent in 2002/03. Industry and the services sectors registered considerable recovery over the five-year period with growths averaging about 4.5 percent and 5 percent, respectively. Industry and the services sectors together accounted for 53 percent of GDP and agriculture accounting for the remaining 47 percent in 2003/04. Figure 1.1 below shows the composition of GDP by industrial origin (CSA 2005).

Figure 1.1: Composition of GDP by Industrial Origin



*Data Source: Central Statistics Agency - CSA 2005.*

It is clear that the industrial sector is well behind both the agriculture and service sectors. When we further analyze the composition of the industry sector, we find that the share of the manufacturing sub-sector is only 5.4 percent of the total GDP in 2003/04.

The development of the manufacturing sector plays a vital role in the country's economy in three ways: (a) the value addition process creates job opportunities for local citizens, thereby reducing the level of unemployment; (b) products manufactured locally will have a substitute effect for imports of some manufactured products, thereby saving foreign currency; (c) it would be possible to export value added products instead of raw agricultural products, thereby earning a higher foreign currency from exports.

The development of the domestic market for agro-industrial products is the first step that paves way for the export market. All market-related issues such as product quality, packaging, consistent delivery, pricing, etc. need to be first developed and exercised in the domestic market. This will help strengthen the domestic market position, which ultimately enables the local companies to be able to supply and become competitive in the international market.

The foregoing analysis indicates that the manufacturing sector (including food processing) needs considerable attention. Private sectors such as ELFORA Agro-Industries Plc play a vital role in adding value on the agricultural products by expanding the agro-processing plants already at hand and/or establishing new ones.

## **1.2 COMPANY BACKGROUND**

ELFORA Agro-Industries Plc is a company engaged in the production and sales of livestock and livestock products, poultry products, and crop products. The Company was established in 1997 by acquiring eight separate livestock enterprises and farms through the privatization process (ELFORA Brochure, 2007).

The company was licensed in February 1998 with a registered capital of Birr 100 million. It currently employs over 1500 permanent and contract employees and over 1500 casual and seasonal workers.

The word 'ELFORA' is made up of two Borena Oromo words; "Ela"- meaning well-water and "Fora"- meaning cattle grazing area, thus signifying production of high quality livestock and meat based on traditional pastoral grazing and water resource as well as modern ranching and feedlotting without exposure to artificial feeds and chemicals.

ELFORA is perhaps the largest agro-processing firm in the country so far. It owns six slaughter houses, five meat processing and canning plants, a natural quarantine for livestock (the largest in the country), a number of ranches, feedlots and holding grounds, one poultry farm, and crops farms at various locations in the country. The Company also owns several delivery vans, cold trucks, livestock transporting trucks and other vehicles used for transporting products to customers (ELFORA Brochure, 2007).

With its Head Office located in Addis Ababa, ELFORA currently manages seven abattoirs and food processing plants, four crop farms, one poultry farm, and five ranches, feedlots and quarantines organized under six operational zones throughout the country.

With a motto 'ELFORA stands for Natural and Quality Products', the company has the following mission or business purposes (ELFORA Brochure, 2007):

- Develop the livestock industry by producing, through natural and improved practices, high quality live animals in its own ranches, feedlots and quarantine stations.

- Produce and market high quality livestock and meat products to both domestic and export markets.
- Supply special quality chilled/frozen beef, mutton, and goat meat carcasses, beef cuts, and broiler meat to the local and overseas markets.
- Engage in commercial production and marketing of poultry products, including broiler chicken, portioned chicken meat, day-old chicks and table eggs.
- Engage in the production and marketing of cash and industrial crops for the local and export markets as well as for use by own processing and canning plants.
- Develop, process, and market canned meat and vegetable products for the domestic and foreign markets.
- Build-up a competent management and staff workmanship by constantly upgrading their skills and encouraging teamwork and a sense of belongingness.

The success of business organizations such as ELFORA is determined by the ability to produce quality and marketable products and effectively make them reach the target customers. The Company owns a considerable size of production facilities (at least for now) and it needs a wider market base for its products.

### **1.3 STATEMENT OF THE PROBLEM**

Since its establishment in 1997, the Company's profitability and return on investment has been very low and even declining. For a company with total investment of over Birr 400 million, the rate of return on total investment (ROI) has averaged only 2.3 percent during its ten years of operation (Table 1.1). Although there is no information available on the industry average, the ROI is even below the current minimum bank saving rate of 3.0 percent.



**Table 1.1 Financial Performance of ELFORA Agro-Industries Plc (1997-2006)**

	In '000 Birr									
	1997/8	1999	2000	2001	2002	2003	2004	2005	2006	Total
Revenue	10,857	122,848	169,186	98,192	51,870	76,817	95,673	117,421	115,207	858,070
Cost of sales	3,242	79,622	113,875	62,523	34,427	50,092	68,883	90,828	89,135	592,625
Gross profit	7,615	43,226	55,311	35,669	17,444	26,725	26,790	26,593	26,072	265,444
Administrative & Gen. exp.	8,527	34,134	39,703	41,220	33,773	24,001	24,539	24,924	25,240	256,062
Net profit	(912)	9,092	15,608	(5,551)	(16,330)	2,724	2,251	1,669	832	9,383
Total Investment	371,896	371,896	371,907	398,381	398,381	403,816	403,816	403,816	403,816	403,816
Return on Investment (%)	-0.25	2.44	4.20	-1.39	-4.10	0.67	0.56	0.41	0.21	2.32

Source: Finance Service Department, ELFORA Agro-Industries Plc.

The low level of return on investment (ROI) is the result of a combination of various factors.

Among the problem factors, the following are presented briefly:

- High fluctuation in demand for some products and difficulty in planning production;
- Underutilization of existing capacity;
- Gap between time of production and demand volume resulting in supply inconsistency, loss of sales, and stocks piling up;
- Higher selling prices than competitors';
- Inadequacy of promotional activities;
- Poor packaging;
- Occasional problems in product quality;
- Perishable products with short shelf-life, compelling the company to immediately sell at reduced prices;
- Shortage of raw materials and escalation of input prices;
- Inability to purchase raw materials at the time when prices are low;
- Inadequacy of air space for export market;
- Escalation of air freight charges, making selling prices too high to be competitive in the international market;
- High administrative and general expenses.

## **1.4 OBJECTIVE OF THE STUDY**

As mentioned in Section 1.3, ELFORA currently has faced with a problem of very low return on investment (ROI). The two main research questions are, therefore: What are the main marketing and sales factors contributing to such a low profit level? How can the problem factors be addressed in order to improve the current profit level? The study examines in detail the main factors that have contributed to the sub-performance with respect to profitability, and seeks ways of resolving them. The study particularly highlights the important concepts and applications of the basic marketing and sales strategies in light of the current situation of ELFORA Agro-Industries Plc. The main objectives of the study are to:

- i) Examine in detail the main problems associated with the low return.
- ii) Highlight major areas of marketing and sales issues that need attention.
- iii) Provide strategic alternatives for alleviating the major marketing and sales problems.

## **1.5 METHODOLOGY**

### **1.5.1 Sources of Data**

Both primary and secondary data have been used. The primary data and information have been obtained from the managers of local and foreign marketing and sales departments. Data and information have also been obtained from the production personnel, particularly with respect to quality issues. The secondary data and information have been collected from all relevant materials, both published and unpublished documents, such as such as reports on production, financial statements, Company's Performance Review document for the year 2006, and other external and internal reports. Overview of the general socio-economic environment and sectoral analysis has been extracted from the publications of Central Statistical Agency and Ministry of Finance and Economic Development.

### **1.5.2 Data Gathering Techniques**

Primary data has been gathered through interview with the local and foreign marketing and sales departments, and production personnel of the company. Relevant statistical and descriptive data and information have been extracted from the secondary data sources.

### **1.5.3 Sample Size**

Three major product categories have selected for analysis. These are livestock and livestock products, poultry products, and canned products. These three products account for 80-85% of domestic sales and 100% of the export sales.

### **1.5.4 Data analysis**

In order to describe, analyze and integrate the data, appropriate descriptive, analytical and statistical measures were employed such as percentage comparisons and forecasting methods.

## **1.6 SCOPE OF THE STUDY**

The company produces and sells a wide range of agricultural products. The company's main reason for its lower return on investment (ROI) can be cited as the under-utilization of its existing production facilities, which in turn resulted from inadequate market for the products. The demand in turn is affected by the price of the product which depends on the cost of production. Figure 1.2 below shows the inter-dependency and effects on the ROI of the various factors just mentioned above. Because the external factors such as raw material prices, escalating air freight charges, etc. are common threats for all individual businesses in the industry, and are beyond the control of any one business in the industry, the special focus of the study is on how to improve the internal efficiency towards utilization of available

production capacity, attainment of cost-leadership and increasing sales volume. The accomplishment of these factors will undoubtedly help the company to improve its profitability. The scope of this study is also limited to those units and activities of ELFORA that are closely and directly related to the production, sales, and delivery of products.

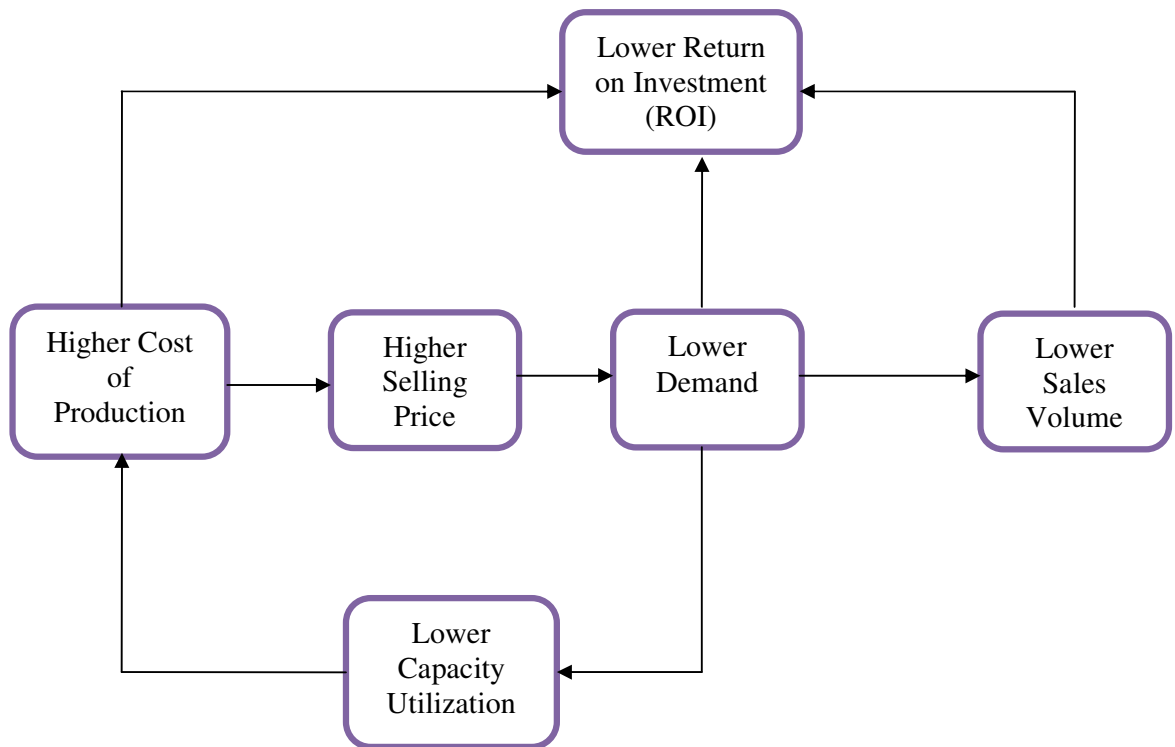


Figure 1.2: Factors Affecting Level of ROI.

## 1.7 SIGNIFICANCE OF THE STUDY

The ultimate goal of any business establishment is to remain in business profitably through production and sale of products or services. Without optimal profit, a business firm cannot survive, let alone achieve a sustainable growth. One of the core activities in a business company is the marketing and sales activity. The ultimate success or failure of a company

depends on its ability to sell what it produces and continues the production-sales cycle for relatively a longer period of time. The initial investigation reveals that much has not been done on this core activity, or at least, it has been a neglected area. The study is therefore intended to help the company management to redirect their attention to this highly essential function. The study will also contribute towards the advancement of theoretical knowledge and serve as a reference material for similar studies in future.

## **1.8 LIMITATIONS OF THE STUDY**

As far as the company under the study is concerned, data for analysis was available without limitation. However, the data have been manipulated for the sake of confidentiality without affecting the real situation. There was no constraint on data and information on the macro and sectoral environment as they were abundantly available in official publications of government ministries, agencies and institutions, as well as internet. The cost structure of competitors was not available, and the effort to acquire the information was not successful. Up to date and comprehensive data on demand and supply of the products selected for the study was not available, and as a result, current demand figures have been projections of the remote past data. The main focus of the study has also been the Addis Ababa market while further study of other regions in the country would have a significant effect on the comprehensiveness of the study. The study has also been limited to the internal efficiency of the company, i.e., the contribution of external factors to the problem at hand was not incorporated.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 INTRODUCTION

With severe poverty, low productivity, inadequate infrastructure and poorly integrated markets, the problems of developing countries are often exacerbated by an underdeveloped agro-industrial sector. Little attention has usually been paid to the value chain through which agricultural commodities and products reach the final consumers within the country and abroad. This neglect results in enormous potential losses of value added and employment opportunities. While high-income countries add US\$180 of value by processing one ton of agricultural products, developing countries generate only US\$40. Moreover, while 98 percent of agricultural production in high-income countries undergoes industrial processing, barely 30 percent is processed in developing countries. Yet, between 40 and 60 percent of manufacturing value added is generated by agro-processing industries in developing countries, and agro-industrial products are the major products exported from these countries, frequently accounting for half of all the exports ([www.unido.org/doc/5070](http://www.unido.org/doc/5070)).

In the case of Ethiopia, the value of agricultural and agro-industrial products export accounted for 84 percent of the total export in 2004. During the same year, the total export of agricultural and agro-industrial products was well below half a million tons while imports were over 2 million tons, which is four times that of the exports (CSA 2005).

Today, there are two very distinct types of farming in the world: (1) the highly efficient agriculture of the developed countries where substantial productivity capacity and high output per farmer permits a very small number of farmers to feed the entire population of the

nation; and (2) the inefficient and low productive agriculture of the developing countries where, in many instances, the agricultural sector can barely sustain the farm population let alone support the entire population of the country.<sup>1</sup>

Ethiopia is basically an agricultural and pastoral country. In light of the size of the population, Ethiopia could be considered as a country of small-scale, family-based farmers with subsistence agriculture (Todaro, 1982). Even today, this form of farming is, by far, the most important forms of production, constituting the bulk of the Ethiopian agriculture. In this traditional subsistence farm, production is mainly for own consumption and one or two staple crops are the major sources of food intake. Productivity and output are low. Production tools are simple and manually operated. Land and labor are the principal factors of production with little or no capital investment. Labor is underemployed for most of the year except during seasonal peaks such as planting and harvesting periods. The farmer usually cultivates only as much land as his family can manage. The production environment is at the mercy of nature. Environmental hazards, technological limitations, rigid social institutions, fragmented markets and poor communication networks between rural areas and urban centers tend to discourage higher level of production.

## **2.2 HISTORY OF AGRICULTURE AND AGRO-INDUSTRY IN AFRICA AND ETHIOPIA**

### **2.2.1 Ancient Agricultural Practice in Africa**

In terms of land surface, Africa is the second largest continent, next to Asia, in the world. There are more than 30 million square kilometres (or 20% of the earth's land surface) of tropical Africa suitable for crop cultivation (Kimble, 1960).

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<sup>1</sup> A note prepared for MIDROC Magazine, April 2000:12.

With regard to the historical development of agriculture, Egypt and Ethiopia could be considered as the first and second countries in Africa mentioned with earliest countries in the world where ancient agriculture was practiced. Ancient agriculture was practiced in Egypt since the fifth millennium B.C. The agriculture was tied up with the country's efforts to control the seasonal flood of the Nile, and records show that a masonry dam was built about 2925 B.C. to control the Nile River and provide water for irrigation.<sup>2</sup>

Wheat and barely were the main crops, and lentils, onions, beans and flux were also important. The Egyptians domesticated ducks and geese in the waters and bred cattle, sheep, goats, pigs and donkeys in the drier wasteland and stubble (Konczachi, 1990).

In Ethiopia, the Agew and Beja of North Western Ethiopia practiced ancient agriculture as well as livestock husbandry. They produced several types of cereals and legumes and used ancient farm implements. The Afar and Somali in the east, the Oromo and Sidama in the south based their livelihood in livestock production, basically leading a nomadic life. The Oromos had vast experience in cattle rearing while the lowland Afar owned large herds of camels. In the ancient practice of agriculture, Ethiopians used iron and bronze to manufacture farm implements such as digging iron, iron hoes, ploughs, sickles, etc. (Pacey, 2000).

As a result of the development of farm tools, today there are two distinct types of cultivation methods in Ethiopia, i.e. the plough farming prevalent in the highlands and the hoe culture observed in the southern parts of the country. In general, with the exception of Egypt and Ethiopia, almost all sub-Saharan Africans earned their living by gathering food (including hunting and fishing), by cultivating crops, by herding, or by a combination of these

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<sup>2</sup> New Encyclopaedia Britannica.



activities. No tribal groups lived exclusively by hunting. The bush men of Kalahari Desert and bordering areas, the Banyambo and Bwamba of Rwanda, and the Dorobo of Kenya highlands used to do similar activities. The Bubinga and other food gatherers of the deep forest of tropical Africa seem to have divided their attention between catching monkeys and fish, and seeking out wild honey and edible roots. By far, the great majority of the people were either cultivators or pastoralists or both. Though time has changed, many African peoples still work on their land and keep their domestic animals the way their forefathers did (Kimble, 1960).

Considering ancient crop husbandry practice of Africa, there are two main types of cultivation: permanent and shifting. The shifting cultivation is more common of the two practices. In the shifting cultivation, the farmer cut the trees, cleared the bush, piled and burned them. Big trees were usually left in place mainly for control of soil erosion. Planting was nothing more than the placing of seeds or tubers in holes made by a digging stick, the holes then being filled in with a kick of the foot. In some countries, only one crop is planted in a given plot of land in a season. But in many places, it is more common to plant a mixture of seeds and tubers which could enable the cultivator to safeguard himself against the vagaries of nature and the threat of erosion (Luzzi, 2001).

In forest clearing, hoeing is not usually necessary during the first year. This is because the fire is likely to kill the weeds. From the second year until the land is fallowed, it would be necessary to hoed. The productive life of a plot of land depends on its fertility. Fertile land could be used from 15 to 20 successive crop years. For most land which is not fertile, three to four years will be the shifting period. Practically, with the exception of banana and other tree plantations, every crop is kept on shifting cultivation (Pardey, 1998).

In the case of permanent farming, the Kara people living on the island of Ukari in Lake Victoria had developed a remarkably intensive mixed farming system which maintains the fertility of the land under continuous cropping. They feed their cattle on crop residue supplemented by topping of trees and fodder. Vegetable wastes are used as bedding, and this was enough for farmyard manure. This cropping system supports a population of over 600 per square miles (Kimble, 1960), which is one of the heaviest concentrations in Africa. Similar permanent farming methods were to be found in the Kahri of Togo, the highlands of Cameroon, Rwanda, Ethiopia, and Kenya.

Pastoralism could also be considered as the third farming system in Africa. The chief pastoral people came from the valley and brought with them cattle similar to the present day long-horned cattle of the Ankole and other east African pastoralists (Kimble, 1960).

The main purpose of animal keeping was social rather than economical. With cattle, a man could get social respect, wives and followers. For a pastoralist, there was no better occupation than to be among his animals. In most cases, pastoralist society was self-sufficient. Pastoralists often had more animals than they could use. It was not however common to trade the surplus other than for nominal exchange. The herdsmen of eastern Africa are wanderers in search of grass and water for their animals (Sarma, 1985).

### **2.2.2 Modern Agriculture in Africa**

The beginning of modern agriculture in Africa, where and how it was first practiced is not well known. What is fairly certain is that there were small-scale agricultural enterprises in Africa before the coming of colonial powers. These enterprises were undertaken almost solely for the purpose of subsistence. They were characterised by traditional tools, limited use of fertilizers, uncertain amount of yield and poor land management. Around the turn of

the 20<sup>th</sup> century, the agricultural position began to change for several reasons. First, the highlands of East and Central Africa were occupied by European colonizers. Second, global demand for agricultural products increased drastically. Third, the tax payment imposed by the colonial administrations forced African farmers to produce cash crops. Fourth, industrial products were introduced to the African markets. These conditions urged African farmers to produce marketable crops for domestic markets as well as for raw material requirement for the colonizers' home industries.<sup>3</sup>

In the 1920s and 1930s, the cash-crop farming became big business and widely spread from Ghana to Sierra Leon, Nigeria, Congo and Uganda. In addition, in many parts of Africa, large farms began the cultivation of one crop, usually for export, by employing foreign capital and human resources. These large farms were known as *plantations* because they were mainly concerned with tree crops such as banana, rubber, and oil palms (Kherallah, 2002).

The establishment of modern agriculture in Ethiopia was first initiated by Emperor Menilik II. For this to happen, the Emperor set up the first Ministry of Agriculture and Work in 1908. Recognizing the significance of each sub sector towards the country's economic development, the Emperor signed several agreements and protocols with various foreign governments and companies. These included wood processing factory in the west (1898), modern agricultural estates near Quara, Lake Tana area (1905), rubber tree plantation around Akaki (1906), eucalyptus tree plantation (with seedling from Australia), irrigated agricultural development along the Awash River, fruit farm development and modern animal and

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<sup>3</sup> Internet <file:///A:\agri4 files\Modern.htm>.

wildlife breeding (1907). These efforts were consolidated, improved and expanded during Emperor Haile Selassie's regime from mid 1940s to early 1970s.<sup>4</sup>

This period registered the establishment of the first Animal Production and Health Directorate in 1944 followed by cattle breeding stations at Sholla, Andassa, Adami Tulu and Gibe, sheep breeding stations at Entoto, Kundi, Kofele, Dinsho, Jijiga, Debre Berhan and Amed Guya, and poultry farm at Sholla. All these were organized under the Ministry of Agriculture.<sup>5</sup>

In the 1960s, the slim possibility of generating radical changes in small-scale subsistence farming has compelled the Ethiopian Government to encourage large scale commercial farms to modernize the sector. The rapid development of commercial farming was taken as the only way to get immediate increase in agricultural production to satisfy raw material requirements of local industries and export trade. To this effect, it was essential to attract more foreign investment and to import the required managerial and technical skills.

Therefore, mechanization was encouraged by exempting from import duty of all types of agricultural machinery and allowing fuel free from duty. Investment in commercial farming was ensured by further incentives such as credit in cash and in kind at a relatively low interest rate. This was intended to attract mainly foreign investment along with their entrepreneurships. A five-year grace period had also been given for any loan for agricultural investment as an additional incentive.

As a result, commercial farming was expanding in the South-Eastern regions of the country where suitable land for mechanization was abundantly available. Commercial farms

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<sup>4</sup> Ministry of Agriculture, Establishment and Development, July 27, 1984.

established in the Awash valley concentrated on the production of cotton, sugarcane, and fruits. In these farms where high initial investment cost is required, the Dutch, the British, and the Italian investors were penetrating the valley to produce export commodities. HVA, a Dutch firm, set up sugarcane plantation and a sugar processing plant and had developed about 15,000 hectares in the Upper Awash Valley. The Tendaho Plantation Share Company, established by the Mitchel Cotts Group (a British firm), developed a total area of about 10,000 hectares in the Lower Awash Valley and mainly produced cotton. Ginnery plant was an integral part of the development.

Individual investors from Italy had citrus and banana plantation around Melka Sedi in the Middle Awash Valley. Local investors were also attracted by this profitable agribusiness and they were busy investing in the Awash Valley and elsewhere in the country. Large scale commercial farms of cereals and pulses were flourishing in the highlands of southern regions where local investors mostly involved. In the north of the country (Humera, Abderafi, and Metema), domestic investors, with the support of the World Bank, were also producing sesame mainly for export markets.

Ethiopia has had long tradition of handicraft and various types of small scale industries based on manual labour and simple tools. Such small-scale industries include food processing, weaving, production of agricultural implements, and leather making.

Modern industry in Ethiopia is a recent phenomenon, introduced during the early years of the 20<sup>th</sup> century. Its origin can be attributed to internal and external factors. The two main factors were the emergence of a strong central government in the second half of the 19<sup>th</sup> century, and the construction of a rail way line between Addis Ababa and Djibouti. The

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<sup>5</sup> *ibid.*

interaction of these two factors ended the isolation of Ethiopia from the rest of the world and brought about the emergence of modernization.

Prior to 1928, a total of 26 factories were established around major cities, Addis Ababa, Dire Dawa, Asmara (the capital of Eritrea which was once a state of Ethiopia), and Gondar. All of these factories were engaged in light industries, owned and managed by foreigners. Most of them were food processing industries. During the Italian occupation, the Dire Dawa Cement Factory and Kality Food Processing Plant were established.

During 1942-1953, 21 factories were established and all of them were consumer goods producers. During 1953-1963, 26 additional factories were established of which 7 were food-processing plants. During 1964-1974, some 54 industries were established of which 46 were consumer goods producers. Prior to 1974, most of the manufacturing industries were privately owned, managed by the owners who were foreigners.

There were five meat processing plants under the Ethiopian Livestock and Meat Corporation. These plants and abattoirs were established in the 1950s and 1960s mainly by foreign investors, with nominal government shares. Along with the 1975 nationalization of privately owned enterprises, the government took over the assets and the management of all the meat processing plants until the recent privatization program.

Prior to 1968, priority was given to industrialization, and as a result agriculture was neglected. In 1968, agriculture was given at most attention. The sector had been divided into two main sub sectors: commercial and subsistence family farming. The commercial agriculture was intended to increase marketable surplus particularly for to supply raw materials for domestic industries and for export. Mechanization was encouraged by

exemptions from import duty of all types of agricultural machinery and implements. The basic idea of focusing on mechanized farming was to increase production and productivity by taking advantage of economies of scale.<sup>6</sup>

Crops grown by commercial farms included cotton, sugarcane, tobacco, fruits, vegetables and oil seeds in the lowland areas, and coffee and tea plantations and various cereals in the highlands. However, the 1975 Proclamation of Rural Land had transformed all large-scale commercial farms into state farms. All agricultural and agro-industrial establishments were nationalized and managed by the government. Improvements and expansions had been made on some of the nationalized enterprises as well as new establishments during the 17-year rule of Derg. Now the economic policy of the country has been changed to market economy, and majority of state owned enterprises have been privatized or under the process of privatization.

### **2.2.3 Ethiopia's Potential for Agriculture**

Like any other developing country, Ethiopia has an agriculturally dominated economy. The principal resources of agriculture are land, labour and livestock. The manner in which these resources are organized and used in the production process is determined by the organizational structure of agriculture itself. For example, in the pre-1974 revolution, the land tenure system was not conducive for the application of modern technology.

Ethiopia has a total geographical area of 112.3 million hectares. About 56% of the total area is suitable for agriculture. In the year 2005, an estimated area of about 15.6% of the arable

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<sup>6</sup> Ministry of Agriculture, Establishment and Development, July 27, 1984.

land is cultivated or fallowed.<sup>7</sup> The climate and the soils of the arable land are suitable for many agricultural crops.<sup>8</sup>

Unlike most African countries, Ethiopia has the most varied agro-ecological zones, with altitudinal ranges between 110 meters below sea level and 4620 meters above sea level. Based on the altitude, the country is divided into three climatic zones: Highland (Dega) with altitudes greater than 2500 meters; Semi-Highland (Woina Dega) with altitudes between 1500-2500 meters; and Lowland (Kola) with altitudes less than 1500 meters above sea level.<sup>9</sup> This variability of agro-ecological zones enabled the country to be the origin of many plant species such as coffee Arabica, teff, barely, sorghum, niger seeds, and animal breeds such as nyala, walia, red fox, etc.

The country has also abundant surface ground water resources. It has 12 river basins and 8 natural lakes. The volume of the ground water is estimated to be about 2.6 billion cubic meters, and the river basins have a total annual run-off of about 110 billion cubic meters. Of the total run-off, about 75% drains to neighbouring countries. With the exception of River Baro, none of the other rivers is navigable; but they have considerable potentials for hydropower generation as well as irrigation farming. In addition, most of the rivers and lakes are rich in fish and there are about 101 species of fish out of which four are indigenous to Ethiopia.<sup>10</sup>

Ethiopia has also vast animal resources. The current livestock population is estimated to be about 77 million, of which 40 million are cattle, 21 million sheep, and 16 million goats. In addition, there are about 32 million poultry and 7 million horses, donkeys, mules and

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<sup>7</sup> Central Statistical Agency (CSA, 2005).

<sup>8</sup> Survey of Ethiopian Economy MEDAC, 1997.

<sup>9</sup> Ministry of Agriculture, Establishment and Development, July 27, 1984.

<sup>10</sup> A Note prepared for MIDROC Magazine, April 2000.



camels.<sup>11</sup> In fact, Ethiopia is the first in Africa and tenth in the world in the size of its livestock population. Despite this potential, however, the agricultural sector remains underdeveloped.

With a population of about 75 million,<sup>12</sup> Ethiopia is the third most populous country in Africa. In terms of land resources, Ethiopia is the ninth largest country in Africa. In terms of livestock resources, the country is the first in Africa and tenth in the world. With all these resources and the huge diversity of plant and animal species, Ethiopia is by far better than most African countries.

Ethiopia is basically an agricultural and pastoral country. In light of the population size, Ethiopia could be considered as a country of small-scale, family-based farmers with subsistence agriculture. This form of agriculture is an old form of production. Even today, this method of farming is by far the most important forms of production, constituting the bulk of the Ethiopian agriculture. This dominant practice of agriculture is known as mixed farming of the highlands where both crops and livestock production are integrated.<sup>13</sup>

In the mixed farming method, crop production is diversified and involves limited intercropping. While the farms are generally permanent, continuous cropping is made possible by crop rotation. The system is characterized by fragmented, small-size land with average holdings less than one hectare per household. Production is subsistence oriented, i.e. minimizing risks of failure in the face of unpredictable natural (mainly weather) conditions. Production techniques are very traditional. Use of modern inputs is very low and

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<sup>11</sup> CSA, Agricultural Sample Survey, 2005/06.

<sup>12</sup> Central Statistical Agency (CSA, 2005).

<sup>13</sup> A Note prepared for MIDROC Magazine, April 2000.

productivity of both labour and land is very low. Lack of investment resources and moisture stress are the most critical problems of the farm.

Pastoral farming is common in the lowlands of the country. It is dominant in terms of area coverage but produces less than the mixed farming. In the pastoral areas, herds include cattle, sheep, goat and camel.

Agriculture dominates the Ethiopian life to the extent that little progress can be made unless sufficient efforts can be made to develop agriculture. On the other hand, the resource base to rapidly increase agricultural production is very promising but the constraints to develop the sector are immense.

#### **2.2.4 Recent Economic Policy Environment**

After the present government took power in 1991, it adopted a market-driven economy. The new government was quick to introduce policy and institutional reforms in the 1990s encompassing fiscal, financial, exchange rate, trade and industry, management of public resources and enterprises. In the early 1990s, the Government introduced a comprehensive program of structural reform under pressure from the World Bank and the International Monetary Fund.

Those reforms included the structural adjustment program of the World Bank and the Enhanced Structural Adjustment Facility (ESAF) of the International Monetary Fund. Many of the reform measures were financially supported by the country's development partners, both bilateral and multilateral. Not all reform measures were strongly pursued, however, and some of the intended reforms have been slow or have failed to take root. Even though, during the past two decades, there admittedly has been a sharp fall in the dominant role of

the public sector in economic activities, public ownership continues to remain high in key sectors of the economy including, manufacturing industry (textiles, steel, sugar), the construction industry, telecommunications, air transport, banking, etc.

In the 1990s, the Government initiated a program for privatization of state-owned enterprises and established a Privatization Agency for the purpose. It also embarked on a program of retrenching excess personnel in state-owned enterprises. However, the slow divestiture of state-owned enterprises has left the Government with problems associated with numerous state-owned enterprises which are either not efficient or non-performing altogether. This has, among other things, drained the banking system of financial resources resulting from large backlogs of unrecoverable loans. In some instances, bad debts are being covered by the Government. The practice is neither desirable nor sustainable and underpins the need for a concerted drive towards privatization of the remaining public enterprises still in government hands.

At the turn of the Millennium the Government shifted its development strategy from the structural adjustment program and ASAP of the 1990s to a poverty reduction program, also initiated by the same institutions behind the structural adjustment program and ASAP. The Sustainable Development and Poverty Reduction Program (SDPRP), as it is called, aims at promoting growth and alleviating poverty. The program rests on four pillars, as it were, comprising agricultural-development-led industrialization (ADLI) and food security; justice and civil service reform, governance, decentralization and empowerment and capacity building which predate the SDPRP. The program focuses on the following major areas:

- agriculture which is the source of livelihood for upwards of 85 percent of the population where the bulk of the poor live; agriculture is also believed to be a

potential source to generate primary surplus for growth of other sectors of the economy (industry);

- strengthening private sector growth and development, especially in industry as means of achieving off-farm employment and output growth;
- rapid export growth by increasing the production of high value agricultural products and increased support to export oriented manufacturing sectors particularly intensified processing of high quality skins/leather and textile garment;
- deepening and strengthening the decentralization process to shift decision-making closer to grass-root levels, to improve responsiveness and service delivery;
- improving governance to empower the poor and create a conducive environment for private sector growth and development;

### **2.2.5 MIDROC'S Involvement in the agro-Industrial Sector**

Basically, the private sector is made up of ventures or enterprises in which the capital is provided and the risk borne by individuals as against the public or the government. Private companies can be owned by both local and foreign investors. In terms of technology, finance and market outlets, the foreign private investment has much to offer, provided that it is applied sensibly within the local environment. In many developing countries, the private sector is involved in agri-business, mainly in the plantation sector, the supply of inputs and the trading of export commodities.

Despite the apparent attributes of the private sectors, their participation in the developing countries has been limited. This is naturally a question of business risk and choice. The private investor can choose where to invest his or her resources, and in general will choose where the risk is lowest, or the profit to risk ratio is highest. MIDROC Ethiopia's investment objectives go beyond this: it is based on the owner's commitment to the economic

development of the country of his birth place, Ethiopia. ELFORA is one of the investments made based on such commitment.

### **2.2.6 Situation Analysis at ELFORA**

Despite the vast opportunity and potential in Ethiopia for agribusiness, ELFORA has not obtained as much benefit as proportional to the level of investment it has made. In fact, when we consider the social and economic benefit to the country, it created job opportunity for over 3000 citizens and the government also collects employment income tax from these employees. However, as a business establishment, the company needs growth and development to cope up with technological and economic changes that are now very dynamic due to globalization and development of information technology. To do so, it requires additional investment that should be generated from internal profit. It is unlikely that owners will continue pumping money into the company indefinitely unless the company designs and implements a turnaround strategy thereby providing investors with a convincing assurance that the business should continue. The question is, therefore, what should be done to improve this situation?

Studies made so far have focused on the agricultural sector at the national level. Annual publications of government ministries and agencies provide data and information at the macro level. Very little research has been made on specific company issues relating to operational efficiency, marketing and sales strategies, new product development, and other areas of paramount importance for the survival and growth of the company.

A recent study conducted on an agro-processing firm here in Ethiopia dealt with problems in areas of both domestic and international marketing, and the overall performance of the firm. The firm is engaged in crops and vegetable products with some of them processed and

packed. The study was conducted for the purpose of formation of joint venture with private investors. While the study mainly dealt with operational and technical problems within the firm as well as general issues on both domestic and international marketing, it did not provide adequate data for analysis nor mentioned any specific marketing and sales strategies to be adopted. Furthermore, the company under study in my project has its own peculiar characteristics.

ELFORA Agro-Industries Plc. is an already established company with a total investment of over Birr 400 million and has been operating for the last ten years. Agro-processing involves significant investments in plant and equipment, and in order to operate efficiently, these facilities should be used to full capacity year-round, every year (Kohls et al. 2005:92). Substantial investment has already been made on the existing production facilities and infrastructures.

The prerequisite for maximum use of the existing production facilities is the availability of market demand sufficient to absorb the volume of products produced by these facilities. The demand for agro-industrial products always exists. The industry however is characterized by enormous competitions from both domestic and international suppliers. The process of globalization – involving global and regional economic integration driven by technological advances and trade liberalization and harmonization policies – presents both threats and opportunities for existing agro-based industries in developing and transition economies ([www.unido.org/doc/5070](http://www.unido.org/doc/5070)). The penetration of the market economy into formerly isolated and remote areas opened up opportunities for raising agricultural and agro-industrial productivity, but it also posed acute challenges for countries like Ethiopia where the agro-industrial sector faced increased competition and market volatility as a result.

Agro-industry companies are facing intense price competitions from rival companies operating both locally and abroad. The traditional 'cost plus' pricing privileges enjoyed by companies are no more existing, particularly for products and services that are abundant in the market. Consequently, companies such as ELFORA need to focus on minimizing the cost of production, leaving the prices to be determined by the market forces. The main interest of this paper is therefore to look for applicable marketing and sales strategies that should be adopted, with particular reference to the existing situations in the company under study.

The next chapter analyzes empirical data on the demand and supply characteristics of some of the important agricultural and agro-industrial products that are related to the current business activities of ELFORA.

# CHAPTER THREE

## DATA ANALYSIS AND INTERPRETATION

The first step in any marketing study is the analysis of the market environment both in terms of demand and supply. Although ELFORA is engaged in the production and sale of a variety of agricultural and agro-industrial products, the focus of this study is on livestock and livestock products, poultry products, and canned products. These lines of products account for 80-85% of the total domestic annual sales of the company as a whole.

### 3.1 DOMESTIC MARKET DEMAND CHARACTERISTICS

#### 3.1.1 Livestock and Livestock Products

According to Agricultural Sample Survey Report of the Central Statistical Agency (CSA 2005/06), the estimated annual livestock off take is 4.02 million cattle (10% of the total stock of 40 million), and 10.1 million sheep and goats (27% of the total stock of 37 million).

**Table 3.1 Estimated Livestock Off -Take (2005/06)**

Type of Livestock	Quantity in Heads
Cattle	4,022,059
Sheep	6,516,183
Goats	3,616,001
Total	14,154,243

*Source: Central Statistics Agency - Agricultural Sample Survey: 2005/06 (1998 E.C.) Volume II.*

Table 3.1 shows the total livestock off-take for the country as a whole. For the purpose of extracting the relevant market for ELFORA, further breakdown is required. A recent data on the breakdown could not be found, but Table 3.2 below, which has been compiled from



interim report prepared by Ministry of Agriculture, shows the distribution of livestock off-take in 1987/88.

**Table 3.2 Distribution of Estimated Livestock Off-Take (1987/88)**

	Cattle		Sheep & Goats	
	Heads	Ton*	Heads	Ton**
1. Domestic Market				
1.1. Addis Ababa	143,000	24,000	959,000	12,000
1.2. Processing Plants	39,000	5,000	17,000	204
1.3. Elsewhere outside Addis Ababa	1,700,000	230,000	9,728,000	116,736
Sub total (1)	1,882,000	259,000	10,704,000	129,000
2. Foreign Market				
2.1. Official Export	34,000	6,000	345,000	4,000
2.2. Illegal Export	150,000	20,000	300,000	3,000
Sub total (2)	184,000	26,000	645,000	7,000
Total Off Take (1+2)	2,066,000	285,000	11,349,000	136,000

Source: Ministry of Agriculture Interim Report, 1990

Notes: (a) Human population of Addis Ababa (1987/88)	1,584,000
(b) Human population in other areas (1987/88)	45,526,000
(c) Total Ethiopian Population (1987/88)	47,110,000

\* Conversion factors for 1.1, 1.2, and 1.3 are 168, 128 and 135 kg/head, respectively; 1 ton = 1,000 kg.

\*\* Conversion factor for 1.1 to 1.3 is 12 kg/head; 1 ton = 1,000 kg.

Table 3.2 above shows that out of the estimated off-take, the domestic market absorbed the dominant share of 91% of the cattle off-take and 95% of the off-take for sheep and goats. The small surplus off-take of 9% for cattle and 5% for sheep and goats has been diverted to the export market both through official and unofficial trade.

The relevant market segment for ELFORA with respect to livestock and meat products is Addis Ababa. The city, being the nation's capital and seat of various international organizations, is the prime target and the main market outlet for livestock and livestock products supplied from areas around it and further away. The focus here is, therefore, on the Addis Ababa market for these products.

From the domestic consumption of cattle, sheep and goats indicated in Table 3.2, the tonnage share taken by the Addis Ababa for beef and mutton is summarized in the Table 3.3 below.

**Table 3.3 Actual and Forecasted Consumption of Beef and Mutton**

	<i>Quantity in Tons</i>			
	1987/88		2007/08*	
	Beef	Mutton	Beef	Mutton
1. Total Domestic Consumption	259,000	129,000	518,300	259,100
2. Addis Ababa Consumption:				
2.1. Addis Ababa Abattoir	24,000	1,000	48,200	2,000
2.2. Backyard Slaughter	-	11,000	-	22,100
Total Addis Ababa Consumption	24,000	12,000	48,200	24,100
3. Share of Addis Ababa from total (2/1)	9.3%	9.3%	9.3%	9.3%

Source: Ministry of Agriculture Interim Report, 1990

\* Figures are arrived at by multiplying the per capita consumptions discussed below. The share of Addis Ababa consumption is assumed to be the same. Figures are rounded to the nearest hundred.

Notes: (a) Human population of Addis Ababa (2007/08)**	3,172,000
(b) Human population in other areas (2007/08)**	77,086,000
(c) Total Ethiopian Population (2007/08)**	80,258,000

\*\* Human population figures are arrived at by projecting the year 2005/06 population figures for two years at a growth rate of 3.3% for Addis Ababa and 3.4% for the country as a whole, as provided in FAOSTAT (2003).

With a population of almost 3.2 million (4% of the total population), the annual consumption of beef and mutton for Addis Ababa accounted for 9.3%. Based on these figures, the nation's per capita consumption would be 6.5kg for beef and 3.2kg for mutton, while for Addis Ababa, it would be 15.2kg and 7.6kg of beef and mutton, respectively, more than twice larger than the national per capita consumption.

Another market study conducted by DANAGRO (1996)<sup>14</sup>, based on the data obtained from the Addis Ababa Abattoir Enterprise, established beef consumption for Addis Ababa in 1994/95, as shown in Table 3.4 below.

<sup>14</sup> DANAGRO Advisor a/s, Ethiopia Meat Industry Privatization Project, Vol. II, Annex II: Marketing Studies, Addis Ababa, Sept. 1996. "DANAGRO" is the name of a Danish Company, where "DAN" represents the name of the country as "ETHIO" for Ethiopia.

**Table 3.4 Annual Supplies of Beef by Abattoirs (1994/95)**

	Heads	Ton
1. Annual Cattle Slaughter by Addis Ababa Abattoir	100,000	9,000
2. Annual slaughters by other abattoirs/backyard	85,000	7,650
3. Total slaughter for Addis Ababa	185,000	16,650

Source: Compiled from DANAGRO study, 1996.

Note: Boneless meat yield is assumed to be 90 kg/head; 1 ton = 1,000 kg.

DANAGRO's survey has also reported on the annual consumption figures in tons of beef, mutton, broiler and table eggs by catering services in Addis Ababa as in Table 3.5 below.

**Table 3.5 Annual Consumptions of Livestock Products by Catering Services in Addis Ababa (1994/95)**

Quantity in Tons

Catering Service	Beef	Mutton	Broiler*	Table Eggs	Total	Share (%)
1. Hotels	866	402	291	353	1,912	21
2. Restaurants	4,002	712	253	370	5,337	58
3. Supermarkets	450	50	61	176	737	8
4. Pastries	-	-	-	845	845	9
5. Snack Bars	-	-	-	400	400	4
Total	5,318	1,164	605	2,144	9,231	100
Share (%)	58	13	6	23	100	

Source: Compiled from DANAGRO study, 1996.

\* "Broiler" means chicken meat.

It can be observed from the figures in Table 3.5 for the catering service that beef consumption accounted for 58% while table eggs accounted for the next larger share of 23%. Mutton and broiler consumption took the smallest share of 13% and 6%, respectively.

In the total consumption of the catering service, the restaurants segment, which also includes restaurants serving national foods, took the largest share of 58%, followed by 21% for hotels, 9% for pastries, 8% and 4% for supermarkets and snack bars, respectively. The pastry and snack bar segments consume only table eggs.

Assuming the Addis Ababa's per capita consumption of 9kg for beef, 5.6kg for mutton, and 2.6kg for broiler, and taking the 1994/95 population projection of 2.1 million, the study estimated the demand in Addis Ababa for livestock products as shown in Table 3.6 below.

**Table 3.6 Actual and Forecasted Demand for Livestock Products in Addis Ababa**

*Quantity in Tons*

Product	1994/95	2007/08*
Beef	18,900	28,500
Mutton	11,760	17,800
Broiler	5,460	8,200

*Source: Compiled from DANAGRO study, 1996.*

\* *Figures are arrived at by multiplying the per capita consumptions discussed above and taking the population of Addis Ababa in 2007/08, which is 3,172,000 (Table 3.3). Figures are rounded to the nearest hundred.*

Yet another estimate by FAO (2004)<sup>15</sup> provides the figures, as shown in Table 3.7 below, for domestic consumption of livestock products in the country between 1980 and 2000.

**Table 3.7 Actual and Forecasted Domestic Consumption of Livestock Products**

*Quantity in Tons*

Product	1980	1993	2000	Annual Growth Rate (%) 1993-2000	Estimated Consumption 2007/08*
Beef	200,800	230,000	298,000	2.6	365,900
Mutton & Goat Meat	131,400	138,900	145,300	0.5	151,200
Poultry Meat	65,600	72,000	73,800	0.2	75,000
Eggs	61,500	63,800	65,800	0.3	67,400

*Source: FAOSTAT (2003)*

\* *Figures for estimated consumption for 2007/08 are arrived at by projecting the year 2000 consumption using the annual growth rate during years 1993–2000, i.e.,  $C_{2007/08} = C_{2000} \times (1+G)^8$ ; where,  $C$  = Consumption;  $G$  = Growth rate; 8 = Number of years between the base year (2000) & year 2007/08.*

<sup>15</sup> FAO, Livestock Sector Brief, May 2004.

Combining the figures from the three sources, the estimated consumption figures of beef, mutton, poultry meat, and eggs for Addis Ababa are shown in Table 3.8.

**Table 3.8 Annual Consumptions of Livestock Products in Addis Ababa as Estimated based on the Three Sources (2007/08)**

*Quantity in Tons*

Product	MOA	DAN-AGRO	FAO	Average for 2007/08	Per Capita Consumption (Kg)
Beef	48,200	28,500	34,000	36,900	11.6
Mutton	24,100	17,800	14,100	18,700	5.9
Poultry Meat	-	8,200	9,200	8,700	2.7
Eggs	-	-	6,300	6,300	2.0

*Notes:*

(a) Consumption figures under Ministry of Agriculture (MOA) have been taken from Table 3.3.

(b) Consumption figures under DANAGRO have been taken from Table 3.6.

(c) Consumption figures under FAO have been arrived at as follows:

- For beef and mutton, the figures in the last column of Table 3.7 have been multiplied by 9.3%, which is the share of Addis Ababa consumption as indicated in MOA interim report (1987/88).
- For poultry meat and eggs, the respective per capita consumptions of Addis Ababa (2.9 & 2.0kg) as given by FAO - FAOSTAT (2003) have been multiplied by the population of Addis Ababa in 2007/08, which is 3,172,000 (Table 3.3).

(d) Average figures for 2007/08 have been arrived at using simple average calculation.

(e) Per capita consumption figures have been calculated by dividing the average figures for 2007/08 by the number of population of Addis Ababa in 2007/08 (3,172,000), and then multiplying the result by 1,000, i.e., 1 Ton = 1,000kg.

(f) All calculated figures in Table 3.8 are rounded to the nearest hundred, except per capita consumption figures, which are rounded to one decimal place.

The average figures for 2007/08 in Table 3.8 above indicate the magnitude of the demand for the various livestock products in Addis Ababa. As will be observed later when we examine the supply characteristics of livestock products, only 5% of the demand is satisfied by institutional companies such as ELFORA. This is an indication of a vast market opportunity in Addis Ababa for the supply of livestock products.

### **3.1.2 Domestic Demand for Canned Food products**

The domestic market demand for canned food products, specially canned meat products, is very low owing to the general consumer preference for fresh meat and vegetables.

The domestic market demand for canned products is almost totally concentrated in major cities, mainly, Addis Ababa, and the consumer group mostly consists of expatriates, affluent nationals, the catering services - hotels, restaurants, universities, colleges, hospitals, institutional clubs, etc.

#### **3.1.2.1 Canned Meat Products**

Canned cooked meat, which mainly includes Corned Beef, Beef in Jelly, Beef Stock, Canned Fish and Minchet Abish, are generally considered by consumer as inferior products and therefore, have low consumption and selling prices, even through they involve high production costs, especially in terms of imported cans for their packing.

Canned Corned Beef, Beef in Jelly, and Beef Stock used to be exported to UK, Belgium, Italy and Russia until the mid 1980's, but production ceased after export markets were closed.

Canned Fish has fairly better market demand than the other canned meat products among the general consumers mainly in the fasting season, although fresh fish, which is in short supply, is more preferred.

Canned Minchet Abish (“Zighni Wot” in Amharic) is the major canned meat product for local sales, largely for consumption by the military. The sale of Minchet Abish to the military was ones significantly high during the mobilization of the Defense Force for the

border war with Eritrea. The demand and consumption by the military has drastically declined since the demobilization after the cease fire agreement. Currently, very little and irregular demand exists from the military and militia forces in some administration regions. No other market demand exists for this product.

### **3.1.2.2 Canned Vegetable products**

Foul Madame is used to be produced along with canned meat for export market to Yemen in the mid 1980s, which later ceased to be supplied. It used to cover 30% of the export of canned products on average during the three years between 1983/84 and 1985/86.

Vegetable Soup is another of the canned food products solely demanded by the military and militia forces. Like the Minchet Abish, this product has no demand among other consumer segments.

Among the canned vegetable products, Tomato Paste, especially of the 850 gm tin, is the more widely consumed product among individual households and catering services. The other canned and bottled tomato products with small demands in the local market are peeled tomato, tomato juice, tomato ketchup, all destined to consumers as for tomato paste.

Canned Orange Marmalade is also among one of the canned fruit products being consumed locally, mainly among catering services (hotels and restaurants) and some individual households.

## 3.2 DOMESTIC MARKET SUPPLY CHARACTERISTICS

### 3.2.1 Beef and Mutton

Cattle, sheep and goats for slaughtering are sold in the major market places, numerous unauthorized empty spaces, and street corners within Addis Ababa.

The Addis Ababa Abattoir Enterprise, which slaughters cattle and few sheep and supplies about 60% of the beef through butcher shops, is considered the major source of fresh beef for household consumers in Addis Ababa. The rest 40% of beef is supplied through other informal sources such as the Karallo Abattoir, Burayu, some supermarkets, and other backyard slaughtering.

Thus, the supply market is characterized by both formal and informal operations with the following sellers playing the major role:

- **Butcher shops:** supplying the city's individual household, institutional consumers, and, to some extent, the catering services.
- **Supermarkets:** retailing to individual household consumers, institutions, and high class hotels and restaurants.
- **Private suppliers:** are informal traders or owners of cattle feedlots supplying beef and cattle to supermarkets, small and medium hotels and restaurants.
- **Backyard/Bush Slaughtering:** by a temporarily organized group for beef supply to household consumers.

For mutton, only about 8-10% of the total slaughter is supplied through abattoirs while the major source of supply is slaughtering in the backyards by individual consumers, with very few retail outlets existing.



### **3.2.2 Poultry Products**

Most of the supply of poultry products to the Addis Ababa market is in the form of local eggs and chicken sold in several market places and street corners as well as door-to-door by individual traders. Commercial chicken (broilers) and eggs are supplied at farm gates and through the various outlet shops of ELFORA, Alema, Almaz and Tsedey poultry farms; while commercially organized suppliers of table eggs competing for the market are ELFORA, Kalehiwot, Genesis and NACID. These Commercial suppliers have fairly established production and distribution facilities.

### **3.2.3 Canned Meat Products**

Besides the production of Corned Beef, Beef in Jelly and Beef Stock for supply mainly to the export markets in the mid 1980s, some volume of these products were used to be supplied for the local market, especially for consumption by the expatriate society. After interruption for some time, these products once had been appearing in the domestic market, together with the larger supply of Minchet Abish to the military.

Except for small imports by major supermarkets, these meat products are almost totally produced by the meat processing plants that were previously under the ownership of the government, but which are currently owned by ELFORA. These processing plants are: Melge Wondo, Dire Dawa, Kombolcha, and Meat Concentrate plants located in the various regions of the country. Production and supply by these plants during the 1980s is shown in Table 3.9 below.

**Table 3.9 Production and Supply of Canned Meat Products  
(1983/84 – 1987/88)**

*Quantity in Tons*

Product	1983/84	1984/85	1985/86	1986/87	1987/88
<u>Domestic Market</u>					
- Canned Meat Products	5,207	3,301	1,596	2,846	6,703
<u>Export Market</u>					
- Corned Beef	1,389	756	1,010	442	129
- Beef Stock	27	13	12	15	6
Total Export	1,416	-	1,022	457	135

*Source: Ministry of Agriculture Interim Report, 1990*

As can be seen from Table 3.9 above, the production and supply of canned meat products for the domestic market was once quite significant, taking an average annual share of over 80% as against 20% of export during the 5 years between 1983/84 and 1987/88.

### **3.2.4 Canned Vegetable Products**

Canned Vegetable Soup, Foul Madame, Green Beans, and Tomato Paste are another group of products that are produced and supplied solely by ELFORA. Vegetable Soup is produced for consumption by the military and militia forces. Foul Madame and Green Beans are products currently with an insignificant volume of sales. Few import brands of the latter exist in the market.

Tomato Paste, mainly with two packing sizes of 850gms and 410gms, with small quantity of 70gms, are produced and supplied by the only two domestic competitors – ELFORA and Upper Awash Enterprise, with few import brands, especially the 70gm size.

Other Canned Vegetable and Fruit Products include Peeled Tomato with 850gms and 410gms packages that are produced and supplied solely by ELFORA. However, the current volume of production and sales of these products is negligible.

### 3.3 COMPETITION AND MARKET SHARE

#### 3.3.1 Beef and Mutton

While over 60% of beef is supplied by butcher shops, the bulk of the remaining beef are supplied by individual traders and illegal butchers. A very small share of beef and mutton meats are supplied by well organized business companies such as ELFORA, few supermarkets, and few experienced individuals. These commercial suppliers mainly supplied to the catering services, and their market shares are shown in Table 3.10 below.

**Table 3.10 Commercial Supplies of Beef and Mutton (2005/06)**

*Quantity in Tons*

Supplier	Quantity	Share (%)
1. ELFORA	1,915	66.8
2. Shi Solomon Supermarket	197	6.9
3. Fantu Supermarket	177	6.2
4. Fekadu Aklilu	242	8.4
5. Teshome G/Mariam	181	6.3
6. Abebech Balcha	154	5.4
Total	2,866	100

*Source: Annual Performance Review of ELFORA (2005/06).*

The total supply of 2,866 tons by commercial suppliers is only 5% of the total demand of 55,600 tons for beef and mutton (36,900 tons beef and 18,700 tons mutton - Table 3.8) for Addis Ababa market. ELFORA's share stood at 3.4% of the total demand of Addis Ababa in 2005/06.

### 3.3.2 Poultry Meat

The share distribution of commercial suppliers of poultry meat to Addis Ababa market is shown in Table 3.11 below.

**Table 3.11 Commercial Supplies of Poultry Meat (2005/06)**

Supplier	Quantity (Tons)	Share (%)
1. ELFORA	368.6	52.0
2. Almaz Poultry Farm	168.5	23.8
3. Alema Poultry Farm	156.0	22.0
4. Tsedey Poultry Farm	15.6	2.2
Total	708.7	100

Source: Annual Performance Review of ELFORA (2005/06).

The total supply of 708.7 tons of poultry meat by commercial suppliers (Table 3.11) is only 8.6% of the total demand of 8,200 tons for Addis Ababa in 2005/06 (Table 3.8). The share of ELFORA stood at 4.5% of the total demand for Addis Ababa in 2005/06.

### 3.3.3 Table Eggs

The share distribution of commercial suppliers of table eggs to Addis Ababa market is shown in Table 3.12.

**Table 3.12 Commercial Supplies of Table Eggs (2005/06)**

Supplier	Quantity		Share (%)
	Piece	Tons*	
1. ELFORA	28,136,377	1,406.8	71.4
2. Genesis	7,200,000	360.0	18.3
3. Kalehiwot	3,456,000	172.8	8.8
4. Alema	500,000	25.0	1.3
5. NACID	96,600	4.8	0.2
Total	39,388,977	1,969.4	100

Source: Annual Performance Review of ELFORA (2005/06).

\* One piece of table egg weighs 50gms on average, and 1 ton = 1,000kg.

Commercially produced table eggs are mainly supplied to the catering outlets serving within the city, especially to pastries and snack bars.

The total of nearly 39.4 million pieces or 1,969 tons of table eggs supplied by the private commercial producers listed in Table 3.12 above is only 33% of the total demand of 5,900 tons for Addis Ababa in 2005/06 (Table 3.8). ELFORA again took the largest share of over 70% of the commercially produced table eggs supplied during 2005/06, but satisfied only 24% of the city's total demand for table eggs in 2005/06.

### **3.3.4 Canned Meat Products**

Minchet Abish is solely produced and supplied by ELFORA. Thus, this product faces no competition. ELFORA is also the only domestic producer of Corned Beef, Beef in Jelly, and Beef Stock, but some competition in terms of quality and packaging exists from imported brands.

### **3.3.5 Canned Vegetable Products**

Canned Vegetable Soup and Peeled Tomato are produced by ELFORA alone, and face no major domestic market competition, except from few imports of the latter, which takes up some share in the domestic market.

Tomato Paste, which constitutes a significant volume among canned vegetable products, is supplied mainly by two local producers - ELFORA and Upper Awash Enterprise. A considerable volume of this product is also imported. Therefore, the competition is firm among ELFORA's brand "Melge" and Upper Awash's "Merti", along with other imported brands.

The share distribution of suppliers of tomato paste is presented in Table 3.13 below.

**Table 3.13 Supplies of Tomato Paste (2005/06)**

Supplier	Quantity (Cans)	Share (%)
1. ELFORA	118,226	3.5
2. Upper Awash Enterprise	2,976,900	88.6
3. Teji International (Importer)	264,840	7.9
Total	3,359,966	100

*Source: Annual Performance Review of ELFORA (2005/06).*

Neither actual nor estimated data on demand for tomato paste was available from any source. However, the supply figures in Table 3.13 above constitute the whole country wherever there is demand.

As can be observed from the figures in Table 3.13, ELFORA had the least market share of tomato paste. According to the local marketing and sales manager of ELFORA, the reasons for the wide gap between ELFORA and Upper Awash Enterprise in terms of the market share for this product are:

- Upper Awash obtains raw tomato (the major input for the production of tomato paste) from its own farms and out growers, with who it established strong relationship. This enables Upper Awash to produce tomato paste more consistently and continuously than ELFORA.
- As the Merti Jeju processing plant of the Upper Awash has been established recently with better technology than ELFORA's existing plants, the latter is faces with the problem of inefficient production leading to higher production cost.

- “Merti” brands of Upper Awash have more attractive packages and labeling (lithographed) as compared to “Melge” brands of ELFORA.
- “Merti” brands have wider market distribution channels through the wholesale distribution of ETFRUIT and retail trade outlets by its agent, “Victory Department Store,” both supported by strong promotion, as compared to the few sales outlets for the “Melge” brands. Thus, consumer goodwill has been well developed for the former brand.
- Overall, ELFORA brands suffer from unattractive labeling, inconsistency in product supply and inefficiency in production.

### **3.4 GENERAL FACTORS AFFECTING DOMESTIC DEMAND FOR LIVESTOCK PRODUCTS**

Because of growth in urbanization and overall population size, the market potential for livestock and meat products is also growing, though at a slower rate than the population growth. As shown in Table 3.7, the annual domestic consumption growth rates were 2.6% for beef, 0.5% for mutton, 0.3% for eggs and 0.2% for poultry meat. On the other hand, the total population growth rate of the country was 3.4% during the periods 1990-2000 (FAOSTAT, 2003).

Generally, demand for livestock products exceeds supply, thereby leading to increase in prices, which in turn negatively influence the purchasing power of potential consumers. For example, according to National Bank of Ethiopia<sup>16</sup>, national level prices of meat products increased by over 100% over a period of 6 years (1999/00–2005/06), while price of eggs

increased by 19%. During the same period, Addis Ababa prices for the two products raised by 78% and 31%, respectively. The lag of livestock supply behind demand is caused by various factors including the ever growing illegal trade through the borders with Kenya, Somalia, and Sudan, the recurrent drought, and death due to widespread diseases. The disease alone caused a loss of about 9.5 million heads of cattle, sheep, and goats in 2005/06 only.<sup>17</sup> This means, over 12% of the total livestock population is lost due to death.

Demand for meat, especially beef, which is preferred over mutton, increases during the short periods of religious festivals. The demand generally boosts in the months of September, when the Ethiopian New Year and Meskel are celebrated, between the end of December and mid-January, when X-Mas and Timket (Ethiopian Ehipany) are celebrated, respectively. January is also a month in which most wedding ceremonies are taking place in Ethiopia, resulting in the consumption of meat to lift up.

The fasting period starts in March and continues throughout up to the end of April when Orthodox Christians abstain from the consumption of livestock products for nearly two months, and almost all abattoirs and butcher shops in the city close operation during this time, and the meat consumption drops significantly.

Meat consumption starts to rise again at the Easter celebration (“Fasika” in Amharic) towards the end of April when the fasting period ends, followed by a rise in wedding ceremonies during April and May. Thus, cultural and religious occasions have seasonal influence on the level of meat consumption.

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<sup>16</sup> National Bank of Ethiopia, Quarterly Bulletin, First Quarter -2006/07.

<sup>17</sup> Central Statistics Agency, Agricultural Sample Survey, 2005/06 (1998 E.C.), Volume II.



For regular consumption, most households purchase beef from butcher shops, with increased demand at the week-ends, when many people are longing to enjoy eating the special cuts of raw meat and roasted meat (“Tibs” in Amharic). Most people prefer the week-ends because eating raw meat is more of a traditional occasion that must be carried out in group when friends are around.

Mutton is purchased by household consumers mainly in the form of live sheep from the several market spots in the city. Since only about 8-10% is slaughtered by abattoirs, the major 90-92% of sheep is slaughtered in the backyards of household consumers. Thus, very few retail outlets exist to serve the small number of consumers with supply of mutton.

As far as the demand for poultry products is concerned, eggs and poultry meat from local chicken are generally highly preferred to the exotic ones that are produced and supplied by commercial poultry farms. Traditionally, chicken meat, including eggs, is regarded by most nationals as a festive food in the form of the traditional chicken sauce (“Doro Wot” in Amharic). However, the traditional form of preparing chicken sauce is becoming more and more expensive in terms of time to prepare and requiring expensive ingredients such as butter, onions, and other spices. As a result, most consumers, especially the affluent groups are nowadays shifting towards consuming the less preferred but semi processed chicken meat produced and supplied by commercial farms.

### **3.5     MARKETING AND SALES PROBLEMS IN THE DOMESTIC MARKET**

ELFORA is the largest company in the country in the agro-industry sector with its existing facilities such as ranches, feedlots, processing plants, auxiliary equipment, and most importantly, the number and skill of its human resources. With its facilities widely scattered through out the country, the company could not use them owing to problem of adequate

market for its products resulting in higher overhead costs than competitors. This has placed the company at a competitive disadvantage for its products, and made it suffer from unattractive profit level.

Competitors, including small and medium size butcher shops, individuals suppliers, supermarkets, backyard slaughterers, etc. are getting better benefits from better use of capacity, lower cost of production and distribution, lower personnel costs, and also, according to the manager of local marketing and sales, these competitors usually supply lower quality products, and some are operating in the designated name of “NGO” privileged by exemption from tax and duty payments, while they are in fact engaged in profitable commercial activities.

During an interview with the manager of local marketing and sales, the following issues were raised as the most important factors to be considered with respect to the domestic market.

### **3.5.1 Distribution Outlets/Niche Markets**

ELFORA has currently concentrated its sales activities within and around Addis Ababa. The company is currently running a number of sales shops of its own that are located at various locations in Addis Ababa. The volume of sales made by many of the existing shops is so small that the absolute margin obtained by running these shops is not adequate enough to cover the costs of running them. In addition, the company at present has very few distribution agents for sale of its products. Majority of the distribution agents focus only on the benefits that the particular day brings to them. They are not concerned about long term business relationships and brand specialization.

### **3.5.2 Supply Consistency and Product Delivery System**

Supply inconsistency has been a persistent problem of ELFORA with respect to some of its products. Once products are made available in the market and a reasonable demand for the products have been created, the products suddenly disappear from the market. For example, tomato paste produced and supplied by ELFORA has a superior quality over that of other competitors. Aware of this, many customers prefer ELFORA's tomato paste. However, the supply inconsistency often disappointed customers with consequential loss of confidence on the company.

ELFORA's product delivery system is also unsatisfactory. Most of the company's customers in Addis Ababa constitute catering services that require timely delivery of the products they have ordered. The nature of the products to be delivered is such that they must be supplied fresh and can not be held in stock for a long time. The customers' requirement also makes the delivery difficult as most of them want to obtain the products at the same time in order to prepare the meal timely. The shortage of cold trucks, added to the high traffic jam within the city, has made the company ineffective in its product delivery to esteemed customers.

### **3.5.3 Scale of Operation**

One of the main drawbacks in ELFORA's operation is the underutilization of its existing production facilities. The existing food processing plants, ranches, feedlots and other auxiliary facilities remain idle for most of the time. Although the main reason for this is lack of adequate market for its products, the paradox is that some products with high and continuous demand oftentimes disappear from the market. Such supply inconsistency has damaged the image of the company and eroded the customer loyalty.

### **3.5.4 Raw Material Availability**

Unavailability of raw materials is the other main problem contributing to the underutilization of existing capacity. The seasonality of agricultural products such as tomato and other inputs for the production of canned products makes it very difficult to continuously engage the factories throughout the year. As a result, ELFORA is unable to take advantage of the benefit gained through mass production with lesser production cost. The company may engage its existing crop farm lands (through the application of irrigation system) in the production of raw agricultural inputs to be supplied to the processing plants for the production and continuous supply of canned vegetable products, thereby maintaining supply consistency in the markets, increased utilization of idle resources and attaining reduction in overhead costs which will enable it to strengthen its competitive position.

Live animals, especially cattle, are the major input for the production of beef and related products for domestic market. Price of live cattle changes frequently throughout the year depending the season and volume of illegal trade through borders. Such price fluctuation, usually upwards, puts ELFORA at a risk of reduced margin or loss as the supply of the product is mostly based on contractual agreements with major catering services and institutions, where in most cases, do not provide for the possibility of increase in selling price.

### **3.5.5 Price Competitiveness**

In the center of every business organization appears the issue of product prices. Businesses are established to achieve, among other things, a certain level of profit to ensure the survival and growth of the company as well as providing the owners with a return on their investment. Profit can be obtained only if the revenue, which is determined by the price and quantity of products sold, is greater than the cost of producing and supplying the product. In

the contemporary business environment, individual companies have no control over the level of prices of their products. This is especially true when the product in question is abundant and supplied in the market by many companies.

The majority of ELFORA's products (such as livestock and meat, eggs, poultry meat, and canned tomato paste) are produced and supplied by many domestic competitors at reduced prices. Although there is no data available on the cost structures of the competitors, their production facilities are much more less than that of ELFORA's. From this, it can be safely concluded that their overhead costs are much less than that of the latter. Consequently, ELFORA is usually forced to price its products at the level its competitors do.

The other factor for ELFORA's higher product prices is the purchasing characteristics of raw material inputs. Prices of agricultural raw materials are rising considerably these days. Now that farmers in the rural area have been equipped with mobile phones, they can hoard their produce and regularly monitor their market prices, thereby creating shortages in the market. The temporary shortage usually forces ELFORA to purchase at higher prices as the production and supply of some products should not be stopped due to contractual commitments. This situation is particularly aggravated in the production of poultry products, where the live chicken should continuously be provided with feed, which will otherwise be exposed to disease and eventual death.

### **3.6 EXPORT MARKET**

Ethiopia's proximity to the Middle East provides her with an opportunity for the export of livestock and livestock products to this region. The region is the world's most attractive market particularly for agricultural food products due to its wealth, growing population and demand. As a result, the region is also the most competitive market from all over the world. This is often and generally the relevant export market for Ethiopia's agricultural products, thus this paper tries to give some highlights on the nature of the market environment in this region.

Despite rigorous import regulations, the Middle East countries are the major importers of livestock and livestock products. The region is particularly the world's largest importer of live sheep and the second largest for mutton. Annual official imports of live sheep and goats by the Middle East Countries were about 12 million heads while the imports of mutton and goat meat amounted to 94,000 tons in 1999, in total over 260,000 tons annually.

The Middle East is also another major region for beef and veal meat imports. Including Egypt, import of live cattle by the region is over 360,000 heads annually (about 55,000 tons of beef) and nearly 345,000 tons (including Egypt and Iran) as carcass and boneless beef, the total Middle East imports of beef and veal would be about 400,000 tons.

In addition to the above official figures, 2,000,000 heads of live sheep and goat and over 200,000 heads of live cattle are estimated as illegal imports of the region.

As complete import data covering all the Middle East countries could not be available for recent years, import figures for 1983-1988 are averaged as follows to show individual country position in terms of import size and product preference.

**Table 3.14 Imports of Live Animals and Meat Products by Selected Middle East Countries (Average of 1983-1987/88)**

No.	Country	Live Sheep & Goats (Heads)	Live Cattle (Heads)	Beef & Veal (Ton)	Mutton & Goat Meat (Ton)
1	Saudi Arabia	5,626,400	65,000	48,727	26,377
2	United Arab Emirates	1,396,200	10,000	6,917	23,259
3	Kuwait	2,179,200	Na	12,773	7,367
4	Oman	194,500	1,000	2,138	11,479
5	Yemen	196,700	126,000	1,234	386
6	Bahrain	269,600	6,000	4,295	1,761
7	Qatar	18,500	Na	1,827	1,998
8	Egypt	57,200	156,000	181,572	10,034
9	Iran	Na	Na	84,000	120,750
	<b>Total</b>	<b>9,953,500</b>	<b>364,000</b>	<b>343,483</b>	<b>203,411</b>

*Source: Compiled from Ministry of Agriculture, Live Animal and Meat Export, Interim Report, March 1990.*

As can be seen from Table 3.14 above, Saudi Arabia is the dominant importer of live sheep and goats, with 56% of the total ME imports of live sheep and goat, followed by Kuwait and UAE with 22% and 14% share in the period, respectively. Egypt and Yemen are the two largest importers of cattle with 43% and 35% shares, respectively, followed by Saudi Arabia with 18%. Egypt and Iran are also the two important buyers of beef and veal with 53% and 24% shares respectively, while Saudi Arabia is in third place with 14% share.

Iran is the largest country in the import of mutton and goat meat, taking the lion's share of 59% of the ME imports during the period. Saudi Arabia follows with 13% share, and then UAE and Oman with share of 11% and 7%, respectively in ME imports of mutton and goat meat.

### **3.6.1 The Middle East Market Characteristics**

Generally, the Middle East markets have two distinct customer segments, the indigenous Arab population and the expatriate working in the region. The indigenous Arabs have demand preference for fresh meat of indigenous animal breeds of Africa and the nearby countries, e.g. preference for fat-tailed black head sheep of Somalia and Ethiopia, more favored meaty breeds of the Sudan and turkey. This consumer segment is more quality sensitive, paying higher price for prime quality meat.

The expatriate workers, on the other hand, are price sensitive and demand cheapest meats supplied from Australia and Eastern Europe countries. The markets of the region are mostly cash markets with substantial incomes from oil resources and have also affluent young population with higher disposable income and with more inclination for western consumption styles.

Trade in the region is mostly characterized by close personal contacts, and so frequent market visits, communications and face-to-face contact with importing traders are basic for establishing successful business relations.

Occurrence of religious Muslim festivals in the region are another characteristics of the Middle East markets leading to higher seasonal demands for live sheep and goats during the Hajj and Ramadan periods.

Another important characteristic of most of the Middle East markets is that, the countries in the region have strict regulations that make exporting to the region very complicated. Rigorous import regulations relating to animal health and “halal” (ritual slaughtering) requirements, and bilingual labeling (in English and Arabic) requirements make the process



of trading difficult. Since year 2000, major importing countries of the region such as Saudi Arabia, Oman, Qatar and Kuwait have imposed bans on importation of African cattle on the ground of the spread of livestock diseases especially in the Eastern African countries. The ban has still no lifted to date.

The supply shortages created by the ban has led to increased demand and prices for the indigenous African cattle thereby encouraging the growth in illegal livestock imports in Yemen, UAE, and Saudi Arabia, especially from Somalia, Djibouti and Ethiopia.

### **3.6.2 Ethiopia's Export Performance of Livestock and Meat Products**

According to data obtained from study reports and annual export statistics on the Ethiopian Livestock sub-sector, the estimated annual surplus off-take of livestock for export is:

- Cattle	352,000
- Sheep	1,420,000
- Goat	4,230,000
- Camel	23,000

Had all the above quantities been exported, the annual foreign exchange earnings would have been about Birr 1,824 million (USD 212 million). However, the country's export performance has been very far from reaching this figure, as has been discussed below.

Tables 3.15 and 3.16 below show export performance of Ethiopia in terms of quantity and earned value of exports made during 1986-1993.

**Table 3.15 Ethiopia's Export Performance in Livestock and Meat Products (1986-1993)**

*Quantity in tons*

Products	1986	1987	1988	1989	1990	1991	1992	1993	Annual Average	% Share	Growth Rate
1. Live Animal	4,653	13,175	15,675	6,840	4,674	484	0	1,048	5,819	90.5	-9.0%
2. Meat Products	811	1,805	1,535	307	208	138	15	40	607	9.5	-10.0%
<b>Total</b>	<b>5,464</b>	<b>14,980</b>	<b>17,210</b>	<b>7,147</b>	<b>4,882</b>	<b>622</b>	<b>15</b>	<b>1,088</b>	<b>6,426</b>	<b>100</b>	<b>-8.8%</b>

*Source: Compiled from Customs & Excise Tax Administration, Annual External Trade Statistics.*

**Table 3.16 Ethiopia's Export Performance in Livestock and Meat Products (1986-1993)**

*Value in '000 Birr*

Products	1986	1987	1988	1989	1990	1991	1992	1993	Annual Average	% Share
1. Live Animal	14,139	25,851	29,826	14,413	9,989	1,429	104	4,865	12,577	85.7
2. Meat Products	2,838	6,310	4,037	1,392	825	530	19	463	2,051	14.3
<b>Total</b>	<b>16,977</b>	<b>32,161</b>	<b>33,863</b>	<b>15,805</b>	<b>10,804</b>	<b>1,959</b>	<b>123</b>	<b>5,328</b>	<b>14,628</b>	<b>100</b>

*Source: Compiled from Customs & Excise Tax Administration, Annual External Trade Statistics.*

Ethiopia's export performance in livestock and meat products was relatively strong during the 1980's, with annual average export of 30,400 heads of cattle (50% in live and 50% in meat) and 222,350 heads of sheep and goats (93% in live and 7% in meat) between 1983/84 and 1987/88. The highest export performance ever achieved was in 1987/88 when 34,070 head of cattle (75% in live and 25% in meat) and 344,650 heads of sheep and goats (94% in live and 6% in meat), which was equivalent to a total of 17,200 tons of meat for a total value Birr 33.86 million (about USD 13.54 million) (MOA, Interim Report).

However, the export performance after 1988 began to decline substantially until it reached the lowest level of 15 tons of meat with a total value of Birr 123,000 (about USD 49,000) in 1992. Again, the export performance began to show a slight improvement since mid-1990s, until 2001 when it dropped again to the lowest level during the period from 1994 to 2001. Tables 3.17 and 3.18 below show export performance of Ethiopia in quantity and earned value of exports made during 1994-2001.

**Table 3.17 Ethiopia's Export Performance in Livestock and Meat Products (1994-2001)**

*Quantity in tons*

Products	1994	1995	1996	1997	1998	1999	2000	2001	Annual Average
1. Live Animal	2,046	530	143	2,115	823	1,093	1,404	105	1,032
2. Meat Products	209	580	1,268	1,820	2,508	1,906	1,166	799	1,282
<b>Total</b>	<b>2,255</b>	<b>1,110</b>	<b>1,411</b>	<b>3,935</b>	<b>3,331</b>	<b>2,999</b>	<b>2,570</b>	<b>904</b>	<b>2,314</b>

*Source: Compiled from Customs & Excise Tax Administration, Annual External Trade Statistics.*

**Table 3.18 Ethiopia's Export Performance in Livestock and Meat Products (1994-2001)**

*Value in '000 Birr*

Products	1994	1995	1996	1997	1998	1999	2000	2001	Annual Average
1. Live Animal	9,566	5,626	1,137	16,397	5,693	8,970	10,960	430	7,347
2. Meat Products	3,038	7,686	16,595	2,789	36,823	30,770	19,420	12,970	19,399
<b>Total</b>	<b>12,604</b>	<b>13,312</b>	<b>17,732</b>	<b>44,288</b>	<b>42,516</b>	<b>39,740</b>	<b>30,380</b>	<b>13,400</b>	<b>26,746</b>

*Source: Compiled from Customs & Excise Tax Administration, Annual External Trade Statistics.*

After the reversal from the export slump in 1992, the performance in terms of value increased by an annual average rate of more than 50% from Birr 12.6 million in 1994 to Birr 44.3 million in 1997. From 1997 onwards, however, the performance started to decline until it reached the level of Birr 13.4 million in 2001.

During the period 1986-1993, an annual average quantity of 6,424 tons (Table 3.15) valued at Birr 14.6 million (Table 3.16) of live animals and meat products were exported, while the performance during the 1994-2001 period shows an annual average export of 2,314 tons (Table 3.17) valued at Birr 26.7 million (Table 3.18).

A comparison between the two periods shows a 64% decrease in quantity of sales but an increase in value by 83%. The percentage increase in value for the reduced percentage in the quantity of sales in the second period may be attributed to a higher selling price than in the previous period owing to the diversion of the export mix more to the value added meat

products (72%) than live animals (28%) as against the mix of 14% meat and 86% live animals in the previous period.

**Table 3.19 Ethiopia's Export Performance in Livestock and Meat Products By Product and Destination (Annual Average of 1995-2002)**

*Quantity in Kg*

Destination	Live Animals					Meat Products						Total	
	Bovine Cattle	Sheep	Goats	Total	%	Beef	Mutton	Goat Meat	Others	Total	%	Grand Total	%
1. Djibouti	154,180	10,930	2,790	167,900	19.6	1,780	2,100	6,430	1,890	12,200	0.9	180,100	8.0
2. Saudi Arabia	56,450	434,230	24,730	515,410	60.1	1,440	110,700	323,470	1580	437,190	31.4	952,600	42.4
3. Yemen	39,830	92,700	4500	137,030	16.0	1,250	8,630	3,470	1,250	14,600	1.0	151,630	6.7
4. UAE	6,080	-	7050	13,130	1.5	8,230	29,690	732,280	390	770,590	55.4	783,720	34.8
5. Iran	-	5,630	-	5,630	0.7	7,740	10,010	133,190	390	151,330	10.9	156,960	7.0
6. Kuwait	-	-	-	-	-	-	1,560	10	-	1,570	0.1	1,570	0.1
7. Oman	-	-	-	-	-	90	60	680	-	830	-	830	-
8. Ukraine	-	-	-	-	-	-	1,060	-	-	1,060	0.1	1,060	0.1
9. Egypt	380	-	-	380	-	-	-	-	-	-	-	380	-
10. Indonesia	330	-	-	330	-	-	-	-	-	-	-	330	-
11. Europe	15,600	-	1,800	17,400	2.1	10	-	2120	-	2130	0.2	19,530	0.9
Total	272,850	543,490	40,870	857,210	100	20,540	163,810	1,201,650	5,500	1,391,500	100	2,248,710	100
%				38.1						61.9		100	

*Source: Compiled from Data Base Report of Ethiopian Export Promotion Agency*

**Table 3.20 Ethiopia's Export Performance in Livestock and Meat Products By Product and Destination (Annual Average of 1995-2002)**

*Value in USD*

Destination	Live Animals					Meat Products						Total	
	Bovine Cattle	Sheep	Goats	Total	%	Beef	Mutton	Goat Meat	Others	Total	%	Grand Total	%
1. Djibouti	88,750	11,810	2,370	102,930	10.6	4,270	4,780	13,970	2,410	25,430	0.9	128,360	3.4
2. Saudi Arabia	22,060	566,350	28,200	616,610	63.4	3,300	246,890	646,420	1,840	898,450	32.1	1,515,060	40.1
3. Yemen	16,760	98,330	4,350	119,440	12.3	1,410	9,620	5,650	3,530	20,210	0.7	139,650	3.7
4. UAE	5,670	-	8,890	14,560	1.5	14,320	58,410	1,464,350	680	1,537,760	54.9	1,552,320	41.1
5. Iran	-	5,790	-	5,790	0.6	12,020	21,840	267,050	750	301,660	10.8	307,450	8.2
6. Kuwait	-	-	-	-	-	-	3,380	20	-	3,400	0.1	3,400	0.1
7. Oman	-	-	-	-	-	180	150	1,440	-	1,770	-	1,770	-
8. Ukraine	-	-	-	-	-	-	1,760	-	-	1,760	-	1,760	-
9. Egypt	8,330	-	-	8,330	0.8	-	-	-	-	-	-	8,330	0.2
10. Indonesia	6,350	-	-	6,350	0.7	-	-	-	-	-	-	6,350	0.2
11. Europe	96,240	-	1,860	98,100	10.1	10	-	3,200	-	3,210	0.1	101,310	2.7
Total	244,160	682,280	45,670	972,110	100	35,510	346,830	2,402,100	9,210	2,793,650	100	3,765,760	100
%				25.8						74.2		100	

*Source: Compiled from Data Base Report of Ethiopian Export Promotion Agency.*

**Table 3.21 Total Imports of Livestock and Meat Products by Selected Middle East Countries (Annual Average of 1990-1994)**

*Value '000 USD*

Country	1990	1991	1992	1993	1994	Average	Ethiopia's Export	%
1. Saudi Arabia	551,568	401,047	427,253	586,369	449,137	483,075	1,515	0.3%
2. UAE	115,253	114,044	110,242	152,247	163,771	131,111	1,552	1.2%
3. Yemen	16,334	16,508	15,046	14,901	8,194	14,197	140	1.0%
Total	683,155	531,599	552,541	753,517	621,102	628,383	3,207	0.5%

*Source: Extracted from Canadian Agriculture and Agri-Food Exporters- Guide to Opportunities in the Middle East, July 1997.*

*Note: Poultry products have been excluded from the data in the table.*

The Middle East has long been the natural export destination for live animals (cattle, sheep, goats), beef, mutton and goat meat of Ethiopian origin.

With virtually inaccessible markets of developed countries and low purchasing power of the nearby developing nations, the only best market for Ethiopian livestock and meat products will be the Middle East, both in terms of demand and paying ability. The region offers significant opportunities for exporters in the sector such as ELFORA due to the following main comparative advantages:

- The geographical proximity of the region offering competitive advantage from relatively reduced transport costs and short delivery time.
- The inherent taste preference developed by the high-income segment of the indigenous Arab population for Ethiopian animal products, and better price if products are supplied in good quality.
- The existence of a large and growing market that can easily absorb the national livestock off-take capacity for export.

Thus, as shown in Table 3.21 above, the value of imports of livestock and meat products for the three selected Middle East countries indicates that, the Middle East markets provide

ample sales outlets for able exporters in Ethiopia, who can meet the various requirements imposed by the countries in the region.

From Table 3.21, we can also observe that Ethiopia has not benefited from the huge market opportunity existing in the Middle East for livestock and livestock products.

The potentially available natural off-take of livestock for export could have taken the market share of 33.7% in the combined annual imports of Saudi Arabia, UAE and Yemen had the total off-take been fully exported.

However, in spite of the available potential capacity and the opportunities in Middle East markets that are open to Ethiopia, i.e. its close proximity, preferred products, the large market size and purchasing power, the average share of its live animals and meat exports to these markets has only been 0.5% during 1990-1994. However, though not complete and official data, the performance review document prepared for ELFORA for year 2003/04 indicated the total value of meat products exported to these countries reached about USD 16 million, which is exactly five times that of the average annual export figure of USD 3.2 million during 1995-2002. Even assuming the average imports shown in Table 3.21 remain the same (which is unlikely), the export figure in 2003/04 would only be 2.5% of the annual average imports by the three countries.

Thus, in spite of the potential capacity and the favorable opportunities existing in the Middle East markets, the market share obtained in these markets by Ethiopian exports of live animals and meat products has remained insignificant.

While the constraints preventing the full exploitation on the prevailing opportunities in the exports of live animals and meat products are numerous, the major constraints in the external trade are the following:

- The prevalence of widespread livestock diseases nationwide causing repeated bans by importing countries on Ethiopian exports of livestock and meat products.
- Absence of own sea ports after the closure of the Assab Port to Ethiopia's foreign trade after the independence and subsequent war with Eritrea. The only exit corridor for export of the country's live animals to the Middle East remained to be the port of Djibouti. However, the absence of readily available and adequate infrastructure and facilities at the Sea Port of Djibouti to efficiently handle the export of live animals, together with the unreasonably high service charge have weakened the competitive capacity of exporters, including ELFORA, thus discouraging the export of live animals altogether.
- With the discouraged export of live animals through sea ports, the trade over the past eight years almost completely shifted to the export of meat products by using passenger air transport, which could avail only very limited payload space. The domestically available cargo air transports are also expensive and even could not provide adequate facilities that fulfill meat export requirements. Foreign cargo crafts could not be leased owing to the existing high rates of landing fees and airport service charges, thus making the meat export business also very uncompetitive for exporters.
- The threat from illegal trade in livestock is another major constraint facing official trade. The ability of the illegal traders to pay substantially more for livestock through favorable effective exchange rates of the Birr to foreign currency (e.g. Kenyan

Shilling) than the official rates, has imposed pressure on official exports in terms of creating supply shortage and increased purchase price.

- The foreign exchange control of the Ethiopian National Bank, which does not allow extension of credit sales, which is much required by the trade customs of the Middle East markets has discouraged the choice among several big importers of the region, and has forced exporters to rely on the few who are willing to make advance payments, that include mainly commission agents acting as intermediaries between exporters and the actual importers. This situation has posed limitations on exporter's capacity to increase number of customers and sales volume.

The aforementioned major constraints, added to the various inland charges that inflate export costs (such as repetitive municipal taxes and fees in the regions during movement of livestock, documentation fees, etc), have negatively affected the competitive position of the exporters, including ELFORA, in relation to exporters from other countries. These situations have severely hampered exporters' confidence of investing on additional production facilities and rehabilitation of the existing ones that would have enhanced productivity and quality of export products.

Therefore, strong and concreted efforts on the part of all stakeholders, notably the Federal and Regional Governments, including exporters, should be made to resolve the many obstacles facing the export of live animals and meat products in order to exploit the existing national potential and market opportunities, thereby turn the dying export business of live animals and meat products into revival for the benefit of all stakeholders.



### **3.6.3 Export Performance of ELFORA**

ELFORA has currently two abattoirs approved for export of meat products to Saudi Arabia and United Arab Emirates (UAE). Following its establishment in 1997, the first export was made in 2002/03 after the ban on imports of livestock and meat products from African countries were lifted in the second half of 2002.

Thus, in 2002/03, meat products valued at Birr 15.2 million were exported to these countries. This achievement was about 73% of the national export performance of meat products during the same period. In 2003/04, the value of export increased by more than 100% to reach at Birr 30.5 million. In 2004/05, with a slight increase of 15%, a total of Birr 35.1 million worth of meat was exported. The export value again jumped to Birr 45.1 million in 2005/06, which was an increase of about 30% from that of the preceding year. These performance figures constitute only export of meat products, and do not include the value of some irregular and insignificant exports of live cattle to Yemen.

The continuous increase in export performance figures clearly supports the previous discussions made on the vast market opportunity the Middle East provides for Ethiopian livestock and meat products. However, the export market has its own problems.

All meat products exported to these countries are from sheep and goats. Availability and price of live sheep and goats are very volatile, making it difficult to obtain a steady and profit margin. Like most of the domestic market, the export sales are bound by contractual arrangements, where frequent adjustment of selling prices is not possible.

The export market is also threatened by frequent ban by Middle East countries on import of Ethiopian meat products. Recently, for example, United Arab Emirates (UAE) has imposed

ban on imports of meat from Ethiopia on the ground of the prevalence of widespread livestock disease in the Eastern Africa. Surprisingly enough, the “spread of the disease” coincided with the recent Ethiopia’s military involvement in Somalia.

## **CHAPTER FOUR**

### **CONCLUSION AND RECOMMENDATIONS**

#### **4.1 CONCLUSION**

Ethiopia's economy depends heavily on agriculture. In addition to possessing a large land mass for crops production, the country is one of the largest livestock inventories in Africa with livestock ownership currently supporting and sustaining the livelihoods of an estimated 80 percent of the rural population. The livestock wealth of the country puts her first in Africa and tenth in the world (FAO, 2004).

In spite of the huge potential for agricultural production, the development of the sector so far is far lower than the estimated potential. At least some 60% of the country's landmass (about 112 million hectares) is useable for some form of agricultural production. Although at least 30 million hectares is considered suitable for arable agriculture using current technologies, data for 2004/05 shows that less than 10 million hectares has been used for crop production (CSA, 2005). The country is supposed to have enough water to irrigate at least 3.5 million hectares of land, but not more than 121,493 hectares (less than 4%) was developed for the purpose in 2004/05 (CSA, 2005).

Ethiopia could not benefit as much from the sector as the enormous opportunities it provides. Frequent droughts are recent phenomena in the country. Annual export of agricultural and agro-industrial products constitutes the bulk of 84% of the total exports (CSA, 2005), the dominant product being coffee with 37% of the total exports made in 2003/04. Yet, the deficit in the balance of trade was more than five times in the same year.

Agriculture, being at the forefront of the overall economic development effort of the country, determines, in most part, the growth of the industry and service sectors. The involvement of private sectors in the sector is of paramount importance as the government alone will not be able to achieve the development goal with a satisfactory pace. Agro-industry companies, such as ELFORA, play a vital role in the development of the sector by employing modern technology and management geared towards improving production and productivity of agricultural and agro-industrial products.

Sustainable economic development of the country largely depends on the survival and growth of the private sectors. The goal of survival must come at the forefront in any business organization, which can only be ensured through growth and profitability. This true because any firm that is unable to make profits will be incapable of meeting the aims of any of its stakeholders. Despite this fact the goal of survival is the most neglected one in goal setting process. Hence striving for survival must be the center of the goals of the strategic business plan of ELFORA Agro-Industry P.L.C. The company's other objectives can only be achieved through a sustainable realization of its profit objective.

Without adequate profit, companies like ELFORA will not survive let alone achieve a level of growth that will have a significant impact on the country's endeavor towards economic development.

In Section 1.3 of the paper, it was mentioned that ELFORA's main problem has been inadequacy of profit. The low level of profit in comparison with the huge amount of investment on outdated production facilities hindered the attainment of growth through additional investment on current and up to date technologies.

In order to attain the profit objective, ELFORA should consider the factors such as sales volume, scale production, timely purchase of raw material inputs, product costs, and product selling prices. These factors go hand in hand. In order to attain scale production, there must be available market demand sufficient to absorb the increased quantity of products that are produced; and in order to sell in increased quantity, prices must be less than or at least equal to competitors' prices for the same product. Attainment of price competitiveness, in turn, requires costs of production to be reduced, which partly can be achieved through scale production, but mainly by timely purchase of raw material inputs (which constitute 70-80% of product costs) when prices are lower and maintaining minimum stock.

#### **4.2 RECOMMENDATIONS**

While the problem issues have been discussed in detail under Section 3.5 on pages 46 through 50 for the domestic market, and on pages 60 and 61 with respect to export market, the following recommendations are presented for the company's management consideration to help in their efforts towards improving the company's present position in terms of marketing and sales activities in general and profitability in particular.

- The company needs to make use of its plant sites located in the various regions of the country such as Dire Dawa, Kombolcha, Gonder and Hawassa towns by making them actively engaged in the marketing and sales of its range of products in the markets of their localities.
  
- The company should appoint reliable wholesale and commission agents with proven financial standing and reputable customer image, especially for distribution of relatively less perishable and slow moving products like canned meat, canned

vegetable products, cooked meat, poultry meat and eggs in Addis Ababa, but mainly in the towns in other regional states.

- The company should decide to close the retail shops which cost more than the benefit they bring, and concentrate on the others that are located at strategic places, and which can make relatively higher sales.
- ELFORA should concentrate its marketing efforts in penetrating additional niche market segments of the prime catering services, in addition to maintaining and increasing its sales volume with the existing catering segments.
- ELFORA is also required to embark on a carefully planned and well organized seasonal and holiday sales programs targeting occasional premium-priced markets and supplying feedlot fattened/conditioned live cattle of high quality, thus gradually building up its image as supplier of quality products in the eyes of the mass consumer.
- In order to stand the prevailing competition in the domestic market, the company should strive more to take advantage of economies of scale by using the existing facilities to the maximum possible capacity in the production of the range of existing and new products, thereby significantly reducing its fixed overhead costs, which will lead to increased sales volume and a higher and better market share and profit level.
- It is very crucial for the pricing strategy of the company that timely purchases of raw materials when prices are relatively lower, and maintaining sufficient stock in order to avoid the risk of scarcity and consequential increase of production cost. The

company should strike a balance between the cost advantage obtained by maintaining minimum stock and the risk of obsolescence and higher carrying costs.

- The company should implement flexible pricing strategies by adjusting prices based on the market situation, and should adopt a low-cost strategy by taking advantage that accrues from efficient and increased utilization of production and distribution capacities, with only occasional application of penetrating price techniques whenever market situations demand.
- The existing quarantine, ranches, feedlots and holding grounds should be maintained and upgraded to provide the necessary feed and health services for live animals. It is therefore important for the company to consider the possibility of accumulating a minimum stock of live cattle in its existing holding facilities so as to avoid the risk of price increase and to make consistent supply of live cattle to the processing plants.
- The company should devote special attention on developing a well organized and synchronized product supply system, storage and transportation of its products in order to make efficient and effective delivery and an all-time availability of its products to the clients in the wholesale, retail and catering outlet chains as well as the household consumers. This will help develop and maintain supply dependability, high product quality and excellent customer service, thereby providing complete satisfaction to customer values that would build high company image, develop and maintain customer goodwill and loyalty to its products.
- The company should invest in new technologies that would help the development of suitable and attractive packaging and labeling of its products.

- The company should adopt a policy involving sales terms for extending credit facilities to well-established and reputable clients, especially to boost sales volume of slow moving products such as canned meat and vegetable products.
  
- As far as the export market is concerned, most of the problems such as shortage and high price of sheep and goats, scarcity of air space, prevalence of diseases and poor quality of livestock, and bans on imports are beyond the control of any individual company. With this respect, ELFORA should only try to grab the maximum possible advantage whenever the export market provides an opportunity. By doing so, the company can cover at least some of the fixed costs such as salaries of permanent employees and depreciation of fixed assets, which accrue on the basis of time rather than on volume of production.

Thus, implementing the aforementioned strategies will undoubtedly help ELFORA improve its competitive position, sales volume and market share, thereby attaining the level of profit that guarantees the growth and survival of the company.