Horticultural Marketing in Ethiopia

Submitted in partial fulfillment to the requirements of Master in Business Administration

By

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Approved by Board of Examiners

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Statement of Certification

This is to certify that Ato Alazar Ahmed has carried out his research work on the topic entitled **Horticulture Marketing in Ethiopia**

The work is original in nature and is suitable for submission for the award of Masters Degree in Business Administration (MBA).

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Advisor: Assistant Professor Rakesh Balewal

Date: ________________________

Statement of Declaration

I, Alazar Ahmed, hereby declare that this study, **Horticulture Marketing in Ethiopia** is my own work. I have carried out the present study independently with the guidance and support of the research advisor, Assistant Professor Rakesh Belwal. The study has not been submitted for award of any Degree or Diploma Program in this or any other Institution. It is in partial fulfillment to the requirement of the program Masters Degree in Business Administration (MBA).

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Alazar Ahmed

Date: ___________

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And also I would appreciate willingness of cut flower companies, fruits and vegetables exporters to respond to the questions. This work would not have been possible without their open and unreserved response to each question.

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Abstract

Horticulture marketing is a growing agricultural sector for Africa. The general objective of this study is to review horticulture sector from marketing perspective and recommend marketing strategies to foster the sector growth in a profitable manner.

The primary sources of data are questionnaire collected from horticulture companies. The secondary sources are publications from websites, books, journals, and periodicals released by ministry of agricultural, Ethiopian Investment Authority, FAO, and Ethiopian Horticulture Association

The analysis part analyzes responses collected from private and public horticulture marketing companies and enterprises. It selected 15 horticulture companies. Questionnaires that were distributed to 15 horticulture and floriculture companies reflect the industry marketing facts and insights.

Different recommendations are forwarded. The most crucial ones are Horticulture companies should follow up and conform to quality standards of countries to which they export. In case of domestic markets abundance of horticulture products may contribute to large scale perish of produces. As a result they need to produce optimal quantity to local consumption at affordable price level as price is detrimental to attract more local buyers.

Chapter One

Introduction

1.1 Background of the project

Agriculture marketing is a cornerstone for Ethiopian population, which is located at the horn of Africa. Agriculture in Ethiopia records above 50 percent of the gross domestic product and engages 92 percent of the total population. Agricultural products comprise the predominant part of the country's total exports, with coffee accounting for more than 60 percent of the total export value and the remaining 40% are exports of hides and skins, oil seeds, and horticulture products such as fruits and vegetables. (Zakaria, 2000)

Ministry of Agriculture reported that the country had obtained 7.1 million USD through export of over 21, 000 tons of horticultural products in the previous seven months since August 2006. Holland, Italy, Norway, Britain, Saudi Arabia and Djibouti were among the main export destinations, adding finger millet and strawberry were among the major export items. Mostly the products have been exported via the eastern border town Dire Dawa and the capital Addis Ababa (http://www.ameinfo.com/).

Ethiopia's appeal lie in its proximity to consuming markets, such as Europe and West Asia, its ideal climate conditions all year round, the improved investment code in the country, the accessibility to bank loans and the availability of land. Located in the equatorial belt, Ethiopia has an ideal climatic condition that helps in producing good horticultural products. The Ethiopian government offers large tracts of land for horticultural companies on a perpetual long-lease at very attractive rentals.

Horticulture products are perhaps mostly easily defined as what they are not. They are not cereals or the major industrial crops. Generally, but not exclusively, they are not staple crops. Important characteristics of horticultural crops are that they

- Are mainly eaten for their contribution to the flavor and interest of food
- Are not basic food commodities
- Consumption level vary depending on the selling price
- Are not traded in large volumes and there is a limited market
- Are perishable
- Are traded in a very free market where price is determined by supply and demand (Dixie, 2005)

Such characteristics of horticulture products therefore needs due attention in order to drive profitability and sustainability. For this reason, a marketing strategy should be designed to manage agricultural products such as horticulture.

> "Agriculture marketing then is best defined as the performance of all business activities involved in the flow of goods and services from point of initial agricultural production until they are in the hands of consumers." (Kohls and Uhl, P. 7)

Horticulture marketing can be defined as

> It is series of activities involved in making fruits, vegetables, and flowers available on level of market requirements to the point of consumption (FAO, P.3)

Horticultural production is concentrated in the lowland areas, with most households producing vegetables, with a quarter of those surveyed growing fruits. The Upper Awash Agro-Industry, the Ethiopian Horticulture Share Company, the Horticulture Development, Ethio Flora, and Ethio Veg- Fru are among the major exporters. (http://www.dfidweb.dfid.gov.uk.)

1.2 Statement of the problem

Horticulture marketing is a growing agricultural sector for Africa (http// www.ethiopianreporter.com). East Africa is the world's major flower producer with Kenya alone exporting horticultural products worth around 400 million U. S. dollars annually and commanding over 25 percent of the total flower sales into Europe. Agricultural experts worried that Kenya may lose key EU market to Egypt, Morocco and other emerging producers including Ethiopia. (http://englishpeople.com).

Horticulture marketing is not growing as expected for the following reasons

- Hike in airfreight costs,
- increasing stringent standards set by target markets
- Poor diversifying products and markets
- finding new ways for transport and building strong strategic alliances with partners in the supply chain
- poor scheduling production when there is limited competing supply
- weak market assessment in identifying the highest price buyer (http://english.people.com.cn/archive)

1.3 Objective of the study

The general objective of this study is to review horticulture sector from marketing perspective and recommend marketing strategies to foster the sector growth in a profitable manner. The specific objectives are

1. To identify those horticulture products which currently or potentially produce high revenue and profit and recommend sustainable strategies of managing them
2. To benchmark marketing strategies how sample of horticulture companies plan and implement
3. To highlight strategies and provide recommendations on how horticulture sector may grow

1.4 Methodology

1.4.1 Source of data

The primary sources of data are questionnaire collected from horticulture companies' managers and association, chamber of commerce, and agricultural office.

The secondary sources are publications from websites, books, journals, and periodicals released by ministry of agricultural, Ethiopian Investment Authority, FAO, Ethiopian Horticulture Association, reference to tabloids and articles contributed on national and international newspapers and magazines.

1.4.2 Sampling Techniques

In order to represent both government and private horticulture enterprises, the study applies stratified sampling techniques. Companies are classified into government owned and private. Companies are selected on the bases of horticulture products they market. The paper will list down what horticulture products are to be covered in the scope of the study.

1.4.3 Analysis of Data

Software programs for social scientists (SPSS 11) are applied to analyze results of interviews conducted with marketing managers or employees and questionnaire collected from employees of different horticulture companies. In application of the software programs, any statistical tool which can better analyze the sample size will be applied to better describe facts and figures of the study.

1.5 Scope of the study

The thesis focuses on cut flowers, fruits, and vegetables only for they secure high amount foreign exchange for the country. The theses are analyzed from the angle of pricing strategies, differentiation strategies, physical distributions, and promotional strategies. Eight, two, two and three companies are engaged in growing and pack, processing, wholesaling, and retailing activities respectively.

1.6 Significance of the study

Horticulture industry contributed little to the country's economy though there were some enterprises, like Etfruit, established within the sector. It is also notable that the private sector has started to invest large amount of money in the industry within short period of time.

Due to these slow developments of the sector, there were almost no formal papers produced under horticulture marketing. And this paper can be a stride to further market research on the sector.

1.7 Organization of the paper

The project is outlined in the following chapters.

Chapter one: Introduction

1.1 Background

1.2 Objective of the study

1.3 Significance of the study

1.4 Delimitation of the study

1.5 Limitation of the study

Chapter Two: Literature Review

Chapter Three: Conceptual Framework

Chapter Four: Analysis

Chapter Five: Conclusions and recommendations

Chapter Two

Literature Review

Worldwide exports in fruits and vegetables increased with 37% over the period 1993- 2002 to an estimated 75 billion US$. International demand for floricultural products was estimated by the Flower Council of Holland at US$25 billion in 1990 and has been the reason behind the growth of this industry. The largest single market is Western Europe, with sales of US$12.5 billion, followed by Japan and the United States with US$6 billion each (Alan et. al., 1998). However, the West European market for cut-flowers and potted plants has been growing at a decreasing rate since the early 1970s.. Following the 25-year period from 1958 to 1983, in which turnover increased at 13.5 per cent (peaking at 19 per cent during 1968-73), sales growth has slowed considerably and was only 5.4 per cent during 1988-93 and in 1992. For the first time in four decades of uninterrupted growth, sales turnover actually declined much to the consternation of the European flower trade and its overseas suppliers who had based their investment plans on an assumption of indefinite growth. Declines also happened in 1995 (-1.4 per cent) and in January and February 1996 (-5.2 per cent). (www.tuinbouw.nl)

At global scale the total harvested area of vegetables increased by almost 50% in the past 10 years, with the largest increase taking place in Asia. In Sub Saharan Africa (SSA) an increase of about 25% is observed in the period 1993-1999, but stabilizes in the following 4 years. In Ethiopia harvested area of vegetables in the same period is observed with a total of almost 261875 ha in 2003(Sisay Habte, 2004).

Global production levels of vegetables increased by 55%, the majority of this increase coming from area expansion. Growth in productivity (yields per unit area) is limited with approximately 0.5% annually. In SSA a 30% increase in total production of vegetables has been realised, with comparable growth rates of annual productivity.

The total harvested area of fruits worldwide increased with 14% in the period 1993- 2003. In SSA a growth of 11% was realised against a decline of 6% in the EU. Global fruit production increased 22% in the period 1993-2003, against 14% in SSA. (www.intracen.org)

In Ethiopia, vegetables and fruits are produced in smallholders and some state-owned farms. The lion share in terms of area and produce comes from the smallholder sector. According to MOARD (2005), about 99% of the area allocated to horticulture production is cultivated by smallholders, which produced 428,752 tons of fruits and 2,107,292 tons of vegetables (Bezabih Emana and

Hadera Gebremedhin, P.26) and state-owned farms produced 218003.98 in the same period of time. (Habte, P.104).

Although difficult to quantify, the local market for horticultural crops is expanding very rapidly, as indicated by the growing number of fresh food markets and growth in importance of specialized commercial horticulture. However, there are no reliable figures on total marketed production and price trends, which can be accessed by growers or organizations to plan for an efficient marketing strategy for the domestic market.

The demand for roses emanates mainly from, the northern countries and can be broadly divided into three geographical areas of North America, Europe and the Far East including Japan. While USA's demand for roses is mostly met through imports from South American producers, viz., Columbia and Ecuador, Europe receives flowers mainly from Africa, Israel and local producers. Japan's market is catered to by Asian as well as European growers.

The US market has matured over the years and with reduced domestic production since 1999 imports have increased from 144 million to 160 million stems. The wholesale price also increased from 37.70 cents to 39 cents.

Unlike the UK and USA surging and maturing market, the Germany market has always been the largest in Europe for consumption of cut-flower.75% of their imports comes through the Dutch auction and this amounts to as high as 36% of the export from The Netherlands. Surprisingly, sales continue to happen more out of traditional florists' shops and farmer markets than chain stores as in the UK. (www.tuinbouw.nl)

2.1 The Horticultural Supply Chain

2.1.1 Horticultural supply chains in general

The supply chain is the connected series of activities, which is concerned with planning, co-coordinating, and controlling material, parts, and finished goods from suppliers to customers (Steven, 1998). It is concerned with two distinct flows through the organisation: materials and information. The scope of the supply chain begins with the source of commodity being supplied and ends at the point of consumption. It extends much further than simply a concern with the physical movement of material and is just as much concerned with supplier management, purchasing, materials management, manufacturing management, facilities planning, customer service and information flow as with transport and physical distribution (Steven, 1989).

The supply chain encompasses all activities associated with the flow and transformation of goods from raw materials stage, through to the end user form, as well as the associated information flows (Handfield/Nichols, 1999).

In this study, the supply chain of horticulture products is defined as a set of production, distribution and marketing process of the horticulture products. Though this study focuses only on parties and actors in marketing, horticulture supply chains comprise of many actors including input suppliers, growers, pickers, packers, processors, storage and transport facilitators, marketers, exporters, importers, distributors, wholesalers, and retailers.

2.1.2 Horticultural supply chains in Ethiopia

The success of the horticultural sector is largely based on the efficiency and flexibility of the marketing system. Though grown widely for subsistence purpose, most horticultural products contribute to the generation of income at household and country level. A bulk share of the potential demand of horticultural products is in urban areas and in foreign markets. This underscores the importance of efficient marketing strategies for various commodities. According to Ethiopian Export Promotion Agency, the current distribution chain of horticultural commodities in Ethiopia varies depending on the commodity and its level of commercialisation(Habte, 2004). The following paragraphs further define seven groups in horticulture marketing with exclusion of customers identified.

Fruits and vegetables marketing

Most of the fruits and vegetables produced in Ethiopia are consumed locally and are produced by smallholder farmers. After harvest, they are transported to rural market centers for local consumers or are bought at the farm by neighbors. Others are transported to bigger market centers where many producers utilize the open-air markets that are patronized occasionally, once or twice a week. Limited post harvest improvement is done for locally consumed fruits and vegetables (Habte, 2001). However, fruits like banana, orange, lemon, pineapples and avocadoes exported to Europe and Middle East are graded and packaged appropriately.

Flowers

Flowers grown in Ethiopia have their market in Europe. Most of the flowers are grown in well-managed farms with links to importers abroad. Generally market channels vary widely depending on the commodity, the location of the final consumer relative to the production area and the degree of processing. It is important to distinguish between market channels to serve rural consumers, urban consumers, and the export market. The diversity in the channels is reflected in the number of participants involved in the marketing of various commodities. The participants in the marketing process include input-suppliers, producers, intermediaries/ wholesale traders, processors, transporters, retailers and consumers (Habte 2001).

Horticultural Producers

Producers are important participants in the supply chain since they ensure the commodity is available for the initial transaction to take place. The smallholder producers do not have good marketing strategies for their produce as they wait for traders to go and buy the commodity at farm gate. In most cases, there are no organised farmer groups or marketing associations to facilitate the marketing process. As a result, farmers are basically price takers. An overview of the main actors:

Agents/brokers – Intermediaries

The intermediaries or rural traders are involved in rural purchases and transportation arrangements and sales at the terminal markets or distribution points. They literally go round the farms buying horticultural produce; in some cases they are involved in actual harvesting to meet the targeted volumes for the day. The rural traders set the price they want to buy the produce from farmers. They are the most powerful participants in the marketing process since they determine the price at farm level and at the terminal market. The rural traders sometimes double up as wholesalers once the commodity has reached the market place. Individual traders use a common place to display and sell the commodity in the various markets. Intermediaries are more vocal in the marketing of commodities that do not have formal marketing arrangements. Their business thrives in marketing produce such as fruits, vegetables and in some cases spices.

Transporters

They facilitate the movement of the commodity from the production point to the consumption end. In Uganda, transportation of produce from site of production to market is inadequate. This is mainly due to lack of appropriate means of transport. Transportation of horticultural produce from the field is tedious (carrying the produce on the head). Sometimes wheel burrows and bicycles are used to ferry the produce to rural periodic markets. From village to trading centres bicycles and motorcycles are used within the rural areas. Motor trucks are used when volumes are large, and distances are long. Big commercial growers/exporters use cold or refrigerated trucks to ferry produce to the airport, from where produce is air lifted to its final destination. Transporters play a key role in moving the produce from rural to urban markets due to the wide variation in agro-ecological zones and geographical distribution of horticultural produce.

Wholesalers

These are the individuals found at the market place dealing with bulk quantities of produce. The wholesalers sell the produce to the retailers who then sell to consumers. The wholesalers buy the produce from producers and rural assemblers and are crucial in determining the price at other levels. Their main buyers are retailers, institutions and processors.

Retailers

The retailers stock very small quantities of the commodity, mainly due to high cost and limited demand among the users. The units of measure at the retail point vary depending on the clients and the quantities the retailers are able to afford. The main buyers from retailers include individual households, hoteliers and institutions dealing in relatively small quantities.

Consumers

Different types of consumers are served through different market channels. The consumers in the domestic market and the regional market are served by various channels depending on the type of commodity, the location (urban versus rural) and wealth status (from slum resident to up-class hotel guests) of the consumer.

The consumers in Europe, USA are served by exclusive exporting marketing channels.

2.2 Critical Analysis of Literature Review

This paper identifies four papers which focus on horticulture and floriculture. Their titles are listed and critically overviewed below:

2.2.1 Ten Years of Horticulture Development

According to Ministry of Agriculture, the ten year plan was primarily presented to evaluate potential of establishing large unit state farms which produce assorted fruit and vegetable crops during 1981-1990.

The paper also highlighted what business and environmental factors influence horticulture development. It revised marketing possibilities, production capacity and standards, and standardization of other developing countries.

In addition to that it assessed potential export, domestic and off season markets for Ethiopian horticulture market.

The review about export market grouped chronologically. Post 1975, the bulk of Ethiopia's export of fruits and vegetables destined to Saudi Arabia, the Gulf States, and the Republic and Issa, with Saudi Araiba dominating the scene. Though Saudi Arabia imported 49% of the total consumption of mandarins, tangerines and lemons, Ethiopia's share was 0.8 percent

With regard to Off-season markets, thirteen counties in the Mediterranean Region dominated international trade. These countries produced 8.4 million metric tons and exported 3.9 million, which amounted to 25 percent of world production and 67 percent of world exports.

It was presented in the paper that the peak production season of Mediterranean countries was an off-season for Ethiopian horticulture farming. Conversely, the peak season for Ethiopian farms was off-season for Mediterranean. The export between July and September was 4% when compared with export between January and February, which was 49%.

The east European and domestic market was also regarded as large. However, the analysis was not supported with demand rate and market information.

The conclusions that were proposed were

1. East European countries had little market potential

2. local market for fruits and vegetables is increasing
3. Italy, Saudi Arabia and the gulf state are major export market

The recommended points to manage horticultures marketing were

1. improve trade relations with Saudi Arabia and East European countries
2. infrastructures should be developed to facilitate delivery to local market (Semu Neguss, PP.6-12)

The paper can be criticized from different aspect. First it didn't have clearly stated research objectives. Second, research methodology which describes how the study was conducted was not mentioned. Third, it widely emphasized on citrus fruits though the title indicated horticulture in general. fouth, the recommendations did not specifically address what marketing strategies that state farms should follow.

2.2.2 Fresh Fruit and vegetables (Production and marketing Study)

The objectives of conducting the research on production and marketing of fresh fruits and vegetables were to

- Show the production potentials of the country, in general and the major fruits and vegetables producing regions, in particular and recommend the way to exploit
- Assess the current situation/status of major and vegetables production productivity, area coverage and marketing system in the country.
- Prepare base line information for research affiliated and product improvements institutions and help them undertake oriented research.
- Indicate the system through which the produced fruits and vegetables could get market outlet in most producing regions.
- Pinpoint the major difference between internationally traded fruits and vegetables and domestic ones and recommend the means for narrowing them.

- Prioritize the kind of fruits and vegetables to which we should give due attention with respect to product and quality improvement, promotion and other research issues.
- Identify the potential markets for Ethiopian fruits and vegetables in the international trade arena and future opportunities for the continuous growth for export.

- Thoroughly identify the major constraints of the sector and suggest appropriate recommendations that would solve the problem. (Sisay Habte, P.2)

The paper view horticulture production and marketing in three sections. In part one, it discusses global trend of horticulture marketing. It views the world market from five angles by classifying it into world market, European market, Middle East market, and other major markets. Also, it covers issues of market size and consumption rate, market segmentation, environment, packing and labeling, tracking and tracing, distribution networks and channels, pricing, and payment methods and delivery terms.

Part two revise Ethiopia’s fruit and vegetables production and market. It has three issues in point. The first one is historical development. The second one is an overview of the existing production and marketing system. The third section describes current and potential marketing and production strategies with regard export market. It specifically addresses export products and production structure, companies’ export volume and value and export price.

Part three points out recent positive development and constraint and it recommends possible strides that help gain competitive advantage or solve problems.

The paper raises critical points and issues in export market. However, it emphasizes much on what the government should do than what is expected from private companies. It does not also discuss what specific production and marketing strategies a company ought to adopt to a specific horticulture products. It generalizes marketing strategies to all horticulture marketing.

2.2.3 Ethiopian Cut flowers Export Industry and International Market

The objectives why the paper was produced are

- Assess floriculture industry of Ethiopian and world markets to produce detailed and informative document
- Pinpoints the constraints challenging the industry and forward some recommendations for improvement
- Provide future new entrants with readily available basic information.(Sisay Habte, P.1)

The paper is classified into four sections. The first section describes historical evolution and existing production and marketing system. It identifies industrial players and their situations. It not only in-depth discusses requirements to investment in floriculture sector, production procedures and inputs; the paper also discusses transportation, packing, research and development.

The second section assesses international cut flower market and, specifically, European cut flower and foliage market. The third one discusses future prospects of Ethiopia's competitiveness in cut flower export. The fourth sections recommended measures to speed up growth of Ethiopian floriculture industry. Some of the recommended measures are government intervention in facilitating investment, invitation of cargo companies, strengthen rose as leading flower and find some other additional species which will have niche market.

The paper covers key aspects in floriculture production and marketing. However, it does not present specific marketing strategies to promote cut flower marketing. Despite its booming sales, specific handling and marketing mechanisms are not pin pointed. Responsibilities are shouldered on government bodies than private sectors.

2.2.4 Constraints and problems of Horticulture Production and Marketing in Eastern Ethiopia

The overall objective of the study was to assess constraints of maximum use of opportunities in vegetable production and marketing in the eastern part of Ethiopia. The specific objectives were:

1. To assess the marketing channels, organizations, linkages and lines of movements of horticultural products and production inputs;

2. To assess major constraints of marketing functions (production, processing, grading, buying and selling, transportation, storage, financing, etc.);
3. To analyze national and local government policies, strategies and practices related to marketing and production of horticulture crops;
4. To identify and inform government, chambers of commerce and NGOs with possible strategies that would support horticulture production and marketing to improve the economy of the region and more specifically the income of poor farmers

The paper is organized into six major sections. The first section describes some characteristics of producers and consumers. The second deals with horticulture production covering farming systems, type of horticulture crops produced, inputs used, production level, income from the sub sector and profitability. The third deals with the input supply system while the sixth section assesses the constraints and prospects of horticulture production. The seventh section deals with horticulture marketing functions covering market centers, marketing channel, facilities/infrastructure, constraints and opportunities for horticulture marketing. The eighth section discusses the prices of fruits and vegetables.

The paper concludes that there are

1. lack of markets to absorb the production,
2. low price for the products,

3. large number of middlemen in the marketing system,
4. Lack of marketing Institutions safeguarding farmers' interest and rights over their marketable produces.
5. lack of coordination among producers to increase their bargaining power, poor product handling and packaging,
6. imperfect pricing system,
7. Lack of transparency in market information system mainly in the export market.
8. Prevailing Informal transaction in the export system.

It also recommends that

1. Traders and producers should work as partners
2. Building farmers' capacity in collecting market information is important
3. the export system should be transparent information on price should be regularly disclosed

Chapter Three

Horticulture Marketing in Ethiopia

Data Presentation and Analysis

In the first chapters, the paper introduces its objectives and significance. The second chapter critically assesses conducted researches and published papers with regard to horticulture marketing in Ethiopia.

This chapter analyzes responses collected from private and public horticulture marketing companies and enterprises. It selected 15 horticulture companies out of 70 horticulture companies. Questionnaires that were distributed to 15 horticulture and floriculture companies reflect the industry marketing facts and insights.

3.1 Engaging in Horticulture Business

Though the name horticulture is often presented with no specific detail of activities it carries, horticulture or floriculture marketing is a broad concept with succinct activities. Many horticulture marketing companies are engaged in seven activities (1) growing and packing of their own fresh produce or (2) growing and packing of other companies, (3) processing, (4) wholesaling, (5) exporting and (6) retailing, and (7) marketing diary products.

Out of these activities, sampled horticulture companies earmark large amount of investment on one or two of them. Thus, the major activities that they are engaged influences their marketing efforts that they exert on and relationship with dealers and customers.

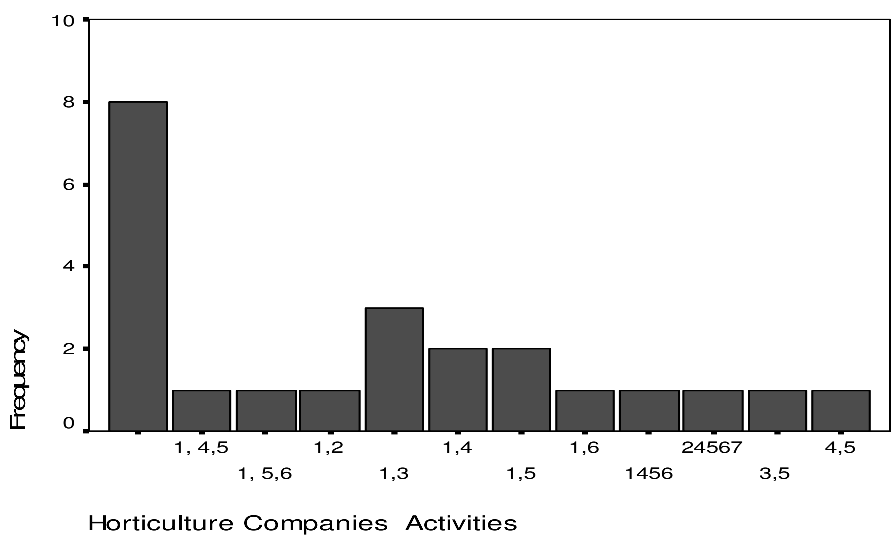

Figure 1: Horticulture Companies engaged in different activities

Looking to figure 1, the study understands that all horticulture companies discharge at least two or at most five activities in their business. Most (Eight) horticulture companies, for instance, engage in growing and packing of their own produces. The largest count goes for the same horticulture activities.

It is difficult to solely point out what activity a sampled horticulture company carries out. No single company engages in one type of activities. Any activity that can be integrated with horticulture business such as packing, processing and marketing can be under umbrella of a company.

Degree of specialization and focus are two business foundations that any marketing firm considers. Though a company strives in multiple business activities, it can not be successful without identifying those sectors that it can offer superior value proposition.

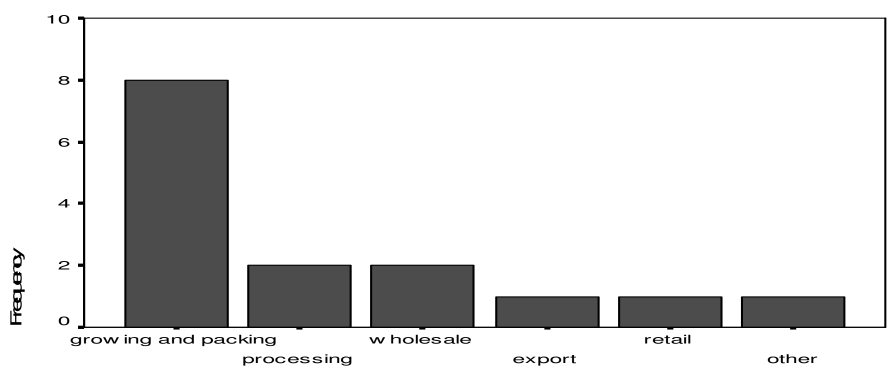

Figure 2: Main Activities of Horticulture Companies

As depicted in Figure 2, most (eight) horticulture companies toil in and generate profit from growing and packing their own produces. Two companies claim that their major activity is processing and distributing of their own produce. Other two companies note that they market fresh produces of other horticulture companies through their distribution center to local domestic products. They believe that they have a competitive advantage in marketing through their established route management and distribution centre.

3.2 Marketing Horticulture Products

Most private and public companies in Ethiopia operates in three horticulture sectors; fruits, vegetables and floriculture.

According to table 1, horticulture companies market both vegetables and fruits together to domestic and foreign market. Companies do not consider that marketing only fruits or vegetables is commercially feasible. Though sampled companies reject the possibility of developing one type of horticulture companies, there is one company which supplies only fruits constantly. There are four companies that specialize in floriculture though the industry is afresh to the country.

Moreover, most companies entertain the possibility of marketing both fruits and vegetables or fruits and floriculture to domestic or/and export market.

Table 1: Market Type and Type of Fresh Produce

		Market Type			Total
		Domestic Only	Export Only	Both	
Type of fresh produce	Vegetables	-	-	-	-
	fruits	-	-	1	1
	Floriculture products	-	4		4
	Both Vegetables and Fruits	-	-	8	8
	Both fruits and floriculture	-	-	2	2
Total		-	4	11	15

Source: Questionnaire distributed to horticulture companies

Concerning product diversification, horticulture companies specialize in farming and channel diverse products according to what a market demand. Most horticulture marketing businesses invest in products that serve a short term domestic and export market demand.

The sampled horticulture companies respond to the open question that inquire what type of product they produce by naming similar horticulture or floriculture varieties. The produces are cabbage, lettuce, spinach, tomato, pepper, onion, fire flame, corn tomato, banana and papaya from horticulture sector and rose cut flowers, gybsopilia and unrooted stem cutting from floriculture sector.

3.3 Annual Sales Turnover

Any companies' dedication to offer products that delight customers would be meaningless if it is not financially viable. Financial success is a scale of success measurement and it can be achieved through adoption of workable marketing strategies and business management approaches. Horticulture companies are no exception for such basic principles.

As shown in table 2, the annual turnover of fruit and vegetable offering companies is more than 20 million birr and those which fall in the same turnover bracket are those that invest in dual horticulture sectors such as fruits and floriculture or mono horticulture sector like floriculture.

Out of eight fruit and vegetable companies, five, one and two businesses secure over 20 million, between 10 and 20 million, and 5 and 10 million ETB, respectively. Fruits and floriculture industry, make over 20 million ETB.

With exception of a floriculture company that generate a sales turnover between 100,001 and 500,000, all others floriculture companies collects more than 10 million ETB.

Table 2: Annual sales and types of fresh produce

		Annual Sales				Total
		100,001-500,000	5,000,001-10,000,000	10,000,001-20,000,000	Over 20,000,000	
Types Of Fresh produce	Vegetables					
	fruits			1		1
	floriculture	1		1	2	4
	Both vegetables and fruits		2	1	5	8
	Both fruits and floriculture				2	2
Total		1	2	3	9	15

Source: Questionnaire distributed to horticulture companies

3.4 Market Segmentation

One strategy in marketing management is market segmentation. Companies allot their resource to identify and serve demand of specific customer groups.

This paper analyzes market segmentation with two major factors: One is market segmentation against the main business horticulture companies engages in and the second one is significance of market segmentation in light of specific horticulture produces.

Market segmentation in horticulture marketing is of three major categories. The first one adheres to quality of produces and it is further classified into four classes; class extra, class I, class II and class III. The second segmentation base arises from product attributes such as temperate, northern Europe, tropical (exotics) and off season. The third segmentation is organic and conventional based on mechanism of farming.

Table 3: Market segmentation and main business

		Market Segmentation						
		class extra	class i	class ii	exotics	off season	organic	
Main Business	growing and packing	3	3	2	3		2	13
	processing				1	1	1	3
	wholesale		1		2			3
	export	1						1
	retail				1			1
	other		1					1
Total		4	5	2	7	1	3	22[1]

Source: Questionnaire distributed to horticulture companies (The legend discussed under 3.4 paragraph 2)

As depicted in table 3, out of those that engage in growing and packing, wholesale, export and retail, most (seven) supply exotic (tropical or subtropical) produces, five serve class I, and four serve class extra.

Horticulture companies which specialize in growing and packing serve class extra, class I and II, exotics and organic segments. Those companies whose main activities are processing serve exotic, off-season and organic product seekers. And those which are in wholesaling business targets class I and exotics product buyers .

[1], Seven companies serve more than a single market as a result the total sum becomes 22 in table 4.

The sampled companies' decision to market different type of fresh produce influences what market segment they should specifically serve.

As depicted in table 4, All (15) businesses put forward vegetables and fruits to exotic and class I buyers. The other six floriculture businesses deliver to class extra, class I and exotics.

Table 4: Market segmentation and type of fresh produce

		Market Segmentation					
Type of fresh produce		**class extra**	**class i**	**class ii**	**exotics**	**off season**	
	fruits	**1**	**2**	**1**	**4**	**1**	**9**
	vegetables	**2**	**3**	**1**	**4**		**10**
	floriculture	**3**	**2**		**1**		**6**
	others		**1**				**1**
Total		**6**	**8**	**2**	**9**	**1**	**26**[2]

Source: Questionnaire distributed to horticulture companies (The legend discussed under 3.4 paragraph 2)

3.5 Domestic Vs Export Market

Like any other business, horticulture companies establish their business to serve domestic and/or export markets. The objective to serve either of the two or both markets entail how a company deploy its resources, consistently produce, and keep timing of supply.

[2]: Eleven companies serve more than a single market as a result the total sum becomes 26 in table 5

As depicted in table 5, no company focuses only on domestic markets. Four companies farm for export market while other eleven companies supply to both domestic and export market.

Table 5: Domestic vs export market

	Market Type			Total
	Domestic Only	Export Only	Both	
Count	-	4	11	15

According to table 6, fruits are exported to Europe and Middle East and vegetable is sent out to African countries. However, destinations of floriculture products are diverse. The countries are re-exporters in Russia federation, wholesalers in Norway, agents and auctioneers in Japan, malls and supermarkets in Canada, USA and members of European Union.

Exporting companies deliver their horticulture products largely to European market and other markets such as USA and African countries like Djibouti.

Market demand determines what standard and variety that companies need to export to different countries. The variety, quality, packaging design and mode of delivery are slightly different from one country to another.

Table 6: Type of fresh produces vs countries

		Countries							Total
Types of Fresh Produces		European market	Middle east	Russia	Norway	Japan	Canada	Any other	
	fruits	6	2					1	9
	vegetables	1	2	1				2	6
	floriculture	3		1	1	1	1	3	10
	others			1					1
Total		10	4	3	1	1	1	6	26

The European and USA markets impose stringent standards and mode of delivery than Middle East and African countries to safeguard public safety and regulate horticulture markets.

3.6 Horticulture Marketing Approaches

Marketing strategies such as product management, price, distribution channel and new product development are all applicable in horticulture marketing.

However, the marketing approaches are subjected to flexibility pertaining to market type; domestic or foreign market. The thesis solicites how marketing strategies are applied to domestic markets and how their degree of application diverges when applied to foreign markets.

The analysis hereafter foot on responses concerning to serving domestic market. According table 7, out of eleven companies which serve domestic markets, seven argue that quality of produces is highly important and four confirm that quality is important.

Table 7: Domestic Horticulture Marketing Criteria

Marketing Criteria in marketing horticulture products	Number of Companies and their response				
	Strongly agree	**Agree**	**Disagree**	**Strongly disagree**	**No opinion**
Domestic customers prefer horticulture companies which offer superior horticulture products	7	4			
Customers prefer horticulture produces which are available easily and in large volume	4	4	3		
Customers buy from those companies that offer range of horticulture varieties	2	5	4		
Customers buy cheaply priced horticulture products	8	3			
proper packaging is a key factor which influence their purchase decision	1		6	4	
A company which has well-established its distribution chain can market its horticulture products easily	7	4			
A company which is devoted to Innovation/new market development can be successful in horticulture industry	1	2	8		
Environment consciousness is a factor which customers consider in buying horticulture products		1	2	8	

In responding to how availability of produce is important to attract more customers, eight agrees that volume of produces is crucial to lure customers. However, three companies disagree that abundance of horticulture products may contribute to large scale perishability of produces.

Concerning range of varieties, only two companies strongly agree that varieties play a role to attract customers. However, five companies are agree and four are lax to the fact that range of varieties are hardly vital to domestic market. They argue that local customers keep on buying horticulture products whether diverse or standard products companies offer.

However, eight companies strongly agree that local buyers always look at minimum price tag to buy horticulture products. As a result, price of horticulture products is a detrimental to attract more local buyers.

Ten companies suggest that they refuse to consider packaging for local markets and only one company strongly agree on importance of packaging to local markets. The responses implies that horticulture companies fail to consider packaging to delight local customers

Respondents confirm that distribution networks are important to market efficiently and at customers' convenience. All agree that they distribute their produce through as many distribution channels as possible to cover all key locations where customer feels convenience to buy.

Concerning innovation or new market development, most (eight) companies disagree for the fact that large number of horticulture buyers are in Addis. As a result, companies have a marketing plan to serve only Addis Ababa, at least for short term. The reason behind is that they believe upcountry markets (those markets outside markets) do not have a substantial profit return vis-à-vis Addis Ababa.

Concerning environment consciousness, majority (ten) disagree that such factor has never been considered in minds of domestic buyers while buying produces from a horticulture producer.

The analysis bases on facts pertaining serving foreign markets with Ethiopian horticulture products. The paper assessed responses of fifteen companies to understand what they experience in serving foreign markets. Note that the following analysis on foreign markets is presented based on Table 8.

In relation to the impact of quality of horticulture products on export markets, all (15) companies believe that it is mandatory to adhere quality standards. And they believe that not confirming to quality standard may bash customers away from customers.

All (15) horticulture companies reason out that their foreign customers require consistent delivery of high volume of produces. It is even a precondition to settle a long term trade agreement in some markets.

According to the response of horticulture companies, they compete against lower prices set by other African and South American countries. All (15) agrees that price strongly affects level of demand. All comments that wholesale price of their horticulture products is expensive when they deliver to wholesalers and auctioneers in other countries. One reason that keep wholesale price high is soaring freight cost and distributors buy horticulture products from those which offer at least price.

According to table 8, out of the 15 companies, eight companies strongly agree and seven companies agree that proper packaging is a key marketing strategy to attract and retain foreign customers who regular purchases from supermarkets. Concerning floriculture companies, Protection from damage and spoilage is their prime concern when the products are transported from their points of origin to points of destination.

Table 8: Foreign Horticulture Marketing Criteria

	Strongly agree	Agree	Disagree	Strongly disagree	No opinion
Domestic customers prefer horticulture companies which offer superior horticulture products	**15**				
Customers prefer horticulture produces which are available easily and in large volume	**10**	**6**			
Customers buy from those companies that offer range of horticulture varieties	**7**	**8**			
Customers buy cheaply priced horticulture products	**15**				
proper packaging is a key factor which influence their purchase decision	**8**	**7**			
A company which has well-established its distribution chain can market its horticulture products easily	**10**	**5**			
A company which is devoted to Innovation/new market development can be successful in horticulture industry	**8**	**4**	**3**		
Environment consciousness is a factor which customers consider in buying horticulture products	**7**	**6**	**2**		

Marketing Horticulture products is less financially attractive without channeling through well established distribution network. Most (10) companies agree that distribution network are detrimental to penetrate foreign markets and dominate platforms of auctioneers and the remaining (five) agree on the importance of distribution network.

Though the sampled companies confirm in their response that there is high demand for horticulture products, they still believe in developing new farms for new varieties and serving different market. According to the interview with two floriculture companies, they cultivate variety of flowers after settling a royalty fees for patented multinational floriculture companies. Therefore, floriculture companies ensure that there is high level of demand for their products in export markets before paying a royalty fees.

Even though environment consciousness is not advocated in domestic markets, the foreign markets are as serious as they are in setting quality standards. Seven companies strongly agree that environment consciousness plays a crucial role in attracting customer. Six companies agree that advocating societal marketing helps, not guarantee, to attract customers.

3.7 Distribution Network

The horticulture companies respond that they apply different distribution channels in serving domestic and foreign markets. Note that missed data refers to the number of companies which does not serve to domestic market.

According to figure 3, sampled horticulture companies distribute through wholesalers, distributors and retailers while one company distribute directly through out its international branches.

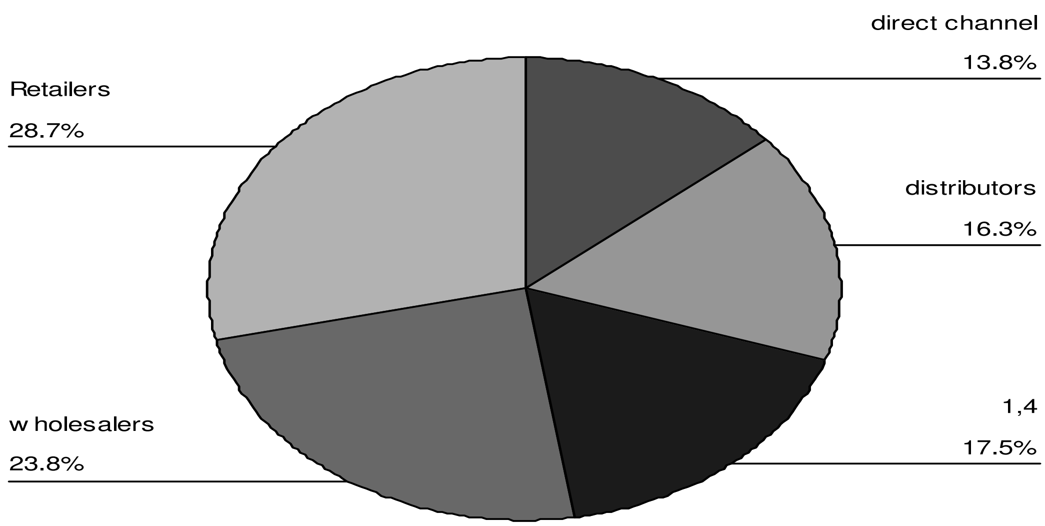

Figure 3: Domestic Channel

The main problem in marketing through domestic channels is channel conflict between agri-business and horticulture marketing enterprises. It is worth noting to raise a case of Etfruit and Upper Awash Agro Industry Enterprise. The following facts were unveiled after conducting an interview with marketing managers of Etfruit and Upper Awash Agro Industry Enterprise.

Horticultural business invests in farming fruits and vegetables. Upper Awash Agriculture Industrial Enterprise, hereafter known as UAAIE, does the same thing. It develops thousands of hectares to develop fruits and vegetables to market to private and public horticulture marketing business.

Most private and public horticulture marketing business takes produces from UAAIE to export and domestic market. Etfruit is a key partner to UAAIE. It plays a role of intermediary between local and foreign market. It is also profitable making 25, 19 and 54 percent profit for the year 2004, 2005 and 2006, respectively.

It is observable that Etfruit and UAAIE are yoked in unbreakable commercial bond. Etfruit distribute and export produces of UAAIE and UAAIE produces fruits and vegetables. However, UAAIE is not capacitated to stand on its feet to deliver its horticulture produces to consumers or export market.

Looking at Appendix I, the research understands that both Etfruit and UAAIE collects sales less than their planned amount in both foreign and local market. In

UAAIE case, it experiences a declining actual and planned sales level in local market. However both experience irregular sales figures through out the three years while serving foreign markets.

What marketing importance Appendix implies? As stated above, Etfruit has a renowned image and well established distribution system in marketing horticulture products. In the same token, UAAIE has extended its capacity in horticulture farming. While the degree of specialization for each company is clear and unquestionable.

According to Appendix 1, local sales of Etfruit grow from 68 million to 77 million ETB constantly and UAAIE experienced a boost from 129.735 million to 152.243 million. In foreign markets Etfruit's sales surge from 900,000 to 736,000 while UAAIE's export market grows from 42.218 million to 48.996. All sales analysis is done for the year 2004, 2005, and 2006, respectively.

Despite its sales growth in local and foreign market, UAAIE was in loss for years 2005 and 2006. The loss does not show a sign of abating; especially year 2006 can be cited as a year of high loss amount compared against year 2005.

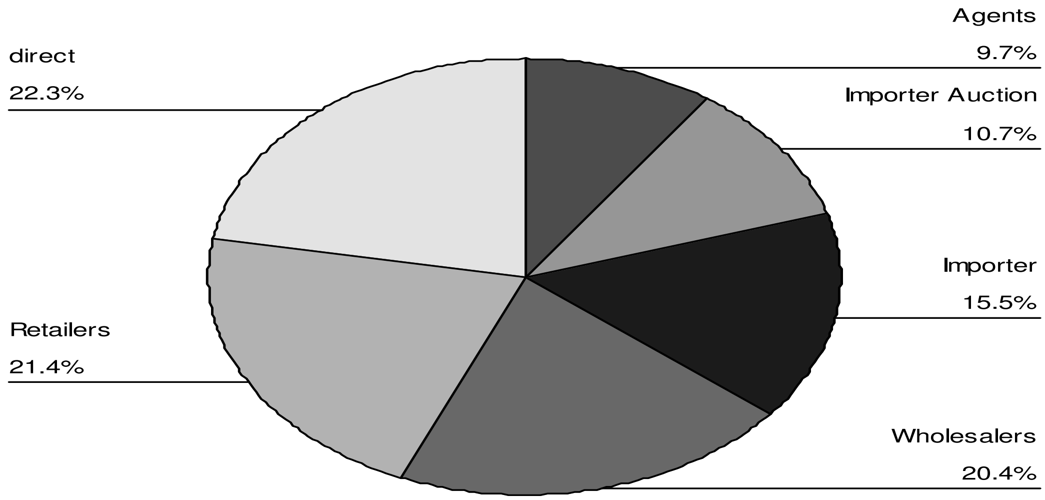

Figure 4: Foreign channel

Concerning foreign markets, companies distribute their products largely through Agents or directly deliver to importers. The possibility of distributing through importers, retailers and directly can not be cancelled though it is thin.

Chapter Four

Conclusion and Recommendation

Horticulture marketing is a growing business with advent of new floriculture companies and growing supply of fruits and vegetables. The conclusions that the paper draws are

- No single horticulture company engages in one type of activities. Any activities that can be integrated with horticulture business such as packing, processing and marketing are undertaken.
- Most companies toil in and generate profit from growing and packing their own produces.
- Most horticulture companies are profitable by operating in dual horticulture sector like fruit and vegetable or mono horticulture sector like floriculture.
- The thesis concludes that most horticulture companies channel fruits and vegetables to class extra, class I and exotics. Serving such markets infers that the standards of horticulture varieties are superior.
- Quality of produces, variety, packaging, price, market segmentation and distributions are largely important to foreign market than domestic market. However, quality and price is equally important in domestic market as they are in foreign markets.

Recommendations

Horticulture companies should follow up and strictly adhere quality standards of countries to which they export. In case of domestic markets abundance of horticulture products may contribute to large scale perishability of produces. As a result they need to produce optimal quantity to local consumption at affordable price level as price is detrimental to attract more local buyers.

Concerning foreign markets, conforming to quality of produces is highly important to long term trade relationship. Local horticulture companies should consistently deliver high volume of produces as it is even a precondition to initiate the first order.

Horticulture companies should consider alternative airliners to minimize price which strongly affects level of demand and contact established distribution networks to dominate foreign markets

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Appendix I: Questionnaire for Horticulture or Floriculture Companies

Please answer these and all subsequent question. The information will not be disclosed and it will be kept anonymous. Make

Q1. In which of the following activities is your business engaged?
(*Please tick all that apply in first column)*

1. Growing/Packing of fresh produce (packing own produce) ☐
2. Packing of fresh produce – for other producers ☐
3. Processing of fresh produce ☐
4. Wholesale of fresh produce ☐
5. Export of fresh produce to countries ☐
6. Retail (e.g. farm shops/direct marketing) ☐
7. Other activity ☐

Q2. And which one would you describe as your main business?
(Please tick one box in second column)

1. Growing/Packing of fresh produce (packing own produce) ☐
2. Packing of fresh produce – for other producers ☐
3. Processing of fresh produce ☐
4. Wholesale of fresh produce ☐
5. Export of fresh produce to countries outside Britain ☐
6. Retail (e.g. farm shops/direct marketing) ☐
7. Other activity ☐

Q3. Which of the following types of fresh produce do you deal in?
(*Please tick all that apply*)

1. Fruits ☐
2. Vegetables ☐
3. Floriculture ☐
4. any other (Please specify)______________________

Q4. What type of fruits, vegetables and floriculture products does your business produce?

____
____
____
____
____

Q5. To enable us to put your answers to subsequent questions into context, please tick the box which corresponds to the approximate total annual sales of your fresh

(*Please tick all that apply in first column)*

1. Up to 50,000 birr
2. 50,001 –100,000 birr
3. 100,001 - 500,000 birr
4. 500,001 – 1,000,000birr
5. 1,000,001 – 5,000,001birr
6. 5,000,001 – 10,000,001birr.
7. 10,000,001 – 20,000,0001birr
8. over 20 million birr

Q6. What market Segment does your company serve
(Please tick all that apply)

Segmentation I		**Segmentation II**		**Segmentation III**	
Class Extra		Temperate Fruit & Vegetables		Organic	
Class I		Northern Europe Products		Conventional	
Class II		Exotics(Tropical/subtropical			
Class III		Off-season products			

Q7. Which of the following market does your business serve?

Domestic
Export

Q8. If your business serves export market, which region does it serve most?

1. European Market
2. The Middle East

3. Other major markets
   - Russia Federation
   - Poland
   - Switzerland
   - Norway
   - Japan
   - Canada
   - China

Any other (please specify)______________________________

Q9. The following aspects are very crucial for domestic markets. Check mark the rate along each factor based on the degree of importance each has to horticulture products

Marketing Criteria in marketing horticulture products	**Number of Companies and their response**				
	Strongly agree	**Agree**	**Disagree**	**Strongly disagree**	**No opinion**
Domestic customers prefer horticulture companies which offer superior horticulture products					
Customers prefer horticulture produces which are available easily and in large volume					
Customers buy from those companies that offer range of horticulture varieties					
Customers buy cheaply priced horticulture products					
proper packaging is a key factor which influence their purchase decision					
A company which has well-established its distribution chain can market its horticulture products easily					
A company which is devoted to Innovation/new market development can be successful in horticulture industry					
Environment consciousness is a factor which customers consider in buying horticulture products					

Q10. The following aspects are very crucial for foreign markets. Check mark the rate along each factor based on the degree of importance each has to horticulture products

Marketing Criteria in marketing horticulture products	Number of Companies and their response				
	Strongly agree	Agree	Disagree	Strongly disagree	No opinion
Domestic customers prefer horticulture companies which offer superior horticulture products					
Customers prefer horticulture produces which are available easily and in large volume					
Customers buy from those companies that offer range of horticulture varieties					
Customers buy cheaply priced horticulture products					
proper packaging is a key factor which influence their purchase decision					
A company which has well-established its distribution chain can market its horticulture products easily					
A company which is devoted to Innovation/new market development can be successful in horticulture industry					
Environment consciousness is a factor which customers consider in buying horticulture products					

Q11. Which channel parties of distribution network are used in delivering horticulture products to Domestic or Export Market?

Domestic Market		**Export Market**	
Distributors	☐	Agents	☐
Wholesalers	☐	Importer Auction	☐
Retailers	☐	Transit trade and Re-export	☐
Other __________________		Importers in other countries	☐
		Wholesalers	☐
		Retailers	☐
		Other ________________	

Appendix II: operational plan against performance comparison for both parties

			Etfruit			UAAIE		
			operational years			operational years		
no	**Discription**	**Measurement**	**2004**	**2005**	**2006**	**2004**	**2005**	**2006**
1	**sales** plan	quintal	438940	45090	430000	725916	720001	723380
	actual	quintal	383415	367676	309142	563551	507601	539503
	plan	birr(000)	75055	71605	84375	163464	182947	203254
	actual	birr(000)	68698	69029	77636	129735	140198	152243
	performance %							
	quintal	%	87	82	72	78	71	75
	birr(000)	%	92	96	92	79	77	75
	Foreign plan	quintal	10500	20420	7412	32389	29434	32010
	actual	quintal	1645	151	2374	25299	29186	27479
	plan	birr(000)	3482	7351	9677	55256	50289	59273
	actual	birr(000)	900	178	736	42218	59094	48996
	performance %							
	quintal	%	16	0.74	32	78	99	86
	birr(000)	%	26	2	8	76	118	83
	Total sales plan	quintal	449440	471410	437412	758305	749435	755390
	actual	quintal	385060	367827	311516	588850	536787	566982
	plan	birr(000)	78537	78957	94052	218720	233236	262527
	actual	birr(000)	96598	69207	78372	171953	199292	201239
	performance %							
	quintal	%	86	78	71	78	72	75
	birr(000)	%	89	88	83	79	85	77
2	**profit and loss**							
	plan	birr(000)	2472	3114	2838	20355	20878	19026
	actual	birr(000)	614	592	1524	19779	-1202	-5526
	performance %	%	25	19	54	97	-6	-29