

enterprises, has flowed into sub-Saharan

FDI in telecoms and services overtook investment in mining and extraction in South Africa some time ago. It has also extended its investments in other parts of the continent, with firms like BHP Billiton (mining) and Eskom (utilities) expanding into other African markets.

Two of South Africa's telecom firms are also majority shareholders in the largest mobile telecom firm in Africa, a joint venture between Telecom SA, VenFin and Vodafone (minority stake) with over 15 million subscribers. It competes with MTN Group from South Africa, Orascom (Egypt), Orange (France Telecom) and Celtel International (the Netherlands), all of which are gradually taking market share from the fixed-line industry dominated by national telecom firms, giving rise to new mobile services (see the **Real Case: M-Pesa** in Chapter 15). In some industry sectors, despite the lack of inward FDI, there are growing business links between Western firms and local African firms. The Kenya cut flower industry is one example (see **International Business Strategy in Action: From Oserian to Tesco**).

INTERNATIONAL BUSINESS STRATEGY IN ACTION



From Oserian to Tesco: the Kenyan cut flower industry

Kenya is one of the leading exporters of flowers in the world, accounting for approximately 38 per cent of the market share in Europe in 2017. Kenya's roses, carnations and summer flowers are famed for being long-lasting and extremely popular in other nations such as Russia and the United States.

This industry took off in the first half of the 2000s, with export growth accelerating rapidly in the late 1990s and achieving 27 per cent between 2001 and 2005. How did this global competitive advantage evolve in one of the world's least developed countries?

In 2017, horticultural and cut flower exports provided well over \$800 million to Kenya's economy. Kenya's floriculture industry exported approximately 160,000 tons in 2017. The country has approximately 10 per cent of the global export market. Ecuador and Colombia are key competitors and the Netherlands still dominates with over 50 per cent. The major markets are Germany, the UK and United States, but the major proportion of exports goes to the Dutch auction houses in Holland. Direct sales via supermarket chains, particularly in the UK, have increased dramatically, however.

As of 2017, the country's flower industry employs about 100,000 people, and it has been reported that the industry indirectly supports around 2 million people in Kenya. The average basic wage in the flower industry is around US\$5,000 compared to Kenya's average GDP per capita of \$1,594. Most of the flower growing is in the areas of Naivasha, Thika and Kiambu, where over 2,000 hectares are used for flower production. Although over 30 varieties of flowers are grown in Kenya, roses make up two-thirds of Kenya's flower exports, followed by carnations, statice and alstromeria. The real start of the industry happened in 1994 with the formation of the Kenya Flower Council to support the operations of a number of fast-growing businesses.

Local factor conditions

The successful cultivation of flowers requires the following elements:

- good physical conditions: high light intensity, abundant water, clean soil, good climate;
- appropriate seeds and planting material;
- capital for investment and working capital;
- productive labour;
- expertise in growing techniques;
- good management and organisation;
- pesticides and other chemicals;
- energy for heating;
- infrastructure;
- a high level of quality consciousness all along the production and post-harvesting chain.

Perhaps more than any other internationally traded good, time-to-market is critical in the cut flower industry. Strict control of humidity, temperature and air quality is essential for delivering an attractive product to the market. Growers rely heavily on the post-harvest chain of handlers, storage and transport, and in the absence of a 'cold chain' it is not possible for equatorial producers to sell to the main northern markets.

Air freight adds significantly to the total cost and makes up by far the largest component of overall cost to African producers. Air freight, marketing, handling in Europe and packaging make up 50 per cent of all costs for Kenyan growers. In the

Netherlands, however, transport accounts for just 14 per cent of the costs, but labour makes up 35 per cent of costs.

Although cheap labour and a good growing climate are advantageous for growing flowers, some countries have done well for some time without these local factor endowments. The Netherlands does not have climatic, land or labour advantages but has been a dominant player in the industry for a long time. This is partly due to the power of the Dutch auction houses, which have long overseen the international flower trade.

In Porter's terminology (in the diamond model discussed in Chapter 10), acquired factor conditions, such as the cold transport infrastructure, plant breeding and greenhouse technologies, and production management capabilities were required before Kenya could leverage its natural endowments and the cheap labour advantage to compete in the open market. It is only in the last 15 to 20 years that these acquired factors have developed.

Another 'diamond of advantage' factor, the influence of government, has had a significant effect over the last two decades. A cycle of political instability has arguably limited investment as internal and external funders do not have confidence in the sustainability of the flower-growing industry.

The Oserian Development Company

Oserian ('place of peace' in Maasai), one of the largest privately owned flower farms in the world, was among the first commercial exporters of cut flowers from Kenya. Although it began growing flowers in the early 1980s, the company dates from 1967 and was started and is still operated and partly owned by Hans and Peter Zwager. It has over 200 hectares under cultivation next to Lake Naivasha in the Rift Valley and exports over 300 million stems per year. These are mainly sold by East African Flowers (EAF) BV, through the Tele Flower Auction (TFA) in Holland, to other buyers around the world; or by World Flowers in the UK, direct to Tesco. Crops include roses, spray carnations, gypsophila, chrysanthemums, statice, hypericum, euphorbia, delphinium and perezia. The farm employs about 5,000 people; 85 per cent are permanent employees and over 60 per cent live on the farm with their families. The facilities include three kindergartens, two primary schools, a secondary school, shopping centres, social halls and a medical centre.

Industry structure: Tesco and the growing power of the supermarkets

Although the Dutch auction houses have traditionally been the focal point of the world flower industry, large retailers are building direct links with growers around the world, using their purchasing power to gain better control over product price, delivery and quality. African producers appear to be the main beneficiaries of this change in purchasing habits. Supermarkets are interested in African flowers because they are inexpensive and because growers are willing to accept a set price. To the growers this arrangement is attractive because

supermarkets buy large quantities at prearranged prices. But in order to live up to their side of the bargain, African growers must invest in optimal production methods. Often this includes investments in greenhouses, forced ventilation and heating, and, in all cases, greater attention to quality.

Over the past decade Kenya's direct imports to the UK have grown, partly due to the establishment of direct links with Marks & Spencer and Tesco. The British spend more than \$3 billion a year on fresh cut flowers and indoor plants; 85 per cent of all flowers sold in the UK are imported, of which about 20 per cent come from countries outside the EU.

Around one-quarter of roses sold in the UK are purchased directly from Kenya, mainly by the major supermarkets. Tesco, one of the top three supermarket chains in the world, is the UK's number one food retailer and the largest retailer of flowers and plants. Tesco has been selling houseplants and flowers for the last two decades and sales keep growing, hence the need for reliable ties with suppliers. Tesco became an associate member of the Kenya Flower Council in early 2000 as its direct links with suppliers like Oserian began to grow. By cutting out the Dutch auction houses, Tesco found that it could work directly with growers to reduce prices and improve quality and also pass on customer needs to more directly influence new developments.

Fairtrade

Tesco and Oserian deepened their buyer-supplier alliance by opening a line of Fairtrade roses. These are grown by Oserian and one other farm in Kenya (Finlay Flowers in Kericho), which have been certified to comply with employment, social and environmental conditions laid down in the Fairtrade agreement.

The agreement was set up in response to concerns among customers and expressed in the media about the conditions

under which flowers are grown. This included the employment conditions of workers and the environmental effects on the land and particularly water availability, around, for example, Lake Naivasha. Although Fairtrade roses are slightly more expensive, they represent a differentiated product designed to appeal to ethically minded customers. Tesco does not take an additional profit as 8 per cent of the overall export price goes directly to the farms, allocated by joint management and employee committees, to improve employee conditions. This premium is worth up to US \$200,000 per year to the two farms involved. This concern for social ethics has strengthened as Oserian became part of the Mavuno Group in 2010 and expanded its direct sales to more global markets.

In 2015, the Kenyan farmers started lending their floral expertise to neighbouring country Rwanda. As part of a government partnering scheme, in 2015 the two nations signed to build a 35-hectare flower park which is 60 km away from Rwanda's capital city, Kigali. The aim of this partnership was to produce over 3 million stems per year, which was said to provide employment and pump approximately \$200 million into Rwanda's economy by 2017.

Sources: Milena Veselinovic, 'Got roses this Valentine's Day? They probably came from Kenya', CNN Africa View, 16 March 2015; <http://www.oserian.com>; A. Odhiambo, 'Oserian deal with Dutch firm sparks rivalry', Business Daily, April 2011; 'Roses are red: Kenya's flower industry', The Economist, 7 February 2008; Gathoni Muraya, 'Local flower market quietly booming', Business Day Africa, 28 March 2007; C. S. Dolan, S. Jafee and R. Thoen, 'Equatorial rose: the Kenyan-European cut flower supply chain', in R. Kopiki (ed.), Supply Chain Development in Emerging Markets (Boston, MA: MIT Press, 2004); Mary Hennock, 'Kenya's flower farms flourish', BBC News, 14 February 2002; Chris Collinson, The Business Costs of Ethical Supply Chain Management Report No. 2607, Natural Resources and Ethical Trade Programme (Chatham: National Resources Institute, 2001), at <http://www.nri.org/NRET/2607.pdf>; further material from the KFC at <http://www.africaonline.co.ke/kfc/index.html>; industry data from the Horticultural Crop Development Authority (HCDA), Nairobi, <http://www.tesco.com/corporateinfo/>; <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=KE>; http://kenyaflowercouncil.org/?page_id=92.

Newly industrialised countries (NICs)

A subgroup of emerging market economies that have experienced rapid economic growth, normally accompanied by political and social change; the forerunners were the four Asian 'Tiger' economies: Singapore, South Korea, Taiwan and Hong Kong. The rapid growth, increased trade and FDI, and integration of China in the global economy show that it is approaching this status

FDI. This is particularly true of **countries (NICs)**, which have growth and wealth creating global economy. This group, Hong Kong (China) 'Tigers' in the 1980s are also other groups moving along the path to compete with particularly important

To us review parat sun ne

MNEs from Africa

Just 7 of the 100 largest non-financial TNCs from developing countries listed by UNCTAD (Table 19.3 shows the top 50) are from Africa, and all but one are South African. Sasol (petroleum), MTN (telecoms), Naspers (telecoms), Steinhoff (consumer goods).