Seven Case Studies of Tanzanian Food Processing Enterprises

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The SAFIC project ran from 2012-2018 and investigated how and why African firms are able to be successful in changing business and institutional environments. The project focused on identifying strategies that could lead to sustained firm performance and sought to explain these firms' degrees of success by looking at the interface between firm internal factors (resources and capabilities) and firm external factors (market structures and institutions - formal and informal). In doing that, the project combined firm level theories with institutional and business environment theories, including state-business relation theory. See more at: https://www.cbs.dk/en/research/departments-and-centres/department-of-management-society-and-communication/centre-business-and-development-studies-cbds/research/successful-african-firms-and-institutional-change-safic

Introduction

The food processing industry is a cornerstone in the industrial development strategy of Tanzania and its development is paramount to lifting the productivity of the agricultural sector, which employs 70% of the population. Almost a quarter of all registered manufacturing enterprises are in the food-processing sector and the sector provides 56% of employment in manufacturing. Through the Southern Agriculture Growth Corridor of Tanzania (SAGCOT), the country is promoting agro-processing industries and high-value agro-products so as to transform subsistence agriculture into more commercialized farming. The Agricultural Growth Opportunities Act (AGOA), which gives preferential access of Tanzanian agricultural goods to EU and US markets, has also encouraged Tanzania to embark on value added agro-goods production. It is within this crucial industry that we find our seven case studies.

Azam: A Tanzanian Conglomerate

Azam is a grain milling company that is part of Tanzania's largest business group, Bakhresa. Azam grew from humble beginnings as a shoe repair business to a multinational food processing giant that currently employs over 3000 staff. The history of the company dates back to 1968 when Said Salim Awadh Bakhresa, a Tanzanian of Arabic origin, established a shoe repair business, which was followed by a restaurant and a bakery in 1973 and 1975 respectively. A dysfunctional supply chain, which could not adequately supply wheat flour to his bakery prompted Said to expand into the grain milling business, which is now a key part of the Bakhresa conglomerate.

The Bakhresa group is organized as a family business, where Bakhresa's four sons are involved in different business units in the group, including: transport, fruit processing, production of plastic bags and grain milling. The group is headed by a board of directors, although each sister company/member is registered separately and is independently financed. Dar es Salaam serves as a hub for all subsidiary activities, where strategic activities such as lobbying and importation of raw materials are carried out. To date the Bakhresa group has diversified into bottled water (1988), polypropylene bags (2001), supplying woven bags to the firm's milling operations, fruit juice processing (2006), and soft drinks and sea ferries. Recently, the group has also established a container dry port. Future strategies are focused on food processing and the Group is considering diversifying further into sunflower cooking oil, energy drinks and animal feeds.

Despite a diversified portfolio, wheat milling remains the flagship of the group, and Azam is the market leader in Tanzania. The company as a group owns and operates one of the largest wheat processing plants in Sub-Saharan Africa (with a daily production capacity of 1,750 metric tons) and uses the latest technology imported from Switzerland. The group rarely relies on bank loans and pays promptly even before the loans mature. Furthermore, Azam is one of the few Tanzanian enterprises to engage in FDI. The company's internationalization process was incremental. It started exporting wheat flour to Malawi, Uganda, Mozambique, Rwanda and Burundi; however, due to stiff competition in the export markets and high import tariffs, it decided to establish production plants in these countries, financed partly by IFC.

The Group has thrived, despite the harsh business environment, through maintaining good relationships with authorities and politicians. Through its engagement with relevant government ministries, regional bodies and parliamentary committees, it was able to influence legislation leading to the elimination of the 35% import duty on wheat while maintaining the import duty on processed flour. Similarly, the Group has addressed the issue of an unreliable power supply by establishing a close business relationship with the power company TANESCO. This has allowed the group to receive notification in advance of imminent power shortages.

Azania: A Challenger Firm

Azania is a grain milling enterprise with 350 employees. It is owned by ethnic Arab Tanzanians and is part of a larger family conglomerate. Originally, the family offered transport services (trucks) to Azam's grain milling business, but in 2001, Azania was established to challenge Azam's de facto monopoly position in grain milling. The newly established company purchased second hand technology from Europe financed by the sale of its trucks and it acquired the skills to operate the equipment through Kenyan expats. Initially, the focus was on production excellence in grain milling, however, due to the opportunistic behaviour of wholesalers, who diluted or short-sold Azania products, Azania was forced to buy up wholesalers and integrate them into its sales and marketing organization. Eventually, the company was successful in restoring the trust in its brand, achieving annual growth rates of 25%.

Azania's business model is highly dependent on the Tanzanian tariff regime, which imposes high duties on flour imports but minimal duties on grain imports. In this regard, the industry, led by Azam, has been very effective in lobbying for the government to establish tariffs that benefit the industry. Azania has followed the larger Azam into regional markets through exports and FDI, a process facilitated by the East African Community trade and investment harmonization. Thus, the company exports 25% of its production and has established subsidiaries in Burundi and Rwanda. Using its finely tuned transport and distribution network, Azania is also diversifying into new product groups such as cooking oil and soya; areas where its arch rival Azam also is present.

Azania originally adopted a low-cost strategy in order to compete with Azam; however, this backfired and more recently the company has pursued a differentiation strategy with intense focus on quality, marketing and product diversification. In spite of its growth, the company is distinctly aware that its efforts are constantly hampered by the restrictive business practices of Azam; for instance, Azam has been able to disrupt Azania's logistics and sales operations by putting pressure on wholesalers and logistics providers not to service Azania.

Power Food: A Socially Oriented Business Model

Power Food Industries Ltd is a food processing enterprise with 35 employees specialized in nutritious food products. The managing director, Anna J.H. Temu, established the enterprise in 1993 with a mission to produce nutritious food made from locally available crops (millet, sorghum, maize mixed with soybean) for people with special nutritional requirements, such as children and nursing mothers. With a degree in agriculture, majoring in food science, Ms. Temu had key knowledge in the field. However, she struggled financially during the first years, having to rely solely on her personal savings and the support of her husband, while simultaneously managing the business and retaining her existing position in a bank. A critical moment occurred in 1996 when Ms. Temu stepped down from this position and invested her savings in the business. Later on she managed to obtain a loan, which enabled her to acquire newer and better machinery. However, the enterprise continued to struggle and in 2009 it was facing severe financial difficulties. While attending an exhibition Ms. Temu learned about Nutriset, a French company that produces PlumpyNut - a peanut-based paste for severely malnourished children. By using the business contacts established at the exhibition, she managed to enter into a franchise partnership with Nutriset. Nutriset has a mission to foster the nutritional autonomy of developing countries and thereby contribute to their economic development. As such, Nutriset has developed the PlumpyField Network through which local enterprises in developing countries are assisted through technology transfer and quality standard support to produce the products close to where they are needed. In order to meet PlumpyNut's requirements, Power Food received funding from two foreign sponsors, both of which are socially motivated investors. In 2010, after extensive upgrading of production facilities, equipment and staff, Power Food started to produce PlumpyNut paste and was audited and certified by UNICEF in 2011. The product is mainly sold to humanitarian organizations with UNICEF as the main buyer. Most of the raw materials used in the paste are imported as it has not been possible to find local suppliers able to comply with the required standards.

Ms Temu is a member of a number of associations in Tanzania that work to improve the conditions for food processors and female entrepreneurs. By persuading the government that it is not a "usual commercial undertaking" but a "business serving social needs" with export potential, the enterprise was permitted to operate under Export Processing Zone (EPZ) terms, which, among other benefits, implies import tax relief. Ms. Temu emphasizes that the enterprise is not about growth but about delivering a service to support the Tanzanian development process, in this case by providing nutritious food to women and children.

Vickfish: Born Global

Tanzania has recently emerged as one of the largest exporters of Nile Perch fillets from Africa to EU and US markets. From 2000 to 2010, Tanzanian fish exports registered an average annual growth rate of 17 percent, and in 2010, Tanzania exported frozen Nile Perch fillets amounting to US$71 million, over 90 percent of which was exported to high income markets. Originally, most of the Nile Perch processing industry was located in Kenya and Uganda, but since the 1990s at least 10 large-scale fish processing plants evolved in the Tanzanian Mwanza region. The proximity of an airport enabled the export of chilled (as opposed to frozen) fish directly to the European and Middle Eastern supermarkets and restaurants. Exports of Tanzanian fish fillets are considerably higher than Kenya's (US$22 million) and Uganda's (US$5 million), both of which also have access to the fish catchment area in Lake Victoria.

One of the main fish export enterprises is Vicfish. Vicfish is a fish processing company located in Mwanza on the shores of Lake Victoria. It processes and packages Nile perch for export to Europe and has around 600 employees and a turnover of more than US$30 million. It is owned and managed by Tanzanians of Indian origin and is part of the Bahari Bounty Group. Vickfish is one of the few Tanzanian companies that export processed food products to European and other advanced markets. The Bahari group's involvement in food processing goes back more than 20 years, but it was with the contacts to European supermarket chains that the lucrative fish export business took off. The business was established after building contacts to European supermarket chains that were seeking new suppliers for a growing European market for fish products. Nile Perch became a popular and inexpensive alternative to salt water fish from Northern waters and it is sold under the name of Victoria fish. Vicfish's exports also supply the US, Japan and the Middle East. The company maintains the high standards necessary to enter the European market and is Fairtrade and ISO 22000 certified.

Recently however, the company has been struggling due to limited fish supplies; a consequence of the ineffective regional fish-stock management scheme, which has failed to prevent overfishing of Lake Victoria. Moreover, the airport lacks the capacity to service the large planes that are required to reduce transport costs and lead-times. Consequently, a large proportion of exports are shipped by truck to Uganda or Kenya, which adds significantly to costs. Finally, intensifying price competition, especially from Vietnam, has undermined the market for Vickfish's products. It appears that Vickfish's prospects are dire. The company's involvement in this industry has been short lived, briefly thriving due to a market niche window that is rapidly closing due to dwindling supplies, growing transport costs, and intensifying competition.

VOIL: The Decline of an Import Substitution Business

The VOIL (Vegetable Oil Industries Ltd) case is a unique example of a business that has endured through all three landmark policy phases Tanzania has undergone within the past decades: the post-independence/pre-nationalization period, the nationalization/socialism phase and the economic reform/liberalization period. The history of VOIL and its path to becoming a well-established edible oil company, dates back to 1966 when two Tanzanians of Indian origin became business owners of three cotton ginneries. Based in the cotton rich Mwanza region, they sold the ginned cotton to both domestic and export markets. A critical incident occurred in 1967 following the government's nationalization policy, which led to the nationalization of various businesses including ginneries and milling plants. The two founders were compelled to change their business focus from exporting ginned cotton to processing cottonseeds into edible oils, hence the inception of VOIL. VOIL became the first manufacturer and seller of edible oil (cooking oil and fat, ghee and margarine) in Tanzania, and by the early 1990s, when market reforms were initiated, VOIL had become a market leader.

However, VOIL's market power was significantly reduced starting in the 1990s when economic reforms and trade liberalization policies were introduced. Cheap edible oil imports from Malaysia and Indonesia greatly curtailed the market power VOIL had hitherto enjoyed and its turnover plummeted. In response to these events and the increasingly harsh business environment, the owner began to forge partnerships with shareholders of Asian origin from Uganda and diversified into several other businesses in unrelated industries. These businesses included the following: Victoria Polly Bags Ltd (producing polypropylene woven sacks); Victoria Moulders Ltd (producing plastic injection items, plastic rolls, tire retreading, PVC pipes, and liner bags); Hotel Tilapia in Mwanza City; and Mbalageti Safari Camp in Serengeti National Park. All these divisions were operated as independent subsidiaries of the group. VOIL also diversified into building *go-downs* (warehouses) for rent. In the edible oil category, VOIL began to manufacture sunflower cooking oil after the production of cooking fat was discontinued due to health concerns among consumers.

VOIL employs 41 permanent and 250 temporary workers. With an annual capacity of 16,000 Mt., the annual turnover in 2010 was US$3.4 million. Exports are minimal and are mainly aimed at markets in neighbouring Kenya, Uganda and Rwanda. Like other manufacturing businesses in the country, VOIL must operate in an exceptionally harsh business environment, characterized by unpredictable legal and regulatory systems and infrastructural problems. Accordingly, VOIL must interact with multiple statutory regulatory bodies such as tax authorities, fire authorities, food safety authorities, planning authorities, etc., each of which charge an annual fee and tax. A one-stop approach to assist investors and manufacturers to deal with the multitude of regulatory bodies and their respective payments is non-existent and an on-going source of frustration for the company. Energy problems are rampant and the railway line service is deteriorating, which forces VOIL to use roads for transporting finished goods to more distant markets such as Dar es Salaam, Moshi and Arusha. The lack of cost-effective transportation has led to uncompetitive operations when compared to Dar es Salaam based oil processing enterprises. In response to stiff competition, excessive bureaucracy and high operational costs, VOIL has shrunk in size. The company moreover has focused its attention away from mass markets towards niche markets. The company is contemplating whether it should divest its edible oil business entirely to move into more profitable and less cumbersome sectors, such as building and construction. This divestment drive has been accentuated by the fact that several family members have relocated abroad.

Tanga Fresh: Growing Through Foreign Linkages

Tanga Fresh Limited (TFL), Tanzania's leading milk processing company, originally emerged from the Dairy Farmers' Organization. Supported by the Dutch-Tanzanian bilateral development program, this smallholder dairy farmers' organization was established in 1992 to facilitate joint milk marketing and input procurement. This led to the registration of the Tanga Dairies Co-operative Union (TDCU), an umbrella organization that brought together 11 dairy farmer cooperative societies. TDCU invited a group of Dutch farmers, through Holland Dairies (Dutch Oak Tree Foundation), to support the development of a processing plant. The Dutch Oak Tree Foundation formed a joint venture with TDCU in 1996 and supported TFL to begin with a modest milk processing factory with a daily capacity of 15,000 litres. The Company acquired 20 acres of land with buildings previously owned by the Government during the privatization of parastatals. After restructuring, the ownership of the company was allocated as follows: Tanga Dairies Co-operative Union (TDCU- 35%), Dutch Oak Tree Foundation (45%) and management (20%).

The initial challenge of the company was to source reliable, quality suppliers. The TFL initiated the Modern Dairy Service Network (MSDN) in 1998 to improve the milk collection system though improved quality assurance, market guarantee for farmers' milk and the establishment of a dairy farmers' information service. It also constructed new milk collection Centres (MCCs) as part of a cold chain to implement commercial milk collection, processing and marketing. Today, the company procures raw milk from over 3,500 rural smallholder dairy farmers organised through 13 primary cooperatives and over 5,000 participating dairy farmers. The company has 60 employees in production and a similar number in distribution. The Tanga Fresh production process adheres to strict international hygiene standards and uses state-of-the-art European equipment and techniques. It is highly active in lobbying for a better business environment in the dairy sector through the Tanzania Milk Processors Association (TAMPA). In order to control for quality, the milk is delivered to the factory in insulated milk tanks where all batches are further tested before being certified for production. Farmers must register as members of the system, after which they are entitled to extensive support services. TFL is governed by the Board of Directors comprising investors, TDCU and management. The management team is comprised of the experienced local managers and expatriates with over 15 years of experience in the dairy sector.

Like other enterprises in the sector, TFL faced a number of value chain related challenges including low quality of raw milk, competition from imported milk, and unreliable milk supply. The company has not only faced upstream challenges in relation to inputs, but also downstream issues, such as accessing packaging material and finding outlets for its products. Moreover, as the sector is heavily regulated with more than 17 sector-specific regulations, the company faces considerable challenges in dealing with many regulatory bodies and thus having to comply with often conflicting regulations.

Tan Dairies Limited: Diversifying Upstream and Downstream in the Value Chain

Tan Dairies Limited, a medium-scale family owned milk-processing company based in Dar es Salaam, began in the early 1990s to operate a small-scale dairy farm at the founders' home. From selling milk to the local neighbourhood, the founders expanded the production base into a small-scale Milk Collection Centre (MCC). Since Tanzanian food safety regulations forbid the sale of raw milk directly to consumers, batch pasteurization had to be introduced as the business expanded. By 2000, the business was fully specialized in dairy processing and became officially registered as a private limited company with capital investment of US$250,000 and a milk-processing capacity of 1,000 litres per day. The company has since expanded its processing capacity to 10,000 litres per day; it has 55 employees and an average annual turnover of US$1 million. TDL has acquired land and modern dairy-processing facilities and it continues to expand. Through increased automation, the company has also diversified its product range to include butter, cheese, ghee, cream, ice cream, pasteurized and cultured milk, fresh and flavoured milk. It has successfully developed the DESA® brand of dairy products, which is claimed to be unique owing to the natural flavour of milk from local cows grazed on natural pastures.

TDL procures fresh milk from large-scale farms and from more than 2,000 smallholder dairy farmers. It has established eight milk collection centres located in different regions. With the support of development partners, TDL is developing the Morogoro Dairy Hub located in the coastal area. This hub will involve the establishment of additional milk collection centres and assistance to optimise the farmers' production by, for example, procuring inputs such as pasture seeds, feeds, or veterinary drugs or by organizing irrigation systems. The company has equipped the production centres with modern machinery and laboratory equipment to ensure the high quality of its products; an advancement considerably improving competitive advantage. Due to underdeveloped distribution and marketing infrastructures, the company has been forced to invest heavily in distribution and marketing. TDL's distribution relies on sales agents to supply directly to supermarkets, retail shops, hotels, hospitals and schools. Through this direct sales force TDL's products are sold to more than 15,000 outlets in Dar es Salaam.

Summary of cases

Firm	Sector	Employees	Drivers of growth	Impediments to growth	Key strategy elements	Performance
Tandiaries	Dairy	55	• Dedicated leadership • Community development agenda • Support from donors	• Lack of capacity • Lack of know how • Lack of stable supplies	• Upstream and downstream value chain integration • Technology and knowhow acquisition from abroad	• Low productivity • Struggling to move to growth path
Tanga Fresh	Dairy	60	• Foreign business and donor linkages • Good local and central government relations	• Getting quality supplies • Lack of distribution channels • Business environment	• Expanding from regional to national market • Upstream and downstream value chain integration • Technology and knowhow acquisition from abroad	• High productivity • Production excellence • Stable growth
Vick fish	Fish process ing	600	• Linkages to foreign buyers • Ethnic Indian networks	• Foreign competition and arrival of substitutes • Drying out of supplies	• Early exports to global markets • Technology and knowhow acquisition from abroad	• Production excellence • Struggling to maintain position in export markets
Voil	Edible oils	300	• Protection of industry • Ethnic Indian networks	• Government regulation, red tape and, rent seeking, • Tariff reduction.	• Diversification/ divestment	• Low productivity • Declining market shares
Azam	Grain milling	3000	• Effective lobbying of tariff regime • Scale advantages • Logistics management.	• Energy supplies • Foreign imports	• Political representation • Diversification • Upstream and downstream value chain integration • FDI in neighboring countries	• Growing market shares in national and regional markets
Anzania	Grain milling	350	• Knowledge of industry and local markets • Tarif regime • Imported technology • Marketing strenghts	• Unfair competition from industry incumbents	• Differentiation strategy • Diversification • Upstream and downstream value chain integration • FDI in neighboring countries	• Excellence in marketing • Struggling to gain market shares In national and regional markets
Power food	Grain milling	35+	• Dedicated entrepreneurship • Donor support and foreign alliances	• Obtaining licences, certifications and credit • Donor dependence	• Technology and knowhow acquisition from donors • Export to niche markets	• Production excellence • Stagnant growth