**Competitive Advantage of SIDO Supported Small Scale Furniture Industries Against Imported Furniture in Dar Es Salaam and Arusha Regions, Tanzania**

**By**
**Neema Penance Kumburu**
**PhD. Sokoine University of Agriculture, 2016**

**Abstract**

The study was based on the argument that in Tanzania, furniture industries play a significant role in fostering socio-economic development and poverty alleviation. With such phenomena, previous research has not fully addressed factors affecting competitive advantage of small-scale furniture manufacturing industries in Tanzania while there is influx of furniture import. For that, this study analysed factors affecting competitive advantage of SIDO supported small scale furniture industries in Dar es Salaam and Arusha regions. Specifically, the study:

- Characterized SIDO supported small scale furniture industries
- Analysed the determinants of consumers' willingness to pay as well as factors affecting competitiveness of SIDO supported small scale furniture manufactures
- Analysed factors underlying consumers' willingness to pay for imported versus locally manufactured furniture
- Examined factors affecting competitiveness of SIDO supported small scale furniture industries

This study was based on the argument of competitive advantage theories and the consumer behaviour theories. Competitive advantage theories were explained by the Porter's five forces perspective, the Porter's generic strategies perspective, the resource-based theory and the dynamic capability theory. In general, these theories explain the sources and how a firm can achieve its competitive advantage. On the other hand, consumer behaviour theories are explained by consumer utility theory and the reasoned action theory.

- Five forces perspective views of competitive advantage (CA)

This was originally described by Porter who highlighted the position of superior performance that a firm achieves through offering cost advantages or benefit advantages. The effect of these factors on each other defines the intensity of competition in one industry. Porter's proposition on an analytical framework to assess the attractiveness of an industry identifies five basic competitive forces seen as threats to the firm profits. Threat of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. The collective impact of these five forces and the underlying structure of an industry determines the intensity of industry competition and the ability of firms in the industry to make profits. It is from these perspectives that the collective strength of these five competitive forces play an important role in influencing the competitive position of furniture industry as they determine firms' profitability. In addition, profitability and growth of performance of small-scale firms were influenced significantly by the environment. Besides that, only environmental variables were related with firm growth of firm performance. Further, environmental characteristics have significant impact on overall export marketing performance.

- The porter's generic strategies perspectives

Porter described three generic strategies which a firm of any size (small, medium or big) can choose to pursue its competitive advantage. The competitive strategy view states that a firm's competitiveness and so its performance is determined by the characteristics of the competition environment and firm's ability to achieve a powerful strategic position through planned effective competitive strategies. The three generic strategies are lower cost, differentiated or

focus. A firm can choose one of two types of competitive advantage; either lower costs than its competitors or differentiating itself along dimensions valued by customers to command a higher price. A firm can also choose one of two types of scope, either focus by offering its products to selected segments of the market or mass market, offering its product across many market segments. The generic strategy reflects the organization's strategic power.

- The resource-based theory (RBT)

The theory holds that the internal resources that a firm control have the potential to be a source of sustained competitive advantage (SCA) if the resources are valuable, rare, inimitable, and non-substitutable. This means a resource to be a source of competitive advantage must meet three conditions. Firstly, the output from these valuable resources is willingly purchased by buyers at a price far higher than the costs incurred in bringing it to the saleable state. Secondly, it is scarce because it is subject to limited supply. Thirdly, it is difficult for competitors to either imitate or purchase the resources. The model assumed that the desired outcome of managerial effort within the firm is SCA that allows the firm to earn returns that are above industry average. This model views SCA as emanating from the distinctive resources of a firm that gives it an edge over its rivals. An organization is viewed as a bundle of specialized resources that are deployed to create a privileged market position. Therefore, the RBT emphasizes strategic choices where managers of a firm have the important task of identifying, developing, and deploying key resources to maximize returns. A small-scale industry must choose the range of products they will produce, the distribution channels they will employ, the types of buyers they will serve, the geographic areas in which they will sell, and the array of related industries in which they will compete. With regard to furniture firms, a firm's competitive advantage is driven by both internal and external factors. The internal factors are collectively captured under the resource-based theory (RBT) which places emphasis on decisions and competencies emanating from a firm rather than its environment. Internal factors are those that affect the firm owner/manager's ability to operate efficiently, despite any inmate potential in the owner/manager. Internal factors are the personal attributes, skills and competencies of the individual owner/manager which are crucial to how well the business faces up to the inevitable crises that arise. These factors include lack of capital, personal characteristics, marketing, financial management, human resource, access and use of information technology and the availability of sound business plan.

- The dynamic capability theory

Despite the significance of RBV, scholars agree that RBV does not adequately explain how and why certain firms have competitive advantage in situations of rapid and unpredictable change. In these situations, sustained competitive advantage has been seen as unlikely from just selecting the right combination of resources. Dynamic capabilities theory is derived from RBV. It is different from RBV in that it focuses on resource reconfiguration and renewal, while RBV stresses selection of resources. The dynamic capabilities view helps to explain how firms attain differential performance in dynamic environment. In a fast-paced environment where customer needs, technological opportunities, and competitors' activities are constantly changing, it requires unique and difficult to replicate dynamic capabilities. This view argues that superior performance of a firm comes from the ability of the firm to change its resource base in the face of environmental change. The concept of dynamic capabilities offers promising hope in explaining sustainable competitive advantage and long-term superior firm performance. Firms with superior competitive positions in market are those who can respond to technology change and market change rapidly and coordinate and redeploy internal and external resources effectively

- The consumer utility theory

This study also situated itself in the domain of the consumer utility theory which tries to provide for alternative choices made by individuals. The consumer utility theory is much more appropriate in predicting and understanding consumers' choice in various products or service. The same case is in imported or locally made furniture. If one perceives particular furniture to be of poor quality, he/she may reject it or pay low price. At the end is the performance of imported or local dealer which is affected and hence its competitive advantage. In utility satisfaction each choice provides to the decision maker, who in this respect is the furniture consumer. The theory states that the consumers maximize their utility as a function of consuming different goods, given relative prices, income and preference. It assumes that consumers make a well-informed decision implying that information in the market is perfect. Changes in income and prices influence how much of different goods a rational consumer will buy. Further, utility theory assumes that any decision is made on the basis of utility maximization principle, in which the best choice is the one that provides the highest utility. The furniture consumers' decision, on which type of furniture to buy, is subjected to the available income and the prices of the furniture. The utility that consumer gets from selecting locally made or imported furniture is measured by a utility function U, which denotes furniture consumer preference such that: U(x) > U(y), where choice x is preferred over choice y or U (x) = U(y), where choice x is indifferent from choice y.

- The theory of reasoned action

The theory of reasoned action represents the specific processes that person uses to make a choice which links to individual beliefs, attitudes, intentions and behaviour in order to lead to both better explanation and better prediction of behaviour. The theory of reasoned action has been successfully applied to consumer behaviour in a wide variety of behaviours including the consumption of life insurances, automobiles, banking and services, computer software, coupons, detergents, soft drinks, condoms, grocery, fast food restaurant and so on. With the basic theory behaviour is influenced by behavioural intentions, whereas behavioural intention is affected by attitude toward the behaviour and subjective norms. As people are always rational and make systematic use of the information available to them, they may consider the implications of their actions before they decide to whether engage or not in a given behaviour.

**On methodology,**

- ✓ The study used a cross sectional design which favours for description purposes as well as for determination of relationship between variables. Furthermore, the design enables to collect both qualitative and quantitative data for two or more variables which are then examined to detect patterns of associations.
- ✓ The study was carried out in two cities of Tanzania namely Dar es Salaam and Arusha. Dar es Salaam city also has three Municipal Councils namely, Ilala, Kinondoni and Temeke. Economic activities in the city include: internal and external trade, industries, financial institutions, furniture manufacturing, tourism, transport and communication, urban agriculture and fishing. Accordingly, compared to other regions, there is a large market for consumer goods in Dar es Salaam. These qualities have led the city to attract many manufacturing industries, including the furniture sector. For Arusha city, it hosts numerous small and large businesses, banking, retail and commercial enterprises thus making it the financial and cultural capital viable. Arusha city is a home to the largest manufacturing sector in the region with breweries, agro-forest processing and large pharmaceuticals entities. Dar es salaam is the leading location in terms of small-scale industries (41.13%) followed by Arusha and Kilimanjaro (20.57%), Mwanza 8.2% and Tanga 6%. Dar es salaam and Arusha were

chosen because they are the largest recipient of imported furniture

- ✓ Multistage sampling method was used to sample the consumers. At the first stage, study wards were selected. Ten out of 90 wards of Dar es Salaam and 3 out of 17 wards in Arusha were selected to participate in the study. In Kinondoni, out of 27 wards 4 wards were sampled and included Msasani, Kijitonyama, Manzese and Kimara. For Temeke district 3 wards (Keko, Temeke and Yombo Vituka) were selected out of 24 wards. In Ilala district, out of 22 wards, 3 were selected from Upanga West, Ilala, and Kiwalani. In Arusha, the selected wards were Themi, Sokoni 1 and Kimandolu. The desired sample size was 384 with 88% response rate. The households were randomly chosen within the sampling area, then individual respondents within each household were selected purposively, targeting members who had the responsibility of purchasing furniture and at least purchased locally or imported furniture in the last 5 years.

The study used primary data which were collected from SIDO supported furniture manufacturers, furniture importers as well as furniture consumers. Primary data provided realistic view of the study. Secondary data were collected from records of the Tanzania Revenue Authority (TRA) and furniture importers. The data collection tools used by this study were;

- ✓ Focus group discussions
- ✓ Interview
- ✓ Documentary review
- ✓ Questionnaire

Methods of data analyses involved Logit model, development of indices, OLS model, T-test and thematic analyses. On Characterization of SIDO supported small scale furniture industries, the study found that;

- Sex of the furniture firm owner, there were 61 (84%) furniture male importers and 12 (16%) females. Likewise, for SIDO supported small scale furniture manufacturers, 109 (88%) were males and 15 (12 %) were females. The lower number of female owners in the industry were due to a number of reasons including cultural background about a woman's role in society in Tanzania. Moreover, the environment was less accommodative to female-owned businesses or the lower entrepreneurial tendencies among women taking into consideration that the furniture industry may be labour intensive.
- The mean age was 41 and 37 years for furniture importers and SIDO supported small scale furniture manufacturers respectively. Furniture importers were older compared to SIDO supported small scale furniture manufacturers. This was attributed to the fact that furniture manufacturing industry required labour intensive compared to furniture import industry.
- The mean household size for furniture importers was 4.0 while for SIDO supported small scale furniture manufacturers was 5.0. This means that household size for furniture importers was slightly smaller than that of their counterparts. This implies that the dependence ratio is high to SIDO supported furniture manufacturing compared to furniture imported industries.
- On average the years spent in school were 14 and 9 for furniture importers and SIDO supported small scale furniture manufacturers, respectively. Furniture importers completed secondary education level whereas SIDO supported small scale manufacturers had completed primary education plus vocation training. This means small scale furniture manufacturers need basic education to perform their work. In other

words, it did not need special skills or high education to create furniture; it rather requires creativity in creating one that uses good quality materials, attractive design and practical functions.

- On average, monthly income was TZS 30 109 589 and TZS 1 755 200 for furniture importers and SIDO supported small scale furniture manufacturers, respectively. This indicated that the volume of sales for furniture importers was higher than that of SIDO supported furniture manufacturers. This was attributed to the fact that the cost of importing and selling furniture was low compared to the furniture manufactured within the country. Also, it was due to the fact that consumers preferred imported furniture, thus, pay premium price compared to locally made furniture.
- Management of the furniture enterprises, among furniture importers only 4% were manager employees and 96% were manager owner. For SIDO supported small scale furniture manufacturers, only 2% were manager employees and 98% were manager owners. This indicates that the majority of the firm owners in the study areas took the managerial responsibilities. This implied that the manager position in this context was being personalized rather than being institutionalized, something which could affect the competitive advantage of the firm.
- On average, furniture importing firms had been operating for seven years whereas SIDO supported small scale manufacturing firms had been operating for nine years. This indicated that SIDO supported furniture industries had been operating for a longer period compared to their furniture counter-parts. This revealed that locally made furniture were still demanded by the domestic market. Length of time in operation may be associated with availability of the market for selling furniture products.
- With regard to sources of capital, the results show that, for furniture importers, the main source of capital was bank loan (36.6%), followed by family contribution (19.6%). Others sources were personal savings (16.3%) inherited business (11.8%), SACCOS (9.2%) and inherited cash from parents (5.2%). For SIDO supported small scale furniture manufacturers the main source of capital was from personal savings (54.5%), followed by SACCOS (16%). Others were minor sources which contributed to 29.5%. This implied that unlike importers of furniture where the majority of whom had secured their start-up capital from bank, the majority of SIDO supported small scale manufacturers depended on their proprietors' or personal savings for their initial capital, and only 3.8% percent had obtained loans from banks loan.
- The marketing models used for furniture produced by SIDO supported small scale furniture manufacturers; 70%, of the respondents produce furniture mainly for sale followed by 18% who produced for contract.
- Legal status of the firm, all furniture importers were registered and had tax identification numbers (TIN) whereas for SIDO supported small scale furniture manufacturing firms 98.4% were registered and had TIN numbers.
- Form of ownership, all of furniture importers firm were sole proprietor while for SIDO supported 89% were sole proprietor and 11% were partners. Thus, sole proprietorship was the main form of ownership on three aspects.

Regarding the determinants of consumers' preference on furniture, the study revealed that

- Education has influence on furniture preferences. In fact, an increase in the level of education increases the chances for consumers to prefer imported furniture. This was due to the fact that most of the educated respondents have higher income than the counterparts.

- Price of the furniture has influence on furniture preferences, with decrease in price, consumers' preference to locally made furniture increased with increase with price. Moreover, this was due to the fact that individual's satisfaction was related to the amount of income earned.
- The influence of design on furniture preferences plays a significant role. The locally made furniture were best preferred with traditional and casual design. This was to say that consumers who were sensitive to modern style prefer more imported furniture. The possible explanation for this was that simple/traditional/casual design may be associated with low price which favours most low-income earners
- Consumers satisfaction with quality for locally made furniture was not convincing, this meant that consumers showed high satisfaction with imported furniture in terms of quality. This implied that customers' expectations on furniture items were associated with furnishing of such items.

On factors underlying consumers' willingness to pay for imported versus locally manufactured furniture, the study found that;

- With every additional year of age, a consumer is willing to pay 0.292 cents more for locally made furniture. This means that, with decrease in age, consumers were willing to pay 0.669 cent more for imported furniture.
- Male consumers were willing to pay 0.186 cent more for locally made and 0.092 cent less for imported furniture than female male consumers. This is because male consumers value furniture based on durability; hence they buy new items which last longer while, on the other hand, female consumers were interested in fashion or style.
- The influence of household size on willingness to pay; for one additional household member, the consumer was willing to pay 0.235 less for imported furniture. This means that for every additional person in the family a consumer was willing to pay 0.134 cent more for locally made furniture.
- The influence of quality on willingness to pay; the results indicate that quality influences consumers' willingness to pay more for imported furniture. Consumers were willing to pay a premium of 0.100 cent more for imported furniture compared to local furniture.
- The influence of design on willingness to pay, consumers design expectation for locally made furniture was not met. Increase in consumer's fashion consciousness increases, the willingness to pay for locally made furniture was reduced by 0.053 cent. This means that consumers show a high satisfaction with imported furniture design because of the use of advanced technology in manufacturing imported furniture.
- The study also established that income predicts the willingness to pay and that for every additional TZS 1 of income an individual was willing to pay 0.131 cent more for imported furniture. This was due to that higher income consumers are more inclined on stylish and quality items.

Regarding competitiveness of Small-Scale Furniture Industries, the study revealed that

- On availability of customers for locally made furniture for the previous five years, 51% of the respondents reported that the number of customers had been increasing; 37% of respondents said that the number of customers had been decreasing whilst 12% reported that there was no change at all. For that, the locally made furniture items are still needed, although the number of customers increases in a decreasing rate
- There were multiple reasons for change in the availability of customers in the previous five years for locally made furniture. The results showed that 79.4% of the cases

reported that emergence of new modern furniture ventures was the main factor for change in customers. The study also reported that availability of substitute products (67%), poor marketing strategy (45.8%), failure to cope with customers' demands (44.9%) and inadequate innovation (36.4%) were the reasons for change in customers for locally made furniture. This implied that for SIDO supported small scale manufacturers to compete effectively they have to address some or all of the reasons mentioned which have led to the decrease of customers.

- The results on factors affecting competitiveness of SIDO supported small scale furniture industries indicated a mix of multiple responsible variables such that;

- Age of the firm
- Credit
- Initial capital
- Number of employees
- Price
- Firm's location
- Product's diversification
- Networking
- Education
- Technology
- Regulations

**General conclusion**

The overall objective of the study was to analyse factors affecting competitive advantage of SIDO supported small scale furniture industries in Tanzania. Specifically, the study characterized SIDO supported small scale furniture industries, compared to the profitability of imported furniture against SIDO supported small scale furniture industries and analysed the determinants of consumers' willingness to pay for imported versus locally manufactured furniture. Lastly, the study investigated factors affecting performance of SIDO supported small scale furniture manufacturers. From the findings, it can generally be concluded that competitive advantage of SIDO supported small scale furniture industries is low compared to imported furniture. However, this cannot negate the fact that SIDO supported small scale furniture industries are also feasible business. The major reasons may be due to insufficient start-up capital, inadequate employees, minimum utilization of networking potentials and inadequate marketing strategies as a result of low experience. In general, this section presents conclusions relating to research objectives as discussed hereunder.

- Contribution to Knowledge

The study endeavoured to address the knowledge gaps associated with characterization, profitability and performance influencing factors in relation to competitiveness of SIDO supported small scale furniture industries. The study has established that most of the SIDO supported small scale furniture industries are managed by "owner managers" and that management is personalised rather than institutionalised. Both investment and management are tied together on personalities rather than the industry itself implying that decision making in favour of more advantageous course of action is easier. The study has also established that SIDO supported small scale furniture industries generate adequate profit to sustain their operations. It has been confirmed that, regardless of influx of imported furniture, locally made furniture are profitable and competitive business entities.

The study established that there are differences on the magnitude at which socio- economic factors influence consumers' preference and amount of money that consumer is willing to pay for locally made and imported furniture. It has been established that age of the firm, credit, and initial capital, number of employees, price, location, diversification and networking have a greater influence on competitiveness of small-scale furniture industries compared to other factors.

The study has revealed that theories of competitive advantage provide only limited insights on the competitiveness of SIDO supported small scale furniture industries. When each theory is examined independently, none of them fully explains the complexity of competitiveness of the small-scale furniture industries.

- Recommendations

The following recommendations are proposed to government and other stakeholders involved so as to make SIDO supported small scale furniture industry more competitive.

Policy actions should be directed towards enabling SIDO supported small scale furniture manufacturers to upgrade their socio-economic characteristics by ensuring that more women are involved in the business. Further, these should go together with enabling them to have capacity to process information and flexibility to openness, innovation and development of strategic decisions for betterment of their firms.

SIDO supported need to adopt modern production practices and improve their performance so that they can make adequate profits. This will be achieved if the government provide adequate environment for SIDO supported manufacturers to access modern equipment and be able to improve their knowledge. This should be done through enhancement of technology development, transfer and technical services that will enable them to improve productive capacity, productivity, products quality, and infrastructure and technology development.

To make consumers prefer locally made furniture and pay premium price, small scale producers need to employ market intelligence most importantly to understand differences in consumer behaviour based on market segmentation. Understanding the needs of each of the different segments may be helpful in product and price differentiation so as to effectively serve the high potential segments and avoid unnecessary competition. SIDO supported manufacturers need to improve on workmanship, especially in the area of quality design and surface finishing. SIDO supported small scale furniture manufacturers need to become responsive to changes in consumer preferences. They need to adopt an approach of customer-oriented marketing and engage in intensive marketing strategies through advertising and promotion campaigns.

For SIDO supported small scale furniture manufacturers to build their capacity to produce better quality products, they need to strengthen their efforts in experience sharing and networking with other successful furniture manufacturers within and outside the country. Moreover, the government and other pertinent stakeholders should establish support programmes such as incubator centres where aspired furniture manufacturers can be mentored prior to starting their own businesses. The experience gained in this form would help furniture manufacturers gain the business knowledge which is considered crucial for attaining competitive advantage.

Current practice shows that initial capital for SIDO supported small scale furniture industries enable them to survive in the business. However, for long term perspective, SIDO supported small scale furniture industry should strengthen sources for securing initial capital that is sufficient to capacitate firms operate with full potential.

Even if the majority of SIDO supported small scale industries enterprises found in the study area employed more than one person, the number and capacity of those employees would be found not to help much in firm performance. It is therefore recommended that SIDO supported small scale manufacturers should be encouraged to hire adequate number of employees with relevant skills in order to ensure proper workload and efficient use of working capacity in order to facilitate competitive performance.

The organizations engaged in SMEs promotion including VETA and SIDO must deploy a variety of instruments and methodologies, ranging from entrepreneurial skill training; business development services (BDS) and technical support, to capacity development, empowerment and the provision of credit and investment funding as well as monitoring mechanism to ensure that in future small scale furniture industries became competitive.

Areas for Further Research

(a) This study did not focus on women entrepreneurial tendencies in furniture manufacturing sector. Therefore, it is proposed that future research should include entrepreneurial tendencies in the furniture manufacturing sector in Tanzania

(b) Future study should also be on factors that affect formalization of furniture manufacturing industry in Tanzania. This will enable those who are concerned to come out with appropriate interventions and thus will make the furniture manufacturing industry more competitive.

(c) Research on supply chain of furniture from manufacturers to the consumers should also be conducted. This will enable identification of actors involved, their roles as well as benefits received.