



Manufacturing by the moon

By Eric Collins

Frank Leung is President of the Federation of Hong Kong Footwear Ltd. and a learning partner on the *College of Business DBA programme*. Mr Leung recently won the London GG2 Leadership Awards 2016 – Entrepreneur of the Year Award. With extensive experience of shoe manufacturing in Guangdong and Ethiopia, his story illustrates the contemporary shift of manufacturing away from China. Here he shares his experiences in starting up factories in Ethiopia.

“At first, there were some customs I really didn’t understand,” Frank Leung recalls.

His workers told him, “If there is no moon tonight, we will see you tomorrow. But if the new moon comes, we can’t be there.”

With 200 pairs of high fashion shoes to send to Milan by the end of the week, Ethiopia was not looking like the best choice for a startup.

“So, that night,” Leung remembers, “I went out and there was no new moon. I thought: Great, the shoes will be ready for Milan! Then the next day I went to the factory and nobody was there.”

“I said, where is everyone? They told me the new moon had been seen, not in Ethiopia but in Mecca. I said how do you know? They said, oh, everybody called us.”

Welcome to Ethiopia! The workers were celebrating the Eid festival for the next week, and the fashion shoes for Milan had to wait. And there were other issues.

“The fasting period affects us a lot. People don’t eat from sunrise to sunset, and we work right through Ramadan. Some people have fainted from tiredness during their shift. At first, we didn’t know what to do. But now we have a rest room for workers.”

The world’s factory

It’s all a far cry from Leung’s trusted factories back in Dongguan.

When he started out in the early nineties, Dongguan was the world’s factory. From air conditioners to zip lock bags, everything was manufactured there. Heavy industry was to be found in larger cities. Shipping, and the motor industry were in Shanghai. One country, China, made everything.

But the investment environment was changing. Labour costs were rising, land was becoming expensive. So, manufacturers started looking elsewhere.

“Each industry looked for the best location to move to. Garments were the first to move out. Buckles can be easily imported. They don’t require a strong supporting industry. So, they tried many places, Sri Lanka, Vietnam, Malaysia, and now Myanmar.”

The toy industry is a bit more complex, combining injection mould-making and electronics. “Preliminary work is typically still done in China, but the bulk of manufacturing nowadays is often in Indonesia.”

Electronics has an even larger eco-system. This might include component making, circuit boards, and injection moulding. When more than two or three specialist factories have to move together, it is more complicated. So, a lot of higher-end manufacturing, especially if it can be readily automated, is staying put in China.

Getting to Ethiopia

“I have an Italian partner, and one day he told me he wanted to go to Ethiopia to source leather. After that, for two years, he kept asking me to come along, and finally I went with him. My first impressions of Ethiopia were very positive,” Leung remembers.

“I was surprised by how happy the people were, despite their suffering over the past 20 or 30 years. They didn’t have much. There were no mobile phones.”

“The first thing I did was buy leather to get some kind of connection to the place. After that I gave some orders to a government-owned factory to run production for shoes. Workmanship was good and we were happy. After two years’ experience, we decided to start our own factory.”

Logistics

Ethiopia is a landlocked country so logistics are a challenge.

“It took six months to get the machinery from China. We had to go through the port of Djibouti, then overland to Addis Ababa. At that time, port facility management was not up to international standards.”

“Now it is getting better. The journey takes only 35 days, and cross border transportation is improved with a new railway line between Djibouti and Addis.” Raw material supply or components is crucial as it affects delivery time. Leung has settled on a mix of sea and air freight.

Manufacturing

Setting up shop in Africa was also challenging compared to the predictability of home.

“China was a settled farming society, which works around seasons, and we share a common culture. At Chinese Lunar New Year, which is the biggest disruption to manufacturing, there are only three days’ official holiday, but it is understood that workers take off two weeks. I know exactly when my workers go away, and when they will come back. This is all agreed and known.”

It took time to adjust to Ethiopia. “Their new year is in September. It’s officially a one-day holiday but actually stretches to one week. Then the two main communities are Christian and Muslim, but they both take each other’s holidays! Manufacturing is more difficult to schedule.”





Work mentality

Ethiopia was partly an animal herding society. Adjusting to the demands of factory work has taken time.

“Herders take their animals to graze on the hillside. They would sit in the shade under a tree and guard their animals. The journey to the hillside and the sitting were all considered work. They were at work — but not necessarily doing things at work.”

“Then they come to the factory. Whether they move or they don’t move, whether they do or they don’t do, it is all still work in their mind. This was their mentality at first and it took time to change.”

Time was another issue. Almost all Ethiopians use a 12-hour clock, with one cycle of 1 to 12 from dawn to dusk, and the other cycle from dusk to dawn.

“At sunrise, people get up and at sunset they go back home. This caused difficulty with the idea of ‘overtime’. They really couldn’t understand it!”

Enter the Smartphone

But change came fast. In the last three or four years, young entrepreneurs from China have introduced smartphone manufacture to Ethiopia.

“The young Chinese are very ambitious and eager to try everything,” Leung says.

“They buy machinery and ship it to Addis Ababa and make an assembly line. It’s old, labour-intensive technology. But they buy at a low price, and make smartphones suitable for the local market.”

The result is that mobile phone usage has taken off in Ethiopia.

“They sell phones for about half a month’s salary.” And as Leung relates, the mobile is a real Trojan horse: “When they start using the smartphone they become more modern, they need more things and they are willing to work longer hours. One simple phone can change a lot. Now they don’t feel any suffering from working overtime! They feel enjoyment after they receive their wages.”

Made in Ethiopia

“When I started out in Africa, I didn’t factor in customer resistance to ‘Made in Ethiopia’. But for the first three years the buyers gave me very small orders. They were checking the product and they didn’t want to take risks. For their own job security, they want to buy shoes that guaranteed no problems.”

That has changed now, and Leung manufactures about 30% more shoes in Ethiopia than in Guangdong. Short-run production is still best in Guangdong. But anything from 20,000 up goes to Ethiopia.

“There are inefficiencies in starting-up a new model in Addis Ababa. It takes about one week to get up to speed with one style,” he says, explaining the strategy.

Tensions

Ethiopia is a federal government, not centralized like China. With a population of over three million, the footprint of Addis Ababa is still relatively small. But in

the last 10 years, Chinese companies have built a lot of new roads, and now the city is expanding into the surrounding land. This is causing problems.

“I have two facilities, one very close to the airport, the other was about 1 hour 40 minutes. But six months ago, a new road reduced that time to about 30 minutes. The government wants to expand the capital city area, acquire more land, and build more public housing. As it is made more accessible, the land is becoming more and more expensive. There have been tensions between the city authorities and the other provinces and village leaders leading to strikes. The state government is opposed to the provinces. And some provinces want to increase their seats in parliament.”

“During the strikes, my Chinese supervisors feared for their lives, but our workers assured them that it is only a show of support for local village leaders in their struggle with the city.”

Jobs for Africa

Frank Leung recently won the GG2 Leadership Awards 2016 — Entrepreneur of the Year Award, in London.

“My story in Ethiopia was very relevant to what the UK was going through with Brexit. I told the panel judges that I thought the best way to deal with the refugee crisis in Europe was to help African and Middle Eastern countries like Ethiopia and Syria to develop their own economies, rather than focussing on stopping refugees crossing the Mediterranean Sea.”

“Some of the Ethiopians may even think about taking the boat to Turkey. I try to help them build their home better, and create more jobs. So, to a certain extent,

I think my winning this award speaks to concerns around immigration and refugees at the time of Brexit.”

At peak season, from September to December, manufacturing for the US Spring market, Leung employs up to 1,700 people in Ethiopia, with about 30 Chinese supervisors. For the future, does he plan to expand into neighbouring countries?

“As a SME one can’t do too many things at the same time. If I can make a success of Ethiopia that will already be a great result for me.”

DBA

These days Frank Leung has an unusual monthly commute between Hong Kong, Addis Ababa and his home in London. In the middle of his busy working life, he has signed up for a College of Business DBA. Unsurprisingly perhaps, the theme of his research is Ethiopia. He is researching into why less developed countries with abundant raw material resources and cheap labour force receive less Foreign Direct Investment.

“The main problems in Ethiopia are resources and logistics, so dependency theory is very relevant, and how to bring all the resources together to make a successful business.”

In pursuing his vision, Leung is bridging both cultural and geographical distance. Differences in work concept and time keeping, infrastructure and logistics, with political instability thrown into the mix, make for a challenging life. As he puts it: “The DBA is talking about everything that I am suffering!”

