



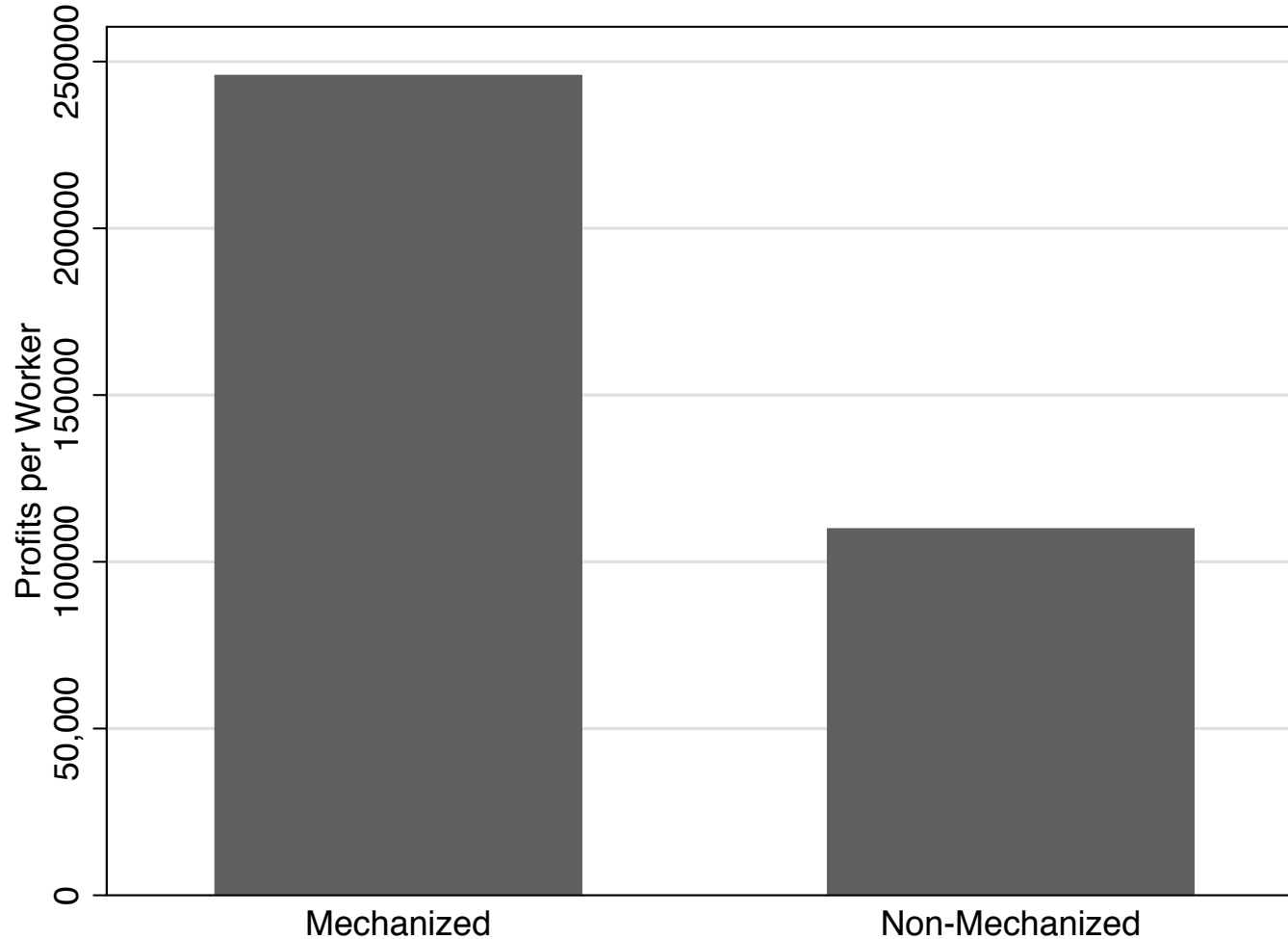
# **Local Competition and Customer Demand in Ugandan Manufacturing**

Vittorio Bassi (USC), Raffaella Muoio (BRAC)  
Tommaso Porzio (UCSD), Ritwika Sen (IGC) and  
Esau Tugume (BRAC)

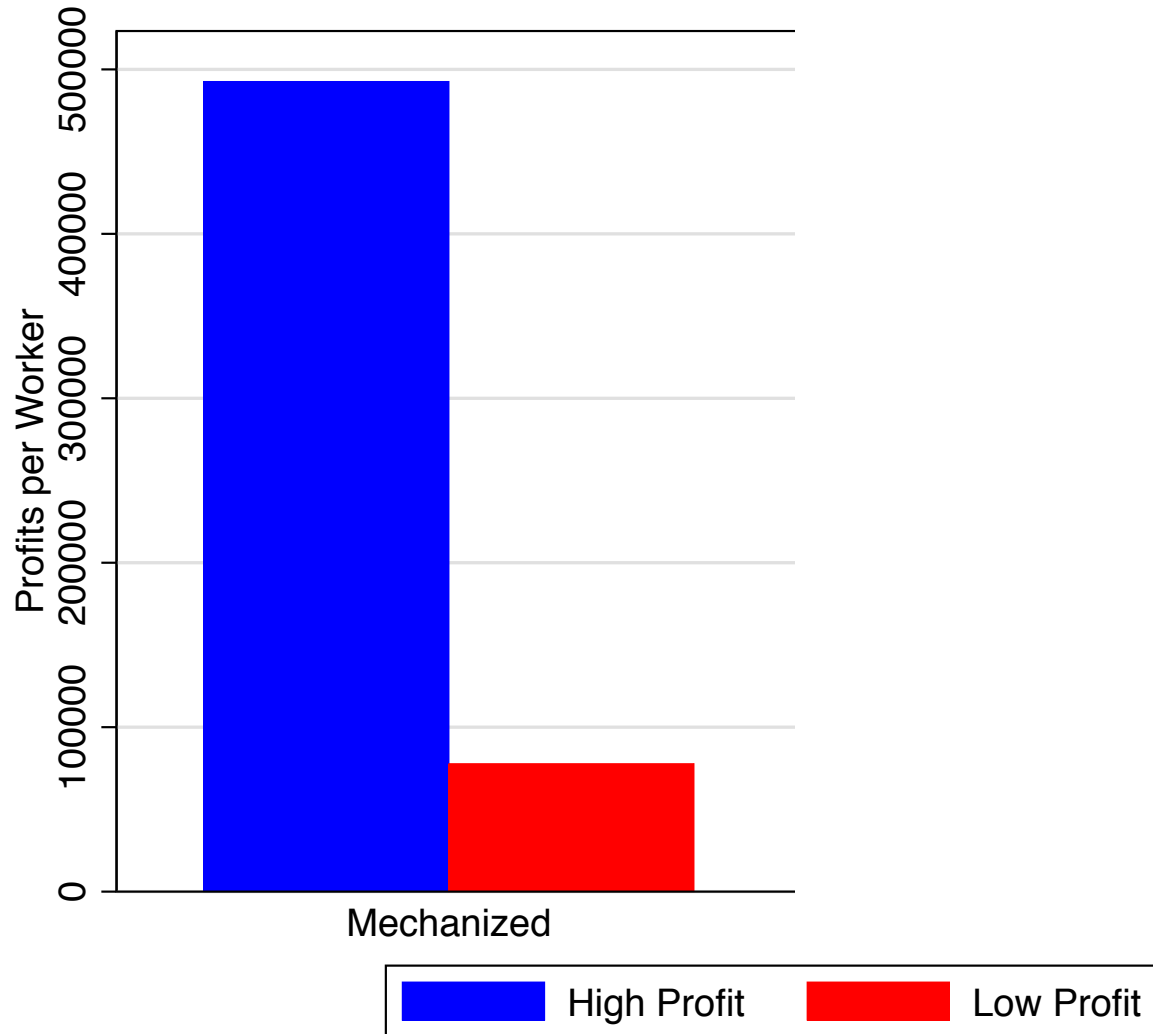
Kampala, 14 December 2018

# Recall, we have shown Technology Matters for Profits

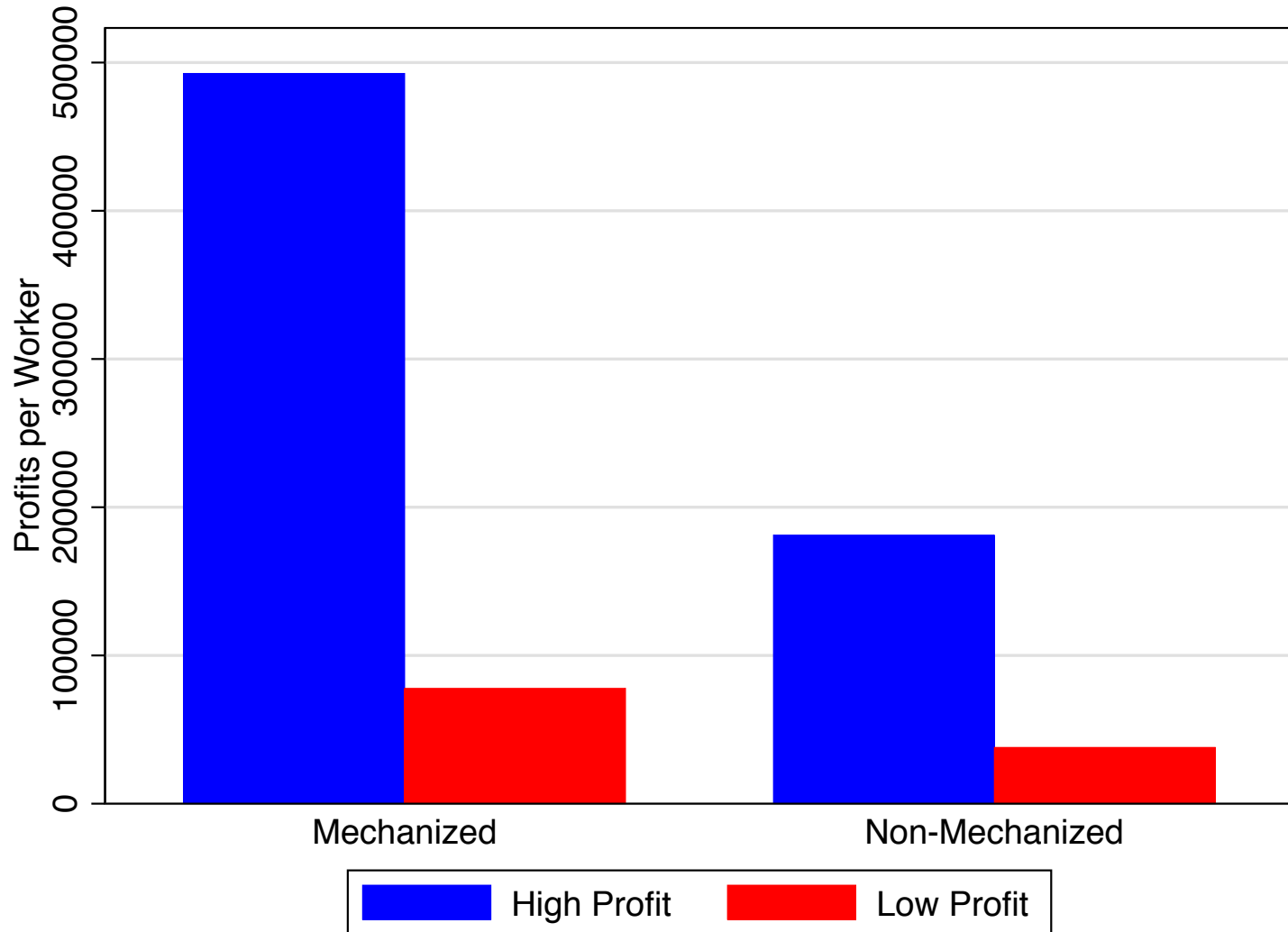
Note: we use again the survey previously described, and we focus on furniture.



...however, not all Mechanized Firms have high profits



...and some Non-Mechanized ones have very high profits

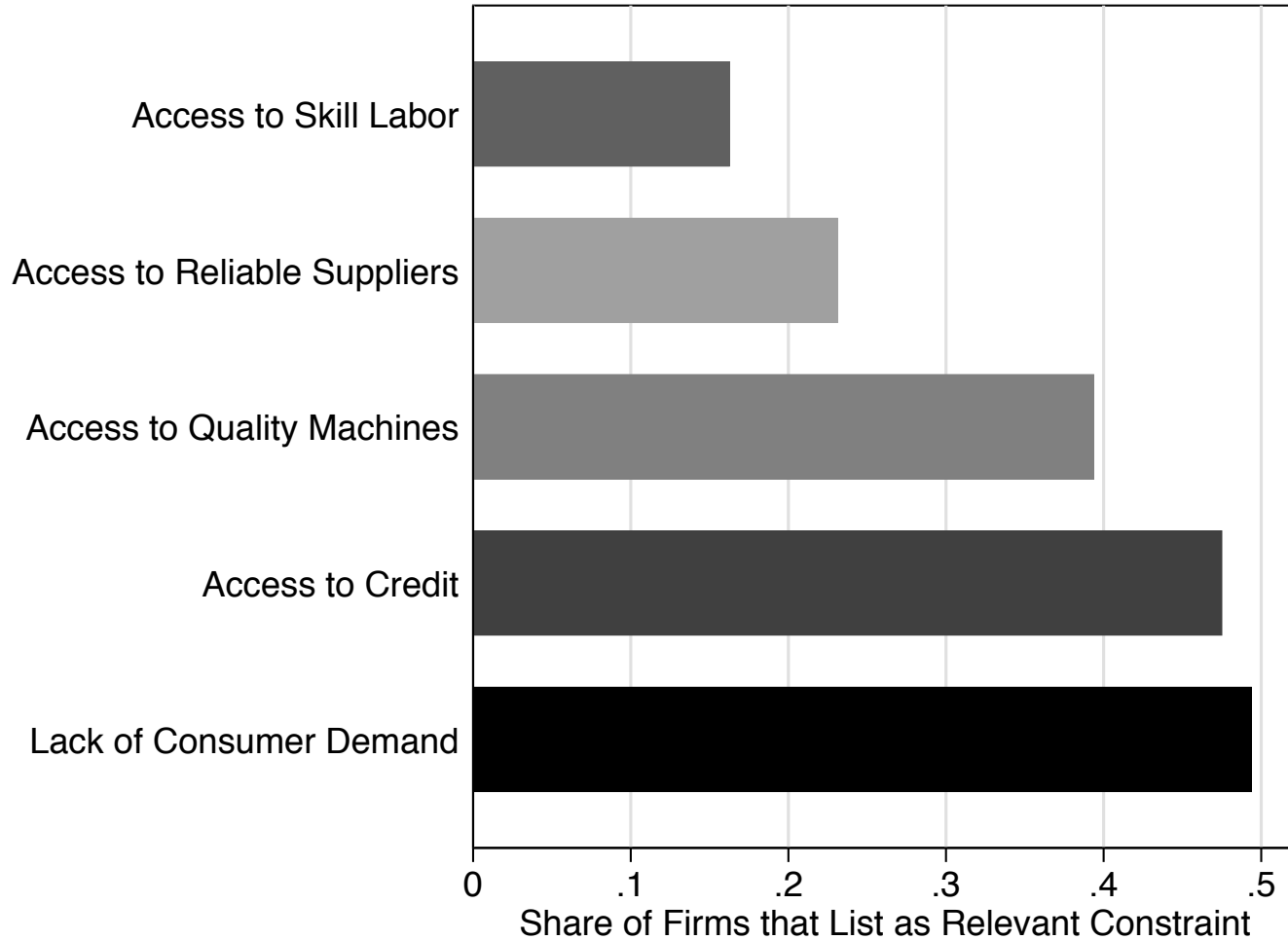


# Going Beyond Technology: What Else is Important in Explaining Profits across Firms?

- Survey allows us to explore other determinants of profits
  - Access to skills, reliable suppliers, demand, competition etc
- This presentation:
  1. Firm-level demand and access to customers play a key role
  2. However, firms do not seem to engage much in competition to increase their customer base

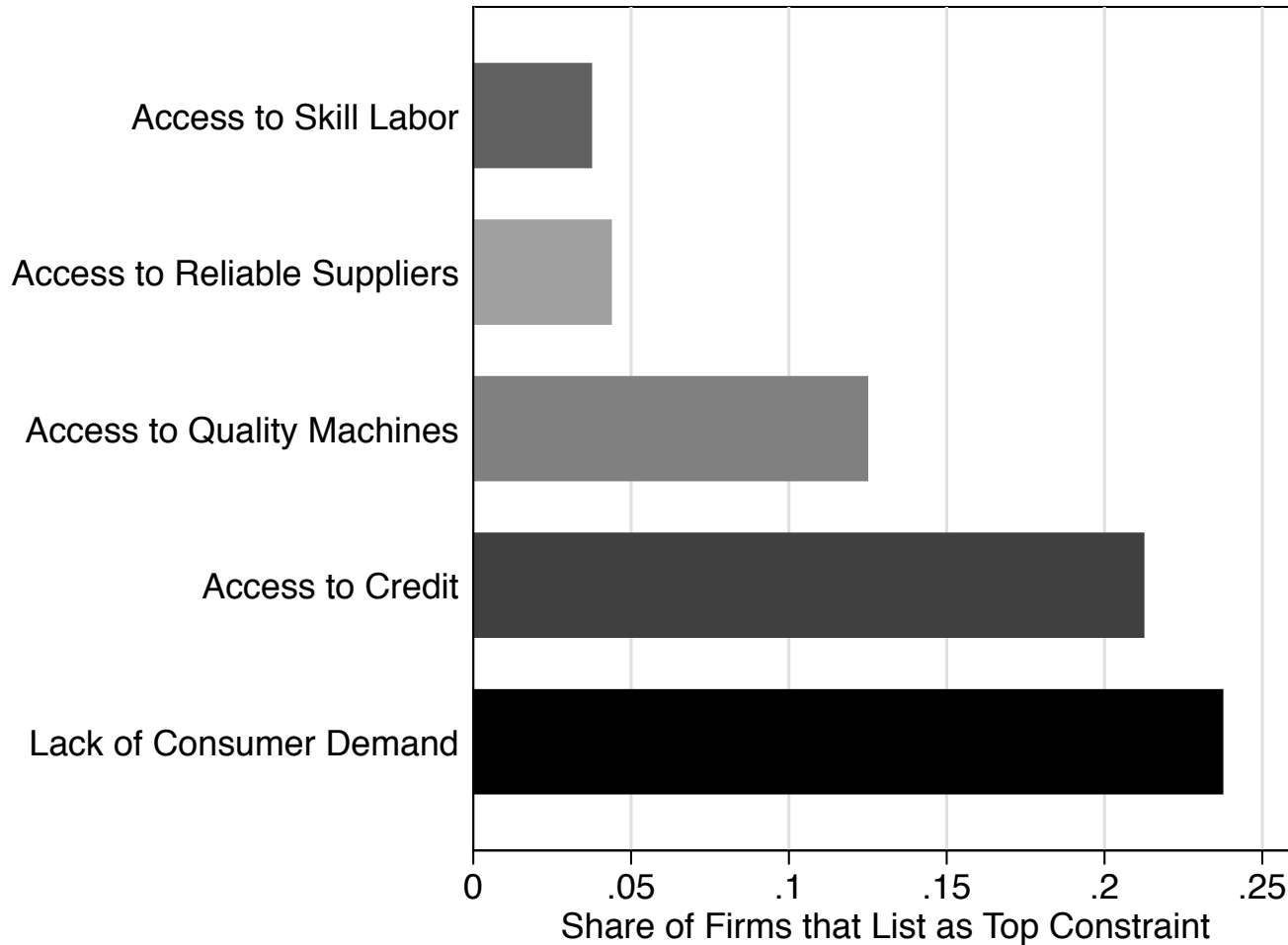
# Does Demand Matter?

50% of Firm's Managers Include Lack of Demand as a Relevant Constraint!



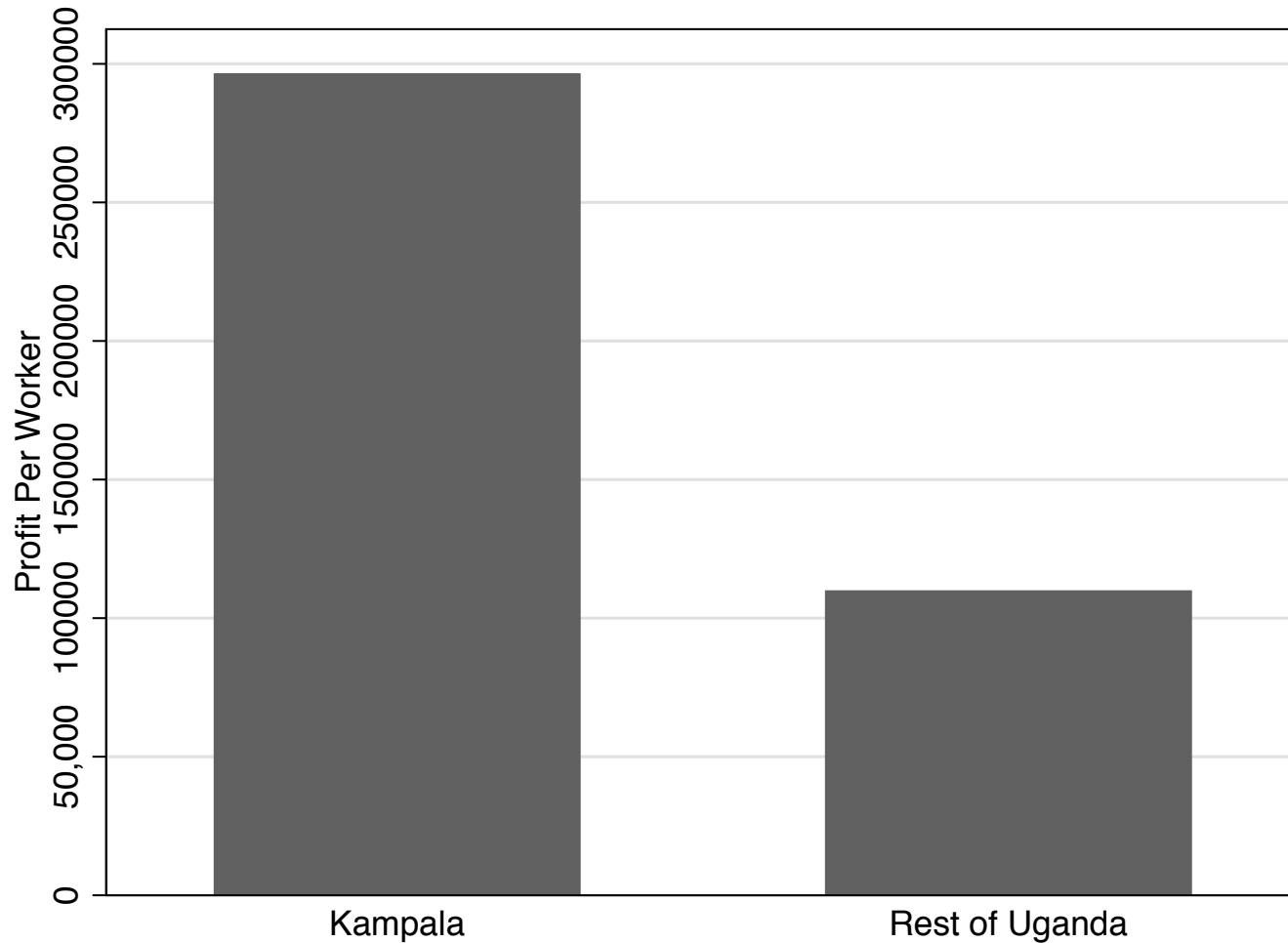
# Does Demand Matter?

24% of Firm's Managers List Lack of Demand as the most Important Constraint!



# Does Demand Matter?

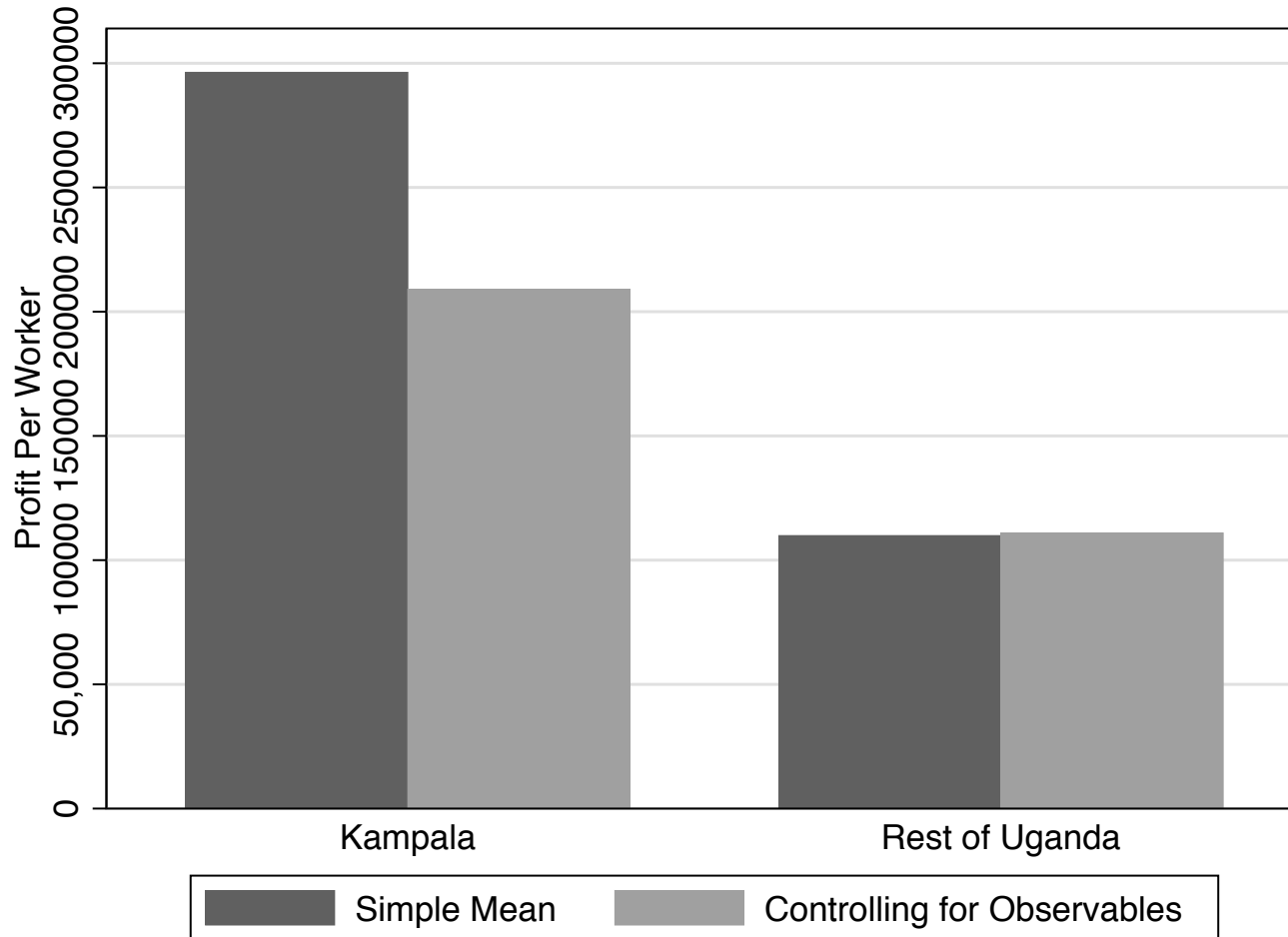
Firms in Kampala, that have access to a bigger market, have higher profits



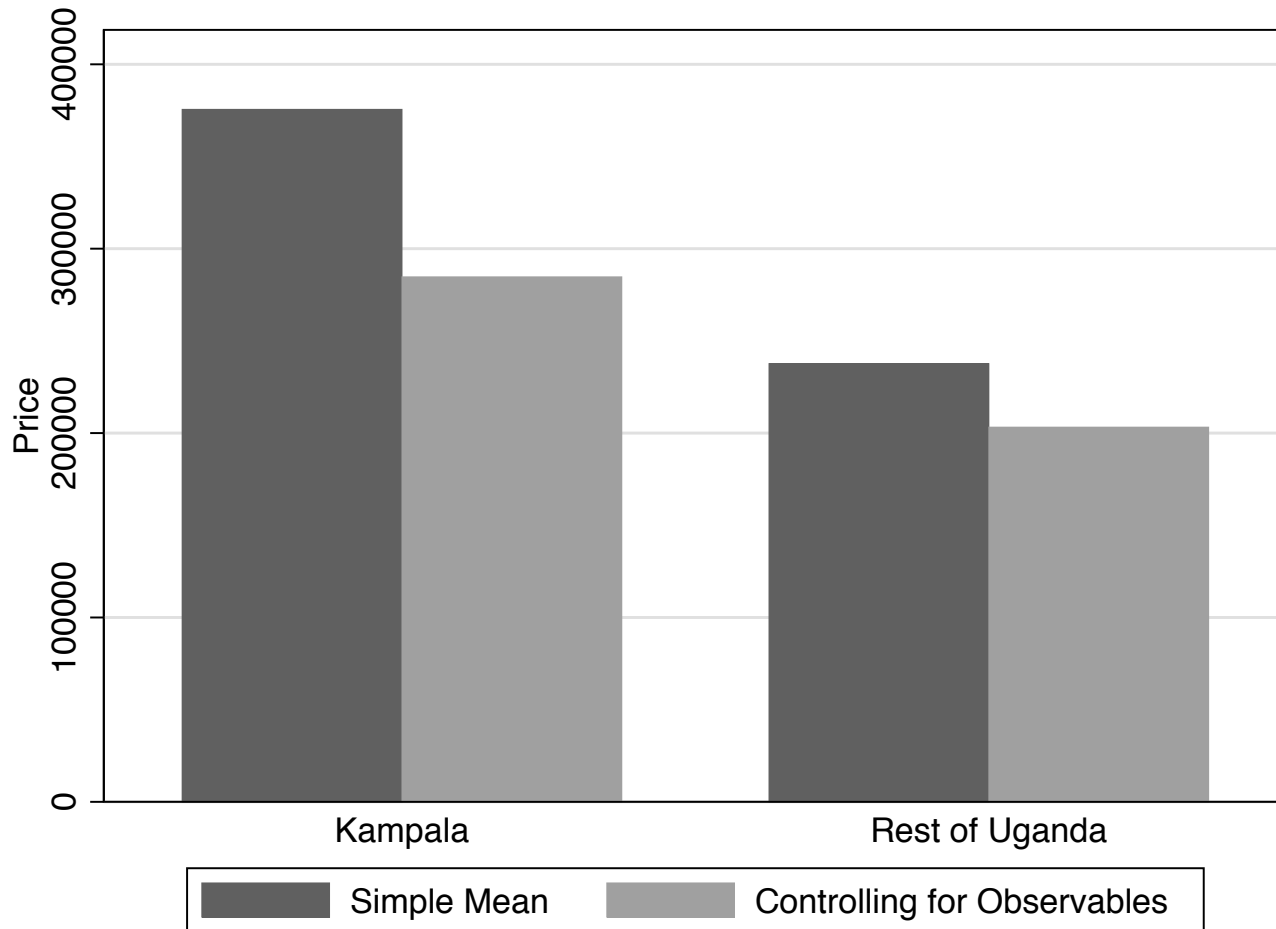


# Does Demand Matter?

The “Kampala Premium” is present even when we compare *identical* firms

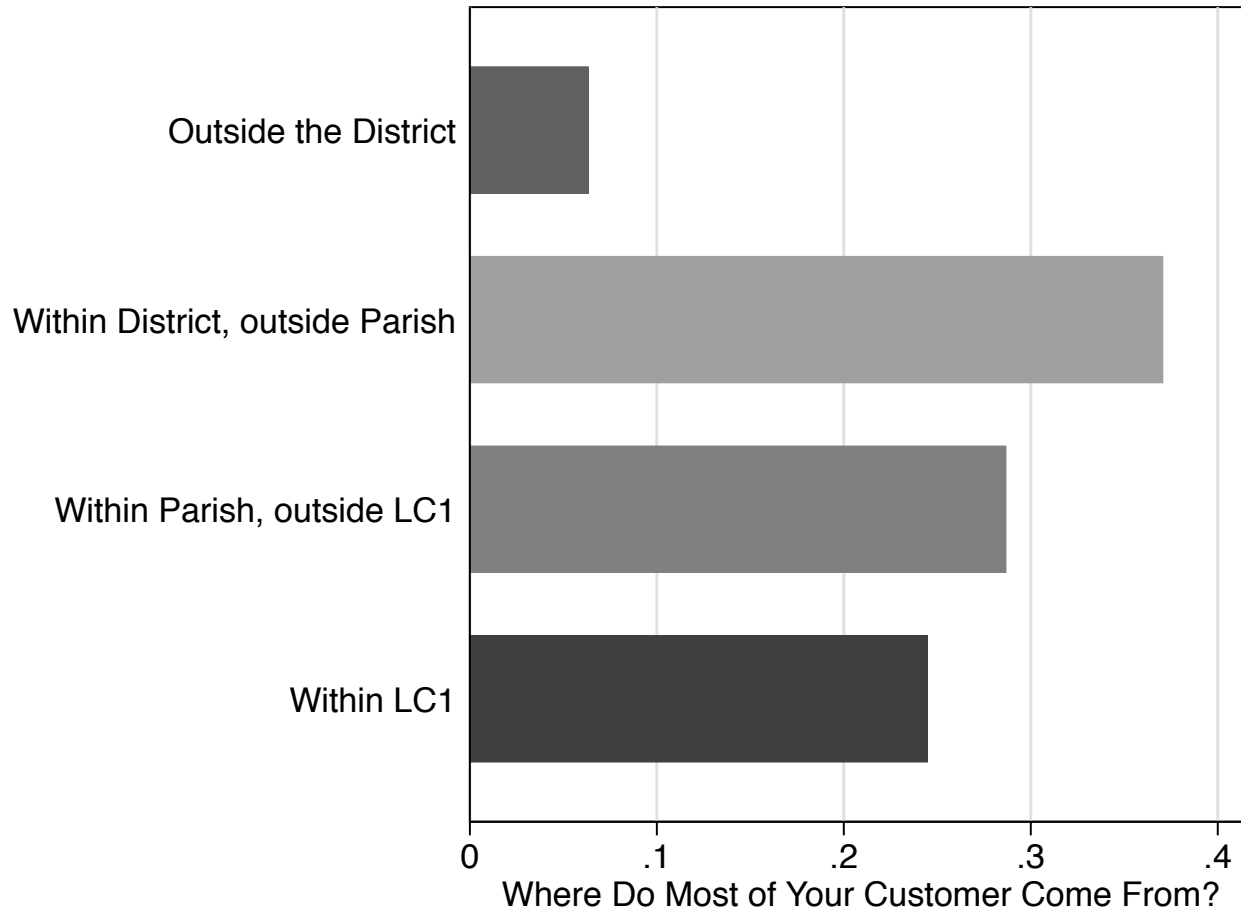


# The “Kampala Premium” is Driven Mostly by Higher Prices



# How Local is Demand?

Markets are segmented: lower demand in remote areas



# Does Demand Matter?

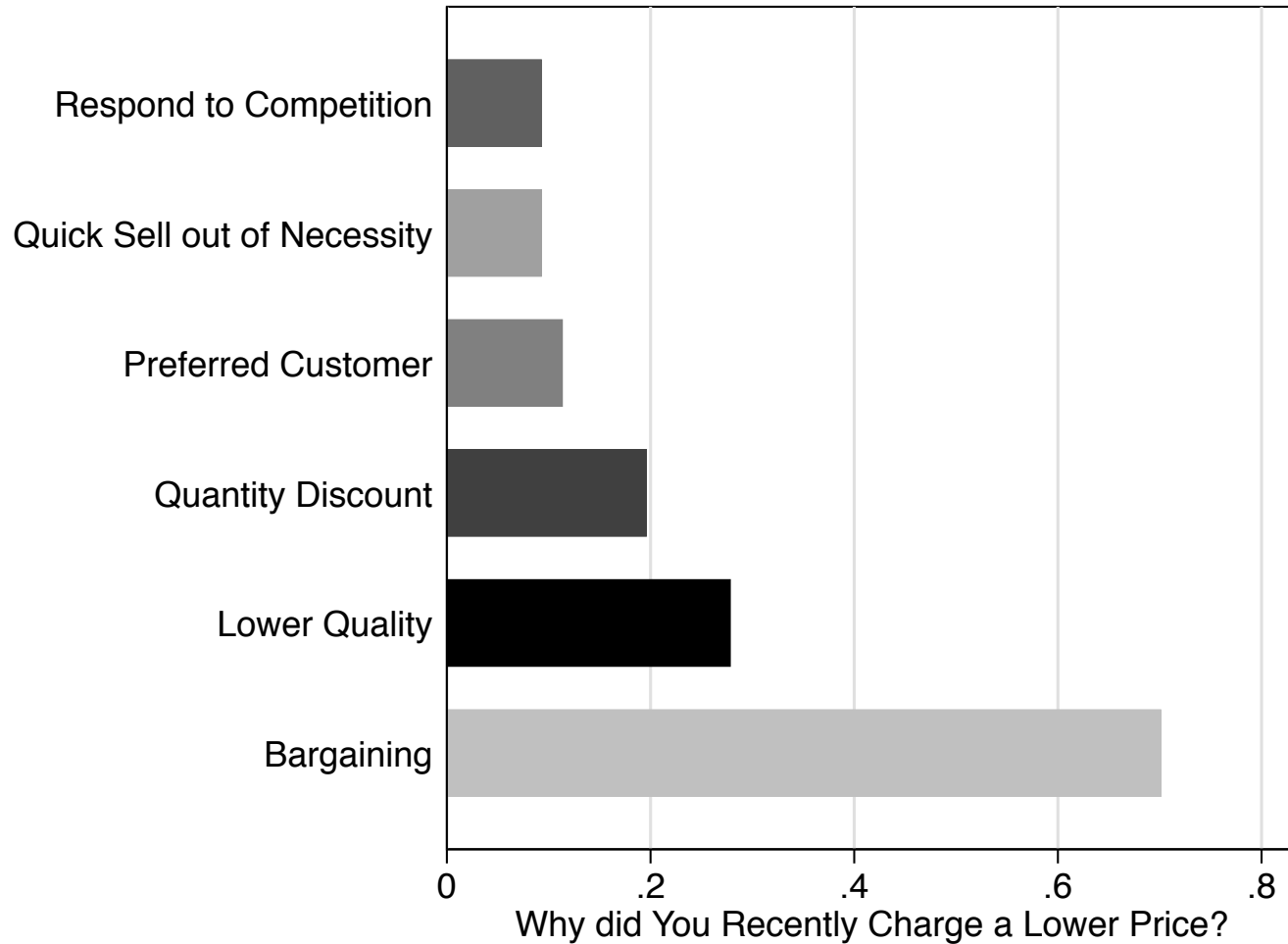
Firms seem to be operating below their capacity

- Three pieces of evidence suggest that firms are operating below their capacity
  1. Idle labor is very frequent: workers are idle for ~2.5hrs a day (~22% of the time).
  2. Almost all firms report that they could produce much higher quantities than their current ones
  3. Machines are often used for only few hours per day
- **Lack of demand seems to be preventing firm growth**
  - Given the importance of demand, we would expect firms to try to compete on their customer base. Evidence suggests differently

# Marketing and Advertising Activities are Limited

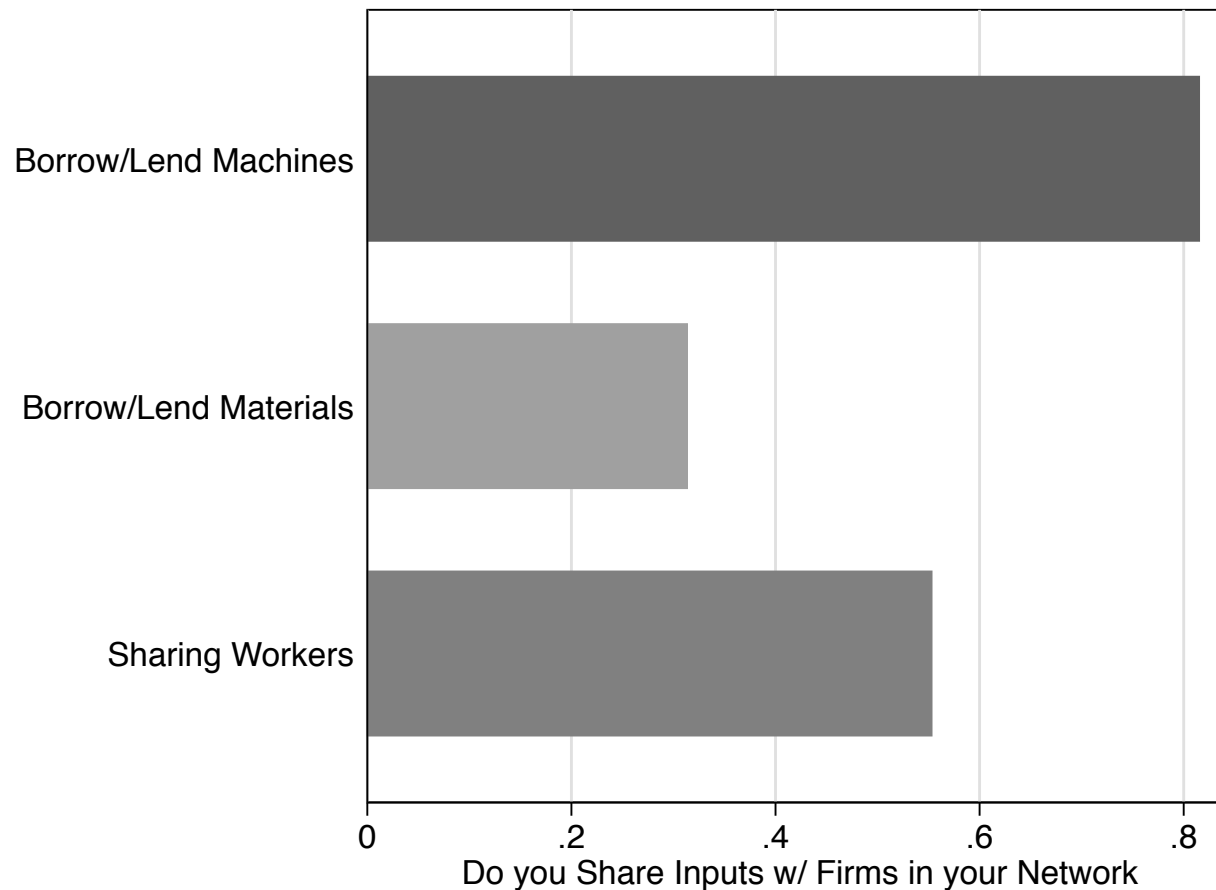


# Price Discounts are Not Driven by Competition



# Firms Share Machines, Materials and even Workers with Firms in their Network

Firms Seem to Cooperate more than Compete



# Conclusions and Next Steps

- Even after accounting for technology, some firms remain much more profitable than others
- One key determinant of profitability seems to be the local demand faced by firms
- Demand is local and scarce, but firms don't seem compete to increase their customer base...future research should try to reconcile this apparent puzzle
  - Role of social norms?



# Policy Implications

- Two promising avenues for policy intervention

## 1. Increasing Access to Markets

- Link firms in remote areas to larger urban markets
- Help more profitable firms to export abroad

## 2. Leverage cooperative behaviour of firms

- Formally organize firms into groups/cooperatives to facilitate production and increase productivity
- Increase scale of production through networks to foster competitiveness across markets