

**Abstract:**

Most enterprises in Nairobi's garment industry begin small and stay that way. Owners of businesses selected for intensive study consider weak demand to be the major barrier to growth. Current theories of industrial organization identify two clearly different production models: Mass production, rooted in the advantages of scale economies; and flexible specialization, a paradigm focusing on flexibility and innovation. Analysis of market relations in Nairobi's garment industry reveals five different types of firms: custom tailors, contract workshops, specialized small producers, mini-manufacturers, and mass producers. Preliminary research indicates that some types can cope with weak and fluctuating demand better than others. Contract workshops, specialized small producers, mass producers capable of tapping external markets, and high quality custom tailors, mini-manufacturers, and mass producers tied to the domestic market have the least. The analysis has important implications for the shape of Kenyan industry, employment creation, and entrepreneurship. It also suggests interventions by government and or NGOs need to be targeted, not at small and medium-size firms in general, but at the most promising types of producers.