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Export Market Opportunity Analysis: Western Cape Craft Industry

Interim Report

Prepared for the
Cape Craft & Design Institute
By Kaiser Associates

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EXPORT MARKET OPPORTUNITY ANALYSIS FOR THE WESTERN CAPE CRAFT SECTOR
INTERIM REPORT

1 Introduction

1.1 Reminder of project scope and timings

Step 1: (end April)	Internal industry and stakeholder analysis *Workshop and interviews with key players in the industry as well as key roleplayers in the industry*
Steps 2A&B: (end May)	Export market analysis and strategy development *Interviews with key buyers in each of the target export markets, analysis of existing market reports, and development of exporter's manuals*
Step 3: (end June)	Industry development strategy *High-level industry development recommendations related to the value chain and enabling environment*

1.2 Overview of process to date

In order to develop an understanding of the current status of the Western Cape crafts industry, and to identify perceived constraints and opportunities around export growth for the sector, Kaiser Associates has conducted the following work within Step 1 of the project:

- Review of existing reports on the crafts industry
- Workshops and interviews with industry members producing soft furnishings and fashion jewellery & accessories
- Interactions with key roleplayers that support the crafts industry, including:[1]
    - City of Cape Town
    - Western Cape Department of Economic Development and Tourism
    - CapeMac
    - TISA
    - Wesgro
    - Trading agents (Link Africa and Montebello)
- Initial exploration of international fair trade contacts (Oxfam, IFAT, Ethical Trading Initiative)

While Kaiser Associates has completed the formal requirements for Step 1 in terms of the proposal (two industry workshops, follow up industry interviews and approximately 5 stakeholder/role-player interviews/interactions), further industry and stakeholder analysis will be conducted on an ongoing basis for the remainder of the project.

[1] Not all the necessary input from these stakeholders has been received to date. Kaiser Associates will continue to follow up to obtain the required input. In particular, Dr Platzky of the Western Cape Department of Economic Development and Tourism has proposed a meeting with key officials from the Department of Economic Affairs and Tourism, which has been scheduled for 12 May. In addition to Dr Platzky, attendees may include Carol Nhlumayo, Sheraaz Ishmail, Nigel Gwynne Evans, Mark Lakay, Morne Hoogbaard, and John Peters.

1.3 Purpose of this document

This document seeks to capture the key issues emerging from the various processes outlined above. The issues are organised into two main categories, namely:

- "value chain" issues, which relate to the process of identifying products and markets, and getting a product to a market;
- "enabling environment" issues which relate to the wider operating environment and support structures

At this stage, the key issues are highlighted in bullet form. The formal (and more detailed) output around strategic recommendations for development of the industry forms Stage 3 of this project, and will build on these findings, as well as the insights developed from the export market analysis and further interactions with industry and roleplayers throughout the course of the project.

A secondary purpose of this document is to feed into the deliberations around the development of a Crafts Trade House, by assisting in identifying the major constraints to export growth for the Western Cape crafts sector. While the whole document has relevance to these discussions, some key issues are drawn out in the final section.

2 Value chain issues

2.1 Product identification

Findings from reports

- Crafters are not exposed to product trends within different markets

Findings from industry workshops and interviews

- To date, much of the identification of products for exports has been ad hoc on the basis of interest from individual buyers
- There are inadequate feedback mechanisms/channels to encourage constructive criticism to local crafters to develop products and produce them in accordance with export market requirements and preferences
- Crafters would like continually updated research (seasonally) relating to specific high opportunity products

Findings from interactions with key roleplayers

- Until recently, identification and development of appropriate export products has been a weakness
- However, there is a sense that some industry members seem to be responding well when exposed to international trends forecasts and market information, showing capacity to relate these to their own product identification and development

2.2 Market identification

Findings from reports

- Emerging crafters lack valuable market research
- Crafters are unaware which markets are demanding their merchandise

Findings from industry workshops and interviews

- Crafters (in particular emerging enterprises) tend not to have access to up-to-date and comprehensive export market information

- Crafters would like direct research in each market possessing an opportunity to make informed decisions as to penetration
- Europe (particularly Germany and UK) and the US (particularly African-American segment) were mentioned by a range of crafters as potentially high opportunity markets, but other markets may have been identified because of existing relationships (e.g. Saudi Arabia)

Findings from interactions with key roleplayers

- While some market information may be held by trading agents/trading houses, this has tended to focus on their specific client base, and is primarily used for internal purposes rather than being widely available to industry members
- Support structures hold some market information, but this is not necessarily in an easily digestible format currently, and is not always up-to-date
- Insufficient capacity is currently available to coherently provide support to the majority of the craft industry in identifying the most appropriate product-market combinations
- Market opportunity has tended to be identified in relation to traditional trading partners, such as Europe and the US

2.3 Inputs/materials supply

Findings from reports

- Access to raw materials and tools are often the main factors preventing crafters from utilising their skills
- There is a shortage of naturally occurring materials and therefore limited accessibility of raw material for the production of certain items; there is also a danger of unsustainable harvesting practices where such natural materials do exist
- Some crafters have to travel long distances to acquire raw materials
- Some specific challenges have been identified such as the supply of imported glass beads, with varying proposals being put forward such as removing the tariff for glass beads and setting up local production of glass beads

Findings from industry workshops and interviews

- The cost of materials are relatively expensive and imported raw materials continue to increase in spite of the local currency strengthening
- Monopolies/market dominance by suppliers of inputs range across a range of inputs are perceived as exploitative, as prices escalate without apparent reason, and ranges are discontinued without warning or consultation
- The unreliable supply of raw materials is a major hurdle to accepting orders (especially large orders) as delivery dates cannot be guaranteed**;** crafters may develop a bad name in the industry as being unreliable in part due to these issues
- There is currently no overarching structure in place (locally, or a point of contact in foreign markets) for the crafters to pursue collective buying of raw materials to secure discounts and guaranteed delivery times from foreign suppliers (although this is done by some role players that also consolidate production e.g. Monkey Biz)
- *Fashion jewellery and accessories*:
    - there is an inconsistency in the quality of the raw materials, in particularly the following: glass beads; spacers; sizing; beading thread;

- Czech glass beads continue to be identified as the best quality in terms of both consistency of size and colour but are more expensive, whereas beads from suppliers in the East are viewed as inferior;
- There is also a shortage of locally produced naturally tanned/vegetable dyed leather, and imports are becoming very expensive

Findings from interactions with key roleplayers

- Beads - competitive local production of glass beads may not be feasible; a simpler and more feasible intervention that will go some way to address the problem may be to ensure crafters can access quality beads via wholesale rather than retail, in order to improve cost and reliability of supply

2.4 *Production*

Findings from reports

- The legacy of relatively few African and Coloured people involved in production is still evident
- Lack of original, point-of-origin and consistently high quality products
- Difficult to access raw materials in conjunction with high related costs

Findings from industry workshops and interviews

- Orders are not regular and it is therefore unsustainable to maintain fully fledged production lines, resulting in significant contract employment
- Many crafters are unaware of the quality requirements in particular export markets (e.g. in the US buyers view the necklace clips used by the majority of SA crafters as inferior and unable to adapt to a large range of neck sizes)
- Many emerging crafters are unsure of their own ability to deliver large volumes as a result of various production related issues and are therefore reluctant to commit to supplying very large orders

Findings from interactions with key roleplayers

- Numerous roleplayers concur that production management and maintenance of quality are key constraints
- Management/project leader commitment, leadership and organisational dynamics may play an important part in the effectiveness and consistency of production management and quality control

2.5 *Packaging*

Findings from reports

- Crafters need to differentiate themselves on quality which could be assisted by making use of innovative packaging
- Consumers often buy a story when purchasing products, and the packaging can make the story explicit

Findings from industry workshops and interviews

- Packaging was not raised as a major issue by industry

Findings from interactions with key roleplayers

- Packaging was not highlighted as a major issue, but there may be some minor issues around the difficulty of securing cost-effective short runs of cardboard packaging materials from local suppliers

2.6 Logistics

Findings from reports

- Poor public transport hinders the participation of emerging crafters

Findings from industry workshops and interviews

- Emerging crafters are unaware of all the formalities involved with exporting, and in some cases the volumes are too small to generate sufficient profits

Findings from interactions with key roleplayers

- The Trade Guide being developed by the City of Cape Town will include easily accessible information on logistics options; the City has also developed consolidated information on support organisations and service providers

2.7 Marketing

Findings from reports

- In general, crafters have a lack of business and marketing skills
- Producers are often so caught up in the cycle of 'produce and sell' that they do not have time to conduct marketing
- Very few producers are able to produce their own promotional material

Findings from industry workshops and interviews

- Crafters who do on an individual basis, or have attempted to, market their products in foreign markets have found it to be very expensive (e.g. cost associated of producing and shipping samples). However, some feel that direct experience is still the best way to understand the market and be exposed to it
- Crafters have little or no marketing experience and quickly lose interest after unsuccessful marketing attempts
- Many within the industry do not have the capital to fund marketing initiatives
- *Soft furnishings/homeware*: Texture of the product is key to the purchasing decision, and is therefore being able to "touch and feel" the product is a vital part of marketing
- Those crafters that participated in the WSSD exhibition found the experience invaluable, both in terms of marketing and learning about market requirements; however there were numerous logistical problems with this experience which were damaging e.g. lack of support and follow up relative to what was promised, publication of incorrect contact information for some crafters

Findings from interactions with key roleplayers

- Few individual crafters are likely to have the capacity to market themselves, and intermediaries are required to play this vital role
- It is vital to ensure that participation in trade shows is well-prepared, highly professional, and does not draw on hackneyed/stale South African images, but rather utilises South Africa's sophisticated styling capabilities

2.8 Sales / Pricing

Findings from reports

- Local manufacturers cannot compete on price with African imports

- Many crafters do not have the skills and resources to develop and co-ordinate proactive sales efforts

Findings from industry workshops and interviews

- Many crafters struggle to find the optimal pricing for their products which is further exacerbating by them not understanding the value of their products in international markets
- Crafters at times have problems pricing their products competitively in foreign currencies to get the maximum benefit through pricing, and many emerging crafters are unsure of how to perform currency conversions
- Pricing within the local industry is viewed as exploitative with some crafters believing the margins received from retailers are far smaller (up to 150%) than those made by retailers
- Direct sales in export markets may provide an opportunity to build reserves that can be ploughed back into production and export ventures

Findings from interactions with key roleplayers

- Producers are not always clear on how they should price their products, and may not have a clear understanding of the different approaches required for the local vs. export markets
- When the various levels of mark-ups within the export supply chain are not transparent and understood, producers may become suspicious of the price that they receive, or in the reverse case may not be aware when they are being exploited

2.9 Other: Fair Trade

Findings from industry workshops and interviews

- Selling to fair trade buyers can have the advantage of significant advance payments that can fund materials purchasing and labour
- In addition, fair trade organisations may provide support for design and product development

Findings from interactions with key roleplayers

- The principles of fair trade can be very valuable, and could be applied more widely to buyer-producer relationships
- However, supplying to fair trade organisations has its disadvantages - it is sheltered, not as in touch with leading edge product development, and has a more “welfarist” rather than “sustainable competitiveness” approach
- Initial feedback from Oxfam is that their sense is that the fair trade market for crafts is not growing rapidly, and is possibly shrinking, with the emphasis shifting to fair trade foodstuffs

3 Wider enabling environment issues

3.1 Industry organisation and coordination

This section addresses both overall industry organisation and approaches to organisation of individual "points of production", such as enterprises, cooperatives and community-based structures.

Findings from reports

- Poor communication and coordination across the industry
- Lacking common vision for the industry and strategy implementation
- Informal nature of much of the industry

Findings from industry workshops and interviews

- Some industry members see the potential benefit of creating a central location/craft hub within the Western Cape/Cape Town to encourage or foster collaboration between local crafters, if the costs were kept low and the move was a voluntary one. Examples were cited of the successful craft centres in Houston and Malaysia. In contrast, existing efforts in the Cape, such as the Red Shed at the Waterfront, are viewed as too expensive and onerous (e.g. high rental, revenue sharing, longs hours)
- While there is a willingness to become more collaborative, there is insufficient facilitation of this process
- There is no physical location where crafters are able to exhibit all their wares making it easier for buyers only having to visit one location to source all products
- Emerging crafters feel overlooked as most support is concentrated on established manufacturers
- The role of the CCDI should be extended and if more resources are required these should be made available
- Emerging crafters feel their needs are being overlooked by **the dti**, in part because they are geographically distant from Gauteng, and that **the dti** should make a greater effort to be visible to the industry;
- Similarly, crafters feel that the Department of Arts and Culture could be doing more and be more visible
- Some crafters feel that they are "paraded" or "put on display" when a show of crafts are required at events, and the importance of the industry is given lip service by national officials, rather than being taken seriously as producers that need to be competitive, make a living and grow

Findings from interactions with key roleplayers

- The industry is currently very fragmented, in part because of its diversity
- Improving industry coordination may be a key lever to strategically addressing the other challenges facing the sector
- Greater insight is required into the desired development path of organisations within the crafts industry - which are growth-oriented, export-oriented and/or which wish to expand product or market range, which want to maintain their current size and activities and are not keen to grow?
- Enhanced coordination with "synergistic" industries such as tourism could be beneficial

3.2 Design application, trends analysis and other R&D

Findings from reports

- Market research and product development is very limited
- No forum for feedback which is required to drive product development
- Lack of information on trends for both existing and emerging crafters
- Lack of exposure to international design and fashion trends

Findings from industry workshops and interviews

- A move toward producing high volumes can result in a lack of creativity and innovative product development as the commercial focus becomes the priority and producers focus on meeting immediate orders
- Where there has been exposure to international trends, this has been considered very valuable

Findings from interactions with key roleplayers

- There is high quality design and stylist talent in South Africa, but this is not always matched successfully with appropriate producers
- Often the approach to design style has been over-simplified, focussing on “ethnic” design, rather than finding a fresh, differentiated style which may or may not have an essentially “South African” feel
- Where cultural heritage is utilised in a design style, care needs to be taken that this is “authentic” as far as possible
- Greater resources need to be put towards exposure to and interpretation of international trends

3.3 Industry marketing

Findings from reports

- Lack of dedicated and coordinated effort or a campaign to market the local industry both nationally and internationally
- Local craft is not branded and is not distinguishable from other Southern African products

Findings from industry workshops and interviews

- No coordinated effort to establish a single representative to promote / market a number of crafters and their products thereby minimising cost, but sharing from exposure and feedback
- No clear brand identity as yet for Cape Crafts - ideas raised in the workshops included associations with high quality, fresh/functional/contemporary application of diverse design heritage
- Debate around the merits of Western Cape vs. South African brand positioning, and the relationship between these two brands

Findings from interactions with key roleplayers

- Opportunities exist to add value through links into both national branding and regional (e.g. Joint Marketing Initiative) branding initiatives.

3.4 Communication and information dissemination

Findings from reports

- Gap between provincial and local strategies
- Insufficient effective partnerships at a local level to promote and coordinate mutually agreed plans of action

Findings from industry workshops and interviews

- There are a number of different initiatives that are running in the local industry, however not all the crafters are aware of the activities and at times feel left out and disillusioned with the progress in the industry
- Crafters seeking some form of established contact at **the dti** to voice concerns and seek support, currently the feeling is that **the dti** is not providing adequate support and is very difficult to approach on an individual basis and get effective results - some crafters felt that the only way to be heard and taken seriously is to physically go to Pretoria and seek out officials
- Greater information dissemination is required around the opportunities available through SA's trade relationships e.g. special provisions for craft exports in terms of AGOA.

Findings from interactions with key roleplayers

- A consolidated and current database and CCDI website could be a powerful tool to reach industry members more effectively

3.5 Training and human resource development (business and technical)

Findings from reports

- Lack of training and support offered to emerging crafters
- Limited assistance offered to craft entrepreneurs in area of mentoring and business development

Findings from industry workshops and interviews

- Crafters are unaware of the available alternatives to upgrade/improve their skill sets to be in a position to interpret market trends and run their business optimally
- Many entrepreneurs require training in the basics of managing the various functional areas within their business
- There is a lack of formal training of groups of people to contribute with particular items along the value chain, thereby creating employment and allowing these individuals to establish their own independent companies/operations

Findings from interactions with key roleplayers

- There is significant scope for the SETA to play a key role, and the pilot projects currently underway (including with Montebello) are likely to fine-tune this potential contribution
- Many crafters may not want to develop the technical, business or export administration skills, but would rather focus on their core interest in production and design
- There may be room for improvement and extension of mentorship programmes

- It could be beneficial to increase coordination with the range of tertiary institutions in the province

3.6 Financing

Findings from reports

- Lack of funding, access to start-up capital or input/marketing finance is stifling the growth of industry

Findings from industry workshops and interviews

- Bridging finance or advance payments from buyers are important to many smaller producers in order to be able to meet an order (but many who have tried to export have found a lack of willingness to provide a deposit to contribute towards materials purchasing, apart from fair trade purchasers)
- It is perceived by crafters that banks avoid interacting with this industry and crafters have to seek alternatives to securing finance/capital
- The finance required to purchase materials required for the production of large orders is unavailable and results in many opportunities to produce for export markets being turned down or unsuccessful
- Funding for collaborative efforts or setting up a collective physical “hub” is not available

Findings from interactions with key roleplayers

- In the past, in many cases financing has been secured through interventions by support organisations before the development of successful products, and has therefore been unsustainable. However, bridging finance may legitimately be required.
- In some cases, it is necessary to improve the financial management and record-keeping of craft enterprises in order to improve their attractiveness to financiers

3.7 Legislation and regulation

Findings from reports

- Protection of intellectual property, in particular collectively-held intellectual property, is insufficient

Findings from industry workshops and interviews

- Some industry members feel that the official definitions of SMMEs and cooperatives used by government (particularly in relation to requirements and thresholds to receive support) do not fit well with the organisational structures within the crafts industry (e.g. definitions of formal enterprises, turnover and employee thresholds)
- There is a lack of clarity about the most appropriate “vehicle” for formalisation of crafts organisations e.g. Section 21/CC/Company/cooperative.
- Regulation of travel (e.g. delays in issuing of visas) can be a stumbling block to a successful export marketing trip

Findings from interactions with key roleplayers

- No further legislative or regulatory issues have been raised to date

3.8 Export-specific support

Findings from reports

- Product is not the problem, rather local crafters fall short in that production capacity and organisation to guarantee the volumes and quality demanded by international retailers
- Most producers don't have the cash flow to fund exploration of export opportunities

Findings from industry workshops and interviews

- Crafters are unaware of the export regulations, trade agreements (e.g. AGOA), etc. and require a point of contact/source of assistance on different export-related issues
- In the case of the EMIA scheme, which is administered by **the dti**, crafters want to be informed of what is available to assist them in promoting their products in export markets, to what degree, how to participate, obligations and costs to them, and guidance on accessing scheme
- A complete breakdown of the international trade shows/fairs (e.g. craft fair in Houston) is needed in conjunction with mechanisms available to financially assist crafters in participating
- The support from **the dti** is perceived as inefficient by emerging crafters as some crafters are not even aware of the services and assistance available to them from the department
- There is no trade show/fair that is solely dedicated to promote the craft industry in South Africa, as it is always incorporated as an add-on to other trade related activities, or part of highly commercial fairs which may not be accessible to smaller crafters (e.g. cost of participating in Decorex is beyond the means of many crafters)
- Perceptions are that there is no coherent support to expose emerging producers to foreign buyers on their purchasing trips
- Crafters view exporting as an extremely intensive process with many different factors to consider and research that takes up a lot more time with no guaranteed results and therefore don't explore export market opportunities
- Centralised or collective storage place in export markets could be of great value, because of the large cost of returning unsold goods to South Africa, which might need to be re-exported at a later date
- Trade promotion could benefit from coordinating exhibitions to promote all the producers of complementary products, with rotational representation

Findings from interactions with key roleplayers

- Linkages to the wider Cape Trade Promotion project create opportunities to enhance export support to the sector e.g. exporters' guide, consolidated databases of producers and service providers, boosting of regional trade promotion resources, coordination of trade exhibitions
- Some roleplayers perceive **the dti** and its export support in the past as having been inaccessible, inefficient and unstrategic, with insufficient understanding of the local industry and international markets.

4 Implications for the Crafts Trade House

The following issues from the purchaser's perspective are of particular relevance:

- Buyers in the crafts industry tend to rely on touch and feel to make their purchasing decision, with texture and 3-dimensional look being important purchasing criteria
- Many stakeholders believe that building relationships and creating a mutual understanding of the requirements of buyers and the dynamics of South African handcrafting are key to building sustainable exports
- The advantage of a consolidated trade house could be that buyers only needed to visit one place to source a variety of complementary products

The following issues from the producer's perspective are of particular relevance:

- Cost, quality and product design competitiveness have not yet been attained by many producers, who still want to improve in these areas prior to exporting
- Reliability of production is acknowledged as a hurdle to successful exporting, in terms of volume, quality and on-time delivery
- The cost and reliability of some input materials has inhibited export growth, but may be alleviated to some degree by economies of scale in purchasing
- In some cases, there may be significant difficulties in ramping up the volume of production, particularly given cash flow constraints, unpredictable orders, and the ongoing obligations to a workforce that may develop if expansion is required to meet an order. In the past, this has resulted in some cases of producers turning down potential export orders. Some producers have partly addressed this through collaborative production and/or training people and setting them up in "outsourced" enterprises that do not result in obligations to salaried workers
- Many producers are not interested in having to deal with the technicalities of exporting themselves, but are also cautious about giving over "ownership" and a portion of profits to intermediaries or trading agents (particularly where production costs and potential market price leave little room for margins)
- Not all producers that are exporting or are export-ready have established relationships with trading agents; some prefer the independence of exporting themselves, some deal with an export, some deal directly with buyers that have approached them, and some work through fair trade organisations based in export markets

In summary, numerous stakeholders see the potential of a technology-enhance trade house in the following areas:

- Providing information that could assist them in targeting their approach towards niche buyers in terms of:
  - Geographical location
  - Product type
  - Price positioning
  - Required volumes
- Creating a first point of contact for buyers to identify potential producers that can be followed up with personal visits or sending of samples
- Creating a streamlined mechanism for re-ordering, or follow up on trade show contact
- Providing a central point of a range of market information for producers (requirements, trends, etc)
- Reducing the effort of export administration and completion of paperwork
- Streamlining logistics
- Providing the technology to forecast demand and supply capacity
- Consolidating materials purchasing and thereby reducing cost