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# Export Development Pilot Programme

*A Practical Market  
Access Guide for the  
Western Cape Crafters:  
**Fashion/ Costume  
Jewellery &  
Accessories in the UK  
Market***

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# A PRACTICAL MARKET ACCESS GUIDE FOR WESTERN CAPE CRAFTERS: AN OVERVIEW OF FASHION/COSTUME JEWELLERY & ACCESSORIES IN THE UK MARKET

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# **1 INTRODUCTION**

## **1.1 Purpose of the document**

This summary market guide has been developed to assist craft producers in the Western Cape to understand the opportunities in the fashion/costume and jewellery accessories export market. It forms part of a series of exporters' manuals that cover a range of other subsectors in the craft industry.

It has been prepared by Kaiser Associates on behalf of the City of Cape Town and the Cape Craft Design Institute, in consultation with various craft producers in the Western Cape and key role players, as part of the wider project to grow the crafts sector in the Western Cape.

## **1.2 Other helpful publications by the City of Cape Town**

In addition to this market guide, you may find the following general export assistance publications helpful:

- ? Cape Trade Guide
- ? Directory of Trade Service Providers in the Western Cape
- ? Full Craft Exporters Guide (available from the CCDI)

## **1.3 A guide to successful export planning and action**

This exporters' guide encourages a **market-led planning process**. The first requirement for this is to obtain information on the needs of the market. Secondly, to investigate your ability to supply products that satisfy those market needs.

The process involved in making the correct export decisions, is a complex one, as outlined in the flow diagram on the next page:

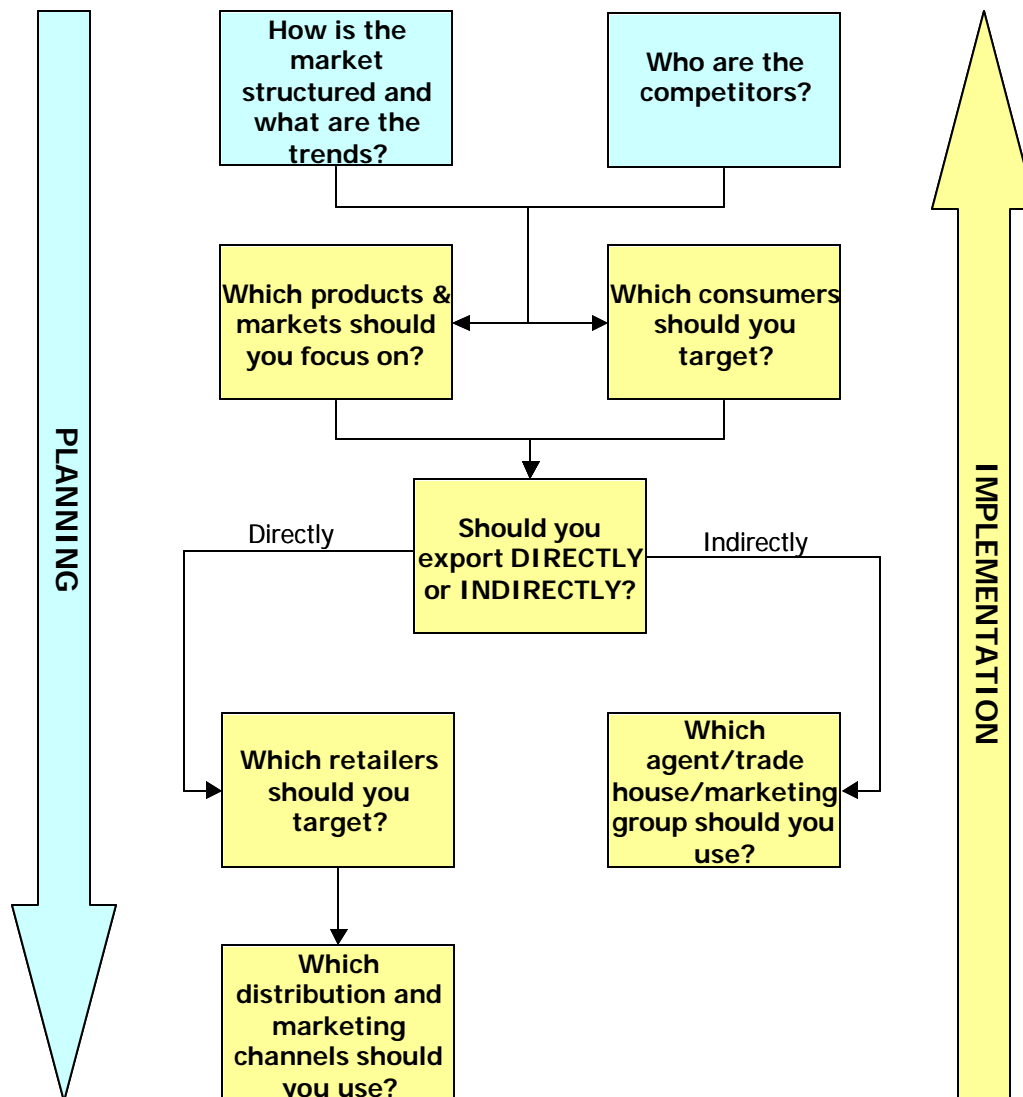


Figure 1: Market led planning process

*Whichever export method you choose, an understanding of the target market is essential. Only by understanding what type of consumer you are targeting can you develop an appropriate product, or be in a position to assess the decisions/actions being taken on your behalf, by other people involved in the marketing process.*

*Should you choose to export indirectly a list of trading agents is available from the CCDI.*

### 1.4 Dimensions of your choice of product to export

The product choice is defined by the combination of the elements in the diagram below:

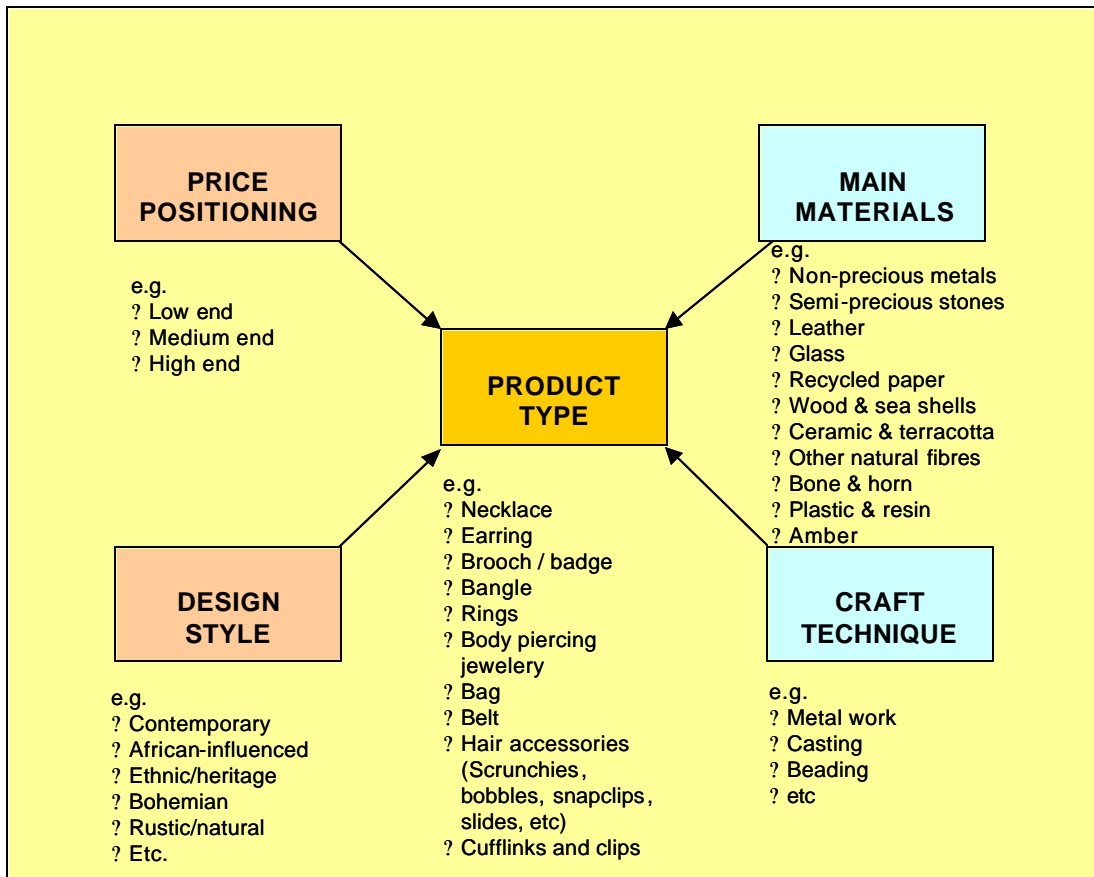


Figure 2: Choosing the right product

## 2 UK MARKET

### 2.1 An overview of the UK market

The UK jewellery market is characterised by a wide-product offering, which can be further defined by either material used or pricing structures. Hand-made jewellery can be viewed in the UK as being the of the following:

- ? Fashion Jewellery
- ? Costume Jewellery
- ? Imitation Jewellery
- ? Ethnic Jewellery

The prominent Fashion Jewellery and Accessories product groups within the UK market are listed below, with the associated categories:

- ? Fashion Jewellery
  - ? Bracelets
  - ? Necklaces
  - ? Toe rings
  - ? Body jewellery
  - ? Pendants
  - ? Rings
- ? Costume Jewellery
  - ? Sterling silver based
  - ? Silver gemstone jewellery
- ? Accessories
  - ? Hair Accessories
  - ? Belts
  - ? Bags

It is estimated that the size of the UK jewellery market in 2002 was approximately £3.3 billion, which included fine jewellery, costume jewellery and watches. The market includes both speciality and non-speciality jewellery retailers such as catalogue showrooms, jewellery departments in department stores and mail order catalogues.

Costume jewellery forms the largest part of the total UK jewellery market, its share having increased from 55% of fashion jewellery sales in 1990 to 61% in 1999. This growth trend has happened at the expense of silver jewellery sales. In the same year, the retail sales value of costume jewellery amounted to GBP 30.5408 million, of which neckwear and earrings were the most popular items sold followed by bracelets, brooches and rings. The future demand for fashion jewellery in the UK is expected to grow, with older working women likely to become an important target group. Value sales will grow slightly, with design, brands and quality jewellery forming the basis for a gradual upmarket move.

## **2.2 What are the design/style and material trends in the UK market?**

In terms of product quality, retail price levels and related brands, the UK market for fashion jewellery can be divided into three segments:

- ? **Low End** – the lower-end of the market is dominated by fancy and fashionable jewellery of a lower quality, worn mainly by children and teenagers
  - ? Designs are influenced by street fashion and tied to the 'surfer look'
  - ? Product types: necklaces/bracelets made of seashells, surf pendants, multi-coloured beaded necklaces/bracelets for children, sweatbands
- ? **Medium** – This is the largest segment of the market and includes well-finished jewellery of good quality, which is adapted to accompany the latest clothing styles
  - ? Fashion belts are increasingly popular (studded).
- ? **High End** – This segment includes high quality fashion jewellery with the perfect finish of a well-known brand (e.g. Reminiscence, Valentino etc)
  - ? The jewellery is elegant, unique and expensive
  - ? Designs vary from traditional to modern and can be either discreet or substantial. Sterling silver products of all kind are in high demand

***Crafters need to contact the CCDI for up-to-date information on the latest designs styles and trends.***

### Variation within outlet types

- ? **Retail Chains** are generally aimed towards following product trends that have already proven to be successful, and tend to focus on designer brands at the high end of the market
- ? **Mainstream retailers** are recognised as the **trendsetters** and are continually looking for new designs and product ideas inspired by the hip/new age look
- ? **Importer/wholesalers** are looking at products based on the lowest possible prices that can be supplied at high volumes and purchasing is strongly influenced by design
- ? **“Fair trade”**

***The market can be clearly defined along various price structures that can also be categorised with a particular type of supplier. Further analysis shows that the sourcing countries (importers) differ distinctly from one type of outlet to the next, which is a major consideration for a supplier in determining its target market.***

***The ability to have a ‘story’ attached to the production of a particular brand / product range will lend itself to improved marketing of the product.***

### 2.3 What are the pricing trends and associated quality requirements?

The price points differ from one kind of outlet to the next, based on the type of consumer that visits the outlet and the consumer spending capacity. The table below gives an indication of the pricing structures across the supply chain as well as an approximation of the relative mark-ups<sup>1</sup>.

Outlet Type	Low End (£)	Medium End (£)	High End (£)	Average Margins (%)
Fair Trade Organisation				
Importer	< 5	5 - 10	10 +	50 – 100
Wholesaler	< 10	10 - 20	20 +	80 – 150
Retail Chain	< 5	5 - 25	25 +	100 -200
Departmental Store	< 10	10 – 100	100 +	150 – 300/400

In order to successfully trade in the UK Fashion Jewellery and Accessories market, the chain and department store retailers in the UK market operate within the price structures as outlined in the pyramid below<sup>2</sup>. As a supplier to the UK market it is important to understand which segment of the pyramid would be most relevant to targeting for your products, as this would assist in identifying the retailers that would most likely be interested in purchasing those products.

<sup>1</sup> Both price brackets and average mark-ups are based on approximations made from a representative base of suppliers that fall within each of the categories.

<sup>2</sup> Pricing pyramid concept courtesy of Vivian Thornton of Link Africa

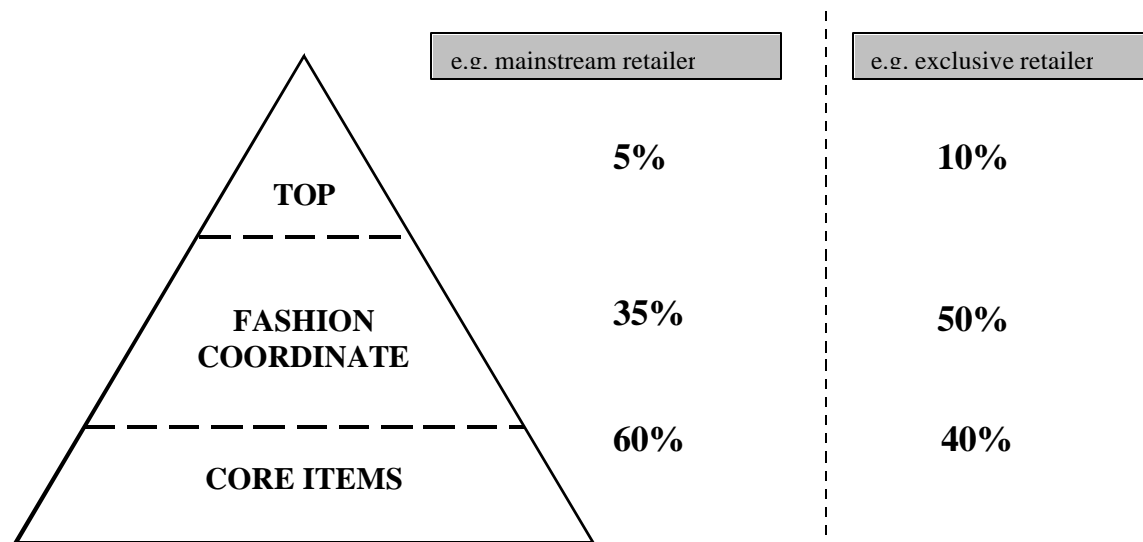


Figure 3: Pricing pyramid

The pyramid is split into the following three categories:

- ? **Top** – This segment represents the percentage of high-end products carried by a store in relation to its entire product portfolio (includes exclusive products, what could be called the ‘cherries on top’, that are often gift items and which stores are prepared to sit with for long periods of time)
- ? **Fashion Co-ordinates** – This segment represents products that are current at a particular point in time, and is often the segment where stores promote new product designs and are prepared to take calculated risks in relation to innovativeness (often where stores differentiate themselves by unique offerings that are often price sensitive and described as ‘styling/contemporary’ design items)
- ? **Core Items** – Refers to the low-end product ranges that can be described as the ‘bread and butter’ items that guarantee sales and remain fashionable (in most retail outlets this category represents the volume products which are dependent on quick turnover and therefore require consistent supply)

The categories within the Pricing Pyramid must be conceptualised as being dynamic groupings that change in size from one retailer segment to the next. The real value of the pyramid is in understanding where within these three categories you are most likely to have success as a supplier with your particular product.

***As a South African exporter, it is critical to be able to understand and map a potential suppliers pricing pyramid to ensure a more accurate targeting of potential buyers.<sup>3</sup>***

SA crafters generally are most likely to succeed by supplying the medium to high end of the UK market (far more scope for the medium).

***Crafters are advised to contact the CCDI for more information on pricing structures in each market segment.***

<sup>3</sup> Please refer to Appendix B for a step-by-step process to calculate the price competitiveness of a product in an export market.

## 2.4 What are the trade trends?

Of the three main product groups that have been studied, handbags account for the largest import values, followed by imitation jewellery and then silver jewellery. During 2001, the UK imported approximately GBP 152.755 million worth of handbags. The product category with the largest import value was for plastic/textile handbags. UK imports of leather handbags were also relatively large, however handbags made of vulcanised/paperboard was minute in comparison, indicating a very small demand for these types of handbags.

Although the market for leather handbags is relatively large, there has been a decline in the demand for imported leather handbags in the UK. During 1997-2001, there was a negative import trend of -1%. Contrary to this, large growth was experienced in UK imports of plastic/textile handbags. **This is a high opportunity segment of the market for South African suppliers.** Not only do plastic/textile handbags show the largest import values within this product group, it also experienced positive growth of 24% in UK import volumes during 1997-2001. The two major suppliers of handbags to the UK in 2001 were China and Italy.

Imitation jewellery is represented by two product categories. Imitation jewellery made from base metals (with or without precious metal), accounted for the largest import values. However, UK imports for this particular kind of imitation jewellery declined by -1% between 1997-2001.

The UK market's import value for all other imitation jewellery was also relatively large. The demand for this type of imitation jewellery has grown substantially during 1997-2001, in excess of 20%.

The UK demand for silver jewellery has been growing slightly (6%) over the 1997-2001 period. Although the import value for jewellery made with base metal mixed with precious metal was relatively small, this product category experienced substantial growth in excess of 20%, indicating its growing popularity in the UK market.

## 2.5 Who are the major competitors in the UK market?

### Mid to low-end

The UK market sources its Fashion Jewellery and Accessories from the Far East, in particular **China** and **South Korea**. Collectively these two producers dominate global markets with cheap, low-end product ranges. The extremely low cost of manufacturing in these countries (due to low labour cost and materials) makes it difficult for manufacturers from other countries to compete with them in pricing. The price competitive, low-end of the market is also a difficult one for SA suppliers due to the high costs of shipping, combined with SA's production costs. This makes it difficult for suppliers to be competitive in pricing.

### High-end

In terms of the high-end of the market, the majority of this often-exclusive merchandise is sourced from the European Community. **Italy** and **France** dominate the high-end segment of the market. Branding is a key component of the high-end products, as it promotes exclusivity.

## 2.6 Which consumer types do you want to target?

### Teenagers – low-end purchasers

Consumers within this category account for the largest share of low-end purchasers as most often prices fall well within teenagers' allowances.

### Restless 20's – high demand for body jewellery

This group accounts for the majority of body jewellery within the UK market, which in most cases is marketed as low-end products. These purchasers fall into both the low-end and mid segment of the market.

### 30 Something – quality silver and fashion jewellery

Purchasers that fall into this category are predominantly middle to high-income earners and have adequate disposable income to purchase products that fall within the high-end category of the market. Often purchases are influenced by designer brands that are often associated with the High Street Stores.

## 2.6.1 Contacts and sources of further information

### Jewellery Distributors' Association of the UK

Federation House  
10 Vyse Street  
Birmingham  
B18 4BR

## 2.7 Which retail outlets do you want to focus on?

**NB: Crafters are advised to use the CCDI for assistance on how they can profile retailers.**

### 2.7.1 Recommended retail stores are listed below:

(Many of the websites listed below include online product catalogues which can help crafters to get a sense of the product range and style of these retailers)

? **Marks & Spencer** (<http://www.marksandspencer.com>)

**(SA equivalent retailers is Woolworths)**

- o One of the UK's leading multinational retailers of clothing, foods, homeware and financial services
- o Over 300 UK stores and serves 10 million customers a week
- o Highly label and brand conscious
- o Quality driven and price competitive crafters could get niche market opportunities

? **Liberty** (<http://www.liberty.co.uk/>)

**(SA equivalent retailer is Stuttafords)**

- o Aimed at high quality design led merchandise
- o Offers a mix of mix of fabric, fashions, home wares, and gifts

- Driven by individuality, innovation and is considered a leader in design creativity and style thus presenting excellent opportunities for creative and innovative SA crafters
- ? **Monsoon - Accessorize** (<http://www.moonsoon.co.uk>)
  - Operated a store-opening programme averaging 16 new branches per annum
  - More than 170 Accessorize stores in the UK and overseas
  - Holds a unique position on the high street with globally sourced, well-priced and good quality collection of fashion accessories
  - Niche opportunities for South African crafters in high-end segment
- ? **Tradecraft** (<http://www.traidcraft.co.uk>)
  - Most trading partners are community-based enterprises and associations of small holder producers
  - Products sold through Fair Traders, mail order catalogues and mainstream/independent retail outlets
  - These provide excellent opportunities for South African crafters

### 2.7.2 Mainstream departmental chain retail store

(SA crafters might not be able to compete on price and mass production volumes)

- ? **John Lewis** (<http://www.johnlewis.com>)
- ? **ASDA** (<http://www.asda.co.uk>)

### 1.1.2 "High street" departmental fashion retailers

(Niche marketing opportunities for small volume and quality competitive crafters)

- ? **Selfridges** (<http://www.selfridges.co.uk/>)
- ? **Harvey Nicholas** (<http://www.harveynicholas.com>)

### 2.7.3 Independent retailers chains

Stores within this segment are mostly scattered across the country and on the outskirts of the CBDs and very popular in the countryside.

(Might offer niche opportunities for SA crafters who are price competitive)

- ? **NEXT** (<http://www.next.co.uk>)
- ? **Oasis** (<http://www.oasis-stores.com>)
- ? **Blue Banana**

### 2.7.4 Wholesalers & importers

(Already saturated with products from Far East Asia, therefore would be very difficult for South African crafters on price and mass production volumes)

- ? **Talbot** (<http://www.talbotfashions.co.uk>)
- ? **Radford Supplies** (<http://www.radfordjewellery.co.uk>)
- ? **Robinson & Stirling** (<http://www.raswl.com>)
- ? **G McKenzie & Co** (<http://www.gmckenzie.com>)

? **3R Enterprises** (<http://www.gmckenzie.com>)

### 2.7.5 Fair trade organisations

The primary objective of a fair trade organisation is to pay the manufacturers a fair wage relative to that particular country, and to ensure long-term developmental needs are addressed.

**(Offer niche opportunities for emerging crafters primary for lower price and/smaller items)**

? **Tear craft** (<http://www.tearcraft.org>)

- Operate as the fair trade catalogue of Tearfund
- Focus on both traditional and modern gifts

## 2.8 Which marketing and distribution channels are most appropriate?

### 2.8.1 Direct exporting

The direct selling of products from manufactures to buyers without an involvement of the middleman. Direct marketing is rapidly becoming an important method of distribution. Because of the costs involved in direct marketing activities, this channel is particularly suited for the better quality and more expensive products.

This can be illustrated as follows:

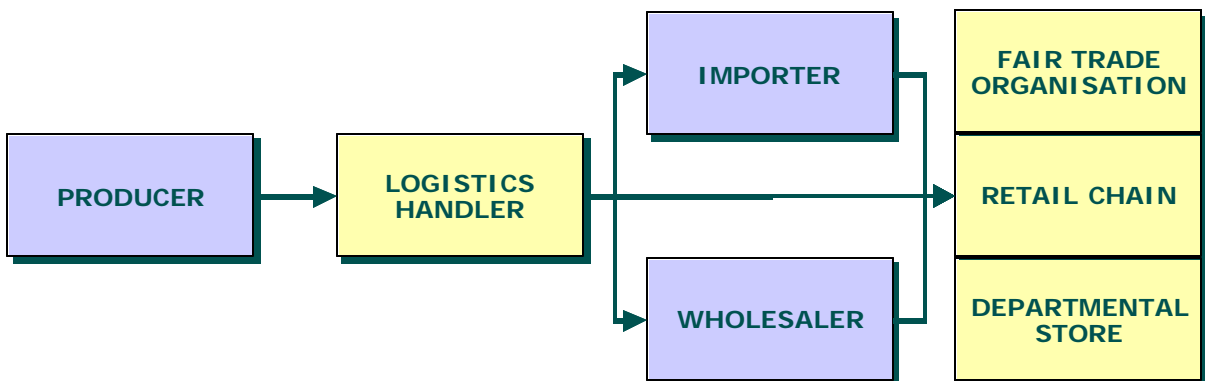


Figure 4: Direct distribution options

### 2.8.2 Indirect exporting

Involves an intermediary that acts as a link between the manufacturer and the buyer. The intermediary does everything on behalf of the manufacturer, from marketing the product to selling the product to the buyer. This is illustrated below:

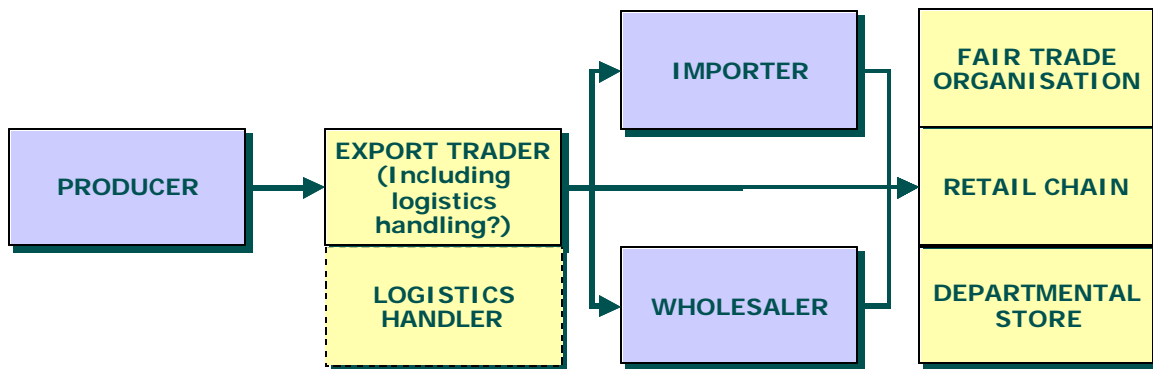


Figure 5: Indirect distribution options

**Contact the CCDI for a list of recommended online trading houses, agents and intermediaries.**

### 2.8.3 Trade Shows

These can be grouped in according to their importance and significance to South African crafters.

#### Trade shows of high Importance

##### **Spring Fair – Birmingham (NEC)**

[www.springfair.com](http://www.springfair.com)

**Buyer profile:** Full spectrum of buyers attends the show from those looking for small volume handcrafted and one off pieces, to the high volume buyers.

**Dates:** 1 – 5 February 2004

**Cost:** Cost is standard at £ 210/sq meter, with the minimum shell size being 24 square meters

##### **International Jewellery London (IJL) – Earls Court 2, London**

[www.jewellerylondon.com](http://www.jewellerylondon.com)

**Buyer profile:** Retailers, wholesalers, manufacturers and distributors of jewellery from all over the world

**Dates:** 31 August – 3 September 2003

**Cost:** Costs vary, Aisle = £202/sq meter, Corner = £224/sq meter whilst the shell scheme is charged at £40/sq meter

##### **Autumn Fair – Birmingham (NEC)**

[www.autumnfair.com](http://www.autumnfair.com)

**Buyer profile:** Retailers, wholesalers, manufacturers and distributors of gifts and home accessories from all over the world

**Dates:** 7 – 10 September 2003

**Cost:** Cost is standard at £183/sq meter, with the minimum shell size being 24 square meters

##### **Harrogate Home & Gift**

[www.homeandgift.co.uk](http://www.homeandgift.co.uk)

**Buyer profile:** Independent retailers, multiple retailers, wholesalers, interior designers, agents, distributors and buyers from major stores and department stores

Dates: July 13 – 16 July 2003

Cost: Cost varies depending on the following options:

### **Trade shows of medium importance**

#### **Ethnic Jewellery Show**

Wembley Exhibition Ctr, London

24 - 26 October 2003

Ethnic Exhibitions Ltd

#### **Ethnic Handicrafts & Jewellery Village**

Earls Court 1, London Olympia

Feb 05, 2004 - Feb 08, 2004

#### **Ethnic Jewellery Show**

Wembley Exhibition Ctr, London

Oct 24, 2003 - Oct 26, 2003

Ethnic Exhibitions Ltd

### **2.8.4 E-marketing**

This provides buyers with information in one resource thereby attracting more buyers and building this niche market. However, for the craft sector sales are growing slow as many buyers like to be able to touch, feel and try out items before they buy.

***Contact the CCDI for a list of recommended online trading houses, agents and intermediaries.***

### **2.8.5 Targeted direct marketing to buyers**

Buyers are likely to have an initial screening on the basis of the fit of your product and price. The initial screening may be done off the basis of photos.

Many will then have another level of screening in relation to:

- ? Quality standards
- ? Reliability of supply
- ? Production volumes
- ? Ability to interpret design briefs

## **2.9 What are the tariff and non-tariff barriers?**

When investigating export opportunities, South African suppliers should include an evaluation of the **tariffs and any other measures** that may be applicable to the products earmarked for export. It is a critical component that must be considered in the costing process to ensure that the exported items are priced optimally for the UK market.

There are a number of duty rates with the associated percentages that have been included in Appendix A. In addition, a listing of the required product specifications is included.

There is only one critical **technical requirement** that has a major impact on exporters supplying the UK market with Fashion Jewellery. As a result of various problems associated with Nickel sensitisation in jewellery and clothes, the European Community Nickel Directive (76/769/EEC) was introduced and became law in the European Union on the 20th January 2000.

The Directive was devised due to fears about allergic reactions and sensitisation to Nickel, and has been designed to reduce any problems caused by this material

The directive in summary states that items intended to come into contact with broken skin are restricted to a mass of 0.05 % Nickel. Items intended to come into close and prolonged contact with skin are restricted to a release rate of 0.5 h g/cm<sup>2</sup>/week of Nickel.

***It is critical that exporters to the UK ensure that their products adhere to the technical requirements as stated in the Nickel Directive. Non-compliance can result in a fine and confiscation of goods, but more tarnishing is the damage to the particular exporter's reputation and the country of origin.***

***The EU Community Nickel Directive can be obtained from the CCDI.***

#### **Sources of additional information**

To investigate which South African goods qualify, exporters can refer to Customs Notice 828 that can be found on the following website: <http://www.hmce.gov.uk>

If in doubt as to which category a specific product would be grouped into, a supplier can contact, HM Customs & Excise classification help-line on + 44 (0) 1702 366077 to obtain the UK product classifications. If trying to source additional information on tariffs and other charges, such as tax (different to import duty) and local excise duty, South African exporters can contact the UK Customs and Excise on a general enquiry e-mail address: [enquiries.lon@hmce.gov.uk](mailto:enquiries.lon@hmce.gov.uk).

#### **UK Department of Trade and Industry**

Tel: 0944 207 215 5000

E-mail: [dti.enquiries@dti.gsi.gov.uk](mailto:dti.enquiries@dti.gsi.gov.uk)

[www.dti.gov.uk](http://www.dti.gov.uk)

#### **UK Department of Trade and Industry Consumer Safety Unit**

Tel: 0944 207 215 0366

Fax: 0944 207 215 0357

#### **British Standards Institute**

Tel: 0944 208 996 9001

Fax: 0944 208 996 7001

E-Mail: [info@bsi-global.com](mailto:info@bsi-global.com)

[www.bsi-global.com](http://www.bsi-global.com)

## APPENDIX A: TARIFF AND NON-TARIFF BARRIERS

HS <sup>3</sup> /TARIC Code	Description – 10 digit	SA Duty Rate (%)	Std Rate (%)	GSP <sup>4</sup> (%)
420221	Handbags with outer surface of leather, of composition leather or of patent leather – <i>Handmade (4202210010)</i>	0	3	0
	Handbags with outer surface of leather, of composition leather or of patent leather – <i>Other (4202210090)</i>	0	3	0
420222	Handbags with outer surface of plastic sheeting ( <b>4202221000</b> )	0	9.7	3.3
	Handbags with outer surface of textile materials - <i>Handmade (4202229010)</i>	0	3.7	0
	Handbags with outer surface of textile materials - <i>Other (4202229090)</i>	0	3.7	0
420229	Handbags made from other materials - ( <b>4202290000</b> )	0	3.7	0
711311	Articles of jewellery and parts thereof, of silver whether or not plated or clad with other precious metal ( <b>7113110000</b> )	0	2.5	0
711320	Articles of jewellery and parts thereof, of base metal clad with precious metal ( <b>7113200000</b> )	0	4	0
711719	Imitation jewellery of base metal, whether or not plated with precious metal – <i>without parts of glass, gift silver or platinum plated – handmade (7117199110)</i>	0	4	0
	Imitation jewellery of base metal, whether or not plated with precious metal – <i>with parts of glass - other (7117199190)</i>	0	4	0
	Imitation jewellery of base metal, whether or not plated with precious metal – <i>with parts of glass – handmade (7117199910)</i>	0	4	0
711790	Other imitation jewellery ( <b>7117900000</b> )	0	4	0

In relation to tariff elimination as stated within the South Africa-European Union Trade Agreement of 1999, all customs duties applicable on South African imports (originating in the country) of the above listed HS product types into the Community, were abolished on acceptance of the Agreement.

<sup>3</sup> HS - Harmonised Standard (internationally shared code for trade up to 6 digit level, country specific from 8-10 digit level)

<sup>4</sup> The Generalised System of Preferences (GSP) scheme of the European Union is aimed at the majority of the least developed countries. Its objective is to create more value by applying a lower set of tariffs to these countries.

## Additional Non – tariff barriers

Description – 10 digit	Non-tariff product specifications
(7113110000) (7113200000)	- No current product specific requirements
(4202210010) (4202210090) (4202221000) (4202229010) (4202229090) (4202290000)	- Imports are governed by the Washington Convention (Convention on International Trade in Endangered Species of wild fauna and flora)[Council Regulation (EEC) No. 338/97, as last amended by Commission Regulation (EC) No. 938/97, and Regulation (EC) 2551/97] (Source: TARIC JANUARY 1999)
(7117199110) (7117199190) (7117199910) (7117900000)	- Manufacture in which all the materials used are classified within a heading other than that of the product or manufacture from base metal parts, not plated or covered with precious metals, provided the value of all the materials used does not exceed 50% of the ex-works price of the product

## APPENDIX B: HOW PRICE COMPETITIVE IS MY PRODUCT?

### *General pricing issues*

#### **Price Policy**

Crafters need to decide on certain pricing issues even before identifying a potential buyer. The main issues to be considered are as follows:

- ? *One global price or different pricing structures for different regions?* It is advisable that crafters should have one pricing structure. However, prices quoted to individual buyers might vary according to the:
  - o Modifications to the product, packaging or packing.
  - o Terms of delivery
  - o Other special factors
- ? *Discount for volume?* Even though it is a common business practise to give discounts, emerging crafters with a labour-intensive production process would probably have limited opportunities to achieve cost savings through supplying a large order.
- ? *Discount for prompt payment?* This depends on the method of payment. Crafters should check out the figures carefully before coming to an agreement.

#### **Methods of Payment**

Arranging payment from a foreign buyer can be a very daunting task. Crafters planning to export or currently exporting need to be aware of types of payments and the risks associated with each. The following are the basic methods of payment used in international trade listed in their order of security for you as the exporter:

- ? **Cash in advance/cash with order**
  - o This is the safest method of payment for you because your buyer pays for your goods before you dispatch them.
  - o It is not a common method but is used under some circumstances, such as:
    - When you are selling small quantities to countries that permit pre-payment for imports
    - If you make goods to your buyer's specifications it is normal for you to receive an up-front deposit to cover manufacturing costs, with your buyer paying the balance by another method of payment
- ? **Documentary credits (letters of credit)**
  - o L/C means that a bank guarantees, on behalf of your buyer, to pay you provided you submit certain specified documents proving that you have met the conditions and terms of the L/C
  - o Banks worldwide follow The Uniform Customs and Practise for Documentary Credits (UCP), drawn up by the International Chamber of Commerce
  - o There are different types of L/Cs, the most commonly used ones being the unconfirmed irrevocable L/C and the confirmed irrevocable

***For more information about these types of L/Cs refer to the Cape Trade Guide.***
- ? **Documentary bank collections**
  - o With a documentary bank collection you use the international banking systems to collect payment from your buyer according to your instructions. However, the bank does not guarantee payment
  - o It is a cheaper method of payment than L/C, but is far less secure

- Your buyer needs certain documents to clear your goods and take possession of them in his country. Typically these documents would include the commercial invoice, bill of lading, insurance policy/certificate of origin, and the like, as well as your draft (Bill of Exchange) *When goods are sent by air, the air waybill accompanies the goods. The goods should therefore be consigned to a bank instead of to your buyer who would otherwise be able to take delivery of them without necessarily having agreed to pay for them.*
- The bank releases the documents to your buyer only when he has paid the required amount or, by signing the draft, has undertaken to do so at the time that you have specified.  
**NB:** *A documentary bank collection does not mean that a bank guarantees payment.*

### ? **Open account**

- This is an inexpensive method of payment in which you ship your goods to your buyer and send directly to him all the relevant documents to clear the goods
- The understanding is that your buyer will pay for the goods within an agreed period, and the only role of the banking system is to transfer funds your account
- You would consider using an open account when you trust your buyer to pay on the due date – often because you have had a good business relationship over some time

### **Quoting in a foreign currency**

- When you have calculated your export price in rands, you will need to convert your export price into a foreign currency
- You may feel the need to take out forward cover to eliminate the exchange risk should the rand strengthen against the currency concerned

### **Quoting for export**

#### **Costing Base**

***Setting the export price means setting a price that is attractive to your buyer and gives you the profit margin you expect.***

#### **Factory price**

- ? When starting your costing for export it is a good idea to use the concept of “factory cost” and “factory price” – the difference between the two being your profit margin
- ? Your final export price will be your factory price plus all the export delivery costs

#### **YOUR FACTORY EXPORT PRICE CHECKLIST**

- ✍ Include all product costs
- ✍ Incorporate your profit margin
- ✍ Include all the product and packaging modifications required by your foreign buyer
- ✍ Exclude VAT

***NB: Exported goods are zero-rated for VAT. This means that you do not charge VAT to your foreign buyer, but that you may claim the VAT paid on your inputs. However, you must meet all the requirements of SA Revenue Services.***

When calculating price competitiveness remember that the distribution channel used influences the final retail price of the product, so when doing the calculations make sure you include all

costs related to the distribution method that you would like to use. For example, if you use an indirect distribution method that makes use of an export trader who sells to an importer on your behalf then be sure to include the export trader's fees and the importers mark up in the calculations.

The following diagrams illustrate the difference between the different possible direct and indirect distribution channels and can be used to assist in the determining of what items to include in the cost calculations.

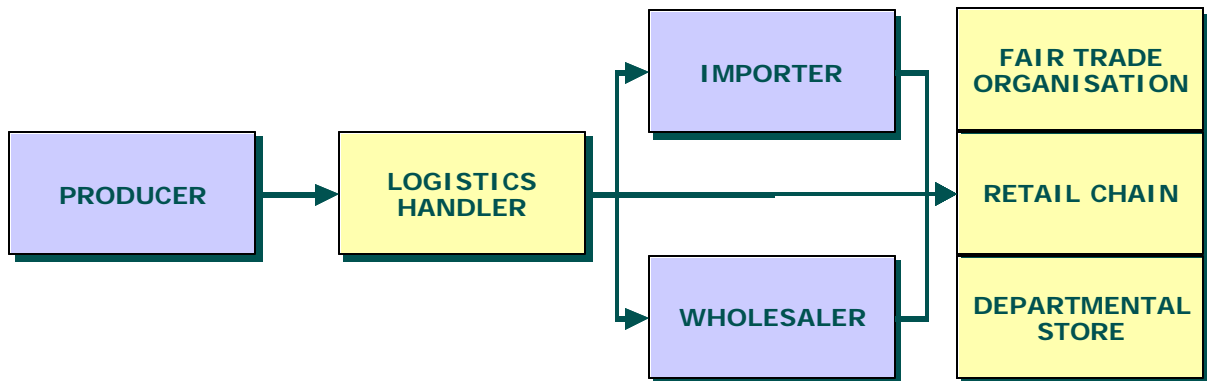


Figure 6: Direct distribution options

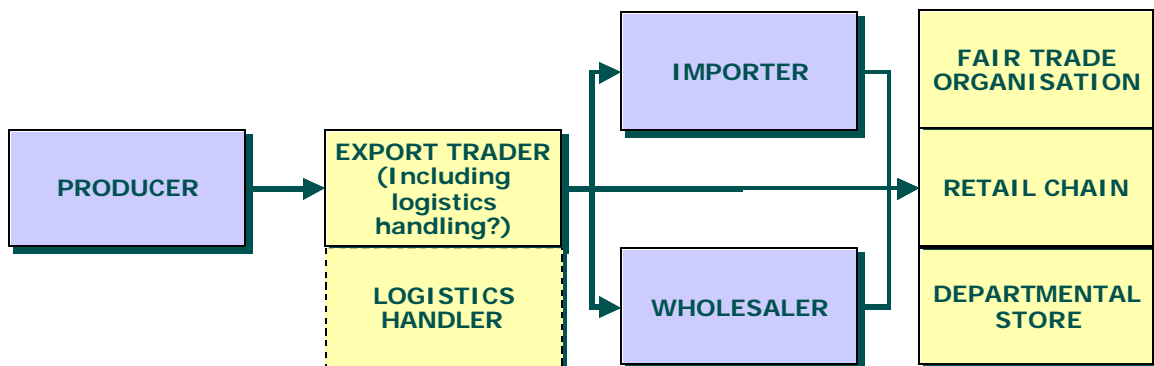


Figure 7: Indirect distribution options

There are two places to start in assessing whether your product is price competitive, i.e.:

1. Based on your production costs, what retail price is viable
2. Based on retail prices, working back to the required production

### ***Starting with your production cost***

The following process should be used to calculate the approximate retail price of an export product based upon the known ex works factory cost:



**Figure 8: Process for calculating supply side costing**

**NB:** Prices can be converted to foreign currency at any stage of this process but it is important to remember to always work with the same exchange rate and that all subsequent steps should be calculated in the foreign currency. A good source to obtain historic and current exchange rates is <http://www.oanda.com/convert/classic>.

### Step 1 – Calculating the landed cost price

It is necessary to include all costs related to shipping the product to the export market in the cost of the product. Use the following formula below to calculate the landed cost of the product or the cost of the product after shipping and handling.

$$\text{Landed cost} = \text{ex works factory cost} + \text{freight costs} + \text{import tariffs} + \text{clearing agent fees}$$

#### Example:

Sarong Trading wants to export handmade floor mats to the UK. The ex works factory cost is R100 and it plans to sell directly to a wholesaler with whom it has a good business relationship. Based upon past experience it knows that it would cost R250 to freight ten such items to the UK and that clearing agent fees are about 5% of the ex works factory cost of the product. Sarong determines that the products fall under HS category 5704900010 and are thus subject to an import duty rate of 2.4% and GSP of 5.3%. It calculates the landed cost per product at R137.70 as per the following table:

Landed Cost	
Ex works factory cost	R 100.00
Freight costs	R 25.00
Import tariffs	R 7.70
Clearing agent fees	R 5.00
<b>Total</b>	<b>R 137.70</b>

### Step 2 – Calculating the distribution costs

The next step is to include all the third party costs involved in getting your product to market. Use the following formula to calculate the third party distribution costs:

$$\text{Distribution cost} = \text{export trader fees} + \text{distributing agent fees}$$

#### Example:

As mentioned above Sarong plans to sell directly to a wholesaler with whom it has a good business relationship so there are no export trade fees. However, it does make use of a distributing agent in the UK to get the product to the wholesaler so it has to add this amount into the per product cost. The distribution agent charges about GBP 5.00 per product of this nature. Therefore its calculation of distribution costs would be as per the table below:

Distribution Cost	
Export trader fees	GBP 0.00
Distributing agent fees	GBP 5.00
<b>Total</b>	<b>GBP 5.00</b>

### Step 3 – Calculating the cost to supply retailer

Add the landed cost and the distribution costs to give you the cost of making a product available for retail in the export market.

#### Example:

As the two calculations completed so far are in different currencies Sarong decides to convert the landed cost to a Pounds amount. Using a historical average exchange rate for the past month of R 0.08552 to the Pound it calculates that the landed cost is GBP 11.78. Thus the cost to supply the retailer is GBP 16.78.

### Step 4 – Applying the mark up per outlet type in the distribution chain

Depending on the distribution route to the final retailer apply the applicable mark up for each of the outlet types the product passes through.

This price can be then compared to similar products that are sold through the same outlet type to see the level of competitiveness. Of course it is possible to compare the price competitiveness at any level of the distribution chain, as all that is required is a price to benchmark against.

Remember that this is just how the product compares at cost and does not include the exporter's margin. Therefore the amount less than the benchmark price would indicate what possible profit the exporter could hope to obtain and still remain competitive in the market. An item that is equal to or more than the benchmark price indicates that the product is not competitive and would break even or make a loss.

If it is possible to be competitive based upon these calculations the exporter should then run this exercise again with different profit margins added to the ex works factory cost in order determine the correct pricing strategy.

#### Example:

Sarong knows that its wholesaler applies a 15% mark up on the goods it sells to retail chains and department stores. It also knows that the average mark up on products of this nature at the stores the wholesaler sells to is 20%. Therefore in order to determine if its product is price competitive it takes the retail cost and marks it up by first 15% ( $\text{GBP } 16.78 \times 1.15$ ) to get the wholesalers price of GBP 19.30 and then by 20% for the retail chains mark up ( $\text{GBP } 19.30 \times 1.2$ ) to get a final retail cost price of GBP 23.16.

Having done some market research, Sarong knows that the average product of this nature fetches about GBP 30 in the retail stores and it has a leeway of GBP 6.84 or R 79.98 for profit (based on the average exchange rate used in the calculation above). Sarong then runs this exercise again with different profit margins added to the ex works factory cost in order determine its pricing strategy.

### Starting with the retail price

The following process should be used to calculate the approximate ex works factory cost of an export product based upon a known retail price:



Figure 9: Process for calculating demand side costing

**NB:** Prices can be converted to foreign currency at any stage of this process but it is important to remember to always work with the same exchange rate and that all subsequent steps should be calculated in the foreign currency. A good source to obtain historic and current exchange rates is <http://www.oanda.com/convert/classic>.

#### Step 1 – Calculating the cost to supply the retailer

Depending on the distribution route to the final retailer reduce the retail price by the mark up for each of the outlet types the product passes through to determine the cost to supply the retailer.

##### Example:

Sarong Trading has found that there is a medium end retail chain store in the UK that sells handmade floor mats for GBP 28.50 and it wants to calculate whether it could competitively supply them through the use of a South African based export trader. Based on market research it knows that the store buys directly from exporters. Using the median mark up for a medium end retail chain of 15%, it marks down the retail price (GBP 28.50 / 1.15) to obtain the retail cost of GBP 24.78 or R289.76 (based on a historical average exchange rate for the past month of R 0.08552 to the Pound). If the retail store purchased its products from an import or wholesaler then the price would need to be further reduced by the importer or wholesalers mark up.

#### Step 2 – Calculate and subtract the distribution cost

The next step is to remove all the third party costs involved in getting your product to market. Use the formula below to calculate the third party distribution costs and then subtract it from the amount calculated in step 1.

**Distribution cost = export trader fees + distributing agent fees**

##### Example:

Sarong trading calculates its distribution fees per product as per the following table:

Distribution Cost	
Export trader fees	R 50.00
Distributing agent fees	R 0.00
<b>Total</b>	<b>R 50.00</b>

These costs are subtracted from the R289.76 calculated to give a cost of R239.76.

### Step 3 – Calculate and subtract the landed cost

The next step is to remove all the shipping costs involved in getting your product to market. Use the formula below to calculate the shipping costs and then subtract it from the amount calculated in step 2.

#### Example:

Sarong determines that the products fall under HS category 5704900010 and are thus subject to an import duty rate of 2.4% and GSP of 5.3%. This equals R7.70 when calculated against the ex works factory cost of R100.

The fees charged Sarong Trading by the export trader include all freight and clearing fees so it calculates its landed costs as per the following table:

Landed Cost	
Freight costs	R 0.00
Import tariffs	R 7.70
Clearing agent fees	R 0.00
<b>Total</b>	<b>R 7.70</b>

This cost is then subtracted from the cost calculated in Step 2 to give an ex works factory cost of R232.06.

### Step 4 – Determine the competitiveness of the ex works factory cost

This price is then compared to the ex works factory cost to determine the level of competitiveness.

The amount by which this price is greater than the ex works factory cost indicates what possible profit the exporter could hope to obtain and still remain competitive in the market. An item that is equal to or less than the ex works factory price indicates that the product is not competitive and would break even or make a loss.

If it is possible to be competitive based upon these calculations the exporter should then run this exercise from the supply side with different profit margins added to the ex works factory cost in order determine the correct pricing strategy.

#### Example:

Sarong's ex works factory cost is R100 indicating that it has R132.06 or GBP 19.85 leeway for profit (based on a historical average exchange rate for the past month of R0.08552 to the Pound). Sarong then runs this exercise with different profit margins added to the ex works factory cost in order determine its pricing strategy.

## **APPENDIX C: EXAMPLES OF PRICE POINTS FOR FASHION JEWELLERY AND ACCESSORIES**

**(ATTACHED AS SEPARATE DOCUMENT BECAUSE OF FILE SIZE OF IMAGES)**

