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Export Development Pilot Programme

Niche Market Research Report

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Executive Summary

This report outlines the processes and results of the Market Research portion of the integrated Export Development Pilot Programme run by the Cape Craft & Design Institute (Mar – Sep 2003).

Market Research Partners Kaiser Associates were contracted to investigate and report on local craft sector challenges and opportunities and two potential niche markets, namely the Soft Furnishings & Home Textiles UK / USA Market and the Fashion / Costume Jewellery – UK Market. The Research Process served as a useful learning process for the CCDI and valuable lessons will be taken forward into subsequent Market research.

The research highlights the complexity of the USA market and the need to focus exports on specific target niche markets. Issues of price, distribution and the difficulty of breaking into these markets were also outlined.

There is good potential for exports of South African craft into the UK Soft Furnishings & Home Textiles, Fashion / Costume Jewellery & Accessories Market. The USA market is larger, but issues of distribution, complexity and competition are a significant factor.

Outcomes include two user-friendly export market guides, a local craft sector analysis and a comprehensive Strategy Discussion Guide.

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1 Introduction

It was agreed by the Trade Promotion Steering committee of the CCDI (29 January 2003) that a series of measured interventions were needed to study the potential for export development in the Western Cape Craft industry. The programme consisted of 5 parts

- ? **Niche market research**
- ? Export Training programme
- ? Chicago Trade Fair
- ? Trend forecasting
- ? SAPEX ecommerce trade house

This report deals specifically with the Niche Market Research and is supplementary to the market reports that have been produced by the research partner Kaiser Associates as a part of this process.

This report should be read in conjunction with the Market research reports:

2 x Market Access guides Fashion Jewellery & Home Textiles^{1,2}
Analysis of local Craft Sector Challenges³
Discussion Guide of strategic Recommendations⁴

2 Purpose of the Niche Market Research programme

1. To gather intelligence on potential export markets & to provide producers with the necessary information for them to develop strategies for placing the right products in the right markets at the right price.
2. To develop a greater understanding of the overall export needs of the craft sector, and the potential for exporting soft-furnishings & fashion jewellery into the USA & UK

3 Methodology

Following lengthy discussion within role-players in the CCDI and City, and the research partners Kaiser Associates, it was agreed that the Market Research Programme be made of 4 components. Budgetary constraints limited this programme to a brief overview of the existing craft export activity, and detailed analysis to 3 target markets – two in UK and one in USA.

Target Export Markets

Soft Furnishings & Home Textiles UK / USA
Fashion / Costume Jewellery UK

Details of the research programme are shown in the table below.

The final programme schedule was agreed between KA, CCDI & City of Cape Town in March 2003 and the process commenced in April 2003. As experienced market research analyst, Kaiser

¹ Practical Market Access Guide to the Fashion Jewellery & Accessories Market in UK Kaiser Associates / CCDI October 2003

² Practical Market Access Guide to the Home Textiles & Soft furnishings Market in UK / USA Kaiser Associates / CCDI October 2003

³ Analysis of local Craft Sector Challenges, Kaiser Associates / CCDI July 2003

⁴ Strategic Recommendations for Industry Development -Discussion Guide. Kaiser Associates / CCDI July 2003

Associates were closely involved in drawing up the programme deliverables. Once underway KA was responsible for the rollout and daily management of the research process and CCDI were in contact during the different phases and assisted where required.

Vivian Thornton was contracted to give her experienced input into the UK sectors. Kaiser Associates conducted a number of detailed interviews with Vivian Thornton, on which a portion of the UK analysis was based.

Programme Components	Partner
1. Internal industry & Stakeholder Analysis – Workshops and interviews with key players in the industry, as well as key stakeholders to the industry	1. Kaiser Associates (& workshops facilitated by CCDI)
2. Export market analysis and strategy development – Interviews with key buyers (retail, department store, importers) in each of the target export markets and analysis of existing market reports. Development of user-friendly Exporters Guides for those markets.	2. Kaiser Associates (assisted by Vivian Thornton of Link Africa – UK Market)
3. Industry development strategy – Strategy development recommendations relating to the craft sector value chain and enabling environment.	3. Kaiser Associates
4. Analysis of Database for Craft producers and role-players in W Cape.	o CCDI internal data

3.1 Research Partners

Kaiser Associates was selected to undertake this research on the basis of previous record with the City of Cape Town.

Link Africa was involved on the basis of their experience in the UK Homeware industry.

Individual crafters and role-players / stakeholders who were polled for market research, were selected on the basis of availability and suitability.

3.2 The Research Process

Kaiser Associates ran independently on the entire early research programme, liaising with CCDI to establish the workshops and Vivian Thornton for feedback on the UK market. Vivian made two visits to UK during this time.

The local craft industry was assessed through two crafter workshops held in April and numerous face to face and telephone interviews, of role-players, stakeholders and crafters.

Foreign markets were researched using the Internet searches, email and telephone interviews and some face-to-face interviews. Vivian Thornton provided hands-on experiential input on the UK market.

CCDI assisted with the initial selection of crafters for the two workshops, which were facilitated and run by Kaiser Associates. Subsequent rollout and management of the research process was under the daily control of Kaiser Associates.

Once the draft reports were produced it became clear that greater input was required by CCDI in order to assist with interpretation of the results and preparation of the data for inclusion in a

user-friendly manual. . Kaiser Associates followed a lengthy consultation process with role-players in the sector whilst preparing these final reports.

Considerable work re-writing the work and additional research to fill in the missing links was undertaken in the final months. Kaiser Associates spent many times the allocated time for this project.

3.3 Description of Roll-out

- ? **February 2003**
Programme Proposal forwarded to KA
- ? **March 2003**
KA confirmed as Market Research Partner. Deliverables agreed upon
- ? **April 2003**
Industry workshops x 2 held with Craft exporters (Fashion accessories & soft furnishings)
- ? **May 2003**
Draft Industry & Stakeholder report received
- ? **June 2003**
First Draft of Exporters Manual (USA & UK) received
- ? **July 2003**
First Draft of Industry recommendations received
Second draft of Exporters Manual received
- ? **August 2003**
Final Industry recommendations due
Final Exporters Manual due
- ? **September 2003**
Role-players workshop
Market Access strategy document due
Final exporters manual printed

3.4 The role of CCDI

As Kaiser Associates are an experienced Market Research organisation, they were closely involved in the initial discussion on project deliverables and proposed rollout of the project. Kaiser Associates were tasked with running this research programme according to their experienced ability to do so with CCDI playing a supporting role where required.

CCDI role was initially very hands-off and Kaiser Associates conducted the bulk of the research according to their standard data gathering methodology.

CCDI was tasked with

- ? Facilitation of craft exporters workshop
- ? Database for crafters and stakeholders
- ? Ongoing assistance as and when required.

However as the research unfolded it became clear the additional intervention was needed to assist with the interpretation of results, and the writing of accessible exporters manuals. CCDI assisted further with the following:

- ? Assistance with structure, editing and final format of manuals/ reports

- ? Facilitation of final stakeholders meeting

4 Results

Valuable market research reports have been produced as follows:

1. Opportunity Analysis of the Western Cape Craft Sector
2. Exporters Manual
 - a. USA Soft Furnishings
 - b. UK Soft Furnishings
 - c. UK Fashion Jewellery
3. Strategic recommendations for the Craft Sector – Discussion guide
4. Appendix manuals – Price & Product
 - a. USA Soft Furnishings
 - b. UK Soft Furnishings
 - c. UK Fashion Jewellery

The user-friendly Exporters Manuals are currently available in electronic format from CCDI and will shortly be printed into a document to be distributed together with the City of Cape Town publication – An exporters Guide. Department of Trade & Industry funds will be used to print these booklets.

Less user-friendly, lengthy information is available as a supplementary to the Exporters manuals on request. These additional Appendixes are available on request. A charge will be made of hard copies of this appendix.

4.1 Summary of Niche Market Research Results

4.1.1 Challenges in the local craft industry

The challenges in the local craft sector are many. These can be divided into two main parts – those relating directly to the production of the product, and those relating to the wider environment. These results illustrate clearly that ‘finding a suitable export market’ is only one part of a complex chain of events.

4.1.2 Value chain challenges

The challenges that relate to ‘identifying products and markets, and getting a product to market’ are complex. This process identified eight significant areas of challenge, as follows

1. The widespread inability to identify or develop suitable product for export
2. Inability to identify suitable target markets
3. Problems with consistent and cost-effective Raw Material supply
4. Production constraints, in particular the lack of production-line knowledge, poor productivity, insufficient quality management capabilities etc
5. Lack of understanding of the importance of Packaging – for transportation, branding and point-of-sale promotions
6. Export Logistics poorly understood by most crafters
7. Lack of Marketing skills and insufficient time or money to focus attention on marketing and promotion needs (most crafters very production driven)
8. Product Prices uncompetitive against other African Countries, and especially against major competitors such as China & India.

4.1.3 Enabling Environment challenges

Additional enabling environment issues highlighted a further eight factors, as follows

1. Industry co-ordination and organization needs improving – very diverse with little formal industry structure
2. No co-ordinated R & D programme - limited product design & development in the industry
3. Lack of co-ordinated Industry Marketing programme and associated lack of South African Craft Branding.
4. Poor industry communication, especially to the rural crafters.
5. Training & development requires on-going roll-out, with mentorship programme
6. Lack of development finance is a general limiting factor (although this should not be confused with issues of poor profitability)
7. Legislation & regulation issues such as Intellectual Property rights need coordinated planning.
8. Specific export issues relate directly to the general immaturity of the industry, the lack of business skills, and poor global competitiveness of the sector.

4.1.4 Results –Home Textiles & Soft Furnishings Market – UK / USA

There is potential for exporting Home Textiles & Soft Furnishings into USA & UK, but the challenges of price cannot be ignored, especially while China is so dominant in this sector. Price is a significant factor in the USA, which appears to be more price-sensitive than the UK market, which is driven more by innovation and unique product design.

Possibilities for niche marketing do exist but it is essential for South African products to be well differentiated, correctly labelled and well branded. Issues of consistency and reliability in supply need to be addressed.

These detailed documents give a good general overview of the UK & USA Market and are an adequate starting point for any crafter serious about investigating these two target areas.

The manuals are well signposted and the source of information is easy to follow, so crafters are able to update information from their own computers, and drill down into the areas of their specific expertise from this basic source.

The manuals outline the complexity of exporting, and it is clear that those who are serious about exporting and willing to spend time and money over an extended period of time can achieve significant success.

The manuals contain product pricing, trends, materials, competitors and target outlet information. Specific Tariff & non-tariff barriers are also explained.

4.1.5 Results –Fashion/Costume Jewellery & accessories – UK

The UK jewellery market alone is estimated at £200 million per annum, with significant growth evident in the neckwear and earrings segment. The forecast for fashion jewellery is good, with older workingwomen an important target population.

Handbags are another significant segment, with imports into the UK currently sitting at £150 million pas. The potential for exports of South African handbags appears good.

For South African products to achieve success in this market they must be well designed, innovative and well differentiated. Strong branding and effective promotion are vital. China and Korea are the main competitors at the low-end, whilst France & Italy are well established in the high-end.

Product Design is a significant component of this market, and many outlets require producers to manage product development in line with market trends.

4.2 The learning process

The research process highlighted a number of **key positive factors** in the research process

- ? Kaiser Associates was a good research partner with valuable experience in similar industries.
- ? Focussed selection of target markets increased the possibility of producing specific results.
- ? The process resulted in an improved understanding of the difficulties and constraints of in such intelligence gathering service.

Significant Process shortfalls were also illustrated

- ? In hindsight CCDI should have provided a stronger guidance to Kaiser Associates from the beginning.
- ? Considerable re-writing of final reports was necessary in order to achieve a valuable end product. This rewriting could have been minimised with stronger guidance from CCDI in the first instance.
- ? The base data of craft industry has not been produced from the CCDI database. Due to shortage of manpower in the CCDI statistics on the Craft Partnership membership has not yet been completed.

5 Outcomes of the niche market research

The Market Research Programme highlighted many needs in the industry, such as the need for

- ? **A Holistic craft development strategy** incorporating
 - o Long term sector planning
 - o Improved synergy between role-players & stakeholders
 - o Education of crafters – business skills & export knowledge
 - o Availability of Finance
 - o Sector Promotion & Marketing Strategy

In addition, Craft industry needs revolved around sector-based issues such as

- ? **The general immaturity of the craft sector**
 - o Profusion of small young businesses
 - o Lack of formal business skills
 - o Poor production skills and low productivity
 - o Inconsistent / poor quality of product
 - o Lack of understanding of marketing needs
 - o Lack of formalised bodies / structures
- ? **Inadequate feedback mechanisms & fragmentation of the craft industry**
 - o Between crafters themselves
 - o Between role-players and stakeholders
- ? **Insufficient support for craft development and exporters** with regards to
 - o Product development
 - o Finance
 - o Importation of raw materials – price, quality, availability

The development of craft Exports is additionally hampered by a lack of

- ? **Accurate market knowledge** (per country, per product segment) in particular information on
 - o Product preferences
 - ✍ Styles
 - ✍ Colours
 - ✍ Trends
 - o Price
 - ✍ Impulse buying
 - ✍ Low, mid & high end
 - o Suitable Market outlets
 - ✍ Retail
 - ✍ Department store
 - ✍ Gift stores
 - ✍ Exhibitions
 - o Methods of accessing these markets
 - ✍ Buyer access – database of?
 - ✍ Preferred method of doing business
 - o Trade requirements and preferential trade mechanisms
 - ✍ AGOA
 - ✍ SA-EU trade agreement
- ? **The generally poor export knowledge**
 - o Formal Legal requirements for exporters
 - o Processes and procedures involved in exporting

6 Impact of programme

It is too early to measure programme impact, which be reported in improved export figures over many years. However the some measure of immediate outcomes is detailed in the table below.

Analysis of programme impact

Beneficiary	Outcome of Programme
Craft Producers	<ul style="list-style-type: none">○ Increased understanding of foreign markets & market needs○ Increased ability to access foreign markets
Craft Sector (Provincial & National)	<ul style="list-style-type: none">○ Increased understanding of foreign markets○ Improved ability to develop informed long-term planning and foreign market access strategy
CCDI	<ul style="list-style-type: none">○ Increased understanding of foreign markets○ Improved ability to develop informed long-term planning and foreign market access strategy○ Focused understanding of future research needs○ Improved understanding of future Craft development needs

7 Recommendations and way forward

This investigation has provided a good starting point in the continuous process of improving & increasing market knowledge. Continual updating will be needed for this information to remain valuable.

Careful analysis of this pilot study is needed in order to identify the way forward.

Suggested changes to the research process are to introduce

- ? A system whereby crafters who attend overseas exhibitions are required to complete market information reports.
- ? Existing market intelligence websites are used to update local knowledge
- ? A method by which the craft body can be used to pinpoint specific information needs
- ? A method to synchronise databases of role-players (avoid duplication, reduce costs)

Phase II Market Research. It is proposed that phase two be rolled out once a careful study of the shortfalls of this research is completed. Phase II must include

- ? Detailed analysis of the local craft industry activity

8 Conclusions

The Niche market Research has provided a useful process of learning. Market intelligence is a vital component in the export-readiness of a sector and must be prioritised at a national level.

CCDI have gained valuable insight into the research process, needs and shortfalls.

However significant shortfalls will need to be addressed in future:

- ? Research must answer the specific needs of the craft sector.
- ? Clear targets must be set prior to starting the project.

- ? CCDI must remain closely involved with the process, especially in final report writing, for crafters.
- ? The CCDI database must to be developed and maintained as a sector asset. Funding must be provided specifically for this purpose, as it is from this base data that indicators are measured and future strategy is drawn.

Phase II of the research programme must involve a more detailed analysis of the local craft industry. It is suggested that a deeper investigation into the UK and USA markets be conducted.