

# Bridging the Gap in the Craft Sector

From local to external markets





# Background

- Mineworkers Development Agency: enterprise development in mine labour sending areas ie rural southern Africa; high participation by women.
- Local markets are poor, 'thin', highly dispersed, and are often a poverty trap
- But access to external markets poses particular problems.
- Craft sector strategy - MDA hosted 'Bridging the Gap' – brought together producers, retailers, designers, policy makers.
- Continued engagement with the sector and research.

# Starting on the supply side

- Producers face so many problems there may seem to be little point looking any further:
  - Infrastructure                      equipment                      a formal workplace
  - Technical skills                      information                      storage
  - Transport    ‘financial channels’                      collection points
  - Access to inputs                      and much more                      (Thabo Mofutsanyana)
- It’s possible to solve all these problems and still be producing the ‘wrong’ product.
- Starting with market demand and understanding the whole value chain opens new ways of seeing both the problems and the solutions.





# The nature of demand

- In developed countries, growth in the creative industries outstrips growth in other sectors by as much as 3 times (Unesco);
- Global trends – demand for hand-made, organic, natural, indigenous, fairly traded etc. So a key opportunity.
- But the demand is for **contemporary applications** of traditional craft skills - in **jewellery, homeware and fashion**;
- **Design** is key, quality and consistency are vital, and trends shift rapidly;
- There is declining demand for traditional craft objects.



# Understanding the value proposition

- A salutary tale
- ‘Blue is also nice’
- Producers may not understand what it is the market values about what they do.
- ‘Hand knitted jerseys’ vs ‘cream-coloured, pure-wool, hand-knitted jerseys.’
- Problems of measurement, specification and contract
- Requires high levels of intermediation.

# Access to external markets = an end to informality

- Economic history is partly the history of the development of institutions to mitigate the risks of exchange (Douglass North)
- This is part of origins of the laws of contract;
- By all means cut red tape – but buyers need compliance with business protocols and practices that mitigate their risks. (Woolworths)
- Producers have to raise their game to enter external markets.





## Access to external markets = being part of a supply chain

- Targeting external markets means an end to direct sales to the end consumer: and wholesale pricing.
- It creates opportunities for specialisation and value-addition at different points in the chain – with the potential to reduce complexity and lower barriers to entry.
- It means being part of a supply chain;
- **All of which means key roles for intermediaries** – but few things are as controversial in the sector;
- Instead, policy and support interventions are focussed on ‘cutting out the middle-man’.

# In defence of intermediaries

- ‘That’s what a supply chain looks like’ (India-UK chain)
- ‘Time to get real’ (Montebello)
- Unintended consequences: Craft Imbizos and WSSD.

‘The expectation that the crafter must be the designer, the product developer, the producer, the marketer, the agent and the exporter is just not realistic.’

Cape Craft and Design Institute



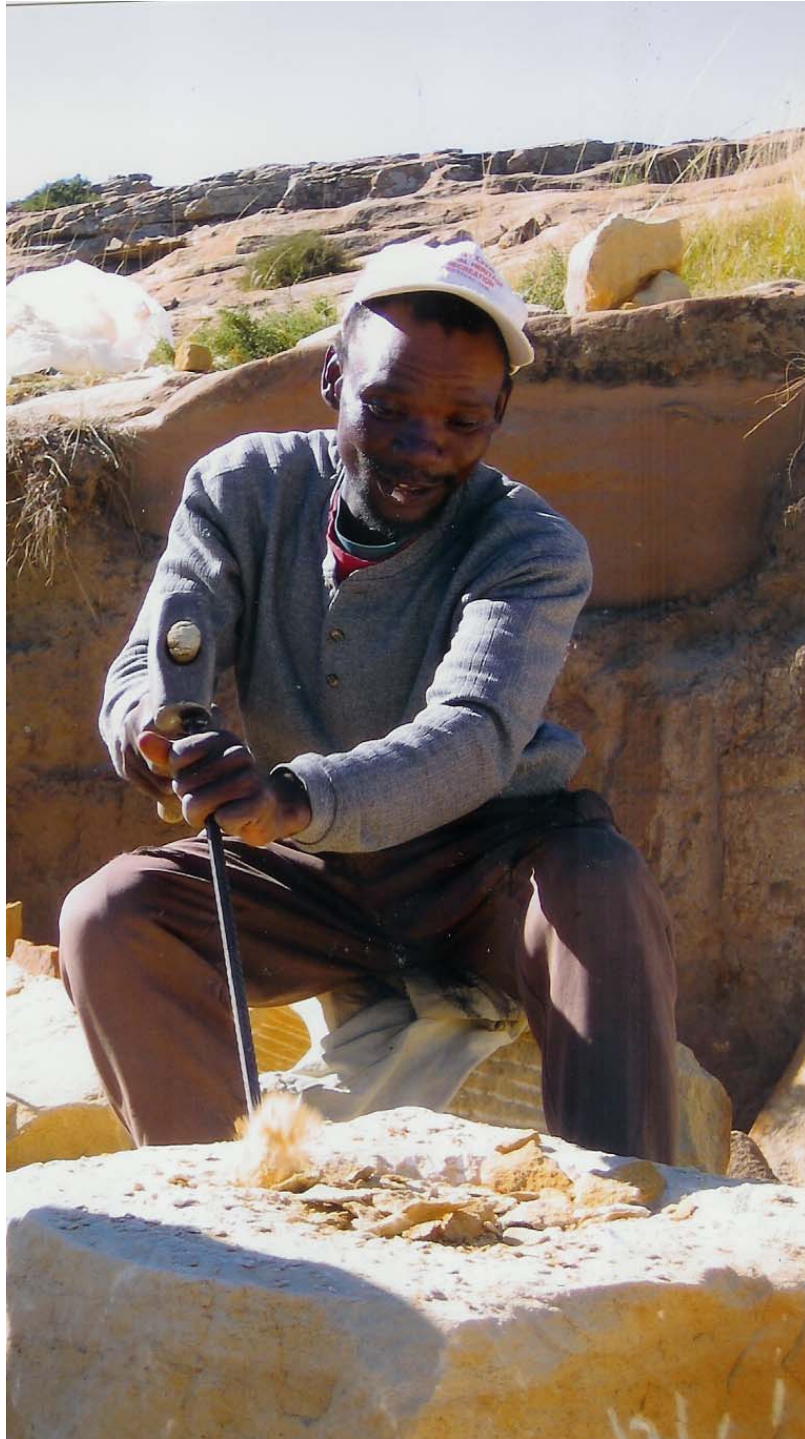
## Case Study 1: The role of an export agent

- Export introduces the full weight of phyto-sanitary standards
- Consolidation of product from small producers affects price;
- Export – involves even greater distances in terms of the value proposition, the role of market intelligence and design trends;
- More complex supply chains.
  
- Export promotion that aims to link rural producers directly to international buyers - a bridge too far?



## Case Study 2 Lesotho Sandstone Masons

- A quarry deep in the mountains: 4X4 only
- The local market – for building blocks
- Design input: a deal sealed by a free lunch
- The NGO intermediary exits - facilitated link to a buyer.



## The role of the buyer

- Market intelligence - designs and commissions product;
- Value addition;
- Takes risk of unsold stock;
- Unequal relationship – mitigated by the rise in ‘tacit knowledge’ of the group.
- Four years later – design input once a week –the buyer’s investment in the group has raised his switching costs.
- From erratic part-time activity to full-time activity.
- Increase in incomes and income security.



- Products in Keith Kirstens, Woolworths, @Home, Life, and exports to the Seychelles.

‘People in the past used to say if you were working with stone you were from the prison. But now they realise you can get a living from stone’



## Case Study 3

### ‘Gone Rural’ and El Corte Ingles

- Oscar Ngcobo – the son of a bead-worker
- Supplied 17,000 units of beaded bracelets and necklaces to El Corte Ingles, a large department chain in Spain.
- Commissioned the work – split it between 200 producers in rural KZN.
- Took a mortgage on his house to pre-finance the inputs and to pay the producers.

## Case Study 4

# Contracting a marketing agent from below

- A key buyer developed a range of children's products with a group of Cape Town producers and then dropped it. (The role of power and vested interests)
- The producers came together and agreed to collectively commission a marketing agent to sell the range.
- An intermediary contracted 'from below' changes the power relationship.





# Policy implications

- The craft sector is characterised by market failures of various kinds
- The question is how to address them?
- In SA, much policy is focussed on ‘cutting out the middle man.’
  - Craft imbizos promote direct sales from producer to end-user;
  - ‘Craft hubs’ – are government-funded but expected to cover their costs over time by buying and on-selling craft. This gives them a competitive interest in keeping market-based intermediaries out.
- Yet market-based intermediaries are the ‘missing link’ for the sector, key to overcoming market failure.

# Intermediaries are key

- Instead, intermediaries are vital to ‘bridging the gap’ in all kinds of ways
  - Market intelligence and design input
  - Consolidation of volumes from small producers
  - Securing large export orders and splitting them between small producers
  - Value addition allows for specialisation and reduced complexity;
  - Assuming financial risk.
- The assumption that ‘cost recovery = sustainability’ leads to market displacement rather than market development;
- Such interventions have a competitive interest in keeping other players out;
- Instead of displacing the roles of private sector intermediaries, how can they be attracted into the chain?

# CCDI gets it right

- The Cape Craft and Design Institute – funded by the Western Cape Provincial government
- With core costs funded, CCDI is able to act as a genuine facilitator – in competition with no-one in the chain;
- Information, information, information
- Craft forums;
- Facilitating craft associations
- Respond to needs – facilitate linkages
- Product development and design clinics – now a design laboratory;
- Facilitate support to producers to become expo and export ready
- Quality assurance limits risks for retailers.

# Conclusions

- Targeting external markets has a range of consequences
  - Understanding the value proposition;
  - An end to informality to mitigate the risks of exchange for buyers;
  - Being part of a supply chain
  - Specialisation can lower the barriers to entry.
- Market failure may justify intervention – but does that intervention displace or develop the market?
- ‘Intermediaries’ are the key links in the supply chain;
- Cutting them out prevents the chain from developing;
- Strategies to address market failure need to move from displacing intermediaries to developing them.



Thank you