

## Ties That Bind: Case Study

### Ghana Handicrafts to Big-Box Retailers

This case tracks the relationship between Ghanaian handicraft manufacturers, (Tekura Enterprise Ltd, and others) and end buyers (Pier One, MarMaxx and Target) in the United States. The case will highlight the benefits suppliers experience when taking advantage of technical assistance, market linking activities and duty free exporting.

#### Origins and Nature of the Buyer-Supplier Relationship(s)

Josephine Forson started her career in handicrafts as a member of Aid to Artisans Ghana (ATAG), a Ghanaian nonprofit that helps artisans build their businesses. Inspired by her experiences at ATAG, Josephine started her own handicrafts, home décor, and furniture company, Tekura Enterprises Ltd. in 2000. The company includes her husband Kweku as Accountant, 15 employees, up to seventy craftspeople as subcontractors and is located outside of Accra Ghana. Relying on her initial contacts from ATAG, Tekura first began selling to Pier 1 Imports and MarMAXX, the holding company for US Retailer TJ Maxx and Marshall's. Most retailers purchased animal and human figurines and masks with the only distinguishing characteristic being size, color and pattern. According to Mrs. Forson, early year sales resulted in good business with good margins. Among other household decorative items, Tekura manufactured and sold wooden masks. A 12-inch mask had an average sale price of \$8-9.

However, as time elapsed, Pier 1 Imports' customers started to lose interest in traditionally based ethnic woodcarvings, which resulted in fewer orders. The products were mainly decorative with no other utilitarian household purpose. Similarly, MarMaxx only traveled to Ghana twice per year to make purchases, and off-season selling became negligible. In addition to lower volume orders, retailers began to squeeze more and more margin from their orders. Masks that Tekura historically sold for \$8-9 in 2002, later sold for an average price of \$3.50 by 2003.

In 2004, the USAID funded West Africa Trade Hub approached Tekura to uncover areas of opportunity to assist in providing additional technical assistance, and help facilitate additional market links. WATH's assistance also facilitated a new supplier-buyer relationship with U.S. retailer Target, Inc. Target was beginning to feature home décor items manufactured from Asia, Latin America, Africa and the Middle East, in their store's Seasonal section, marketed as "Global Bazaar". Through the WATH, Target approached three companies, Getrade Ghana Ltd, Fritete African Works and Tekura to fill its 27,000-piece order for the 2004 Global Bazaar product line up. The products requested by Target included ones Tekura had a track record producing, but also other products with unique designs that were not historically produced by the firm. Unfortunately, out of the three producers, only Getrade was able to completely fulfill its order. Tekura only completed 70% of its order, approximately 6300 of the required 9000 items.

Despite the production shortfall, Target expressed interest in placing another order in 2005. Mrs. Forson knew that in order to prepare for that order, Tekura needed additional resource, and technical assistance to improve the production deficiencies that hindered the completion of the previous year's order. The first step to that preparation was to join forces with Fritete, (the other firm that was unable to meet the previous years order demand), and together the firms created

a joint venture, Premium Exports. Secondly, the WATH provided a German-based technical handicraft expert who analyzed, made recommendations, and helped implement changes in Tekura's production systems. Some of the expert's recommendations included:

- Building templates and jigs for woodcutting which reduced production waste, and ensured uniformity in size,
- Improving drying techniques of the wood products to reduce cracking during transit. This was accomplished by using humidity gauges that measured the moisture in each piece to determine how much or how little to dry the wood before finishing.

As promised, in 2005, Target returned with an order of 48,000 pieces. This time, Tekura was responsible for producing 13,000 pieces, (such as masks, wooden figurines, and carved wood candle stands), all of which Tekura had a past capability of producing. Though there were still a few difficulties, with production, namely accessing financing to begin in a timely manner, the entire 48,000 order was fulfilled and shipped to Target that year. This marked a significant opportunity for future business for Tekura, and the joint venture created with Fritete.

Unfortunately, as was the case with Pier 1 Imports, the market continues to change. Target has responded to those changes by shifting strategies within its Global Bazaar product offerings. Instead of placing emphasis on country of origin and artisan uniqueness, the company is focusing on affordability, color theme, category and item dominance.<sup>1</sup> Instead of the broad mix of product purchases, Target focused its 2006 African home décor purchases to woven baskets from women's groups in Ghana and other countries.

To compensate from the lack of repeat business from Target, Tekura continues to produce and sell home décor items for MarMaxx. To expand into other markets, Tekura joined a consortium of Ghanaian artisans and manufacturers called "Living Ghana". Living Ghana is comprised of 15 Ghanaian companies, and started by working with German designers to improve their product offerings. The consortium now successfully sells to the European market via a variety of German and Swiss boutiques.

Recognizing additional opportunities in higher-value home décor, Tekura teamed up with the African Heritage Collection to launch an exclusive line of home décor products for 2006.

### **Role of Outside Support / Facilitation**

Several intermediaries provided support to Ghanaian home décor manufacturers. This support included technical assistance on improving design, facilitating market links to buyers, and improving product quality and consistency in mass production. In particular, Aid to Artisans Ghana, provided much of the early technical assistance to Tekura through the initial market links with Pier 1 Imports, and MarMaxx, as well as the training in innovative design. As the market changed, it was the WATH that provided additional technical expertise in the following areas:

- Trade Show preparation. In addition to sponsoring the booth for the Sources Show in New York, WATH also trained Tekura in customer relationship management, and client interaction tactics,
- Improving product quality and consistency in mass production,
- Sourcing inputs from fallen trees from Ghanaian agricultural fields, which reduced the costs associated with fresh-cut timber,
- Trainings in Contract Negotiations,
- Trainings in Applying for credit with local banks.

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<sup>1</sup> Duff, Mike "Target's Global Bazaar Back for 2007" [DSN Retailing Today](#), 22 Nov. 2006

## Costs and Benefits of the Buyer-Supplier Relationship

### MarMaxx/Target Costs:

For both MarMaxx and Target, costs were incurred based on trips taken to visit suppliers in Ghana, or to trade shows where supplier goods were showcased in the United States. For Target, in particular, costs were minimal as they were able to identify suppliers through US-based trade shows.

### Tekura Costs:

In order to improve its production capacity, and reduce waste from discarded inputs, Tekura secured loans via local financial institutions to make capital investments. Band and mitre saws were purchased between the first and second Target orders. There were also license and registration costs associated with the formation of the joint venture created with Fritete. It does not appear that additional costs were incurred from the venture as operations took place in the existing facilities of both firms. Finally, as the relationship between Tekura and buyers matured, offer prices for their goods continued to decline, which reduced their profits.

### MarMaxx/Target Benefits:

The ability to source unique quality goods from indigenous African producers has added to these retailers' "social capital". They have benefited from broadening their merchandising to appeal to socially conscious consumers who seek to purchase unique items that potentially benefit small producer groups.

### Tekura Benefits:

Despite Target's lack of repeat business, Tekura continues to benefit from their multiple buyer-relationships. Over the years, Tekura has learned how to:

- diversify their client portfolio,
- uncover new higher-value markets,
- acquire knowledge and expertise in improved production techniques,
- leverage their relationship in the marketplace to collaborate with competitors for large-order fulfillment,
- improve their ability to create innovative designs, and
- improve their overall competitiveness

## Strategies for Overcoming Risks

In order to position itself to survive the changes taking place in the market, Tekura took advantage of technical assistance provided by intermediaries to co-develop strategies that helped them overcome risks. These strategies included:

1. Improving production capacity- Learning how to adapt their production methods to the demands of international buyers was critical to their overall success in winning follow-on business
2. Reducing costs- as margins continued to decline, Tekura needed to adapt to new production techniques and input sources to lower their costs.
3. Continuously innovating design- In an effort improve their market position and increase margins, Tekura has continued to improve the designs of its home décor merchandise to appeal to different tastes.
4. Collaborating with competitors- Forming a joint venture with Fritete allowed Tekura to take advantage of the economies of scale necessary to complete their orders with Target.

5. Seeking new markets- Responding to the vacuum created by the loss of Target as a client in 2006, Tekura has learned to anticipate the sporadic buying habits from large 'big-box retailers' and now constantly seeks new clients in niche markets.

## Lessons Learned

Several lessons can be taken from the case of Tekura selling to 'big-box' retailers and boutiques.

- Intermediaries play a critical role in helping to establish buyer/supplier relationships. They provide foundational training on the market to suppliers, provide market links for both parties, and help identify or provide capacity builders along the production cycle. In this case, the facilitator also assisted in identifying sources of finance, and alternate inputs for production. As in the case of Belin Textiles, facilitators have a broader responsibility to ensure that their interaction within the buyer-supplier relationship is not disruptive, and that their matchmaking doesn't place an artificial reliance on external intervention. Facilitators can counteract the market's reliance on their matchmaking in the following ways:
  - Seek opportunities to build local the capacity of complementary firms that can provide fee-based services after intermediation projects end
  - Where applicable, adopt and encourage cluster strategies that enable entire sectors to benefit from shared knowledge, collaboration, and improved competitiveness.
  - Incorporate a work-force development strategy with the cluster strategy to encourage a broader skilled labor force for improved production capacities.
- Facilitators should also recognize their responsibility in aligning the incentives of the buyers, and suppliers with their own. This incentive matching is critical to establishing the expectation levels for all sides, while ensuring all parties view the relationships as 'win-win'.
- A need for trade finance exists in markets seeking to increase exports to developed countries. Larger buyers not only look for quality and consistency in the products it sources, but also large enough quantities to meet demand. In order to meet these high production standards, it is vitally important that suppliers have the ability to identify and acquire affordable and flexible financial instruments to ramp up. Each day a supplier spends seeking affordable finance mechanisms, is a day that cuts into their production schedules, and possibly hinders their potential for follow-on business.
- Distribution requirements for 'big box retailers' are typically overwhelming for small producers. Understanding the requirements for labeling, packaging, and shipping is vital to meet contractual obligations.
- Suppliers need access to timely information on the changes in global demand for their products. Without this information, producers are late in responding to the demand; lose competitive advantages and future business. If Tekura had access to widely available retail magazines from the United States, they would have learned that Target was changing the strategy of its Global Bazaars, and could have anticipated the change in demand from wooden figurines in 2005 to utilitarian home décor items (like woven baskets), in 2006.
- Continually innovating product designs allows producers to mitigate their risk of replication from lower cost providers, helps protect margins, and also establishes demand in new markets.