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The Ties that Bind: Case studies in making buyer-supplier relationships stick

Business Growth Initiative

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Contents

- Introduction and Context
 - Framework for buyer-supplier relationships
 - Rationale and Objectives for the research
- Case Studies
 - Ghana
 - Pakistan
 - Key messages from the Cases
- Wrap-up
 - Questions for donors and practitioners
 - Further research



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Why understand buyer-supplier relationships? Matchmaker, matchmaker...

- Emphasis on matchmaking and market linkages
- But, what happens after the first transaction is a success?



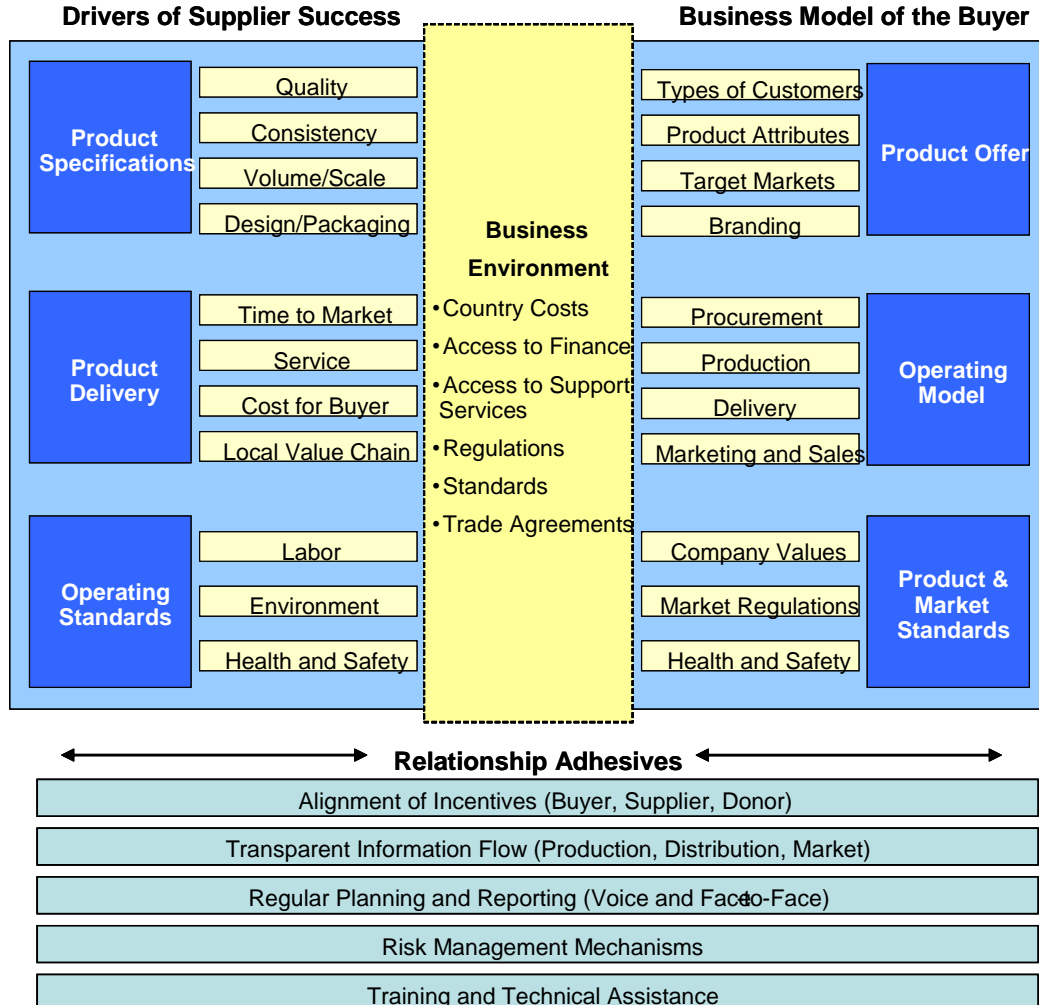
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Research objectives

- Identify critical factors that determine whether a buyer-supplier relationship will last
 - Draw out commonalities and best practices
 - Highlight strategies to mitigate buyer and seller risks
-
- 6 cases
 - Apply a consistent framework
 - Start a process of discussion, research and formulation of good practices



Buyer-Supplier Framework





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Accomplishments to date

- 6 cases: Brazil (Cosmetics), Ghana (Handicraft), Ghana (Apparel) Tanzania (Coffee), Rwanda (Coffee), Pakistan (Sporting Goods)
- Identified risks that need to be managed
- Lessons for producers/sellers, buyers, donors
- Topics that need to be explored more completely



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Ghana, Tekura Enterprises: The Story



- All the right conditions
 - Capable, Ghanaian Local entrepreneur
 - Good margins/ high demand
 - Large clients-Big box retailers
 - Scalability Opportunities
- But the market shifts...
 - Customer desires change
 - Margins squeezed
 - Shift in retail strategy



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The Role of Facilitation

- Market Linkages
- Technical support
 - Trade show preparation
 - Trade financing
 - Quality with Scale

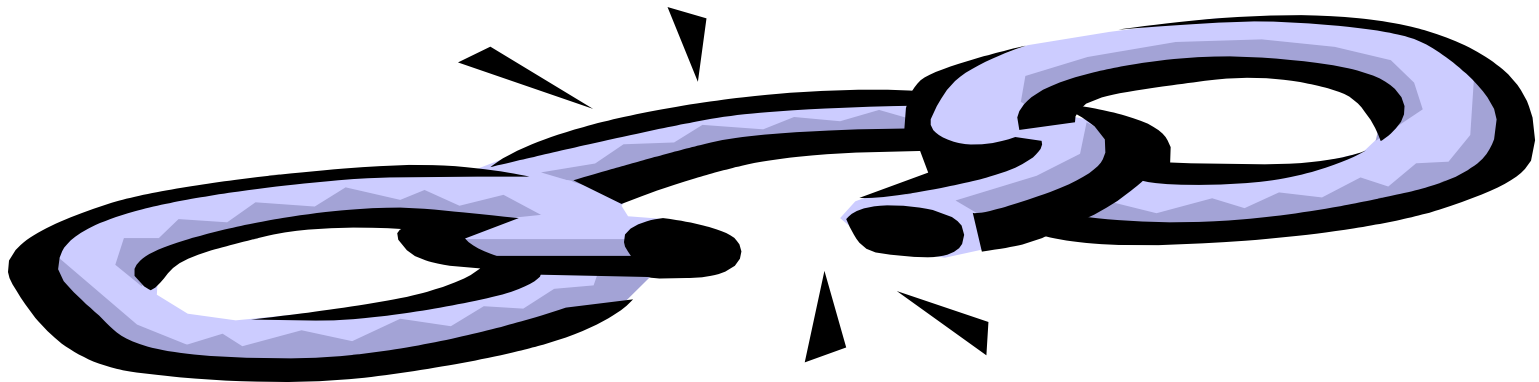




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Risks to buyer-supplier Relationships

- Poor expectations
- Market shifts
- Poor communication
- Standards
- Scalability?





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Some lessons...

- Timely access to information about market shifts
- Is Big Box Retail the answer?
 - Stringent requirements add costs/ timing to orders
 - Margins shrink
 - Introduces low-cost competition
- Product Design & Innovation
 - Mitigates Replication Risks
 - Protects Margins
 - Builds demand in new markets

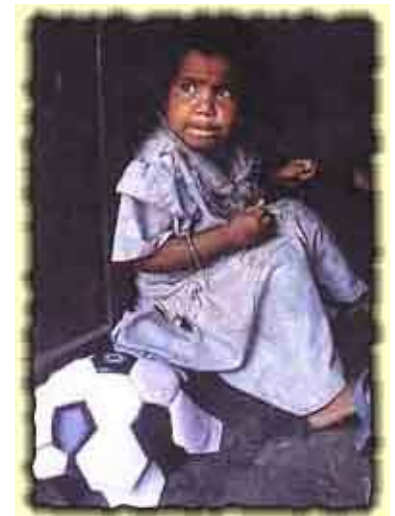




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Pakistan, Saga Sports: The Story

- A stable, mature relationship ...
- But a cottage industry that was “difficult” to monitor
- International and industry response to set higher standards and restructure the industry
- Shifts in production technology and a change of management leads to a relapse and an end to the relationship





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Role of facilitation: Atlanta Agreement, the best of intentions...



Role of facilitation

- Mediation and negotiation
- Monitoring and international standards
- Capacity-building
- Social support to the stitching communities

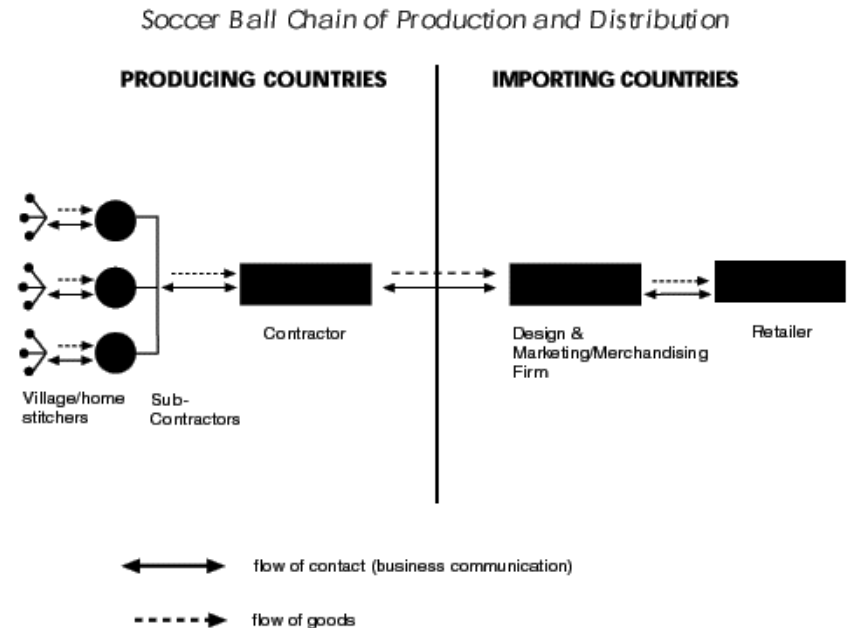


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Risks to the relationship

Risks to the relationship

- Global trends in standards and brand equity
- Enforcing standards in a subcontracted cottage industry with many jobs at stake
- Change in management
- Shifting production technology
 - From hand-stitched to machine



Source: US Department of Labor, 2007. www.dol.gov/ilab



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Some lessons...

- The cottage industry model:
 - low-cost production and access to streams of income
 - however, structure vulnerable to violations in standards
- When brand equity matters, align suppliers incentives with the value of the brand



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Key messages from the cases:

- Don't just meet product specifications, align with the buyer's business model
- “Relationship adhesives” increase probability that supplier is aligned with, and can adapt to, needs of buyer over time
 - Alignment of incentives
 - Transparent information flow on the market needs / production requirements
 - Regular planning and reporting
 - Risk management mechanisms
 - Training and technical assistance



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Key messages from the cases:

- Aligning incentives is particularly critical to making a relationship “stick”
- Understand the risks of relying on a cottage industry to serve an international market
- When standards matter, continuously seek a third opinion
- Donors: make the link and set the expectations



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Insights from reviewers

- Position the cases in a sustainability framework
 - Has firm level performance improved?
 - Has there been positive system level change?
 - Sustainability and exit strategies for supporters



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Questions to explore

- Best practices for sustainability: buyer-seller relationship, support services
- How will practices vary by type of product, country, buyer, seller?
- What do buyers look for to give them peace of mind?
- What distinguishes the suppliers that successfully meet the opportunities?
- Mitigating risks:
 - Build capacity
 - Find more buyers
 - Stay aware of changes in the buyer and marketplace
 - Understand the buyer's business model



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Questions to explore: Joint buyer-supplier perspective

- What risks need to be managed by both parties?
Strategies for managing them?
- How to develop mutual incentives to encourage the buyer and seller to invest in managing them?
- Does the buyer care?



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Immediate next steps

- Technical briefs
- Open forum for research and suggestions
- BGI as a vehicle for best practice dissemination



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