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THE TIES THAT BIND

CASE STUDIES IN MAKING BUYER-SUPPLIER RELATIONSHIPS LAST

RESEARCH REPORT



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The Ties that Bind Case Studies in Making Buyer-Supplier Relationships Last

RESEARCH REPORT

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Executive Summary and Findings

Determinants of a Successful Buyer-Supplier Relationship

Through six case studies and numerous interviews with international buyers, this research sought to develop an understanding of the determinants of a successful buyer-supplier relationship that lasts well after any external market linkage or subsidized support is offered. The case studies compile lessons learned across sectors and countries in how players can react to changing supply and market conditions. The emerging findings are:

Product specifications will get the supplier in the door, but an alignment with the buyer's business model will get an invitation to stay. The demonstrated ability of a supplier to meet product specifications at a competitive cost is enough to create a market linkage, but the sustainability of the buyer-supplier relationship requires more than just delivering a product at a given price. From the buyer's perspective, if a procurement decision is only based on cost, then as new supply options emerge, there will be a next cheaper supplier producing equal or better quality. To maintain its competitiveness, the supplier needs a full understanding of the buyer's business model, a comprehensive set of competencies to serve that business model and favorable conditions in the business environment.

"Relationship adhesives" increase the probability that the supplier is aligned with, and can adapt to, the needs of the buyer over time. A supplier can successfully meet an order one year and then fail the next. Market needs can, and do shift, product specifications change and time to market shrinks. The supplier continually faces the challenge of keeping up with the buyer and its end-market. The ability of the supplier to stay on top of the shifting needs of the buyer is largely determined by "relationship adhesives." The specific adhesives highlighted in this report include:

- Alignment of incentives
- Transparent information flow on the market needs / production requirements
- Regular planning and reporting
- Risk management mechanisms
- Training and technical assistance

Donors have a role to play in ensuring that these adhesives are in place and functioning well.

Aligning incentives among buyer, supplier and facilitator is particularly critical to making a relationship stick. Facilitators (donor and government) can play an important role in linking suppliers with buyers, coordinating technical assistance to increase supplier capacity, and exposing the supplier to dynamic market needs. However, it is also important for facilitators to weigh and understand the incentives that drive the relationships for all parties, including the incentives for the facilitators themselves.

Understand the risks of relying on a cottage industry, or group of informal micro-enterprises to serve an international market. For a supplier, subcontracting production with informal micro-enterprises can provide a low cost solution for basic production, but also can expose the buyer and the entire value chain to compromised quality and labor standards. Sustainable relationships require that these risks be fully understood and carefully managed.

When standards matter, continuously seek a third opinion. For relationships that require high quality and social responsibility standards, a third party to monitor the production and provide ongoing quality control based on specific, transparent criteria can be instrumental in keeping the supplier aligned with the buyer needs.

Successful relationships take time to establish and develop – donors have a role to play, both in making the linkage and in setting expectations. Buyers unfamiliar with a specific production and general business environment can underestimate how long a relationship will take to develop. **Donors and governments can play a role in both setting realistic expectations and building trust between the parties in the early stages of the relationship.**

The Cases

Brazil Uruku Pigment: AVEDA and the Yawanawa tribe

In Brazil, an indigenous tribe produces a pigment used by an international cosmetics company for its specialty product line. The relationship enabled the tribe to become economically independent and supplied the cosmetics company with a unique natural and organic product, but was heavily reliant on an unusual type of facilitator to solidify the buyer-supplier relationship. This case tracks the relationship between the Brazilian Yawanawa tribe that produces uruku pigment, and the United States-based personal care product and cosmetics company, Aveda Corporation. This international buyer-supplier relationship has enabled the Yawanawa tribe to become economically independent and has supplied Aveda with a unique natural and organic product for a specialty line of cosmetics. This case demonstrates the role of the market and non-market facilitators. In addition, the case highlights the importance of intermediaries and third-party quality control over local harvesting and production bound for high-end markets.

Tanzania Coffee: Peet's and Kilimanjaro

This case tracks the relationship between Tanzanian coffee farmers in the KILICAFE cooperative, the International NGO TechnoServe (through funding from USAID, USDA and Switzerland's Secretariat for Economic Affairs), and the United States-based specialty coffee company Peet's Coffee & Tea. This international buyer-supplier

relationship represented the first direct export of Tanzanian coffee after tax and export policies regarding coffee were changed by the Ministries of Agriculture and Finance to create a more globally competitive coffee industry. This case demonstrates the role that a non-market facilitator can play in supporting both the production and policy aspects to a relationship. The facilitator, Technoserve, enhanced the supplier's ability to meet and maintain high product quality, as well as worked with the government to encourage and create an enabling environment for long-run success. This case also demonstrates the importance of having a supplier maintain flexibility in delivering on quantity agreements over time.

Ghana Apparel: Wal-Mart and Belin Textiles

In Ghana, a textile manufacturer took advantage of duty-free zones and preferential trade agreements to export low-margin, low-cost garments to US buyers but required innovative product designs and product differentiation to establish repeat orders. This case tracks the relationship between a Ghanaian textile manufacturer (Belin Textiles) and end buyers in the United States. The case will highlight the benefits that suppliers potentially experience when taking advantage of preferential trade agreements for duty-free exporting. The case will also demonstrate that locating in duty-free zones is not enough to win business; suppliers must market themselves in the venues where their buyers seek them, like well known trade shows. Finally, the case will show that by continually innovating product design, and differentiating their products, suppliers have better chances for repeat orders and the possibility for longer-term supplier relationships.

Ghana Handicrafts: Target, MarMaxx, Pier 1, and Tekura Enterprises

In Ghana, a Ghanaian entrepreneur with local production expertise, a tested product portfolio, and a network of international buyers develops relationships with a number of 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 and risks suppliers can experience when doing business with big box retailers. The case reveals the importance of the supplier's ability to access timely end-market information in order to track changes in customer preferences and anticipate changes in the buyers' needs. In addition, this case explores the importance of pre-emptive and continual innovation of product design in order to mitigate the risk replication (copy-cat competition), help protect margins, and build demand in new markets.

Pakistan Sporting Goods Equipment: Nike and Saga Sports

In Pakistan, a sporting goods manufacturer supplied soccer balls for a global sporting goods company through a cottage-industry manufacturing model. However, the model ultimately left the supplier and its buyer vulnerable to violations of international labor standards. This case outlines the relationship between a Pakistan sporting goods manufacturer, Saga Sports, and Nike. The case illustrates how doing business with international brands requires an integration of processes and full adoption of international standards. Specifically, the case will explore the importance of institutionalized processes within the supplier and the need for the supplier to internalize the brand equity of its buyer and uphold end-market standards. The case will explore the difficulties of monitoring and enforcing production standards in cottage industries.

Rwanda Coffee: Starbucks and Local Producers

Prior to 2001, Rwanda was an unknown in the specialty/high-value coffee sector. Today, Rwanda is a sought-after market supplying specialty coffee to Starbucks and other

premium coffee buyers throughout Europe and the United States. The transformation is due to the combined efforts of the local producers, the Government of Rwanda, USAID donor projects, and international buyers. This case focuses on the role of the USAID donor projects in upgrading the quality of supply and then facilitating the initial linkage with international buyers. The case illustrates best-practice training and facilitation in preparing a product to meet international quality standards and attracting the interest of international buyers. Finally, the case highlights the continuing need to build the capacity of local suppliers in marketing and commercial relationship management.

What makes a relationship last?

Market linkages are top of mind for enterprise development practitioners. As communication channels extend, accessibility to market information expands, and regional and international trade channels open, it is easier than ever to link local suppliers in lower income countries to international buyers and markets. From the buyer's perspective, the promise of unique market value at lower cost is enough to catch their attention. From the supplier's perspective, the dream of penetrating a premium market at high volumes is enough to promise the impossible. From a donor or government perspective, the potential success story of linking a local producer to Walmart, Target, Peet's, or Aveda is enough to dedicate valuable public resources.

But then what? A satisfied buyer is more likely to invest in the relationship and the capabilities of its trusted suppliers. Over time, a close buyer-supplier relationship can even involve a transfer of higher value activities and responsibilities from the buyer to the supplier. Given the benefits of an extended relationship, once the initial link has been established and the international buyer has committed, what can be done to maximize the chances that the relationship is sustained after the first transaction and increasing returns to the relationship are captured by both parties?

The objective of this case study research is to understand in more depth the factors of success (and failure) and explore best practice in cultivating and sustaining export opportunities. This research explores the experience of various international buyers as well as suppliers in developing markets. This research is focused on the interface between a supplier in a lower income country with a regional or international buyer. While this research does not address the cascading relationships across an entire value chain, there are lessons for value chain analysts.

The buyer-supplier relationship can be analyzed from three perspectives: the buyer, the supplier, and the facilitating government / donor. There are a number of key questions for each party that this research begins to answer.

For international buyers:

- What distinguishes the suppliers that successfully meet the opportunities from those that fail?
- What do buyers look for to give them peace of mind that a supplier will be able to deliver on an order?
- What types of support mechanisms have been used by buyers to ensure that the suppliers deliver on the orders?

For the suppliers:

- What are the key issues that need to be managed to deliver on the quality and quantity requirements for an international order?
- Outside the product specifications and timing of the order, what else do they need to be managing?

- How can a one-time order be parlayed into a long-term relationship?

For the government / donor:

- What are the constructive roles that a government or donor can play in supporting export promotion at the firm and industry level?
- What strategies /support mechanisms have been used successfully to assist a firm in transforming the first contract into a sustainable relationship?
- How should the donor or government think about its exit strategy?

Based on case studies, interviews with international buyers, and supporting desktop research, this paper identifies critical factors that determine whether a buyer-supplier relationship will last past the first transaction. Relationships are inevitably case specific, depending on the specific region, sector, and management, among many other characteristics. By exploring a selection of cases across countries and sectors, this paper attempts to draw out the similarities and differences in the challenges for buyer/supplier relationships across sectors, types of buyers and countries. Finally, this research seeks to highlight innovative strategies for overcoming market expansion challenges and mitigating risk of both the supplier and the buyer.

As a collection of case studies and interviews, this research note is neither scientific nor exhaustive. It does not attempt to compile or analyze quantitative indicators. This note is an initial investigation into the determinants of lasting relationships and sustainable market linkages. As such, this work is not designed to be final nor conclusive; rather, it is designed to be the opening of a dialogue among practitioners about the topic.

Buyer – Supplier Relationships

The case studies and interviews conducted during this research have highlighted a range of key determinants in a successful buyer-supplier relationship. Figure 1 below represents the relationship: the market and management parameters that determine the buyer's business model, the dimensions along which suppliers need to deliver value, and the business environment conditions within which the relationship takes place. The closer the supplier can come to delivering value along each of the dimensions, the more likely the relationship will be seen as successful by the buyer.

However, a supplier can successfully meet an order one year and then fail the next. Market needs can, and do shift, product specifications change, time to market shrinks. The lifecycle of a commercial relationship can be characterized by five stages:

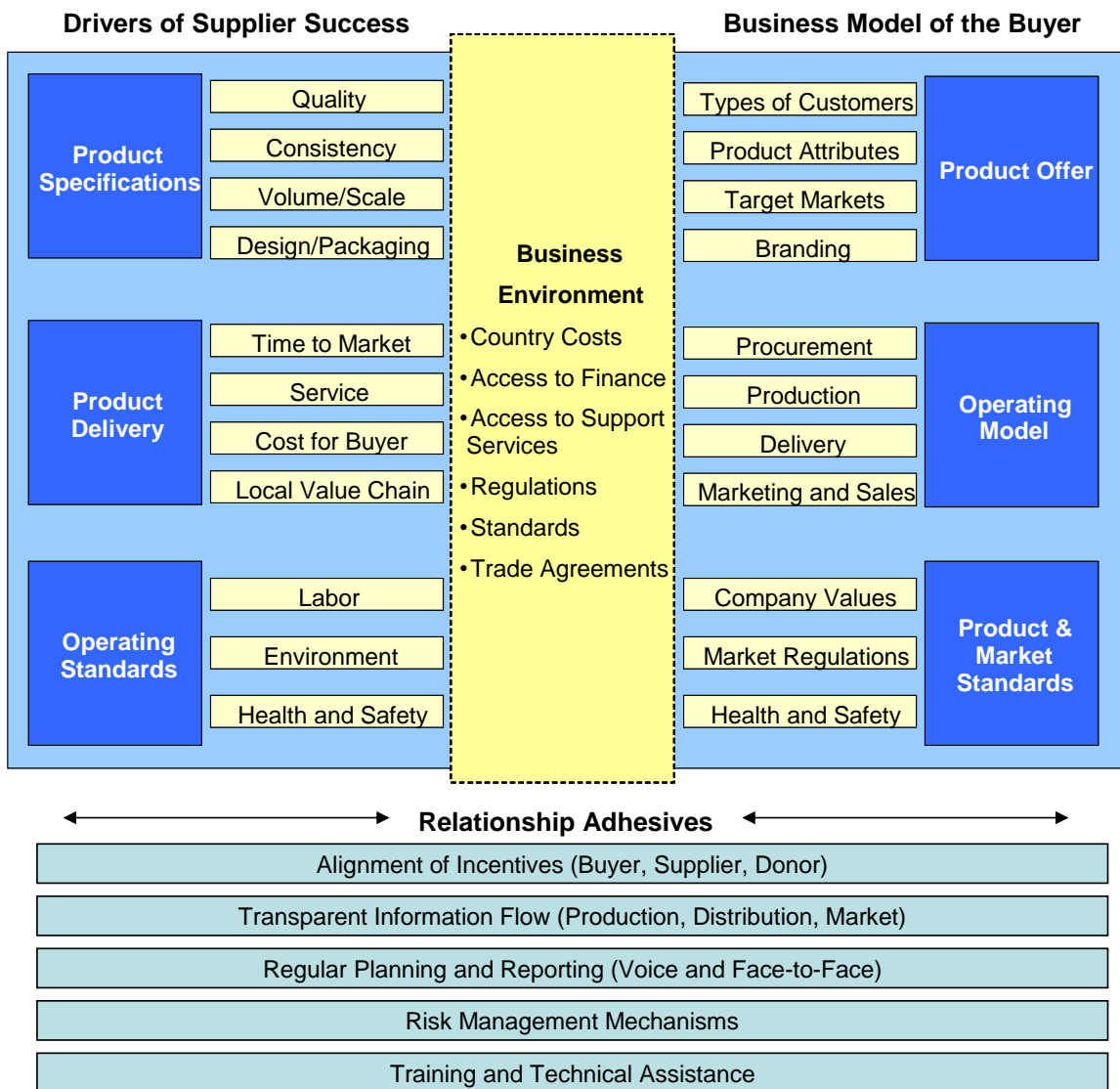
1. Upfront investment in the product and the relationship by both parties
2. Assumption of transactional risk and mitigation of risk
3. Creation and delivery of (product) value
4. Increase in number of transactions (assuming success in the marketplace)
5. Responses to shift in the market

After the first transaction, the supplier continually faces the challenge of keeping up with the buyer and its end-market. The ability of the supplier to stay on top of the shifting needs of the buyer is largely determined by "relationship adhesives." Relationship

adhesives essentially provide glue of the relationship to increase the probability that the supplier is aligned with, and can adapt to, the needs of the buyer over time. The buyer parameters, supplier drivers and relationship adhesives are described in more detail below.

When considering the buyer-supplier model below, it is important to note the positioning of the business environment. In most models and frameworks of private sector and enterprise development, the issues that define the business environment are generally considered as encompassing the relationships or transactions. In this case, the business environment is positioned directly in the middle of the transaction. The rationale being that a positive environment can directly enable a successful and sustained relationship while a negative environment can directly get in the way of the relationship.

Figure 1. Buyer-Supplier Relationship



Source: JE Austin Associates, 2007

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The Buyer Side of the Relationship

The basic framework used by all buyers when determining if and how to source from a specific supplier is largely common knowledge, but worth reiterating. It can be summarized in three questions:

1. Can a supplier meet the product requirements at a competitive cost for the end-market product offer?
2. Can the supplier deliver it on time, in full and without significant investment or cost to my business?
3. Can the supplier operate in a manner that meets the standards of my company and the markets it serves?

The end market ultimately shapes the business model of the international buyer. Competitive buyers are constantly questioning their offer:

- What type of customers will this product attract?
- What are the valuable attributes of this product?
- Are specific markets more attractive for this offer?
- Will the product attributes and customers in a specific market be strong enough to contribute to or build a brand over time?

For the international buyer, these are topics that are continuously in question. Market tastes are changing yearly, if not faster, and most buyers are already thinking one to two product cycles ahead. How the international buyer approaches each of the questions above is driven by two aspects of their business model: margin and scale.

Big box retailers such as Walmart, Target, and Marshalls are large scale, low margin businesses. Their product offer is driven by their ability to attract low-value customers on a large scale. Their operating model and product/market standards are ultimately tied to this model. On the other end of the spectrum is Aveda cosmetics – a low volume, high margin business, focused on delivering unique value at a premium price.

As Figure 1 highlights, the different business models of the international buyers will have differing demands on their supplier's product specifications, delivery and operating standards. For instance, volume and standardization of product is critical for Target. It needs enough products to stock its shelves, all with standard specifications. As a retailer, product brand is de-emphasized in favor of volume, price and time to market. It has limited incentive to invest in the capabilities of its suppliers. If one supplier cannot deliver, it will quickly move to another one that can. For Nike, the brand equity is a key driver of the market value. In the soccer ball market, once product specifications are met, there is limited additional product differentiation. The supplier's value to Nike is determined by its ability to balance low-cost production while still upholding the brand equity. By contrast, Aveda, Peet's and Starbucks business models are driven by the quality of their ingredients and communicating a sense of uniqueness to the market. A higher quality input from a unique location translates into a higher priced product. The ability of the supplier to understand and deliver the intrinsic value of their products to the

buyer and the end market is a key determinant of the long-run sustainability of a buyer-supplier relationship.

The way in which the buyers will behave in a given relationship will be largely driven by the shape of their business model. The strategies that they use for enabling the relationship will differ. Some of the strategies that buyers are using to enable the relationship discussed in the case studies include:

- Third party verification
- Sponsoring in house training
- Community development
- Market feedback
- Aligning the interests of the supplier to the brand, not just the product
- Joint ventures

The Supplier Side of the Relationship

In all six cases, the supplier is working from a position of weakness vis-à-vis its buyer. All too often, as in the Marmaxx case, the supplier underestimates the investment and time required to deliver a large-scale order, promises the impossible, and fails to meet the basic product specifications. In some cases, the buyer has yet to test the market itself, so a follow-on order will only occur if the buyer itself is successful. At the very least, the supplier has to rely entirely on the buyer for exact specifications and even specific technical assistance and investments. This occurred with Starbucks in Rwanda as well as Aveda in Brazil.

Yet, as the cases demonstrate, understanding the intrinsic value of the product to the buyer and developing a long-term relationship requires more than just consistently meeting product specifications. Product delivery and operating standards can be just as critical to the long-run value of the relationship to the buyer. As the Nike case demonstrates, failure by the supplier to effectively manage the local supply chain to international standards can compromise the relationship. Similarly, buyers will walk away from a relationship if the cost of managing it gets too high. As one buyer put it, “if there is too much hand-holding, at some point the benefits of the relationship no longer justify the costs.”

Apart from continually meeting product specifications, often under severe cost pressure, what can suppliers do to increase the probability of the relationship lasting? The cases considered in this research do not directly offer many solutions, but they do offer some clues. Suppliers can:

- Learn as much as possible about the buyer’s end market both to better serve the buyer, as well as to understand the market forces, enabling the supplier to either switch or sell to additional buyers, if feasible.
- Seek to increase the regularity and quality of information that is communicated from their buyers about conditions and trends in the market.
- Maximize the number of face-to-face interactions to ensure that the trust of the buyer is solid.

- Proactively communicate with buyers regarding the state of orders and any anticipated delays.
- Seek to pool supply and collaborate on orders that are too large for one supplier to handle alone.
- Organize the local value chain to align with the buyer's operating model.
- Work with the government and donors to solve constraints in the business environment.
- Continually seek to improve quality and innovate with and for the buyer.

The Role of Facilitators

Facilitators (government, donor, or individual) can play an important role in linking suppliers with buyers, coordinating technical assistance to increase supplier capacity, and exposing the supplier to dynamic market needs. However, it is important for facilitators to weigh, and understand the incentives that drive the relationships for all parties, including their own incentives. Facilitators must determine who their institutional incentives best align with and create programs that support them.

For example, some facilitators are driven by short-term transactional models, which celebrate large orders. In these instances, there is sometimes a tendency to pursue supplier relationships with 'big box' retailers or large international buyers. While linking suppliers to large retailers typically translate into large volume orders and associated dollar values, the transactions don't always provide the corresponding benefits to producers. For instance, larger retailers are not so interested in product uniqueness, artisan originality and country of origin as smaller boutiques. Large retailers are interested in hand-made products, but with machine-made construction characteristics – each piece is identical to the last. This allows them to stock their shelves with a consistent product that consumers come to expect. Production requirements in this model are very difficult for producers in developing countries to adhere to, and at times require significant technical assistance to meet the rigorous demands of a buyer. Learning how to produce at these high volumes, while learning about the packaging, labeling and shipping requirements to export to other countries also takes time and resources to acquire.

Likewise, larger retailers are driven by pricing models that do not provide incentives to suppliers for uniqueness in design and quality. Prices are negotiated to the thinnest of margins, leaving little for producers to reinvest for future growth. So, while there may be a short-term gain for landing a contract with a large retailer, and there is a short-term benefit in learning how to export to that buyer, the lower margins, and lack of strength in the buyer/supplier relationship do not always present the best long-term strategy for success to those suppliers. In fact, these relationships typically put the supplier at risk of relying too heavily on one buyer for their company's overall success, and if for any reason the buyer discontinues the relationship, the supplier suffers. Facilitators can help mitigate that risk by helping suppliers understand the incentives and market drivers of their buyers. They can also support suppliers by helping them create market-positioning strategies that anticipate future market opportunities. Not all suppliers will benefit from winning large contracts with retailers.

Other facilitators focus on very high-value products that end up sourced only in very high-end markets. While these transactions command higher prices and profits to the supplier, the model does not scale well enough for broader impact in developing countries as there are not enough highly skilled artisans to participate in the supplier/buyer relationships on a larger scale. Facilitators play a critical role in helping suppliers understand the risk/reward associated with these differing strategies.

Whether they are working with suppliers of large scale retailers or boutiques, donor officers have a role to play in ensuring that the relationship adhesives in figure 1 are in place and functioning well. However, not all facilitation is good. If designed in the wrong way, a donor-driven market linkage can result in donor dependence or worse, a distortion in the market and an inefficient misallocation of scarce investment resources. The six cases highlight a number of design principles for donors that are considering a market linkage intervention:

- Understand and align incentives among buyer, supplier and facilitator. Buyers often do not understand the production capacities and business environment of a particular country and so structure orders and contracts that are not aligned with local conditions. Similarly, suppliers rarely understand the end-market needs and trends for their products and so are not fully aware of the buyer's business model. The donor, as a facilitator, is uniquely positioned to bridge this gap, if it exists.
- Foster a buyer-supplier relationship in which the buyer is transferring end-market information directly to the supplier on a regular basis. Buyers often fail to communicate end market needs back to their suppliers, and deal with their suppliers on a "need to know" basis. Again, the donor is well-positioned to foster a more open relationship.
- Support open, transparent and regular planning / reporting between buyer and supplier. Suppliers can be too ambitious in their production promises. Regular reporting is critical to building and preserving trust with international buyers.
- Build the capacity of the supplier in customer relationship management (CRM) skills. Current market linkage projects invest in production upgrading and creating the initial linkage, but stop short of providing extended support in learning how to manage the relationship. CRM tools and techniques can be instrumental in ensuring a supplier is able to stay connected to its buyer over time.
- Establish clear and transparent criteria and support third party quality control and certification agents in sectors which require high quality and social responsibility standards.
- Support suppliers in understanding the risk/reward associated with different market penetration strategies
- Know the exit strategy before intervening. When designing a market linkage intervention, the following three questions can ensure that the appropriate exit strategy is adopted:
 - Does the market provide incentives for either party (supplier or buyer) to take over the market linkage or facilitation activities over time?
 - If neither party is likely to play the role of the facilitator, then is there a market for an independent third party to provide sustainable fee based services?
 - If there is no market for fee-based services, then is there a credible rationale for temporarily subsidizing the market (e.g., market failure)?

Areas of Future Research

This research identified factors that determine the long-run success of an international buyer-supplier relationship. In turning the issues raised here into practical strategies and actions, a number of topics may deserve more focused research. Areas of follow-on research include:

- Techniques for understanding and aligning commercial incentives in a buyer-supplier relationship
- Effectiveness of third party certification and verification processes: what are the characteristics of successful certification processes?
- Specific needs for different types of suppliers: expand the case studies to understand how the facilitation needs of each supplier differ by size, type of business, market, etc.
- Circumstances in which MSEs can take part in international value chains, and conditions in which the environment and market dynamics create obstacles for MSE participation
- Facilitation and risk management: what are the right and wrong ways for a facilitator to assist the supplier in managing the risk of the relationship?
- Beyond the contract:
 - How can initial agreements be structured to maximize the chances that the relationship will work and hold up over time?
 - How can an agreement be structured to maximize the building of the supplier's capability?
 - How does success in the first relationship contribute to the ability of the supplier to other buyers in the future?

Case Studies

Brazilian Uruku – Aveda

This case tracks the relationship between the Brazilian Yawanawa tribe who produce uruku pigment, and the United States based personal care product and cosmetics company Aveda Corporation. This international buyer-supplier relationship has enabled the Yawanawa tribe to become economically independent, and has supplied Aveda with a unique natural and organic product for a specialty line of cosmetics. This case demonstrates the importance of buyer and supplier initiative, the unique opportunity for rare indigenous products, as well as the need for mutual benefit of all parties involved. This case also demonstrates the need for commitment on behalf both the buyer and supplier to see a relationship through difficult times.

Origins and Nature of the Buyer-Supplier Relationship

The Yawanawa tribe lives on the banks of the Gregorio River in Acre State on the western edge of Brazil's Amazon rainforest. The tribe is one of the oldest indigenous groups in Brazil and has approximately 1000 members. For years the Yawanawa have struggled to maintain their customs and independence despite the invasion of rubber developers and Protestant missionaries. After Chief Bira was elected in 1987, a renewed drive to create economic growth apart from the rubber developers began, and with this drive came the reemergence of production of an indigenous tree - the urukum tree. In 1992 the community formed an Organization to formalize leadership and serve as a representative body called Organizacao dos Agricultores e Extractivistas Yawanawa do Rio Gregorio (OAEYRG).

Aveda is a personal care product and cosmetics company based on the art and science of pure flower and plant essences that fulfill the brand's mission of environmental sustainability. In the early 1990s, Aveda chemists discovered that a rainforest plant called *Bixa orellana*, commonly known as uruku, contained a pigment that would be optimal for lipstick coloration. Uruku was considered ideal for Aveda because it is a natural pigment which provides deep, earthy tones that are desired by Aveda's consumers. Peter Matravers, VP of Aveda Research and Development describes the company's development strategy as "based on a commitment to replace petrochemical and synthetic ingredients by using renewable resources – organically grown or wild harvested, free of petrochemicals, synthetic fertilizers and herbicides...We try to form partnerships with sources to develop organic material grown in conditions that conserve biodiversity."¹

At the June 1992 United Nations Conference on Environment and Development ("Earth Summit") in Rio de Janeiro, Chief Bira, Aveda founder Horst Rechelbacher, and Brazilian anthropologist May Waddington made contact in order to discuss the Yawanawa urukum production. In 1993, Mr. Rechelbacher and Ms. Waddington visited

¹ Kerry ten Kate and Sara Laird, *The Commercial Use of Biodiversity: Access to Genetic Resources and Benefit-Sharing*, Earthscan Publications, London, 1999.

the tribe and started a partnership to create an urukum plantation cultivated by the Yawanawa to provide Aveda with organic urukum pigment for the production of cosmetics. Aveda provided a loan to the Yawanawa to provide for start-up costs including 13,000 seedlings to be planted in groves, between houses, along paths, and in the deforested areas of the community.² The loan, worth \$50,000, was negotiated to be paid back through a reduction in price paid by Aveda for the finished product (Aveda agreed to pay twice the local market price, and then negotiated a reduction of 20% in order to cover the cost of the loan over time). In addition, Aveda also committed an investment of US \$25,000 per year between 1993 and 1997 in order to build infrastructure and capacity for a long-term partnership.

Almost immediately the project faced stumbling blocks. The humidity in the forest prevented the product from drying properly, which led to Aveda receiving shipment upon shipment of bacteria-infested uruku. After experiencing quality issues working with the Yawanawa directly, Aveda decided to contract a firm in Sao Paulo called Formil/Flora Brasil to process and standardize the product before shipping it to the United States. Adding this extra “local” step in the distribution, though of no direct monetary benefit to Aveda, provided a method to ensure quality prior to shipment. In addition, in the mid-1990s there was a malaria outbreak in the region. Aveda responded to these and other problems throughout the mid-1990s by building a health center, putting in panels for solar energy, building a school and investing in a special seed drying system for the tribe to use. May Waddington, the Brazilian anthropologist working with Aveda, has indicated that it took six years for this project to really materialize, instead of the originally planned two years.³

| Challenge | Response | Cost⁴ |
|--|---|----------------------------------|
| Lack of planting and production capabilities to form partnership | Initial loan to OAEYRG to be paid back through a reduction in price paid by Aveda | US \$50,000 (re-paid over time) |
| Humid conditions led to improperly dried seeds and bacteria in international shipments | Invest in solar energy panels and other infrastructure | US \$25,000 per year (1993-1997) |
| | Install special drying machinery | US \$15,600 |
| Product was not certified organic for US market | Invest in organic certification inspection process | US \$5,000 |
| Local malaria outbreak impeding worker productivity | Invest in local health center with malaria screening capacity | US \$37,000 |
| Desire for greater community development | Invest in building local school and regional OAEYRG office | US \$25,000 per year (1993-1997) |
| | Expand solar energy to residents | US \$16,500 |

² <http://aveda.aveda.com/protect/we/uruku.asp>

³ Miriam Jordan: “From the Amazon to Your Armrest - Daimler, Hermes and Aveda Find Rain Forest Products Help Farmers, Save Trees”, Wall Street Journal, May 1, 2001.

⁴ May Waddington and Sara Laird, “The production and marketing of a species in the ‘public domain’: the Yawanawa and Aveda Corporation Bixa orellana Project, Brazil” in *The Commercial Use of Biodiversity*.

Role of Outside Support / Facilitation

May Waddington was hired as an Aveda resource specialist based in Brazil to explore opportunities for environmentally sustainable products for the company. Waddington was an acquaintance of Chief Bira of the Yawanawa tribe because of her previous involvement in the indigenous rights movement in Brazil as an anthropologist. She provided a unique and timely connection for Aveda because she knew Chief Bira was attempting to reinvigorate his tribe's economic independence based on the urukum plant, and she knew that this plant was the type of product in which Aveda could have interest. Ms. Waddington understood both the culture of Aveda and the Yawanawa peoples' culture, and was able to take advantage of that in order to act as a highly effective communicator for the partnership.

Costs and Benefits of the Buyer-Supplier Relationship

Aveda Costs:

- Aveda had planned for the relationship to be functional and profitable within two years, but ultimately had to wait approximately six years for this to occur.
- Aveda opted to make unexpected investments (approximately US \$75,000) such as additional equipment and health facilities based on initial failures; while the company was not opposed to making these investments, they were unanticipated.

Yawanawa Costs:

- Drying machinery and expanded solar power are modern-day intrusions that have been introduced to the otherwise pure and isolated Yawanawa environment.
- The relationship with Aveda has turned into a functioning modern-day business, a concept otherwise foreign to the subsistence way-of-life of the Yawanawa.

Aveda Benefits:

- Aveda's research chemists have used the urukum pigment to create superior lip and eye cosmetics; they have also explored the possibility of using uruku in hair color and shampoo/conditioner products.
- Aveda has found a superior product which satisfies the brand's strict qualifications regarding environmental sustainability; the environmentally pure and indigenous nature of the product aligns with the desires of Aveda's customer base.
- Aveda receives a guaranteed flow of the unique product due to the terms of the negotiated partnership.
- The product line did so well in the late 1990s that Aveda expanded the Uruku line in spring 2003 to include 12 additional shades; the line also expanded from just lip and eye color to include cheek color.

Yawanawa Benefits:

- Economic success has earned the tribe respect locally and internationally, and it has renewed pride in its traditional culture. This renewed pride has led many members to return to the tribe, so population has increased since the partnership began.
- The partnership continues to create jobs and a means of cultural survival for the community, while also preserving the beauty of the land from the threat of loggers and rubber-tappers.
- The Yawanawa gained organic certification for their product which positions the community for further international partnerships.

- As production increased, the Yawanawa sought other outlets for sale and formed partnerships with companies in Sao Paolo to process the urukum for other uses such as dyes in food products.
- Although the community is operating a modern business, the group has maintained traditional methods of distributing the benefits amongst its members; overall control of the economy and economic prosperity has increased.

Strategies for Overcoming Risks

The main strategy for overcoming the risks involved in this case was the expressed and continued commitment on behalf of both the Aveda Corporation and the Yawanawa tribe. The Yawanawa were clearly committed to the project as this was viewed as the opportunity to gain economic autonomy through an indigenous product. Aveda was committed to this project because the product satisfied the stringent quality and environmental sustainability company regulations. The persistence on behalf the Yawanawa and the continued investment by Aveda to overcome obstacles were both key ingredients in ultimately creating this successful relationship.

Lessons Learned

- The desire of the Yawanawa people to regain economic independence, as well as the desire of Aveda to obtain indigenous and environmentally sustainable inputs for the company's products created mutually reinforcing incentives which materialized with the impetus provided by May Waddington.
- May Waddington's role is an example of how a non-market facilitator, can play a key role in facilitating and solidifying a commercial relationship in its early stages.
- The contracting of Formil/Flora Brasil illustrates a sound value chain approach. Aveda recognized that many of the quality control and finishing activities were beyond the current capabilities of the Yawanawa. Rather than attempt to build those capabilities, and potentially compromise the relationship, Aveda decided to contract a third party to play the dual role of packaging and quality control.

Tanzanian Specialty Coffee – Peet’s Coffee and Tea

This case tracks the relationship between Tanzanian coffee farmers in the KILICAFE cooperative, the International NGO TechnoServe (through funding from USAID, USDA and Switzerland’s Secretariat for Economic Affairs), and the United States based specialty coffee company Peet’s Coffee & Tea. This international buyer-supplier relationship represented the first direct export of Tanzanian coffee after tax and export policies regarding coffee were changed by the Ministries of Agriculture and Finance to create a more globally competitive coffee industry. This case demonstrates the importance of high product quality, intermediary facilitation, as well as government encouragement and the creation of an enabling environment for success in an international buyer-supplier relationship. This case also demonstrates the importance of flexibility of a supplier to deliver on quantity agreements over time.

Origins and Nature of the Buyer-Supplier Relationship

Following a value chain assessment in 1998 and through a project continuing to this day, TechnoServe has been working to make Tanzanian coffee globally competitive in order to benefit small-scale farmers, their families and rural coffee-growing communities. TechnoServe has also served as a conduit between local Tanzanian farmers/cooperatives and international coffee buyers. The connection between Peet’s Coffee & Tea and TechnoServe can be traced back to Jerry Baldwin, a coffee expert for TechnoServe who is former Chairman of the Board at Peet’s. Mr. Baldwin provided advice to Tanzanian farmers on trips in 2001 and 2002 on how to earn higher prices (despite the global coffee price decline) by improving quality and understanding the needs of the specialty coffee market. In 2003, Jim Reynolds, a Peet’s roastmaster emeritus, visited the growing Tanzanian facilities in order to assess the industry and quality of the product. Because Mr. Reynolds was so impressed with the quality of the facilities and the final product, Peet’s began negotiating a deal with KILICAFE, the Association of Kilimanjaro Specialty Coffee Growers, for a sale in 2004.

Before 2004, the Tanzanian government controlled all coffee exports through a government owned and operated auction. The auction did not sort or control the beans for quality, and farmers and processors were therefore not rewarded for quality through the prices they received. A benchmarking study funded by USAID compared Tanzanian policies to those in Costa Rica, Ethiopia, Guatemala, Kenya, and Uganda. This study led to a realization of policies which impeded global competitiveness in the coffee industry. After much lobbying by KILICAFE, and other key stakeholders, the coffee industry regulations were changed in October 2003. For the first time, specialty coffee producers had the option to bypass the government auction and sell directly to roasters. This increased producer control and accountability in negotiations with international buyers. In March 2004 KILICAFE made their first direct export sale to Peet’s; this sale consisted of 176 bags (23,280 pounds) of Tanzanian specialty coffee.⁵ This sale allowed the farmers of the cooperative to earn a price 150% greater than the other growers in their area, and it allowed Peet’s to produce a specialty “Africa Blend” in 2004 and later a limited-edition specialty roast called “Tanzania Kilimanjaro” in 2005.

⁵ http://www.technoserve.org/news/AKSCG_TZ.htm

Peet's still maintains a relationship with KILICAFE and continues to buy specialty Tanzanian beans. The publicity provided by the relationship between Peet's and KILICAFE has allowed for the KILICAFE cooperative to grow, and for the group to develop more international buyer relationships. By 2005, in addition to Peet's, KILICAFE had sold its product to VolCafe, Gepa Fairtrade, Lister & Beisler, and Starbucks Coffee.

Role of Outside Support / Facilitation

The role of TechnoServe in facilitating the relationship between Peet's and KILICAFE was vital to the project. The 1998 value chain assessment conducted by TechnoServe was the impetus for external aid to become involved in the industry revitalization. TechnoServe's technical assistance in Tanzanian coffee production led to the increasing quality of the product in order for it to be competitive in the specialty market. Also, the lobbying of the national government that was so critical in effecting change of uncompetitive tax and export policies was supported by TechnoServe. The opportune connection that was created by Jerry Baldwin as a coffee expert with TechnoServe, and former Chairman of the Board at Peet's was essential for the success of the relationship. From the first steps of improving farming processes, to the final steps of exporting a finished product, TechnoServe was essential in forging the successful relationship between KILICAFE and Peet's.

Costs and Benefits of the Buyer-Supplier Relationship

Peet's Costs:

- Peet's invested a great deal of time in developing this relationship with the involvement of both Jerry Baldwin and Jim Reynolds; while interaction began in 2001 it was not until 2004 that Peet's purchased from the growers.

KILICAFE's Costs:

- While demand increased as more buyer relationships were created, this did not directly lead to more output and income per farmer; increased demand has caused the cooperative to grow and more farmers now participate in KILICAFE.

Peet's Benefits:

- With KILICAFE's product, Peet's was able to produce an "Africa Blend" variety and a limited-edition "Tanzania Kilimanjaro" variety of highest quality.
- Peet's was able to advertise this relationship as an act of corporate social responsibility and a good business practice as it greatly benefited the small coffee farmers and their families in Tanzania, and provided a superior product.

KILICAFE's Benefits:

- The first sale to Peet's yielded prices 150% greater than the prices yielded by other local farmers.
- Publicity earned from the sale with Peet's led other buyers to have interest in and ultimately buying from KILICAFE.

Strategies for Overcoming Risks

In order to ensure that the product would be of highest quality, Peet's was involved in advising and monitoring the revitalization of the coffee industry under TechnoServe's charge. In this manner, Peet's was able to help form the quality standards before agreeing to a contract committing to buy a certain amount of the product. This also put Peet's in a situation to be the first buyer of the Tanzanian product and thus take advantage of being the first to sell those specialty beans in the United States.

While KILICAFE was excited and appreciative of the initial purchase by Peet's, the cooperative wanted to make sure that the relationship with Peet's was not the only relationship the cooperative was able to develop. Through an understanding with Peet's and a marketing push from TechnoServe, Peet's and KILICAFE, the cooperative was able to use the success of the Peet's relationship as a PR tactic to entice other buyers.

Lessons Learned

- TechnoServe's holistic assistance, from beginning to end, helped bridge the gaps between the farmers, the cooperative, the government, and the buyers.
- However, Technoserve's direct assistance to the coffee value chain would have been muted without the unlocking of the enabling environment. Even if a buyer and a supplier have aligned incentives, the business environment and policies created by the government can make or break the ability to have a successful relationship.
- Finally, the flexibility of KILICAFE to increase its membership in order to meet an increase in demand for its product was vital to maintaining the initial relationships and expanding its market with the creation of new relationships.

Ghana Scentless Hunting Attire to Walmart

This case tracks the relationship between a Ghanaian textile manufacturer (Belin Textiles) and end buyers in the United States. The case will highlight the benefits suppliers potentially experience when taking advantage of preferential trade agreements for duty-free exporting. The case will also demonstrate that locating in duty-free zones, is not enough to win business, suppliers must market themselves in the venues where their buyers seek them, like well known trade shows. Finally, the case will show that by continually innovating product design, and differentiating their products, suppliers have better chances for repeat orders, and the possibility for longer-term supplier relationships.

Origins and Nature of the Buyer-Supplier Relationship

Belin Textiles is the brainchild of Berty Fong, a Mauritius businessman that decided to move his textile manufacturing plant to Ghana in order to take advantage of incentives found under the African Growth and Opportunities Act (AGOA)⁶. AGOA offers tangible incentives for African countries to continue their efforts to open their economies and build free markets by extending them duty-free access for more than 6,400 products eligible for export to the United States. AGOA also provides the framework for U.S. technical assistance to build trade capacity and to expand business links.

In response to the passing of AGOA, the President of Ghana, Mr. John Agyekum Kufuor, launched the 'Presidential Special Initiative' (PSI) intended to benefit from AGOA and spark public-private sector partnerships, investment, new businesses and job creation. Under PSI a focus was placed on two sectors, exporting starch that was extracted from cassava, and exporting garments and textiles to U.S. markets. It was hoped that the garment and textiles sector would create 70,000 jobs with export revenues of \$3.4 million in four years.

Seeing an opportunity to profit from AGOA and PSI, Mr. Fong decided to relocate from Mauritius to Ghana. He brought machinery from Mauritius, found a local entrepreneur (Mr. Robert Paapa Cudjoe) to partner with and opened a 20,000 square foot factory, which employed 150 workers and had a production capacity of 100,000 garments per month. In 2003, Belin Textiles was the first textile manufacturer to locate in Accra under AGOA and PSI.

Soon after opening, Belin Textiles sought the assistance of international donors such as the Danish International Development Agency (DANIDA), and the USAID-funded West Africa Trade Hub (WATH) to assist them in landing contracts with British and American retailers. By August of that year, their success enabled them to begin manufacturing low-cost t-shirts at a rate of 3,000 per day for their global clients. Unfortunately, this quantity amounted to only half of Belin's expected production requirement for those orders. Seeking to improve its competitiveness, Belin again relied on technical assistance to overcome its operational inefficiencies, and find new markets.

⁶ AGOA is a United States act that was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000

Through that assistance, Belin Textiles not only improved its production capacity, but also landed a trial contract in 2004 with Walmart to manufacture t-shirts equaling USD100,000. Successfully meeting the demands of the order, in February 2005, Belin executives attended the ASAP Global Sourcing Show in Las Vegas Nevada, USA and impressed Walmart buyers enough to win three more orders of t-shirts totaling USD246,000. Mr. Fong believes it was his presence at the show that allowed him to solidify his sales to Walmart. According to Fong, “There’s just no substitute for face-to-face contact. We were able to explain more clearly our operations in Africa, and the advantages afforded by AGOA, which built confidence”⁷

The relationship and follow-on orders paid off for Belin Textiles. They shipped six containers of t-shirts, to Walmart in 2005. After attending yet another ASAP Global Sourcing Show in 2006, Belin won a more lucrative contract with Walmart. This time, instead of low-cost t-shirts, they manufactured and supplied unique scent-less hunting apparel to Robinson Outdoors, which in turn sells to Walmart. Today, in addition to manufacturing and selling 70,000 t-shirts a month, Belin Textiles still supplies Robinson Outdoors with scentless hunting apparel.

Role of Outside Support / Facilitation

International donors and donor sponsored intermediaries played a critical role in helping Belin Textiles improve its production capacity, market themselves to larger global retailers, and differentiate their product lines with innovative designs. In particular, the USAID-funded West African Trade Hub (WATH), provided the following technical assistance:

- Trade Show preparation. In addition to sponsoring the booth for the ASAP Global Sourcing Shows, WATH also trained Belin in customer relationship management, and client interaction tactics.
- AGOA education and support. Though Mr. Fong was aware of the potential benefits of AGOA, he was able to better educate himself through information and training sessions coordinated by WATH.
- Production capacity building. When Belin Textiles suffered from inefficiencies in their production cycles which led to them not fully able to complete orders, WATH provided technical advisors skilled in garment manufacturing to help Belin identify areas of improvement.

Costs and Benefits of the Buyer-Supplier Relationship

Robinson Outdoors and Walmart Costs:

It is unclear whether the buyers traveled to Ghana to inspect Belin’s facilities before placing orders with the firm. There was an expense incurred to travel to the U.S.-based trade shows, but this cost was minimal for the buyers.

Belin Textiles Costs:

In addition to the travel-related costs Belin incurred attending the various ASAP Global Sourcing Shows, the manufacturer also incurred expenses in upgrading its production plant to meet the quantity and quality demands of its buyers.

Robinson Outdoors and Walmart Benefits:

⁷ AGOA Forum 2005

Both Walmart and Robinson Outdoors have benefited from their relationship with Belin Textiles by being able to diversify their sources of low cost apparel manufacturers. In particular, Robinson Outdoors has been able to reduce its operating expenses and increase margins by sourcing from Belin Textiles, and selling the garments manufactured there to Walmart.

Belin Textiles Benefits:

Belin has benefited from their relationship with Robinson Outdoors and Walmart by earning an international reputation as a quality apparel manufacturer. Walmart provides Belin a growing business partner with the best name in global retailing. Belin's transactions with Walmart have given them credibility and opportunities to pursue higher-value sourcing relationships with other international buyers

Strategies for Overcoming Risks

Both supplier and buyer had to face and overcome some risk for doing business. For the supplier, their main strategy was to rely on the technical assistance of others to help them overcome operational, and marketing challenges. Additionally, Belin realized that it was a significant risk, (and cost) to attend the ASAP Global Sourcing Shows in the USA without the promise of orders. However, they recognized that the risk of not going, and making personal contact with their buyers outweighed the cost of going. For Belin, the risk paid off.

The buyers also had risks to overcome. Not having traveled to Ghana, nor having a sense for the capacity of Belin, these buyers tested Belin's capabilities through trial orders. At first, Belin was not able to meet the production demands of the buyers, but over time, once Belin's production capacity and quality increased, buyers were more willing to source higher quantities from them.

Lessons Learned

There are four key lessons that can be taken from the case of Belin Textiles sourcing garments to Walmart

- Duty free agreements, like the African Growth and Opportunities Act are very effective in setting the environment that fosters foreign direct investment and business creation.
- Client interaction, preferably face-to-face client interaction, is very effective in helping to build relationships, and establish trust between supplier and buyer. In this instance, the attendance in global trade shows is critical to build credibility, and brand awareness to buyers who otherwise have no awareness of new suppliers.
- Product improvement and differentiation helps suppliers set their products apart from others, and create a value proposition greater than 'price' for their buyers. For Belin, diversifying their production capabilities from low-cost t-shirts to higher value hunting apparel allowed them to create a niche market not easily replicable by other firms.
- The role of the facilitator cannot be overlooked. In fact, as in many cases, it is the facilitator that functions as the bridge, technical assistance provider, and broker for initial transactions between supplier and buyer. Despite this critical matchmaking role, 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

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.⁸ 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,

⁸ Duff, Mike "Target's Global Bazaar Back for 2007" [DSN Retailing Today](#), 22 Nov. 2006

- 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.

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.

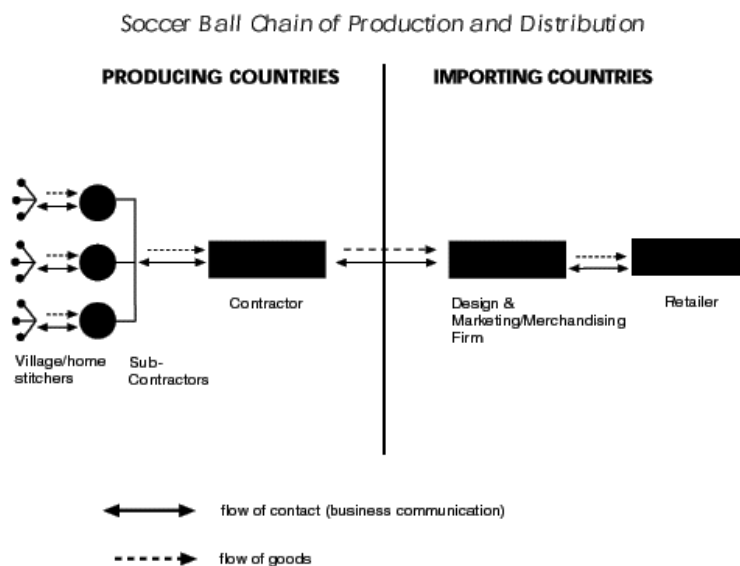
- Continually innovating product designs allows producers to mitigate their risk of replication from lower cost providers, helps protect margins, and also establishes demand in new markets.

Pakistan Sporting Goods – Saga Sports and Nike

This case outlines the relationship between a Pakistan sporting goods manufacturer, Saga Sports and Nike. The case will illustrate how doing business with international brands requires an integration of processes and full adoption of international standards. Specifically, the case will explore the importance of institutionalized processes within the supplier and the need for the supplier to internalize the brand equity of its buyer and uphold end-market standards. The case will explore the difficulties of monitoring and enforcing production standards in cottage industries.

Origins and Nature of the Buyer-Supplier Relationship

Sialkot is the soccer ball capital of the world. At its height in the mid-1990s, nearly 80% of the world's soccer balls were stamped with "made in Pakistan" and were, in fact, made in Sialkot. All of the major brands had operations in Sialkot including Nike, Adidas and Puma. Up until that time, the industry functioned as a cottage industry. The production was managed in the city of Sialkot where the main factories would print and cut the material. The material was then given to subcontractors who would serve as an intermediary to villages and homes, delivering the materials and paying the homes on a per piece basis. The subcontractors would then return the balls to the Pakistani contractor to be packed and shipped. The industry structure took advantage of the widely available cheap labor – representing an estimated 40,000 workers, but also was vulnerable to child labor practices.



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

In the mid-1990s, child labor in the soccer ball industry in Sialkot was brought to the world's attention through pictures published in Life Magazine and subsequent demonstrations at the 1996 European Championship. While the allegations extended across all the brands, the Nike brand was pictured in the Life expose. This occurred at the same time as other allegations of labor violations in other countries for Nike.

In response to the violations, Nike, and the other brands, worked with the international community and the local suppliers to set in place an institutional structure and manufacturing process to prevent any further violations in international labor standards. From these efforts, an international agreement, known as the Atlanta Agreement was signed and a revised structure and management system for the production of soccer

balls in Sialkot was adopted. The Atlanta Agreement established a voluntary prevention and monitoring program with four key elements:

1. Registration of contractors, stitchers and stitching facilities
2. Establishment of internal monitoring systems
3. Agreement to independent monitoring
4. Coordination with a social protection program for children

The founder of Saga Sports, Mr. Khurshid A. Soofi, served as the Chairman on the standing committee for child labor and led the development of the Atlanta Agreement. Both Nike and Saga were signatures on the agreement and adopted the conditions of the agreement in the production process. In 2001, Mr. Soofi died and there was a shift in the direct management of Saga.

In parallel, the structure of the soccer ball industry has been shifting. For the first time, in 2006, the official ball of the World Cup was not hand-stitched. The balls, made in Thailand, were instead melded together using a new thermal technology. Introduction of stitching technology to the production system coupled with an increased competition from outside Pakistan has led to cost pressures on the traditional Sialkot producers. The expectation is that in near future only the very premium soccer balls will be hand-stitched. Competition is increasing across Asia in soccer ball manufacturing. The Pakistan producers have yet to make the required investments to keep up with the shift in the market.

Earlier this year, Nike received indications that labor violations were again occurring and commissioned an international non-profit to conduct an investigative report that found conclusive evidence of violations. Over the past six months, extensive mediation occurred between Nike and SAGA which included the direct involvement of Nike global executive leadership team. The mediation did not produce credible results on the correction of the violations. Unable to risk a renewed assault on its brand equity, Nike canceled the contract.

Role of Outside Support / Facilitation

To date, outside support to the sporting goods industry in Pakistan has been limited to directly addressing the issue of child labor. The International Labor Organization, United Nations, and numerous human rights organizations have played a role since the subject came to light in the 1990s. The focus of the support has been in the areas of:

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

Under the Atlanta agreement, originally the ILO was responsible for the monitoring. However, the ILO turned the IMAC program over to the Sialkot Chamber of Commerce in the first few years with only a limited amount of spot checking by either the ILO or the industry.

Costs and Benefits of the Buyer-Supplier Relationship

The incidence of child labor, the innovation in production technology and the shift in the market are all contributing to a change in the buyer-supplier relationships in the sporting goods industry in Sialkot.

Previously, commercial relationships in soccer ball manufacturing were based on abundant, low cost labor and a flexible, efficient production system. Nike, and the other brands, benefited from the Sialkot producers ability to deliver consistency and quality at a low operating cost, but ultimately at a high social cost and risk to the international brand.

The uncovering of the child labor and the negative tarnish it left on the Nike brand shifted the dynamics of the buyer-supplier relationship with Saga. With the availability of alternative producers in other countries, potentially at lower costs, Nike and the other brands are in a much more mobile position.

The costs of the failed relationship are significant. For Nike, canceling the contract has sacrificed at least 12 months supply of soccer balls to the market, and likely substantially more than that. It has also invested significant management time in mediation with Saga and the community stakeholders. However, the future costs of another assault on the brand equity exceeded the short-term transaction costs of terminating the relationship.

On the supplier side, the costs are weighty, including the loss of contract and future profit, tarnished image within the industry, and job losses estimated between 5,000 and 30,000. For Sialkot, and Pakistan as a whole, the failure of Pakistani businesses to uphold international standards risks tarnishing the image of Pakistan to foreign investors and undermining future investment in the economy.

Strategies for Overcoming Risks

The strategies enacted after the first set of incidents in the 1990s appeared sound and worked for a short period of time. The international agreement, third party mediation, restructuring of production processes, establishment of monitoring systems, and community investment appeared to create a holistic approach to addressing the child labor issue. However, the recurrent of the labor violations indicates that the strategies were not institutionalized within Saga. While the founder of Saga understood and shared the corporate values of Nike, the new leadership may not have adopted those same values and management practices.

The failed relationship begs the question, what else could have been done to prevent the cancellation of the contract?

Lessons Learned

Doing business with international supply chains requires integration of processes and adoption of international standards. Failure to uphold those standards can have significant consequences to the business and the economy. Such failure can also be seized up as an excuse to terminate a relationship and exit a market.

The specific lessons of this case can be summarized as follows:

- The cottage industry structure of the soccer ball stitching supply chain offered Saga Sports a low cost production model. However, the structure ultimately left the supplier, and its buyer, vulnerable to violations of international labor standards.
- Third party verification requires significant time in order for an industry to internalize substantial changes to a production model. Under the Atlanta

agreement, originally the ILO was responsible for the monitoring and then it turned the IMAC program over to the Sialkot Chamber of Commerce. There is a general sense among the stakeholders that the transfer happen too soon, without enough spot checking by either the ILO or industry to see if a home-owned model would work.

- Institutionalization of ideals and standards is essential for sustained change. Even after the violations were brought to light, the supplier was unable to institutionalize a production model and management system to conform to those international standards. When Mr. Soofi died and his key leadership left, so did the ideals. Institutionalization ensures that ideals and standards are not tied to personalities.
- Ultimately, the interests of the supplier, Saga, were not aligned with the interests of the global brand that it was serving. Saga underestimated the risk of compromising Nike's brand equity. When structuring a relationship between a international buyer concerned about brand equity, it is critical to align the interests of the supplier to the value of the brand.

Rwanda Coffee – Starbucks

Prior to 2001, Rwanda was an unknown in the specialty/high value coffee sector. Today, Rwanda is a sought after market supplying specialty coffee to Starbucks and other premium coffee buyers throughout Europe and the United States. The transformation is due to the combined efforts of the local producers, the Government of Rwanda, USAID donor projects and the international buyers. This case focuses on the role of the USAID donor projects in upgrading the quality of supply and then facilitating the initial linkage with international buyers. The case illustrates best practice training and facilitation in preparing a product to meet international quality standards and attracting the interest of international buyers. Finally, the case highlights the continuing need to build the capacity of local suppliers in marketing and commercial relationship management.

Origins and Nature of the Buyer-Supplier Relationship

USAID began supporting the coffee sector in Rwanda in 2000. At the time, there were only 2 coffee washing stations in the country, neither were operating, and Rwandan coffee was considered below commodity grade, despite most of the beans coming from high-value Arabica trees. The coffee that was being exported was only used in low-end, mass produced blends. During the 1990s, the coffee sector was entirely coordinated and run by the Government of Rwanda through OCIR CAFÉ (Office Nationale de Cultures Industrielles-Café). OCIR Café was responsible for every segment of the value chain from the free distribution of seedlings, fertilizer, phytosanitary products and other inputs to growers to the dry milling and exporting coffee. The government set the prices for coffee export up until 1998. Coffee producer associations existed in Rwanda, but were agents of the state that distributed inputs and did little else. By the end of the 1990s, coffee's contribution to exports declined from a peak of 39000 metric tons to less than half that value.

Despite the constraints that led to low quality, low quantity commodity-grade coffee, the GoR and Donor Partners believed that Rwanda possessed the capacity, environmental conditions, (elevation, climate, soil quality, Bourbon trees, etc), and political will to improve its coffee position in world markets. What Rwanda lacked was technical capacity, market information, and a coherent strategy.

Through the coordination of three different agricultural development partners, ADAR, PEARL and ACDI-VOCA, USAID, in partnership with local producer cooperatives and the Government of Rwanda, began systematically upgrading the supply of Rwandan coffee.

In response to the steady decline in production, quality and export revenue, the GoR, with the assistance of Donor Partners set into motion strategy sessions to improve Rwandan coffee positioning in worldwide markets. These sessions resulted in coffee sector liberalization strategies that when implemented, set the course to improve Rwandan coffee. Armed with market information, the private sector learned that higher value coffee was very attractive to global markets, that cupping/taste results indicated Rwanda had the significant potential to produce specialty coffee, and that Rwanda could be competitive with higher-end producers like Guatemala, Ethiopia and Kenya.

An integrated set of specific support activities were carried out via a variety of implementing partners, and sponsored by various Donor Partners.

Through these interventions (outlined in detail below), Rwanda was effectively able to reposition its coffee and compete in higher grade/higher priced sectors. July 2002, saw the first sales of commercial volumes of specialty coffee, with a sale of 33mt to Community Coffee in the U.S. By March of the following year, privately invested in and operated wet mill facilities produced fully washed coffee.

Production and quality continued to increase and after visits to and from trade-show buyers, Rwandan specialty coffee made its first sale to Starbucks Coffee Corporation in June 2004 through specialty coffee buyers covering East Africa. Starbucks does not directly engage in commercial relationships with local coffee washing stations. All coffee sold to Starbucks is done through specialty coffee buyers that serve as intermediaries. In April 2005 three coffee producers were sponsored to attend the Specialty Coffee Association of America conference and exhibition in Seattle. In November 2005, Starbucks selected two privately owned wet milling facilities to a distribution program, which provides coffee to 5000 Starbucks retail outlets. As part of the developing relationship between Starbucks and Rwandan coffee washing stations, Starbucks awarded \$7,500 to two washing stations to finance social projects for the farmer communities. In February 2006, Alfredo Nuno from Starbucks Trading Department visited Rwanda and the two washing stations to congratulate the farmers and the washing stations for their increased quality.

In the spring of 2006, Starbucks successfully marketed Rwandan coffee under their ultra-premium “Black Apron” category. The coffee was sold throughout the United States for \$13 per half-pound. The coffee sold out faster than any previous Black Apron offering.

Finally, in June of 2006, the Karengera washing station became the first washing station in Rwanda to be certified under Starbucks C.A.F.E. (Coffee and Farmer Equity) Practice program. The program uses a comprehensive and transparent scorecard approach to evaluate, recognize and reward of high quality, sustainably grown coffee. The scorecard is structured around four pillars: product quality, economic accountability, social responsibility, and environmental leadership. Through the scorecard, Starbucks is attempting to transparently measure and monitor their relationships with their suppliers. All certified washing stations require verification by an independent 3rd party, involving field inspections, face-to-face interviews with workers, document review and desk audits. Reverification is completed to ensure progress and sustainability and continuity. To date, 9 coffee washing stations have successfully been certified under the CAFÉ Practice Program.

Role of Outside Support / Facilitation

In order for Rwanda to move from being considered a commodity-grade to a specialty-grade coffee producer, the sector needed to address three key areas;

- *Increasing Production*, since production levels were insufficient to attract global demand; Activities included; distributing improved inputs, supporting growing associations, replanting coffee trees, and constructing wet mill stations in Rwanda’s top 50 coffee producing districts.

- *Improving Quality*; Activities included; educating producers on quality & cupping, establishing quality control mechanisms, investment and technical assistance in wet mill techniques and operational and financial management, improving infrastructure, strengthening cooperative and association management, strengthening existing institutions (like OCIR-Café), and providing financial mechanisms throughout the coffee value chain.
- *Promoting the Rwandan Brand*; Activities included; establishing and improving market linkages through trade show visits, sharing information on the local and global coffee markets with the private sector, and instituting other innovative promotional activities.

Specific interventions included:

- Market research and investigation of market potential.
- Use of regional expertise for technical training in coffee processing.
- Creation of traceability systems from farm to market.
- Establishment of environmental risk mitigation measures.
- Establishment of cupping capacity and cupping labs.
- Establishment of model dry milling facilities.
- Support to the financing environment for entrepreneurship in the sector.
- Finance of in-bound trade missions.
- Engagement of US-based marketing consultants.
- Verification of product quality prior to distribution of samples to buyers.
- Strategic planning the product marketing activities.
- Negotiation and customer relationship management.

Costs and Benefits of the Buyer-Supplier Relationship

Starbucks does not invest directly in the upgrading of coffee supply chains. All of the cost for increasing scale and production must be covered by the producers themselves and any government or donor projects. However, recognizing that the CAFÉ practice verification system is rigorous and exhaustive, Starbucks does share the cost of the verification process with the washing station or the intermediary buyer.

Starbucks will provide producer-driven incentives to reward groups of farmers for increased quality. The \$15,000 presented to the two washing stations in Rwanda for direct support to the farmers is an example of this.

Strategies for Overcoming Risks

The risks to reorient the washing stations to deliver consistent, high quality coffee to Starbucks required a comprehensive set of strategies.

Starbucks is able to manage its commercial risks and operational costs by purchasing through an intermediate specialty coffee buyer. The intermediate buyer employs a full time representative on the ground to take care of all contractual and logistic interactions with the individual coffee washing stations.

Yet to ensure that the product quality and operating standards are aligned with Starbucks standards, the CAFÉ practice program is implemented to systematically assess the local supply chain and the operations of the coffee washing station. Contracting a third party verification organization allows Starbucks to attain a regular independent assessment that is based on a transparent criteria for success.

Once a washing station is able to sell to Starbucks, the growth in sales is carefully staged to ensure that the producers can continually meet the demand without compromising the quality. For example, the first year that Starbucks purchased coffee from Rwanda, only one container was purchased. The second year, two containers were purchased. If the producers are able to continually meet the quality standards, then the scale continues to increase overtime without putting too much pressure on the production system.

Strategies from the donors outlined in detail above included a full range of value chain support activities delivered through both technical and financial assistance. The effort was a comprehensive step-by-step building of capacity of individual washing stations and producer groups.

Lessons Learned

The Rwandan case is emerging as a best practice case and many lessons can be drawn from the coordinated efforts of suppliers, donors and international buyers. The two specific lessons that have relevance for this study are:

- A transparent criteria for supplier success can be beneficial to both the buyer and the supplier in transparently aligning the needs and expectations of the buyer with the production practices of the suppliers
- In the structure of a fragmented supplier base, third party verification is needed to ensure consistent monitoring and quality control occurs by a party not directly active in the value chain

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