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GHANA BASKETS FOR EXPORT

CASE STUDY

microREPORT #76

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DISCLAIMER

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EXECUTIVE SUMMARY

This case study illustrates the effect of strong international competition on the Ghanaian baskets-for-export value chain. It demonstrates how market players in the value chain needed to change their behavior to meet competition, and how lead firms, with the support of a development project during 2002–2003, introduced improved quality standards. It also shows how firm-level incentives led to improved production practices.

The Ghanaian baskets-for-export value chain has enjoyed strong growth over the past ten years, primarily driven by a handful of lead firms that successfully penetrated the global market. With the emergence of Vietnamese baskets on the export market, however, Ghanaians began to lose market share. To maintain competitiveness, Ghanaian firms had to differentiate themselves from lower cost and lower quality copies by producing better quality baskets regularly infused with new and innovative designs, while maintaining the same pricing structure.

Market actors in the value chain faced different incentives and risks for investing in improved competitiveness. Examples of investments undertaken by export companies (with facilitation from a development program) included:

- Development of quality management systems
- Training of micro and small enterprise (MSE) producers in quality management
- Radio campaigns and market announcements to expand information dissemination
- Improvements to product designs
- Introduction of new production technologies

Initially, producers were unaware of the competitive threat from Vietnam and the erosion to their market share and sales. Requests from export companies to improve quality and maintain the same pricing structures suffered from the perception that this would only benefit the export companies. Once it became clear that the international competition was real and all actors in the Ghanaian value chain were threatened, the attitude of producers changed. The clear definition of quality parameters facilitated improved cooperation with exporters.

Key lessons learned in this case study focus on how lead firms can package and disseminate complex information to their MSE suppliers in a systematic way, and how development programs can facilitate this. This case discusses:

- How buyers can define and transmit quality parameters to their suppliers
- How cooperation between export companies and international buyers, and between contracted producers and their buyers, results in mutually-beneficial learning
- Why investment by buyers in their suppliers makes good business sense
- How "negative incentives" from markets can foster value chain competitiveness
- How mass media can be used to increase learning flows to producers
- Approaches to promoting new sources of product design

INTRODUCTION

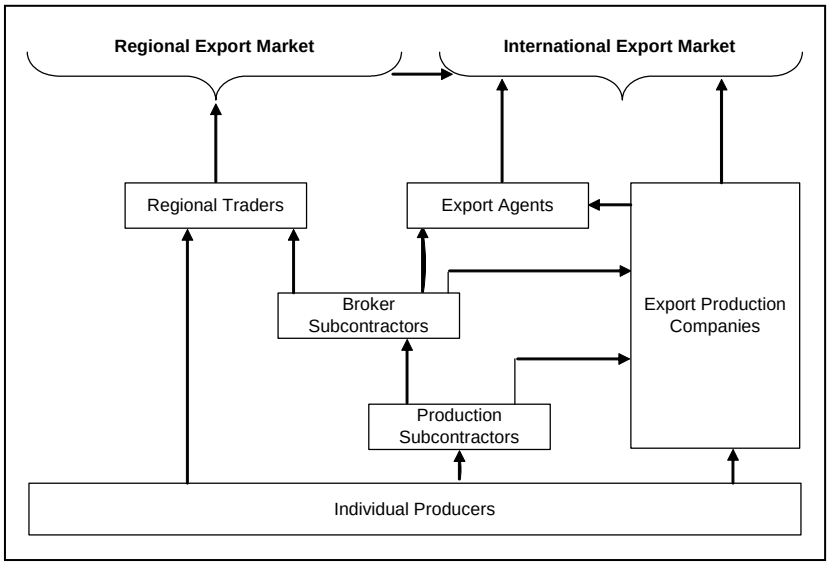
This case illustrates the effect of strong international competition on the Ghanaian baskets-for-export value chain. It shows how the behavior of market players in the value chain needed to change to meet the competition. It demonstrates how lead firms introduced improved quality standards and how firm-level incentives led to improved production practices. This case study is based on activities and information gathered during the implementation of an eighteen-month program in this sector from August 2002 through December 2003 by Action for Enterprise.

The case begins with an overview of the baskets-for-export value chain in Ghana. This is followed by an analysis of Ghana's competitive position in the market, and gaps to competitiveness. The incentives and risks different market actors face in making needed investments are examined, along with examples of investments made. Finally, the case reviews lessons learned for both private sector actors and development programs.

VALUE CHAIN CONTEXT

The baskets-for-export value chain is an important source of income and poverty alleviation for thousands of rural Ghanaian MSEs. From 1993 to 2003, exports grew to over U.S. $12 million. A wide variety of market actors participate in the baskets-for-export value chain. **International importers** are based primarily in Europe, the U.S. and Japan, and include wholesale distributors and retail chains. Ghanaian **export agents** handle export orders and consolidate shipments on a fee basis. **Export production companies** carry out some of the production process internally and sell directly to international importers and export agents. Almost all of these companies also source from **production subcontractors,** which are privately-owned small and medium enterprises and producer groups that produce for the export market, but do not export directly. **Broker subcontractors** serve as an intermediary, agglomerating the products of production subcontractors and supplying the export companies. The **individual producers** are artisans who sell to a variety of buyers including production subcontractors, export production companies and **regional traders** who buy on local markets and export to neighboring countries. Many producers have relationships with several buyers, though some work exclusively with one. These relationships are depicted in the value chain map below (Figure 1).

Figure 1: Ghanaian Baskets-for-Export Value Chain Map



Governance Structures – Export companies use up to four different "governance structures" or procurement strategies with their MSE producers. These structures are described in Textbox 1 below. Different governance structures are used depending on the product requirements of the order. For smaller orders with complex styles, the export companies prefer the hierarchical model. For large orders, they prefer the directed or balanced models as they can engage greater numbers of producers. The export companies continuously weigh the pros and cons of each governance structure in order to find the correct mix of direct production and subcontracting models that make them more competitive (more discussion on the implications of each model is provided in section 4.9).

Textbox 1: Governance Structures Used by Basket Export Companies

Directed – Export companies contract directly with producer groups using production subcontracts. In addition to providing the designs and pre-financing, they provide technical support and quality monitoring as they lack confidence in the ability of the groups to produce according to quality specifications. Because of this, however, they must offer lower prices.

Balanced – Export companies subcontract through brokers and producer group representatives. They require the groups to finance themselves and provide less supervision as they are more comfortable with the level of quality they receive, and the ability of the producers to produce to market specifications. They offer higher prices.

Market – Export companies purchase directly from producers with little or no interaction. Purchases are generally limited to standard style baskets that have sold in the past.

Hierarchical – Export companies produce in-house or through agents who employ producers for a given period of time. The companies provide all raw materials to the producers and provide tight control over the production process.

VALUE CHAIN COMPETITIVENESS

GHANA'S COMPETITIVE POSITION

The Ghanaian baskets-for-export value chain enjoyed strong growth from 1993 to 2003, which was primarily driven by a handful of lead firms that successfully penetrated the global market, especially Germany, for utilitarian shopping baskets. Success was due to a variety of factors including: 1) the successful participation of lead firms in European wholesale trade shows and subsequent management of trade relations with importers; 2) the ability of lead firms to organize large-scale production among MSE producers; and 3) the acceptable price and quality of the end product.

With the emergence of Vietnamese basket exports, the Ghanaian value chain began to lose market share. The Vietnamese producers and exporters have been successful at copying the Ghanaian basket designs and then producing them at a lower cost. Both the international buyers and Ghanaian export companies concluded that to compete on the world market, Ghanaian firms needed to differentiate themselves from lower cost and lower quality copies by producing better quality baskets at the same cost that were regularly infused with new and innovative designs. These baskets would appeal to a large percentage of the end market and help Ghana regain its competitiveness.

Gaps in Value Chain Competitiveness – In summary, the major gaps in competitiveness included: 1) the need for increased quality of production; 2) high price relative to newly emerging Asian competitors; 3) difficulty in producing new and innovative designs every six months (the time it takes for Asian competitors to copy and market the previous models).

INCENTIVES AND RISKS FOR IMPROVING COMPETITIVENESS

International Buyers

In 2002, international buyers had no significant interest in or incentives for investing in the upgrading of the Ghanaian value chain as there were alternative sources of supply. Given the competitiveness of the market, they felt obligated to purchase from the supplier offering the best combination of price and quality.

Export Companies

Incentives to invest – Export companies had significant incentives to invest in the value chain. The improvement of basket quality would assist them in retaining their clients and market share. Improving innovation in basket design would allow them to continuously stay ahead of competitors copying Ghanaian products. Incentives were created by international market pressures forcing them to become competitive or lose market share.

Investment risks and constraints – The major constraint faced by export companies in making needed investments was a lack of revenue. Increased international competition was reducing both sales volume and profit margins, leaving them with reduced amounts of working capital to invest in upgrading their internal systems and their suppliers' operations. However, to avoid further erosion of market share, investments in upgrading were required.

MSE Producers

Incentives to invest – At first, producers were unaware of the competitive threat from Vietnam and its erosion of their market share and sales. Calls from export companies to improve quality and maintain the same pricing structures suffered from the perception that this would only benefit the export companies. There was also a lack of clarity among producers as to what "better quality" meant. As a result, they lacked incentives and motivation to improve production practices.

Once it became clear through radio programs and workshops that international competition was real and that all value chain actors were threatened, the attitude of the producers changed. They became more willing to cooperate with the export companies and undertook the challenge of international competition as an issue of national pride. Cooperation was facilitated by clear definitions of quality parameters, and the "six pillars" of quality became well known and adhered to by producers and export companies. Incentives to avoid rejection of baskets were also established by export companies through stringent application of quality controls at the time of purchase. Instead of accepting all baskets, they began to accept only baskets meeting the quality required for international demand. When this system was first applied the rejection rate was high, but soon dropped significantly to the point where over 95 percent of baskets met the required criteria.

Investment risks and constraints – Initially, producers resisted making improvements as no price premium was offered for better quality baskets. Although improved quality did not require additional financial investments by producers, it did require greater attention to quality parameters and production practices and producers were reluctant to invest the necessary time and energy in this area.

Examples of Investments Made to Improve Competitiveness:

Development of Quality Management (QM) System – With assistance from a development project, this activity involved developing a task force composed of export company staff, master artisan producers and an international QM adviser. The objective of the task force was to develop and disseminate an improved quality management system for basket production. The process began with an assessment of the gaps between existing and required operations at each stage of production. This was followed by the definition of parameters for "good quality baskets." Once achieved, simplified ISO 9000 quality management guidelines were used to design a user-friendly QM system for the

basket export companies. This system included manuals with job descriptions, handling instructions, checklists and forms to be applied at different stages of the production process. The system was tested in the daily operations of the export firms. Each exporter made company-specific modifications to the forms and the entire system was reviewed periodically for nine months to ensure appropriateness and feasibility.

Increase Learning Flow and Training of MSE Producers – Each export company established a training team consisting of a company technical officer, producer group leaders and master craftsmen associated with the company. A training of trainers (TOT) workshop was then facilitated by the development program for each team. The objective of the TOT workshops was to prepare the teams to successfully disseminate the QM system to producers. Topics covered included the elements of the QM system; the major parameters of dyes, basket base, weaving, trimming, handles and size for high-quality baskets; the rationale for encouraging producers to improve quality; and adult learning skills. Each export company team then conducted pilot workshops with their producers.

Radio Campaign and Market Announcements to Expand Learning Flows – Export companies established agreements with local radio stations to produce shows highlighting interviews between their companies and their subcontractors over a six-week period. Key issues covered during these radio shows included: 1) the need to improve basket quality to meet the challenges of the international market; 2) the six major production problems identified during the quality assessment; and 3) techniques for addressing these problems and weaving high-quality baskets. The export companies also hired pick-up trucks with public address systems to rebroadcast parts of the radio show at local markets near major production areas.

Improvements to Product Design – Export companies were faced with the need to continuously innovate product designs to stay ahead of their Vietnamese competitors who were copying and reproducing the designs at a lower cost. The Ghanaian exporters realized the only way to remain competitive was to produce new designs every six months to correspond with exhibitions at major trade shows. The export companies attempted to address this need by focusing more on their internal design efforts and looking for new sources of designs. Several companies (with facilitation assistance from the development program) began an internship program for design students from a local university. The objective was to generate new ideas and to experiment with the use of external design services. While this was not a definitive solution to the product design needs of the companies, it familiarized them with outsourcing design services. Several interns created designs that were integrated into the collections and marketed internationally. More comprehensive efforts in this area were needed to address the long-term competitiveness needs of the industry.

Introduction of New Production Technology – New production technologies were needed to increase productivity and bring down costs. To facilitate this, the development program recruited an international basket weaving specialist who held workshops with the export companies and their subcontractors to review production processes and discuss appropriate technologies. One result was the development of a locally-made straw splitting tool. Prior to the introduction of this tool, producers used the time-consuming process of manually splitting the straw with their teeth. After the tool was tested and refined, the export companies contracted local metalsmiths to produce large quantities which were distributed to the MSE basket producers. This brought increased benefits both to the producers and the export companies.

Results of Investments to Improve Competitiveness

These investments and initiatives led to a gradual but consistent reduction in the rate of poor quality baskets. Producers improved and upgraded production practices. This, together with increased attention to new designs, helped revive sales and encouraged previous buyers to begin purchasing again. The investments also fostered improved cooperation among value chain actors.

LESSONS LEARNED

The lessons learned from this cased largely focus on how learning flows in value chains can be increased so as to promote improved competitiveness.

DEFINING AND TRANSMITTING QUALITY PARAMETERS TO SUPPLIERS

This case demonstrates how lead firms can package and disseminate complex information to their MSE suppliers in a systematic way, and how development programs can facilitate this process.

Definition of quality parameters

Before a lead firm can successfully disseminate quality specifications and exercise quality control it must first clearly define the quality parameters it intends to use and develop its "message." Simply saying "this quality is not good" is not sufficient or useful for producers in assisting them to meet the standards required. In this case, the export companies worked in a ***participatory*** fashion with master artisans to define the "six pillars of basket quality." These pillars—dyes, basket base, weaving, trimming, basket handle and size—became the basis for both the companies' quality control system, and the information dissemination plan they implemented with their MSE suppliers. Once quality parameters were understood by all parties, there was less room for subjective grading by the export companies and protests by producers at the point of purchase. Producers could confidently produce the baskets with limited risk of rejections.

Clearly defining quality parameters and having a good quality management system is particularly important for lead firms that source much of their production from different subcontractors and producers. As they cannot provide day to day monitoring (as in the case of an in-house production unit), the lead firms must rely on a well defined and clearly communicated set of quality parameters that are understood by all parties.

Dissemination of quality parameters

Once quality parameters were defined, export companies needed innovative and cost-effective ways to disseminate this information to their MSE suppliers. Exporters did this by: 1) developing dissemination teams within each company; 2) building the capacity of the dissemination teams; 3) conducting pilot workshops with MSE suppliers in a cost-effective manner; and 4) using radio programs to expand outreach of information and dissemination.

Export company staff and dissemination teams of producer group leaders and master craftsmen were motivated to take on training responsibilities through a well organized TOT event. This helped them change the way they perceive their role in the value chain. Export company staff began to see themselves as trainers, not just quality control enforcers, and producer group representatives began to consider themselves responsible for sharing information and skills with group members on how to produce to quality standards.

Informal training for producers can be more effective than formal training for both export companies and the producers. Export companies can conduct informal sessions while monitoring production, or even at the point of purchase when producers come together to deliver the baskets. This requires no funds for workshop organization and can reduce the organizational burden on the export companies.

COOPERATION BETWEEN EXPORT COMPANIES AND INTERNATIONAL BUYERS

Export companies can develop niches in international markets with the help of end buyers. Faced with strong international competition, the Ghanaian companies had to differentiate themselves and develop a niche market to remain competitive. As they could not compete in price, they had to compete in terms of quality and design. A market niche for better quality, but somewhat more expensive, baskets had to be established. This process took place during nego-

tiations between export companies and international buyers who were able to communicate the level of quality and price points that could establish such a niche for Ghanaian baskets.

PRODUCER LEARNING THROUGH THEIR RELATIONSHIPS WITH BUYERS

MSE producers in some value chains receive the majority of their learning from their buyers. In the case of Ghana baskets, most of the MSE producers in the value chain developed their businesses and refined their skills through subcontracting relationships with export companies. Export companies frequently have ready incentives to provide this learning flow to ensure the quality and quantity of production needed to fulfill their orders.

LEVERAGING INTERMEDIARIES TO BRING LEARNING TO PRODUCERS

MSE upgrading, while frequently initiated and driven by lead firms, is often carried out by market actors who operate between these firms and the producers. In Ghana, these included producer group representatives, full time agents working on commission for the exporter, and independent brokers. It is therefore important for development programs to have a thorough understanding of vertical linkages in the value chain before designing interventions. When facilitation activities are organized to build the capacity of lead firms to provide improved learning flows to producers, efforts must be made to incorporate the market actors who serve as intermediaries between the two parties. In the training activities described earlier, the development program helped foster "dissemination teams" that were led by the export companies but that included producer group representatives and brokers as well.

INVESTMENT IN MSE SUPPLIERS MAKES GOOD BUSINESS SENSE

Many lead firms understand instinctually that their long-term business success requires them to invest in value chain upgrading. They recognize that investment in their supply chain is required if they are to grow and compete, and these tend to be the most successful firms. Other firms take a different perspective and attempt to maximize profits in the short term. These firms often do not invest in the development of their suppliers as the cost of doing so affects their short-term bottom line. What these firms fail to realize is that development of MSE suppliers is an investment that can pay dividends in the future through better quality production and an assured source of production. Development programs are often faced with the task of demonstrating the long-term value of such investments to firms.

NEGATIVE INCENTIVES FROM MARKETS

Negative incentives emanating from the market are sometimes needed to spur value chain upgrading. In this case, international buyers stated that the only way they would continue buying Ghanaian baskets at existing prices was if quality increased. Changes would not have occurred without this negative incentive. Development programs must design special strategies for working in such a scenario as it can be more challenging than one in which price premiums and greater income can serve as the incentive.

USING MASS MEDIA TO INCREASE LEARNING FLOWS TO PRODUCERS

Using mass media, such as rural radio, can be a cost-effective tool in disseminating learning to MSEs. The radio campaign and market announcements used by export companies in this case significantly raised awareness about international competition and quality standards for MSE producers. This resulted in an increased ability to produce quality baskets and a more collaborative relationship with the export companies. Interviews conducted by the radio journalist with export company staff and master artisans made the radio program interesting to listeners. It also contributed to the confidence of those interviewed who were able to share their professional knowledge.

PROMOTING NEW SOURCES OF PRODUCT DESIGN

This case illustrated how an internship program with design students was used to familiarize export companies with

the use of external design services. Hiring local designers presents the risk of having the new designs sold elsewhere, but can be a good investment if well managed. The design internship program provided a low cost and low risk opportunity for the export companies to experiment with new sources of design. More comprehensive efforts in this area are needed however to meet the ongoing design needs of the industry.

PROS AND CONS OF DIFFERENT GOVERNANCE (SUBCONTRACTING) STRUCTURES

As seen in Textbox 1, export companies used a variety of governance structures in procuring baskets from MSE producers. Each structure has its own advantages and disadvantages, for both export companies and producers. These are generalized in Table 1 below. When considering governance structures it is important to remember that they are neither uniform nor static. For example, over time, directed chains can experience increased competition that leads to reduced margins for MSEs and increased buyer demands. Changes in the end markets can cause rapid transitions in governance structures or lead to ambiguity, such as when guaranteed markets cease to be ensured or inputs become available only through buyers.

Table 1: Advantages and Disadvantages of Different Governance Structures

	Market	Balanced	Directed	Hierarchical
Export Company				
Advantages	Low costs. Requires little management time.	Requires less pre-financing and management time. Does not require fulltime producers.	Greater quality control. Does not require fulltime producers.	In-house quality control. Demonstrates capacity to buyers.
Disadvantages	No quality control. Production cannot be specified.	Limited monitoring and quality control.	Expensive to provide inputs and technical assistance. Takes management time.	Requires investment. Lack of flexibility when orders drop.
MSE Producers				
Advantages	Can sell to different buyers.	Higher prices. Guaranteed market.	Receive inputs, finance and technical assistance. Guaranteed market.	Steady work and salary. Receive technical assistance and materials.
Disadvantages	Lack of ensured market. Must pre-finance.	Must pre-finance. Limited technical assistance.	Lower price. Fewer selling options.	Risk of being laid off.

Export companies constantly weighed the pros and cons of these structures. While most were using a combination of procurement strategies, they struggled to decide which to focus on. It was clear, for example, that a large-scale in-house production facility would provide the greatest ability to control quality and innovate as needed. It would also inspire confidence among buyers. This option came with great risks, however, given the large investment required and the need to have regular large-scale orders to make it economically viable. More directed structures with increased training, support and monitoring to MSE producers would also contribute to greater quality but would come at a higher cost. These were hard decisions that export companies needed to make. To maintain competitiveness and flexibility in the current market environment, export companies will likely need to maintain a variety of production and subcontracting models.

Export companies frequently used "directed governance structures" with their MSE suppliers. This means they defined the design and technical specifications of the required product, pre-financed production, provided technical assistance and monitored supplier performance. The firms engaged in this form of governance because it ensured the quality and quantity they needed to meet their buyers' demands. Their preference would be for a ***less directed struc-***

ture in which they would not have to provide time-consuming and expensive support to their MSE suppliers. They would prefer to focus more on the market, and less on production. They continued to engage in directed governance structures because they felt it necessary to ensure that products meet their buyers' demands, not because they wished to keep producers in a dependant relationship.

Careful analysis and clear understanding of the different production and subcontracting models used by lead firms is important for development practitioners. Each model reflects a different relationship between the firms and their suppliers and producers. To impact MSE producers, development programs must take these into account and design their interventions and partnership agreements with lead firms accordingly.

CONCLUSION

This case illustrated the effect of strong international competition on the basket export sector in Ghana, and how market players were able to upgrade their practices and invest in improved quality in order to meet it. It showed the importance for development programs of understanding the incentives that different market players have for improving their practices. The case also demonstrated how lead firms can package and disseminate complex information (learning) to their MSE suppliers in a systematic way, and how development programs can help to facilitate this.

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