



USAID
FROM THE AMERICAN PEOPLE

BUILDING A COMPETITIVE AFGHAN CARPET VALUE CHAIN THROUGH INFORMED STRATEGY AND PRODUCTIVE ATTITUDES

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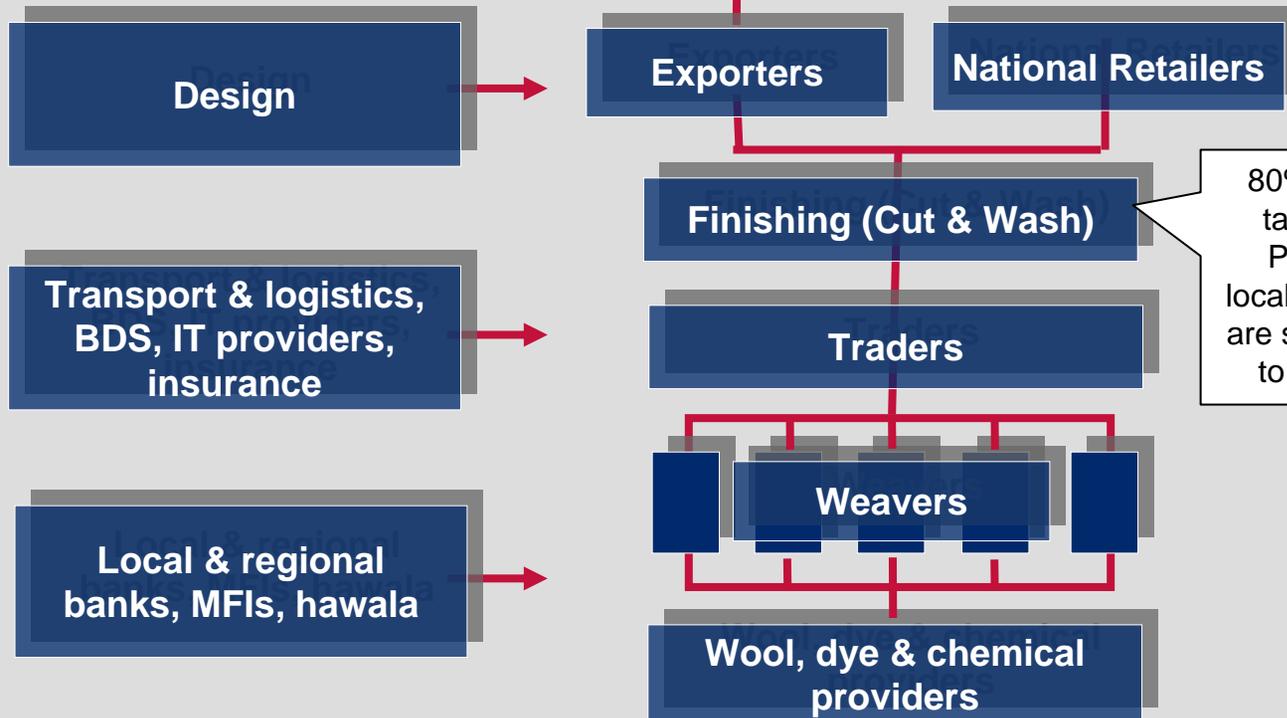
DECEMBER 14, 2006

GLOBAL VALUE CHAIN: AFGHAN CARPETS

Global Enabling Environment

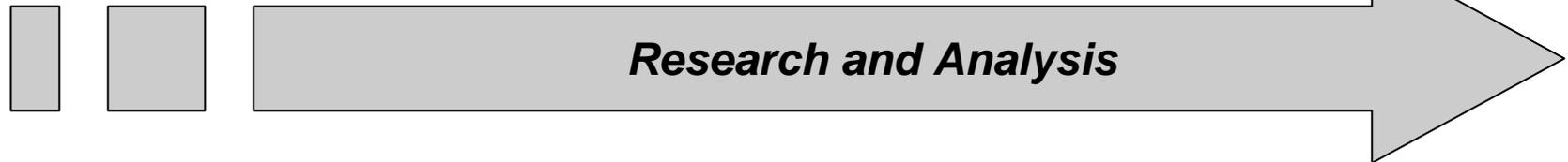
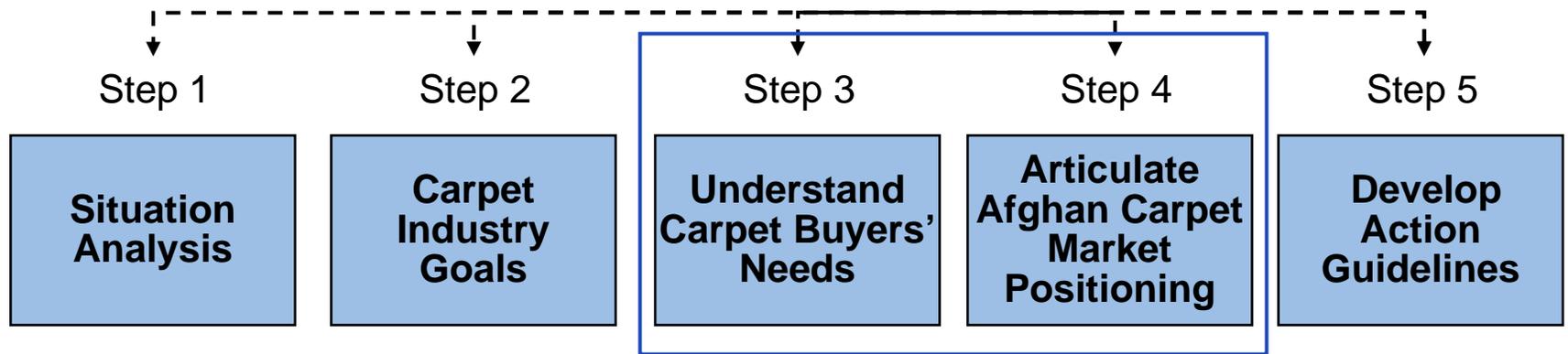


National Enabling Environment



80% of finishing takes place in Pakistan and locally sold carpets are shipped **BACK** to Afghanistan

OTF GROUP 5 STEP STRATEGY FORMULATION PROCESS



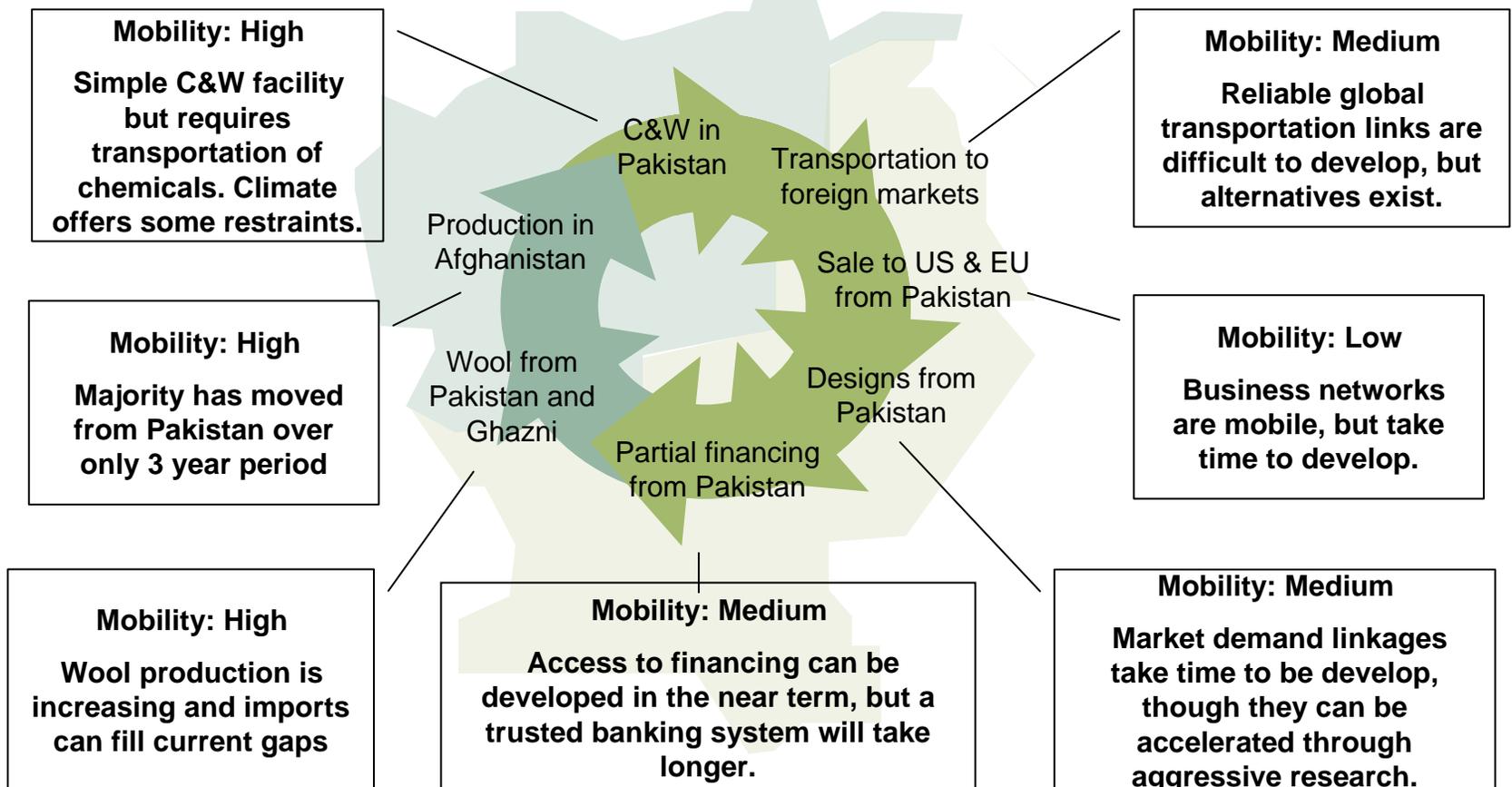
AGENDA

MOBILIZATION – THE ROLE OF ATTITUDES

RESEARCH, ANALYSIS AND INSIGHTS

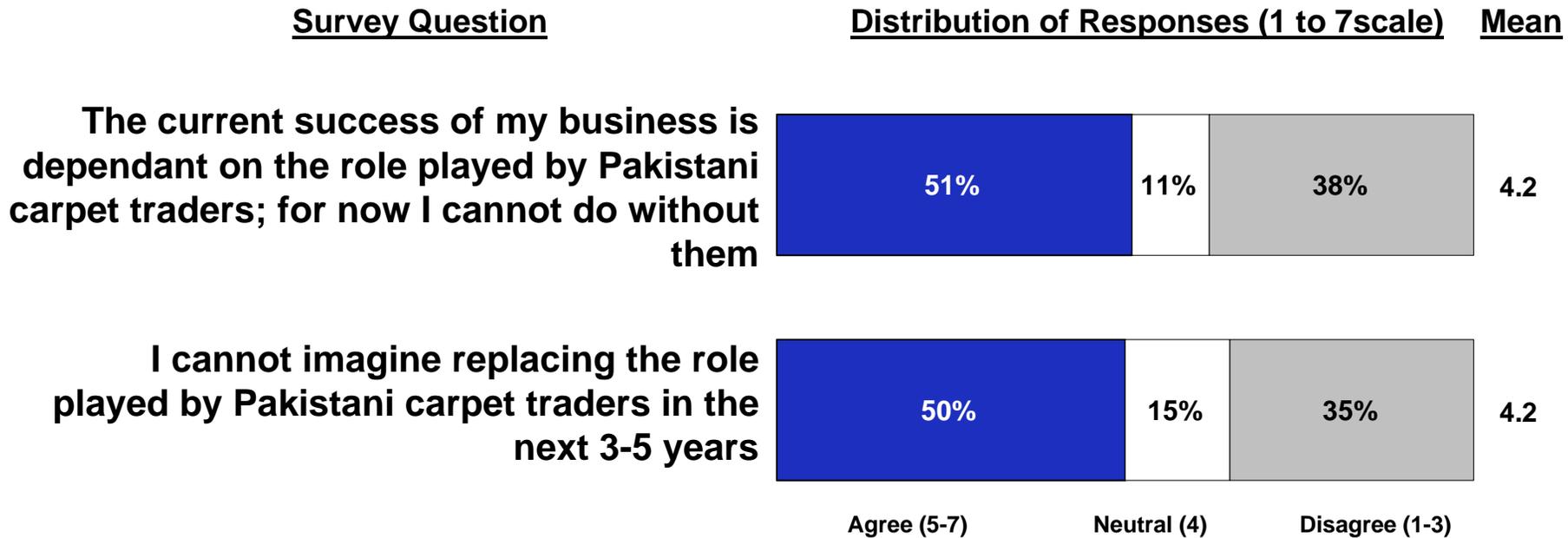
THE ROLE OF PAKISTAN IN AFGHANISTAN'S CARPET VALUE CHAIN

Building the Afghan value chain depends on capturing more of the value in production and trade that is currently occurring in Pakistan. In an insecure investment climate, the importance of mobility increases. Some elements of the value chain are more mobile than others.



ATTITUDES AND BELIEFS OF AFGHANISTAN'S CARPET SECTOR: AREAS OF DIVERGENCE

There are mixed feelings about the importance of Pakistani partners with regard to the future of the Afghan carpet sector



ATTITUDES AND BELIEFS OF AFGHANISTAN'S CARPET SECTOR: NEW VS. OLD WAY

*Imam at Domotex –
Germany 2006*



*Haji Zabibullah at work
in Andkhoy*



AGENDA

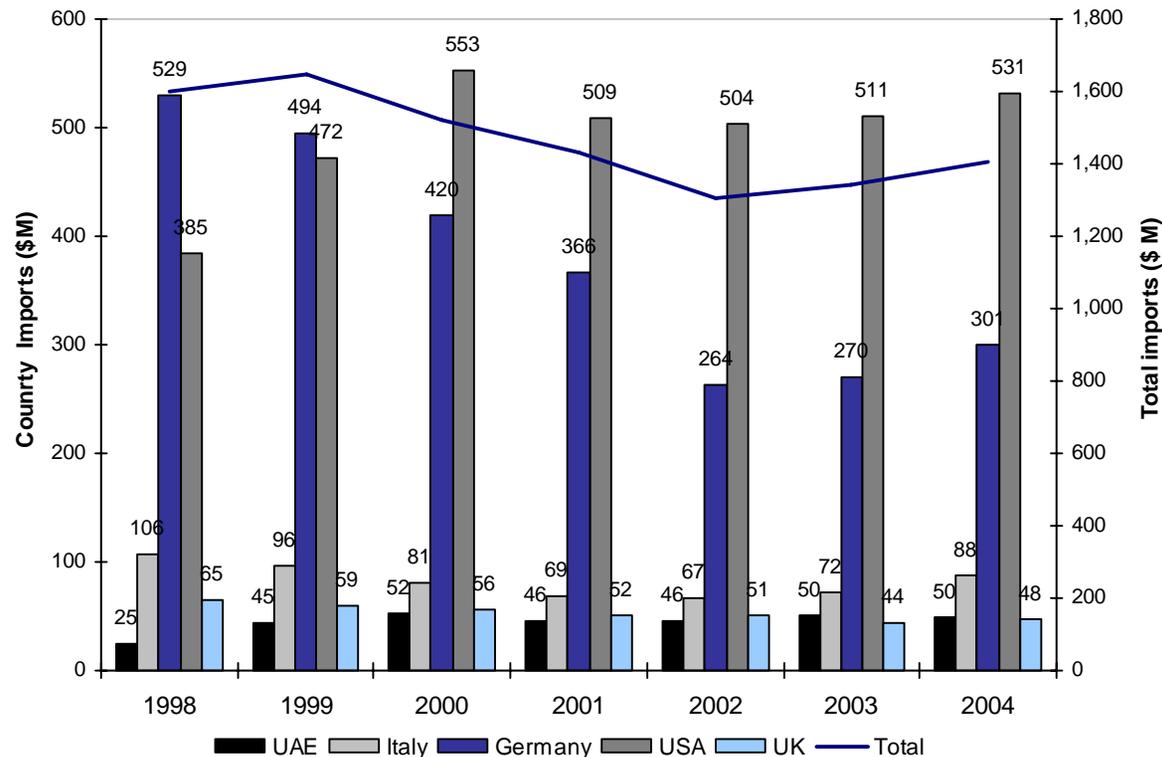
MOBILIZATION – THE ROLE OF ATTITUDES

RESEARCH, ANALYSIS AND INSIGHTS

INTERNATIONAL CARPET MARKET: TOP IMPORTING COUNTRIES

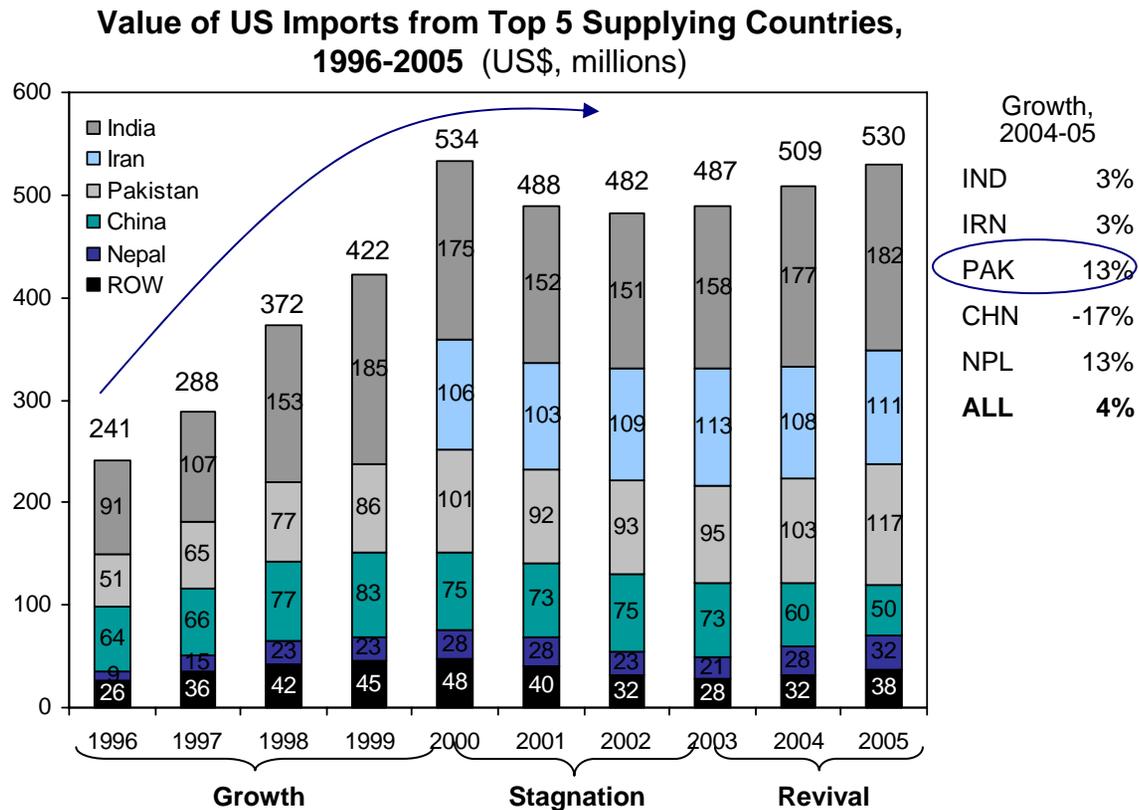
The US and Germany are by far the largest buyers, with the US passing Germany in 2000. Shrinking between 1999-2002, the carpet market is rebounding towards its peak in 1999.

Value of Imports: Global Total and Top-5 Importers, 1998-2004 (US\$, millions)



INTERNATIONAL CARPET MARKET: THE US MARKET

India has dominated US carpet imports for the past 10 years, doubling its sales. China has since 2000 lost market share to Iran. Though still a comparatively small player, Nepal experienced impressive growth.



INTERNATIONAL CARPET MARKET: AVOIDING THE “MOVE TO THE MIDDLE”

*“We’re getting competition that we didn’t get before from machine made.”
-US Importer*

- Major manufacturers and distributors are increasingly turning towards becoming ‘one-stop shops’, stocking both tradition/oriental and modern designs, as well as machine-made and handmade carpets.
- As machine weaving technologies improve, there is decreasing differentiation in the market between mid-range hand-knotted and good quality machine-made carpets.



Example of machine-made oriental carpet



Example of handmade oriental carpet

INTERNATIONAL CARPET MARKET: CHANGING TRENDS

Styles and colors are also changing more rapidly. While niches for traditional carpets are affected less by this, the opportunities for growth and volume may lie in serving 'trendy' – but more volatile – markets.

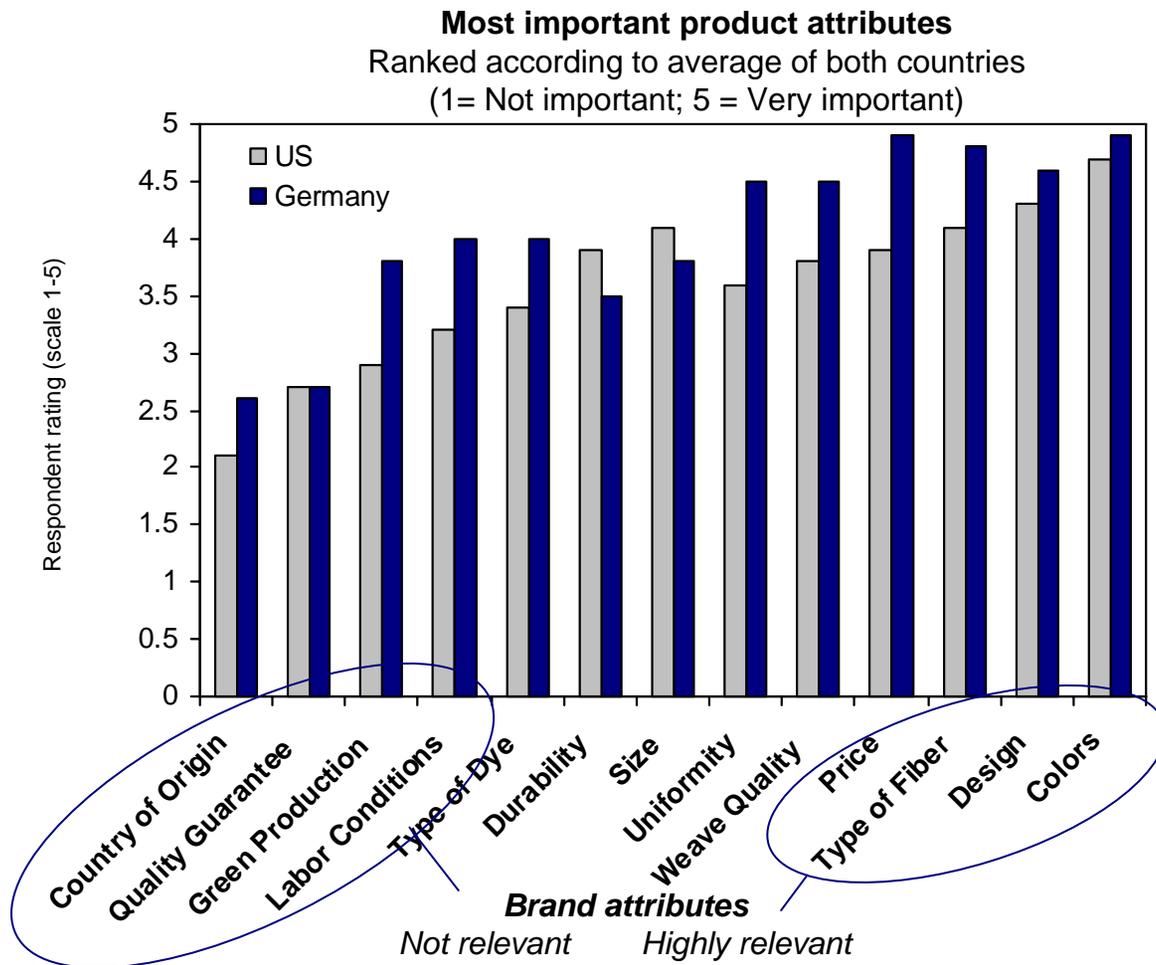
- The market for high quality, traditional Afghan carpets is more stable. However, it has been marred by a limited range of designs and colors, as well as poor quality
- There may be good growth opportunities around 'soft contemporary' designs, such as Nepali/Tibetan carpets (which experienced over 250% import growth into the US between 1995 and 2004).



Examples of 'soft contemporary' carpets

UNDERSTANDING BUYER NEEDS: PRODUCT ATTRIBUTES, OVERVIEW

Color, design, type of fiber, and price are the most important product attributes in both the USA and Germany. Country of origin, quality guarantees, environmental and labor issues matter the least.



UNDERSTANDING BUYER NEEDS: PRODUCT ATTRIBUTES, COLOR & DESIGN

Earth or natural tones are popular in both the US and Germany, as are contemporary designs and simple floral patterns.

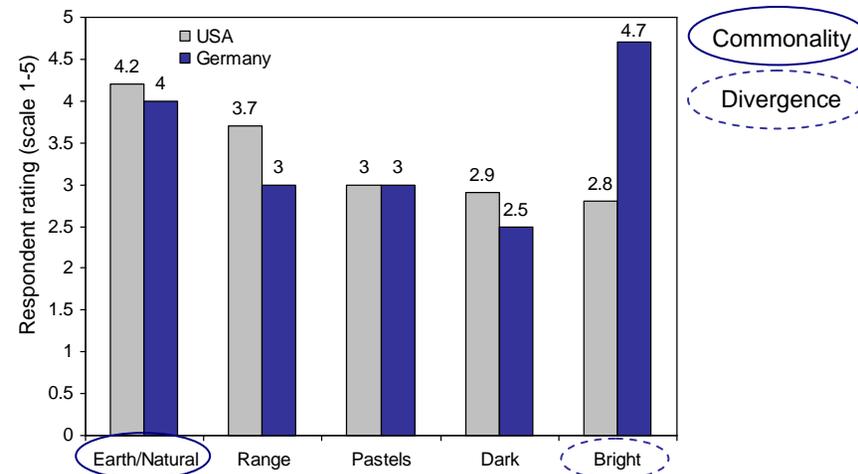
US market

- Product implications:
 - Kazakhs and *Chobis* in natural dyes would do well.
 - There is an untapped opportunity in earthy contemporary designs, such as Gabbeks.
 - Intricate Kashmiri-type carpets are unlikely to be popular.

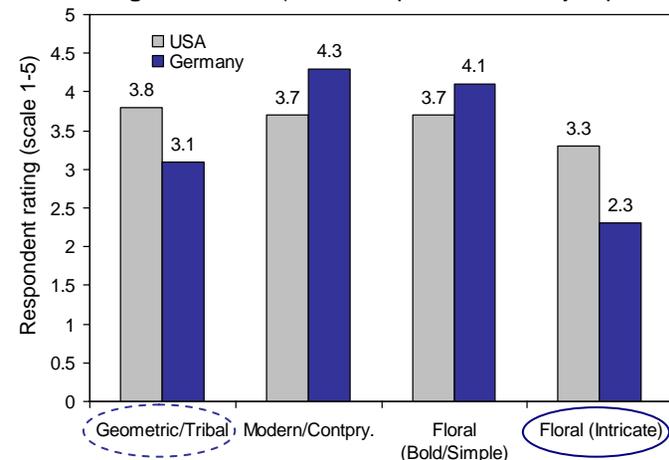
German market

- Product implications:
 - *Chobis* in natural dyes would do well.
 - There is an untapped opportunity in contemporary carpets, in both bright colors and earth tones.

Color attributes (1 = Not important; 5 = Very important)

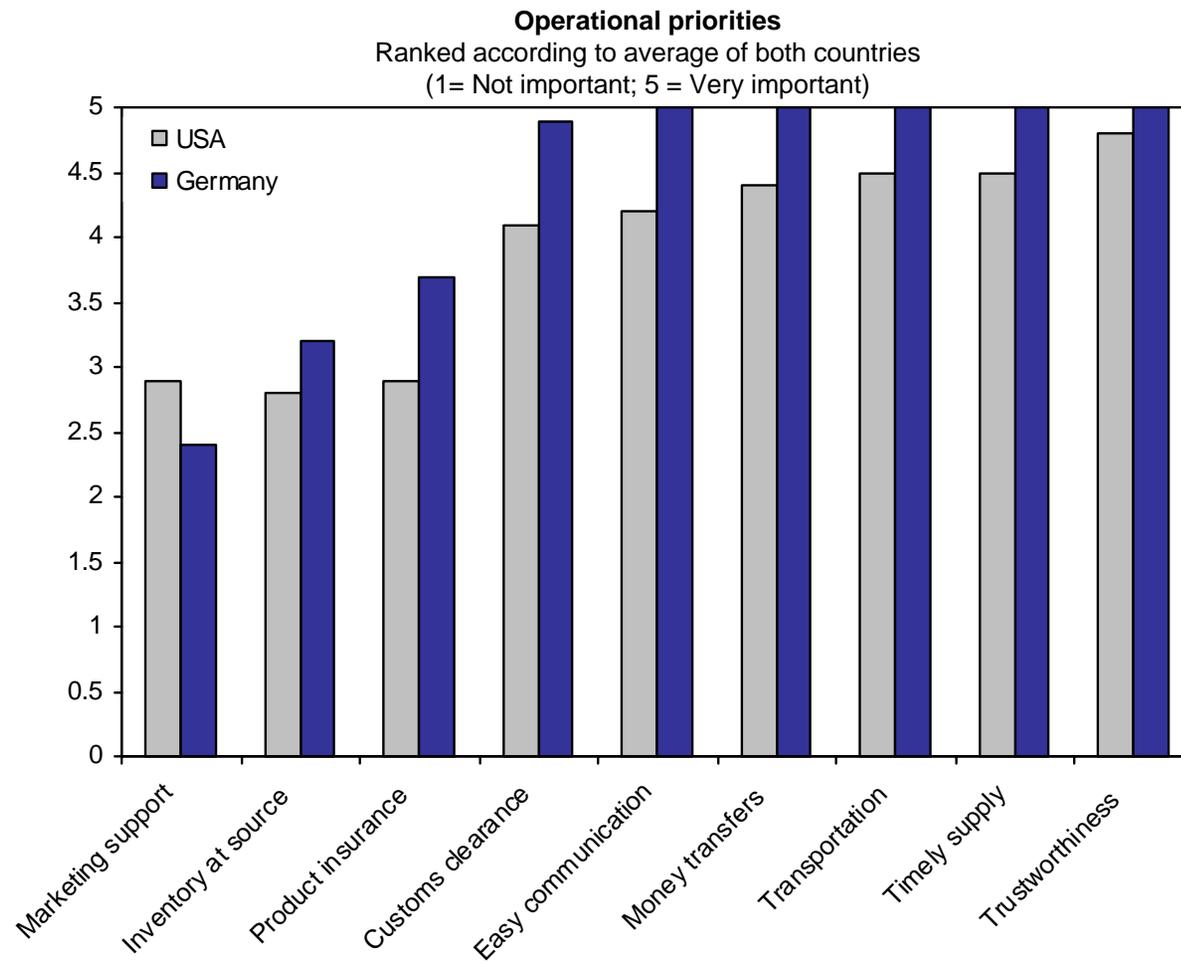


Design attributes (1 = Not important; 5 = Very important)



UNDERSTANDING BUYER NEEDS: OPERATIONS, BUYER REQUIREMENTS

Supplier reliability and ease of transaction are what matter most to buyers. Suppliers need not concern themselves with elements such as marketing, inventory or insurance management.

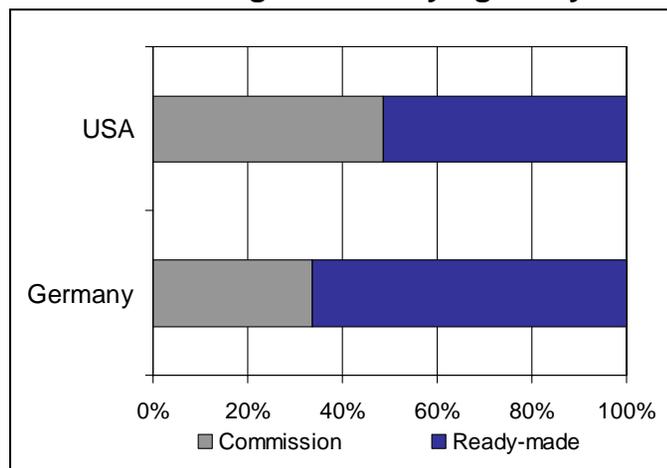


UNDERSTANDING BUYER NEEDS: OPERATIONS, SOURCING CHANNELS

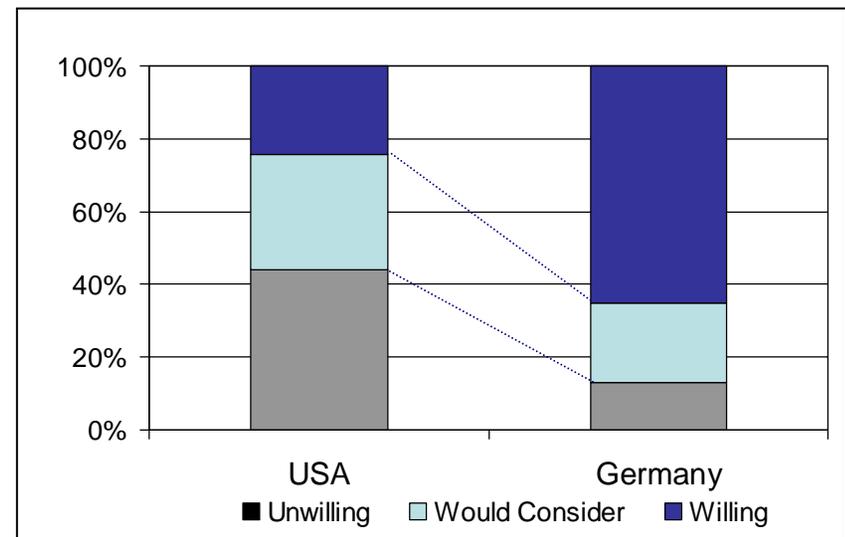
Almost half of US buyers commission their carpets. However, Americans are also less willing to travel to Afghanistan to source carpets than German buyers.

- About 70% of respondents source their carpets direct from producers, with the balance buying from wholesalers in the supplier country.
- Trade magazines and on-line sources are rated among the most common source of new carpet supplier contacts. Trade shows do not feature highly.

Commissioning versus buying ready-made



Willingness to travel to Afghanistan to source carpets

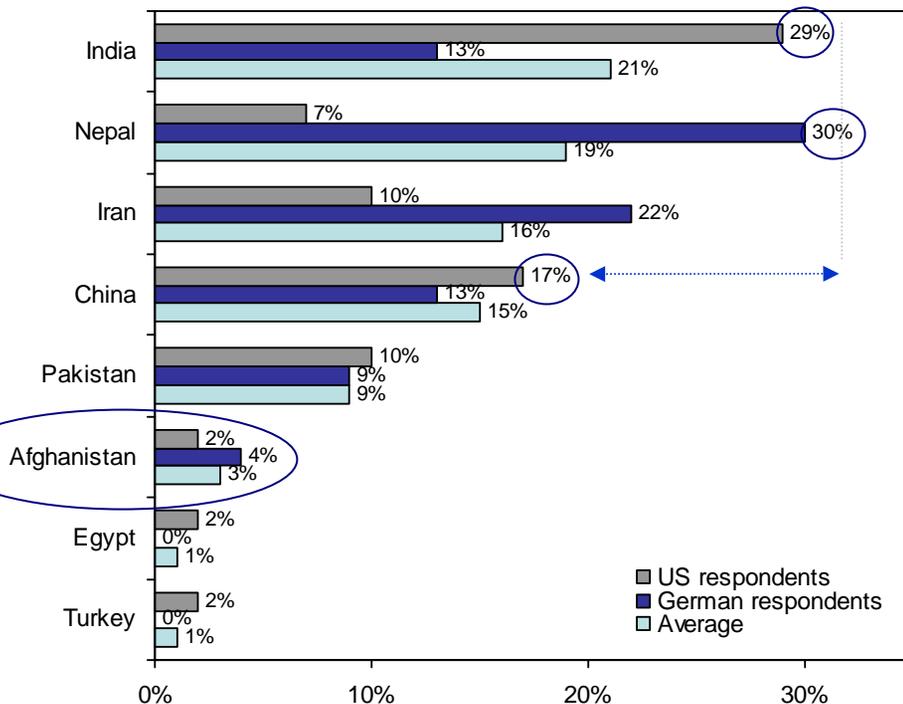


- There is considerable reluctance by American buyers to even entertain the idea of sourcing carpets directly from Afghanistan.
- In contrast, over 60% of buyers from Germany say that they are willing to travel to Afghanistan to buy carpets.

MARKET POSITIONING: BUYER PERCEPTIONS OF SUPPLIER COUNTRIES

India and Nepal enjoy strong reputations among buyers, with Iran coming in third. However, there are substantial differences in perception between markets.

Which country comes closest to being your ideal carpet supplier? (Percent of total respondents in each market)



◁ Nepal is rated very highly in Germany, but comes in 5th out of 8 in the US.

◁ There is a substantial gap between India's reputation and the second strongest, China, in the US.

◁ Afghanistan rates very low. This may in part be accounted for by limited buyer familiarity with Afghanistan (due to limited exports in comparison to other major producers).¹

1. OTF discussion with buyers in the USA revealed limited knowledge of Afghan carpet production, other than traditional varieties from pre-conflict era.

MARKET POSITIONING: INDIAN CARPET CLUSTER

Different cities have different areas of specialization. Bhadoi is the main carpet producing center, producing the widest range of carpets, with the largest production facilities.



Kashmir

“For your exquisite silk carpets.”¹

- Intricate silk carpets.



Panipat*

“For your contemporary fashion oriented tufted.”

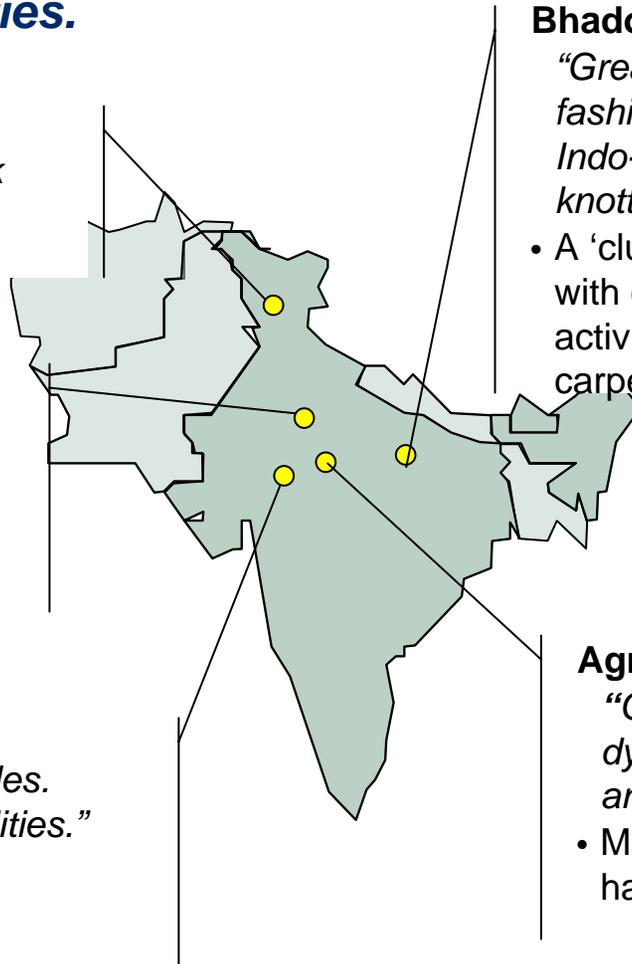
- Almost exclusively tufted carpets, both traditional and contemporary designs.



Jaipur*

“City of innovative styles. Medium and high qualities.”

- Hand-knotted carpets.



Bhadoi*

“Great ... for your cheaper yet fashion oriented hand-tufted, Indo-Tibetan and great hand-knotted of low & high qualities.”

- A ‘cluster’ in the truest sense, with over 80% of the town’s activities somehow related to carpets.¹



Agra

“City of natural vegetable dyes for recreation of your antique pieces”

- Majority of production is hand-knotted.



MARKET POSITIONING: INDIAN CARPET VALUE CHAIN, TRANSFORMING TRADITIONAL DESIGN

India does not restrict itself to traditionally Indian designs, but is quick to adopt and adapt designs from different parts of the world, creating interesting and potentially saleable products in the process.

The top carpet is an older carpet – a classic Turkmen-Afghan carpet in traditional colors. Below is a new Turkmen-Afghan design, woven in India, with the use of more contemporary colors.¹



A traditionally Afghan motif (above), often used as a secondary 'gul' on Suleman designs, is incorporated into a flat-weave kilim in more contemporary colors (right).

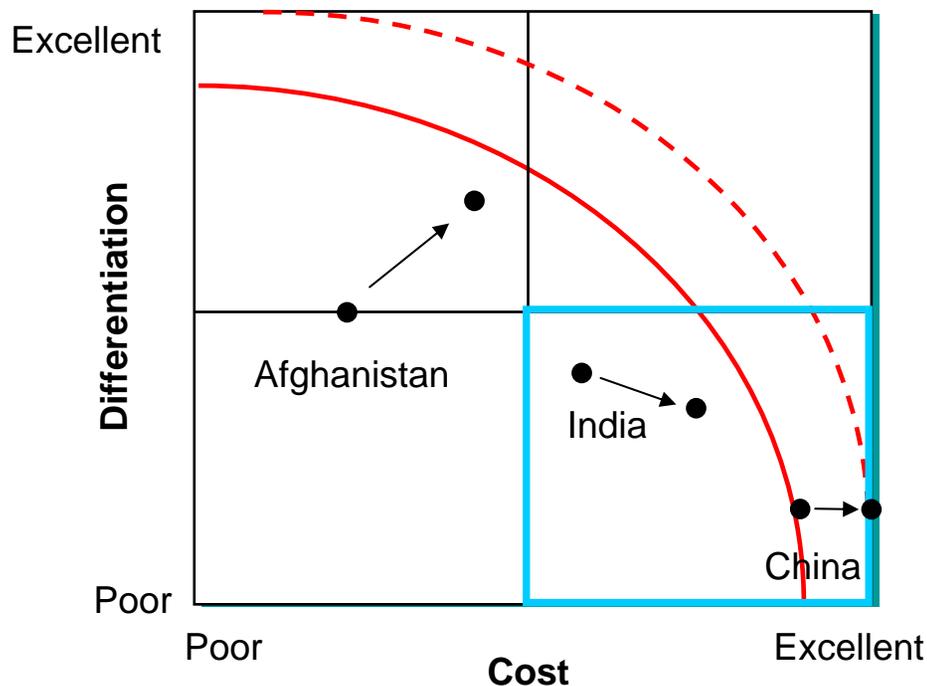


1. Quotation by US carpet wholesaler/retailer: "[Afghanistan requires] more emphasis on contemporary designs and colors geared toward fashion. Red and blue are losing ground."

MARKET POSITIONING: AFGHANISTAN'S POTENTIAL TRAJECTORY, AVOIDING THE “MOVE TO THE MIDDLE”

India is moving to the middle of the market, competing on a mix of design innovation & cost. Afghanistan is unlikely able to compete against India in these two areas in the near term. At the same time, China may be redrawing the cost axis of the productivity frontier.

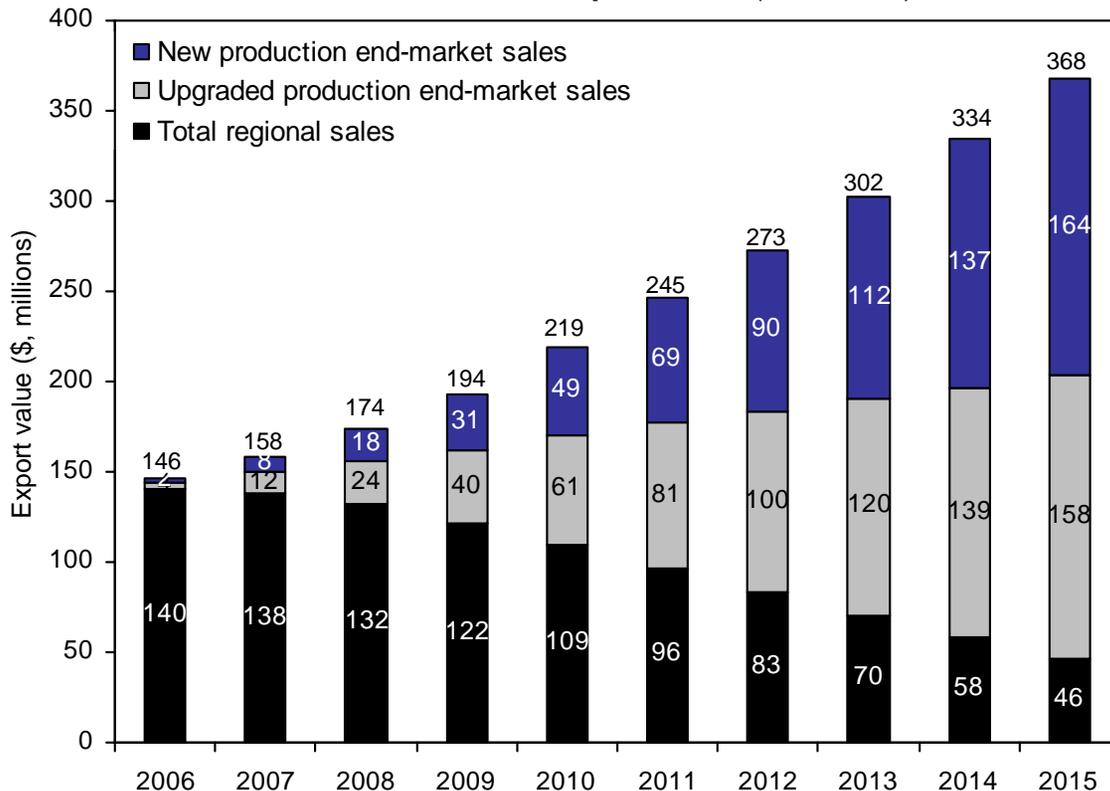
Intense competition in the low-cost, low differentiation quadrant makes it unattractive



ACTION AND INVESTMENT PLAN: REQUIRED PRODUCTION TO SERVE NEW CUSTOMERS

Investment efforts will focus on production for direct to end-market sales. The latter will require investing in a local cut and wash sector, as well as greater spending on design and marketing.

Share of total export value (\$, millions)



TOTAL	
NPV ¹ of industry cash flow	\$84.8 M
Total investment	\$83.8 M
<i>Integrated production facility</i>	
<i>5% volume growth</i>	
NPV ¹ of IPV cashflow	\$31.5 M
Investment	\$48.2 M
Price assumption ²	2 times
<i>Distributed production network</i>	
<i>10% volume 'conversion'</i>	
NPV ¹ of upgraded DPN cashflow	\$45.6 M
Investment	\$35.6 M
Price assumption ²	1.5 times

1. NPV discount rate of 20%. Total NPV includes all production; separate DPN NPV is only for cashflow of upgraded capacity. 2. Multiple of current export sale price to regional buyers.



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THANK YOU!

**Please visit www.microlinks.org/breakfast
for seminar presentations and papers**

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Annex: Complete 5 Step Process

To be distributed as a handout

OTF GROUP 5 STEP STRATEGY FORMULATION PROCESS

