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HANDICRAFTS EXPORT GUIDE



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HANDICRAFTS EXPORT GUIDE

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Handicrafts Export Guide

The **West Africa Trade Hub (WATH)** prepared this Export Guide of best practices for West African businesses that intend to export handicrafts products to the United States, Europe and other western markets.

Thanks to Tekura and Fritete (Ghana) and the Target Corporation (U.S.) for sharing their experiences and lessons learned.

The Export Guide is organized into five sections:

I. Product Development Phase. While this is the first phase in exporting handicrafts it is also a continuous process.

II. Export Preparation Phase. What to do prior to putting a product on the market.

III. Order Negotiations Phase. Negotiating price, terms and conditions, and agreements. Includes a brief section on the different ways to pre-finance an order.

IV. Order Execution Phase. Outlines the steps to successfully executing an order, from acquiring the raw materials, to organizing production, to storing the finished product.

V. Export Procedures. Overview of documentation necessary for export and packing.

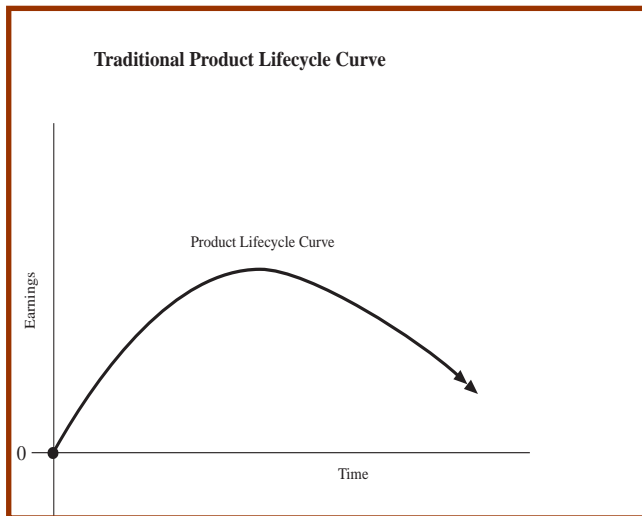
VI. After the Order. Evaluating the process – what went well and what did not. Includes tips on building trust and confidence with the buyer.

Note: If you have any feedback or suggestions to improve the Export Guide, we would like to hear from you. We expect to update it regularly.



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I. Product Development Phase



Product development is the key to sustainability in the crafts sector. Each product has a life cycle. There will come a time where the demand for a product will decline. In order to stay in business, producers have to continuously develop new products.

Every producer has to develop their own product development strategy. Some may be in a position to do it themselves, while others may have to think of finding a designer to work with.

Guidelines for product development:

1. Collecting design ideas

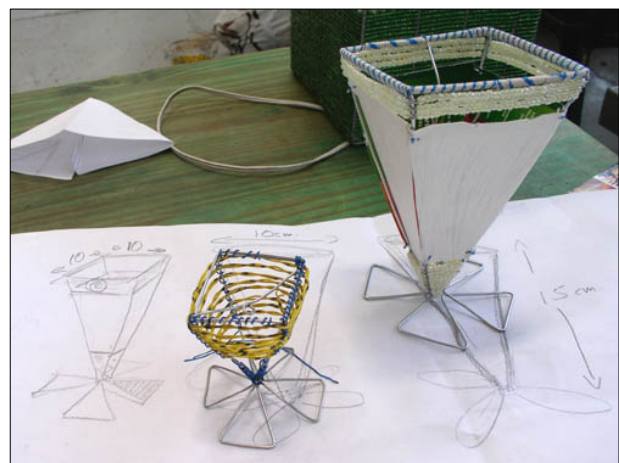
- ❑ The first stage in product development is collecting ideas and inspirations.
- ❑ Keep a sketch book where you record your product ideas (you don't have to be an artist to scribble down a product idea).
- ❑ Cut and paste pictures of products or other inspirations from magazines.
- ❑ Copy images you come across on the Internet.
- ❑ Take pictures or sketch things you see (sometimes the best ideas are found in your everyday environment).
- ❑ Familiarise yourself with current trends on the target market e.g. by looking through recent issues of home décor and interior design magazines.
- ❑ **Note! Product development is not copying but rather taking inspirations and trying to develop something different and unique!**

2. Developing your product idea

- ❑ The next stage is to develop your product idea. This could be in the form of making drawings of what the product could look like.
- ❑ **Don't get stuck with your first idea! Always try to develop alternatives!**

3. Mock-up stage

- ❑ Try to make simple, small-scale 3-dimensional models of your product ideas using readily available materials, e.g., cardboard, sticks, clay, wire etc.
- ❑ This will help you visualize and evaluate the idea, and make changes before moving on to the more expensive prototype stage.



4. **Prototype stage**

- ❑ Develop first prototypes of your products.
- ❑ The first full-scale prototypes can be made using cheap materials. This is enough to evaluate the product idea further.
- ❑ This also a stage where you can test certain aspects of your product.
- ❑ Finally, work up a first real prototype using the intended materials and bringing the product to the desired finish.
- ❑ Evaluate and test! If the product has a functional use—for example, a piece of furniture—use it yourself or give it to others to try out.
- ❑ Make changes if necessary!



5. **Developing a product line or product family**

- ❑ After developing a new product idea, try to develop a product line.
- ❑ A product line consists of different products that all use similar design elements and as such are seen to be part of a product family.
- ❑ Product lines allow you to exploit your design idea and apply it to other products.
- ❑ This allows you to spread the cost of product development across several products!
- ❑ The other advantage is that you are not only selling a single product but a product line consisting of several products.
- ❑ Many buyers are looking for product lines to buy as these are easier to sell than single items!



6. **Calculating the cost of product development**

Product development is an investment! Make sure to factor this into your pricing.

- a. How much have you invested in product development?
- b. How much did it cost to hire a designer to develop a product for you?
 - ❑ Let's assume you paid a designer \$150 for the design of a new product.
 - ❑ In addition, you spent approximately \$150 to develop the models, prototypes, do trial production runs, etc.
 - ⇒ This means your cost of product development is \$300.

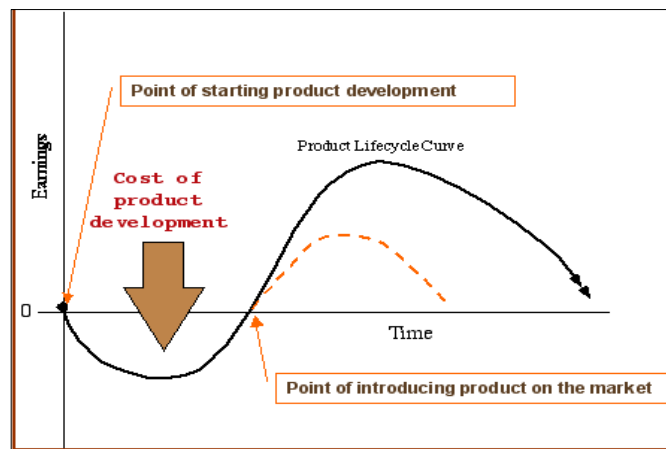
- c. How many pieces of the product do you expect to sell over the next few years?
Let's say 1000 pieces. So, your cost of product development per item is \$300/1000 pieces, or 30 cents per piece.

Now let's say your production cost (excluding your product development cost) = \$10

$$\text{cost of production} + \text{product development cost} = \$10.30$$

In other words, since 30 cents of \$10.00 = 3%, you could say your cost of product development equals 3% of production cost.

See WATH's *Finance Export Guide* for further information.



7. Development of production systems for each product

- ❑ This is one of the most critical phases of product development.
- ❑ The idea is to carefully develop production systems for each product to enable you to reproduce your prototype in the required quantity and, most of all, in the required quality.
- ❑ Do a trial run of production to identify potential problems.
- ❑ Eliminate aspects of a design that are difficult or too expensive to produce.
- ❑ Develop simple production aids—e.g., jigs, templates—to ensure efficient and consistent production.
- ❑ Develop simple product specifications sheets for each product that list things like dimensions, color, materials, motifs or patterns, critical quality points, etc.



II. Export Preparation Phase

Step 1. Estimation of production capacities

- ❑ This is the maximum number of products you are able to produce in a given time, using your production infrastructure and maintaining the quality of the product.
- ❑ This is crucial to know for negotiating order quantities and lead-times.
- ❑ Factor into your capacity estimate: labor management (absenteeism), acquisition of raw materials, quality control, drying times and other contingencies (power outages, rain).

Step 2. Packing and packaging

- ❑ Determine how products can be efficiently packed.
- ❑ Packaging should protect pieces adequately during shipment. Ensure that there is extra protection for vulnerable parts of a product, for example, protrusions and corners. This applies especially to corners of furniture items. Do **drop testing**.
- ❑ Develop a system of packing units and package sizes. Choose packing dimensions that will fit most efficiently into a shipping container.
- ❑ Develop packing details – content, dimensions, volume, and weight.



Step 3. Costing and pricing

- ❑ Price the raw materials and labor component. See WATH's *Finance Export Guide* for a sample pricing template.
- ❑ Quote **FOB (free on board) only!** Note that this includes packaging, transport, export handling, and documentation.

III. Order Negotiating Phase

This is the most crucial phase of an order. **Negotiating is the key to any business deal.** Buyers are not doing you a favor, nor should you do the buyer a favor. Both parties want to profit from the transaction.

Step 1. Price negotiations

Always negotiate prices in relation to order quantities.

Are there any extra costs you may incur? Major U.S. buyers may require that you cover additional costs yourself! For example, Target Corporation's conditions include:

- ☐ Export agency charges
- ☐ 10% new stock
- ☐ 5% defective merchandise
- ☐ 1% for 30-day letter of credit (LC)
- ☐ Packaging
- ☐ Dry bags
- ☐ Production and shipping of labels
- ☐ Insurance
- ☐ Quality control testing, including all courier charges (DHL, FedEx)
- ☐ Production samples, including all courier charges
- ☐ Participation at training sessions (these may require you to travel abroad at your own expense)



Step 2. Study contract terms and conditions

This fine print may hold the key to profitability for a business or explain why a deal may fall apart. Know or develop your own terms and conditions:

- ☐ Terms of payment
- ☐ Terms of delivery

For example, in an **ownership clause**, items remain your property until fully paid for. This is crucial if your buyer files bankruptcy before they have paid in full for your products.

- ☐ Learn to carefully study the terms and conditions of your buyer.
- ☐ Value these terms. This will quickly guide you in prioritizing the terms and deciding which are unacceptable.
- ☐ Look out for any terms or conditions regarding exclusivity, and be sure to limit these requirements to specific products and specific time frames.
- ☐ **Dispute and renegotiate terms you cannot agree to!**

Step 3. Written agreements

Put all agreements in writing and have them signed by both parties. Even if agreements are reached orally, make sure to formulate these in writing and have your buyer sign them.

Keep all emails and contracts in a separate file – you may need them if trouble arises!

Step 4. Understanding your buyer - Who are they and who does what?

- ❑ Who is your buyer? Invest the time to do some research and learn more about them. *Do they really exist? Where are they based? How are they organized? What is their core business? What is their reputation?* Much of this research can be done through visiting their website on the Internet. Speak to other companies that have done business with this buyer before.
- ❑ Try as early as possible to understand the hierarchy and division of labor in your buyer's company. Who is responsible for what? Who has the authority to make decisions? Who is your contact person?

Step 5. Pre-financing orders

Pre-financing an order may be accomplished via:

- ❑ Using your own funds
- ❑ Advance payment from the buyer
- ❑ Bank loan

Remember, banks are businesses that aim to make a profit. They are not doing you a favor. Don't be afraid to **negotiate**, especially in regards to miscellaneous bank charges.

Learn to negotiate lending terms (LC, OC, etc.). Loans in hard or local currency: what are the implications?



Solicit offers from various banks. Even if you decide to stay with your bank, this will strengthen your **bargaining position**.

Inquire whether there are donor or government loans you can apply for at more favorable interest rates. You often have to explicitly ask for these, as most banks would rather sell you their higher lending rates.

Keep your financial statements up to date, as you will be required to show these.

What securities do you have?

IV. Order Execution Phase

Step 1. Raw material acquisition

Surprisingly, the importance of raw material acquisition is often underestimated; it is one of the chief causes of waste and quality problems in production. **Raw material acquisition is the key to quality production!** For example, most five-star restaurant chefs go to the markets themselves to buy the food products they need for the day!



Step 2. Procurement

- ❑ Take time to estimate quantities of raw materials and inputs required for the production of an order.
- ❑ Buy in large quantities and use this as a **bargaining tool** to obtain discounts.

Many companies resort to buying small quantities, and then running back to buy more as stock runs out. The cost of this style of procurement is often underestimated and results from:

- ❑ Higher prices for smaller quantities.
- ❑ Extra transport cost for frequent shopping trips.
- ❑ Higher labor charge for those involved with buying.
- ❑ Inefficiency due to interruptions in production.



Step 3. Storage and distribution of raw materials and production inputs

This is another major source of waste and loss during production.

- ❑ Store raw materials properly.
- ❑ Distribute materials carefully. For example, tie the distribution of materials to expected productivity.
- ❑ Keep track of the distribution of materials.

Step 4. Production organization

- ❑ Organize your production efficiently; evaluate your production systems continuously and improve or adapt where necessary.
- ❑ Introduce **production aids** – jigs, templates, etc., to ensure consistency in production and avoid waste.
- ❑ Develop **production lines**.
- ❑ A lot of waste and damage occurs through improper handling of semi-processed pieces. The **rule** is: The less handling and movement of an item during production, the better.

Step 5. Production supervision

Develop systems for supervising production.

Step 6. Production monitoring

Develop systems with which you can project your production targets as well as continuously monitor progress. For example, use **Production Monitoring Sheets**.

Step 7. Quality control

- ❑ Quality control at **all** stages of production and not only at the end.
- ❑ Develop **quality control checklists** with key quality points for each product.

Step 8. Drying (especially of wood products)

In many cases, wood drying kilns are designed to dry beams and boards for production. A peculiar need in the African handicrafts sector is the need to dry semi-processed (carved) items, as many carvers prefer to carve the wood when it is wet.

Kiln design must therefore be adapted to accommodate smaller volumes of products, as well as larger numbers of individual items (this requires more shelving space within the kilns).



- ❑ Invest in appropriate and effective wood drying systems. These can often be constructed in a simple way.
- ❑ Invest in a good moisture meter and check moisture content regularly.

Step 9. Storage space

Provide for adequate space or shelving for the storage of semi-processed and finished products. **Make sure these are well ventilated!**



Step 10. Financial controlling

- ❑ Keep constant track of expenditures.
- ❑ Document all expenses.
- ❑ Use petty cash vouchers.

Step 11. VAT (Value added tax)

Check with your VAT authorities to determine if you are eligible to claim VAT exemption, especially when producing for export. This could amount to substantial savings in production costs.

Step 12. Communication with buyers

Develop good communication practices. Keep buyers informed about your production progress. This will foster their confidence in you. **Building relationships is critical!**

Send regular reports and discuss problems as early as possible. This gives buyers the chance to offer advice or help resolve problems or delays in production.



V. Export Procedures

Step 1. Documentation

- ❑ Certificate of origin, packing lists, commercial invoices, etc.
- ❑ When do you hand over shipping documents? State this in your terms of payment.

Step 2. Packing and labeling

Select the right packaging materials. Try to use standardized boxes for packing. This will help you obtain better discounts from your box suppliers. Most of all, it allows you and your buyer to generate precise volume estimates for an order. In this way orders can be structured to efficiently fill a container.

- ❑ Develop packing units per item and encourage your buyers to buy in these units.

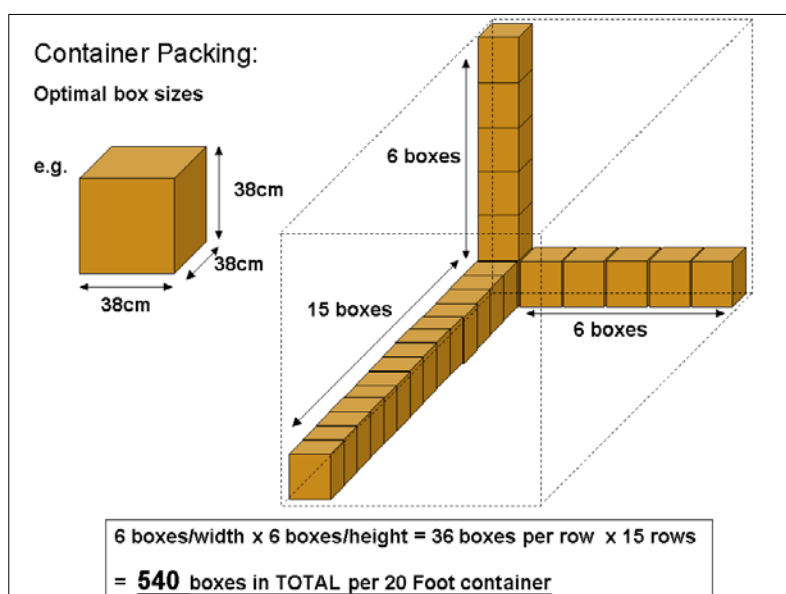
For example, if 10 Masks fit into a 38x38x38cm box; and 540 of these boxes fit into a 20-foot container... then $540 \times 10 = 5400$ masks fit into a container.

On the other hand, if a buyer places an order for 500 masks, you will be able to calculate the precise shipping volume:

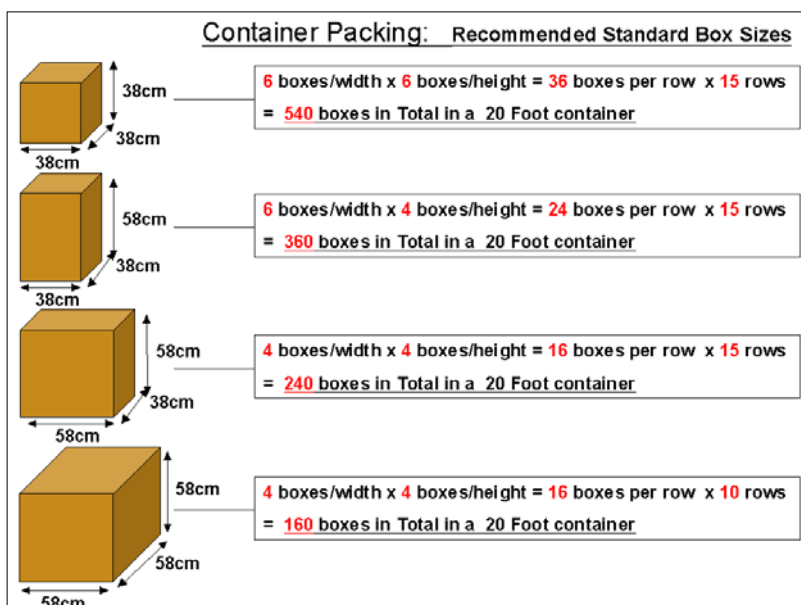
The volume of a box with the dimensions 38x38x38cm = 0,055 cubic meters

Packed 10 in a box, 500 masks will require 50 boxes

50 boxes x 0.555 cubic meters = **2.75 cubic meters total volume**



- ❑ Protect items sufficiently! The main essence of transport packaging is to protect the product from damage during shipment.
- ❑ Wrap or protect each item that goes in the box separately so that they do not rub or scratch against each other during shipment.
- ❑ Provide extra padding for sensitive or protruding parts e.g., corners of table tops.
- ❑ Always use boxes that are a few centimetres larger than the item to be packed. This is referred to as “Floating Packaging”. Fill out and pad the spaces all around the item. This ensures that even if the box is damaged, there is still adequate protection for the product.



Step 3. Labeling of boxes

- ☐ Make sure to label boxes properly.
- ☐ Each box should have a label and ideally should carry the following information:
 - Box number
 - Consignee
 - Producer
 - Type of products packed in the box (Item, size color, etc.)
 - Product codes
 - Exact number of products in the box

*** Note!** All this information should reflect in your **packing list!** Your buyer should be able to precisely locate any particular item without having to open each and every box.

Step 4. Packing the container

- ☐ Use care when handling! **Use your own packers if possible** - they know what is in each box and how it has to be handled in order to avoid damages.
- ☐ Consider that it might be safer to bring the container to your warehouse to pack it, rather than transporting the products to the harbor yourself.
- ☐ Use a “shadow-container” to trial pack.
- ☐ **Control moisture** with dry bags or fumigation.

Step 5. Packing for airfreight shipments

Note! Take special care when packing goods for airfreight shipments. Unlike container shipments where items are generally well protected during transit and only directly handled when packing and unpacking the container, airfreight is notorious for **extremely rough handling!** Each box sent by air is handled several times. Boxes are loaded and unloaded, sorted and distributed several times before the box finally reaches its destination. This is done either manually or on conveyor belts. Boxes are thrown and tossed around, fall off conveyor belts, have other, sometimes heavier boxes packed on top of them, etc. All this calls for extra protective packaging.

- ❑ Pad items extremely well in the boxes.
- ❑ Use only extremely sturdy boxes (at least 3-ply).
- ❑ A strategy is to use two boxes, an inner and an outer box. Ideally the outer box should be a bit bigger than the inner box and the spaces stuffed with paper or cardboard strips.
- ❑ Palletize boxes, especially when shipping more than a cubic meter of boxes. You can usually obtain such re-used pallets from the air cargo agents. The advantage is that pallets cannot be handled by hand or on conveyor belts. They have to be moved with forklifts or manual pallet moving equipment. You can also obtain large pallet boxes that fit the pallets. This gives added protection. **Be sure to fasten the box onto the pallet so that it can not slip off during lifting, etc.**
- ❑ Inquire with your air-cargo agents to find out about specifications and size limits.



Palletized box for airfreight shipment

VI. After the Order

Step 1. Evaluation

Take the time to carefully analyze and evaluate the order:

- ☐ Where did things go wrong?
- ☐ What needs to be improved or avoided in future orders?
- ☐ What worked well and should be instituted for all future orders?

If possible, develop a **bonus system** for your workers to reward them for the successful execution of an order. Show your appreciation and commend them!

Step 2. Finances

- ☐ Pay off your loans ASAP to cut interest rates to a minimum.
- ☐ Review your expenses and critically determine your actual profit margin.
- ☐ Review your prices and adjust if necessary.

Step 3. Follow-up with your buyer

- ☐ Has the shipment arrived on time?
- ☐ Are the products in good condition?
- ☐ Is the buyer happy with the quality of the products?
- ☐ How are the products selling?
- ☐ Can they offer any other useful feedback?

Again, this is all about building **trust** and **confidence** with your buyer.

Step 4. Claims

- ☐ Offer to replace damaged products for which you are responsible.
- ☐ **Avoid offering cash refunds** or deductions from your final payments.

