Africa Can Compete!

World Bank Study and Lessons Learned On Exports of Afrocentric Garments

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Exports of Afrocentric Garments

"This case is indicative of difficulties which arose in all three Afrocentric garment programs studied."

World Bank study

Background

- J C Penney: an $18 billion retailer with 1,283 stores in the US
- Launched "Authentic African" merchandise program November 1991
- Utilized Dallas, TX (USA) intermediary & Senegalese manufacturer
- Initial small test order deemed a success

- **Program increased from 20 to 100 stores (five fold increase) with same intermediary & manufacturer**
- **Problems began**

5 Fundamental Issues

1. Mismatch between scale & technical competence of the African exporter & the US buyer
2. Inability on the part of the African exporter to negotiate realistic price
3. Lack of familiarity of African exporter with financial institutions & instruments in International trade
4. Differences in *“business culture”*
5. Inexperienced intermediary

Mismatch between scale & technical competence of African exporter & US buyer

Problem:

Large, sophisticated buyer

Small, less sophisticated manufacturer

Solution:

Select your buyers carefully

Don't over commit

Inability on the part of the African exporter to negotiate realistic price

Problem:

African supplier was unaccustomed to tough negotiations & failed to negotiate a price it could sustain

Solution:

Calculate production and overhead costs with great care and detail

Don't agree to a price you can't live with

Lack of familiarity with financial institutions & instruments in International trade

Problem:

Financing of the transaction was the greatest obstacle to successful order fulfillment

Unfamiliar and lengthy payment procedure

Solution:

Make friends with your banker!

Research payment methods and issues

Address deposits, payment terms, date of payment in advance

Differences in *"business culture"*

Problem:

US buyers employ "Quick Response Inventory Management"

Supplier unaccustomed to urgency, accustomed to flexibility

Solution:

Organize, streamline, systematize for efficiency and responsiveness

Embrace the attitude!

Inexperienced intermediary

Problem:

Intermediary failed to instruct supplier on key buyer expectations and their importance

Solution:

Choose your partners carefully

Educate yourself

Educate your partners

Lessons: Afrocentric Garments

- Large US retailers’ orders are complex & require adherence to detailed instructions. African suppliers must realize their local market experience has not prepared them for those challenges and realistically assess their readiness to deal with developed country market requirements.

Source: *Africa Can Compete!* World Bank Report

Lessons: Afrocentric Garments

- US orders also require adherence to strict quality standards. Exporters must therefore set up stringent quality controls, especially for artisanal products, along every step of the way. The quality control should extend to every aspect of the operation, including packaging goods in accordance with international shipping norms.

Source: *Africa Can Compete!* World Bank Report

Lessons: Afrocentric Garments

- US retailers operate in markets with extreme price competitiveness, unlike the markets which domestic African producers supply. Thus, price negotiations with US retailers are crucial; to negotiate effectively, producers must understand all elements of their production costs.

Source: *Africa Can Compete!* World Bank Report

Lessons: Afrocentric Garments

- Letter of credit financing for garment trade between the US and Africa are integral to the process. African producers need experienced financial management to deal with the complexities in the structure of multiple LCs and they need to build strong local banking relationships.

Source: *Africa Can Compete!* World Bank Report

Lessons: Afrocentric Garments

- The issue of business culture differences does not suggest that JCPenney – or any other company – cannot source in Africa, nor that companies should reduce their orders to lower levels. If anything it is the other way around: African producers are going to have to learn to change their ways if they are going to be successful in international markets.

Source: *Africa Can Compete!* World Bank Report

Lessons: Afrocentric Garments

- Strong intermediaries can play an important role in facilitating early stage garment exports to large retailers. They bridge key knowledge gaps such as making the producer aware of buyer timing and specifications, keeping the buyer abreast of the status of production and monitoring export finance flows. Conversely, a weak intermediary can jeopardize a transaction, for both parties assume these issues are being handled when they are not, thus causing costly mistakes.

Source: *Africa Can Compete!* World Bank Report