

Strategizing The International Competitiveness of The Nepalese Pashmina Industries

2 0 1 6

Applied Management Research



switchasia
PROGRAMME



UCLAAnderson
SCHOOL of MANAGEMENT

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Preface

It is our great pleasure to introduce you “Strategizing the International Competitiveness of the Nepalese Pashmina Industries”, a joint project of Mercy Corps Nepal and University of California, Los Angeles (UCLA). As an initiative of the European Union funded project “Enhancing the Sustainability and Profitability of the Carpet and Pashmina Industries of the Kathmandu Valley”, Mercy Corps Nepal in partnership with UCLA Anderson School of Management - Applied Management Research (AMR) department carried out this research.

Although Pashmina is the third major export commodity of the country, the sector still lacks research and development due to limited capacity, resources and the ability to extract information. Market is an ever changing phenomena and it is extremely important for any business to better understand market dynamics. A process for continuous market observation, analysis regarding Price, Demand and Supply dynamics, consumer behavior, consumer buying pattern is highly required and is essential .

The team has put a lot of hard work in conducting this comprehensive study with wider stakeholders inclusive of end consumer, wholesaler, supporting organization and manufacturers. The team used various primary research technique tools such as key informant Interviews, Focus Group Discussion, Mystery shopping and Visiting Factory Operation to conclude the findings. Furthermore, the team examined various Trade Agreements and Organizations to support Nepalese Cashmere in United States and in Nepal as secondary research.

The team has come up with various marketing, brand building and brand communication strategies. Most importantly, the recommendations for low cost marketing attributes complementing to ‘Chayngra Pashmina Certification’, ‘fair trade certification’, and ‘eco-friendly certification’ , ‘use of word cashmere’, to raise further competitiveness in addition to Minimum Order Quantity (MOQ) of Pashmina as well.

Mercy Corps Nepal would like to thank the researchers, Benjamin Chung, Daniel Menaged, Brendon Pezzack, Kevin Shah and Ariel Wen for their efforts in successfully carrying out the research. Mercy Corps Nepal would also like to thank UCLA, Anderson School of Management for their support in this project. We would also like to sincerely acknowledge the Nepal Pashmina Industries Association (NPIA) for their cooperation during the course of the research.

I believe that this AMR document will enable the Nepalese Pashmina Industries and the association to better understand the target market priorities. Moreover, we believe that the recommendations from the report will help the individual Pashmina SMEs to strategize their businesses to become more competitive in the International market.

Sincerely,

Sanjay Karki
Country Director
Mercy Corps Nepal

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Executive Summary

Project Objective

Mercy Corps is a global non-profit organization focused on international development. The Mercy Corps Nepal office is currently executing several projects. The AMR Team engaged directly with the Mercy Corps Nepal office to assist with the SWITCH-Asia project. SWITCH-Asia is intended to enhance the sustainability and profitability of the Nepali pashmina industry by promoting manufacturers to switch to cleaner and more efficient production processes. The goal of the SWITCH project is to improve production processes via market-driven forces and leverage existing local resources to improve the sales and profitability of the sector. This study is primarily focused on avenues to increase pashmina exports and generating additional business opportunities for the industry, which experienced a 91% decline in exports between 2008 and 2013.¹

Methodology

Research and analysis focused on three areas to determine the most suitable competitive strategy for Nepali Pashmina Producers:

1. Customer preferences and market opportunities
2. Competitive landscape
3. Small and Medium Enterprises (SMEs) in the Nepali pashmina industry

Primary data was collected through one-to-one interviews, focus group discussions, and a customer survey. Data was collected on two separate trips to Kathmandu, Nepal, the International Textile and Apparel Association conference in Santa Fe, and a merchandise sourcing trade show in Las Vegas called MAGIC. Secondary source review included academic studies about the cashmere industry and information made available through trade associations in Nepal.

Key Findings and Recommendations

Key findings from primary and secondary research revolved around the following key topics:

1. Marketing, labeling, and certification
2. General business practices
3. Business operations and documentation
4. Sourcing raw materials
5. M&A within the industry

The recommendation for each topic and specific implementation steps are outlined in detail for Mercy Corps as next steps. These include

1. Marketing high value and low cost attributes
2. Providing business training to SMEs
3. Providing documentation training to SMEs
4. Importing raw materials in bulk through a co-op
5. Pursuing acquisitions of failed SMEs

¹ Pashmina Market Map, Mercy Corps. Accessed October 27, 2015.

Introduction

Mercy Corps

Mercy Corps is a global non-profit, humanitarian aid organization that aims to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities. The organization has completed projects across the globe in least-developed and developing countries. Mercy Corps engages in projects in countries that have recently experienced natural disasters, economic collapse, conflict or other critical events. Engagements can range from tactical projects where people move as quickly as possible to bring food and supplies to a country impacted by natural disasters to strategic projects where the goal is to lay the groundwork for longer-term recovery through changes to government and local businesses.

The organization has grown tremendously since its founding in 1979 by Dan O'Neill and has helped 16.7 million people in over 40 countries. Mercy Corps employs 3,700 people worldwide and more than 93% of the field staff are from the countries where they work. For the purposes of this project, the UCLA Anderson AMR team (from now on referred to as the "AMR team") worked with the Mercy Corps office in Kathmandu, Nepal, (from now on referred to as "Mercy Corps Nepal") on the project described below.

SWITCH-Asia: Mercy Corps Nepal Background

Mercy Corps Nepal has been pursuing a project called "Enhancing Sustainability and Profitability of the Carpet and Pashmina Industries in the Kathmandu Valley," or the SWITCH-Asia Project. For the project, Mercy Corps Nepal and the AMR team agreed to focus on the pashmina industry. Initiated in 2014, the SWITCH-Asia Project is funded at \$1.5 million USD over a 3.5 year period by the European Commission. The SWITCH-Asia Project aims to implement changes for cleaner and more efficient production processes in the pashmina industries of Kathmandu Valley in Nepal. Pollution is a critical problem in Nepal, which is ranked 177 out of 178 countries for air quality in the 2014 Environmental Performance Index.² Pashmina factories have been polluting nearby bodies of water with chemicals and dyes from the manufacturing process. Many factories lack wastewater treatment plant facilities and instead dump polluted water directly back into the environment. These businesses consume a significant amount of electricity, diesel, liquid petroleum gas, and even wood during fuel crisis, all of which contributes to air particulates. The SWITCH-Asia project aims to modernize factory processes and enhance the profitability of the sector while also improving Nepal's pollution problem.

The SWITCH-Asia team, comprised of four members in the Mercy Corps Nepal office, works closely with several partners in Nepal. Refer to Figure 1 for an illustration of the relationship between partners and stakeholders in the AMR project. SEED Nepal, the implementation partner, is key in socializing proposed strategies of the AMR team. The SWITCH-Asia project has defined a list of 30 specific pashmina companies as beneficiaries. These beneficiaries, also referred to as Small and Medium Enterprises ("SME"), range in the size and sophistication of operations.

² "Country Rankings." Environmental Performance Index. January 25, 2014. Accessed January 11, 2016. <http://www.epi.yale.edu/epi/country-rankings>.

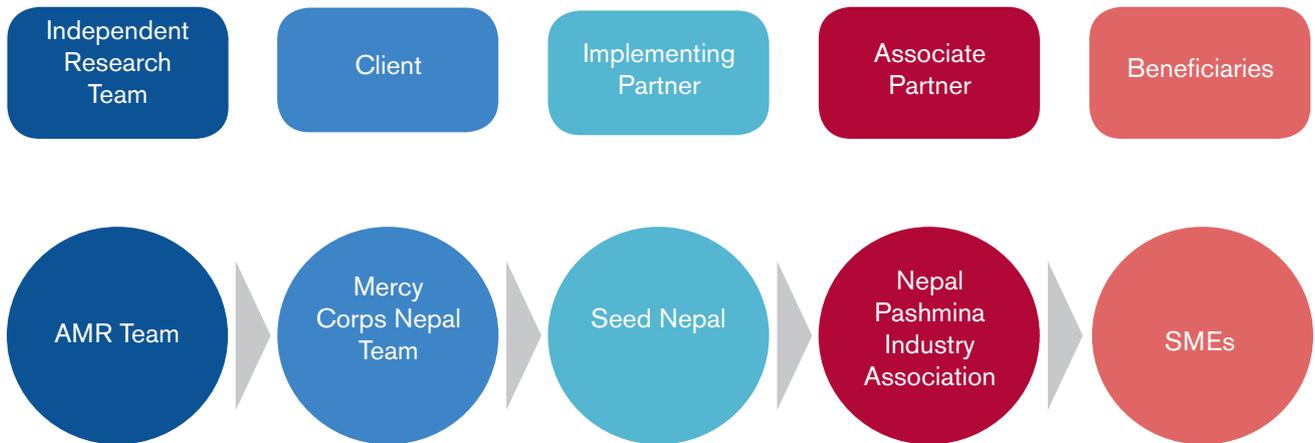


Figure 1: Project stakeholders include client, implementation partner, and beneficiaries. The AMR team is developing recommendations for Mercy Corps Nepal to implement with the help of SEED Nepal and NPIA as key partners. The SMEs are the beneficiaries of the project.

The project focuses specifically on the pashmina industry and 30 pashmina SMEs are beneficiaries of the SWITCH-Asia project. There are 157 companies registered with the Nepal Pashmina Industries Association (“NPIA”), a trade association. In the context of this project, SMEs in the pashmina industry are largely contract manufacturers, meaning they receive orders from external clients and produce pashmina products that meet order specifications. However, businesses associated with the project range in profitability, sophistication, and scale. The 30 SMEs included in this project can be characterized by annual sales, production capacity, trade shows visited per year, number of customer accounts and types, proportion of business that is export-based, and the method in which raw materials are sourced. Please see Table 1 for examples based on primary research. The AMR team has defined these 30 SMEs as the primary focus for the team’s research and recommendation efforts.

Annual Sales	\$0.25M to \$3M
Output Per Year (cashmere garments)	4 to 40 thousand pieces
Trade Shows Visited Annually	1 to 30
Sourcing of Raw Materials	Chinese supplier, Local Nepali importer, or Customer Supplies Yarn (lab verification of purity often required)
Customer Accounts	5 to 10
Customer-types	Non-brand name retailers, Boutiques, High fashion houses, International brands
Proportion Export	60% to 90%

Table 1: Select SME characteristics. Ranges based on primary research with SMEs

Nepali Pashmina Industry Background

Pashmina is the fine fiber derived from the neck and soft underbelly of goats that are found in cold and mountainous areas of Asia. The fabric has exceptional insulating properties and is considered a superior material to sheep's wool. The meaning of "pashmina" differ between cultures and context and causes confusion among consumers. In the context of this report, pashmina fabric is equivalent to cashmere fabric. Outside of Nepal, this fabric is often marketed as cashmere since cashmere has greater consumer awareness. The fabric is frequently used in textile garments such as shawls, sweaters or scarves. The fur is expensive to collect, process, and manufacture, demanding a premium price when purchased in developed countries since the fur can only be harvested once a year. One goat produces approximately 300 grams of raw cashmere, or contributes to roughly a third of a scarf.³ Processing the raw fiber into yarn is either an extremely time consuming manual process or require expensive cashmere spinning machines. Currently, Nepal has no capability of producing cashmere yarn because the country does not produce enough raw material and it does not have the spinning machines. Nepal imports cashmere yarn from Mongolia and China. As of 2005, China and Mongolia produced roughly 90% of processed cashmere.⁴

The pashmina industry is the third leading source of exports for Nepal, trailing only the tourism and carpet industries. It represents a significant source of employment and economic development in Nepal. At its peak in 2001, the industry created an estimated 50,000 local jobs and generated over \$80

million USD in foreign earnings. By 2010, employment had dropped to 5,000 jobs. Exports value fell precipitously to \$1.9 million by 2013. The pashmina industry has been a prioritized export commodity for the government of Nepal due to its potential for driving economic development. The Nepal Trade Integration Strategy report of 2010 claimed that an expansion of market demand could double this employment figure.⁵

In the late 1990s, pashminas were high in demand in the fashion world.⁶ Unfortunately, the global pashmina production capacity increased to meet that demand just as popularity began to wane. While many pashmina companies enjoyed higher margins in the 1990s, as production came online and demand decreased, new entrants from China and India flooded the marketplace with inferior cashmere products.⁷ These products claimed to be 100% cashmere, but were often in fact blended with synthetic fibers such as viscose. Over the past decade, these forces drove down the value of Nepali pashmina exports and external factors such as the U.S. recession also contributed to the decline of Nepali exports. From 2008 to 2013, Nepali pashmina exports dropped from \$22 million USD to \$1.9 million USD.⁸

The NPIA was formed in 2000 to promote competitiveness of the sector in the face of other industries such as China and India. Among other initiatives, the NPIA has registered the Chyangra Pashmina Trademark in 41 countries in hopes to differentiate and help claim authenticity of Nepali pashmina.

3 "Caprine Fiber Production - The Goat Guide." The Goat Guide. February 10, 2016. Accessed March 02, 2016. <http://thegoatguide.com/caprine-goat-information/goat-uses/mohair-and-fiber-production/>.

4 Lecraw, D., Eddleston, P., McMahon, A., A Value Chain Analysis of the Mongolian Cashmere Industry, (Mongolian Economic Policy Reform and Competitiveness Project, USAID.) May 2005

5 D.R., Khanal. "Rules of origin in GSP schemes and their impact on Nepal's exports: a case study of tea, carpets, pashmina and handicrafts products". Asia-Pacific Research and Training Network on Trade. No. 98. April 2011.

6 Skenazy, Lenore. "Pashmina, shmashmina." NY Daily News. 11/21/1999. Accessed 2/28/16. <http://www.nydailynews.com/archives/opinions/pashmina-shmashmina-article-1.855409>.

7 Shakun Sherchand (owner of Himalayan Spirit 8848), interview by Kevin Shah, February 5, 2016.

8 Anil Shrestha, Nepal Trade Integration Strategy 2010, (Kathmandu: Govt. of Nepal, Ministry of Commerce and Supplies, 2010), 80.

Project Objective and Scope

The objective of the project was to sustainably increase the revenue and profitability of the Nepal pashmina industry by tapping into U.S. markets.

The project included the following scope:

- Market analysis, including customer preferences and opportunities in niche markets
- Current state assessment and gap analysis for potential marketable attributes
- Competitive analysis of the industry and identification of factors that differentiate the products produced in Nepal vs. those from China and India
- Strategy recommendations to improve competitiveness of the sector through new market initiatives

Several macro-level issues related to doing business in Nepal were identified as critical to the success of the project but fell outside of the scope. These issues included government regulation, socio-political unrest, fuel crisis caused by an unofficial trade embargo, and Nepali business infrastructure. Although outside the scope of the project, the AMR team has sought to build tangible recommendations to address these issues, considering the magnitude and implications of these factors.

Methodology

Primary Research

The AMR team collectively conducted 109 interviews over approximately 229 hours during the project duration. The total primary research hours consists of 111 interview hours and 119 other primary research hours. Other Primary Research (“OPR”) time was spent coordinating interviews, visiting factory operations, conducting mystery shopping activities, designing surveys, planning focus groups and analyzing the data collected from all the activities above. A summary of the interview hours (Figure 2) and OPR time (Figure 3) is included below.

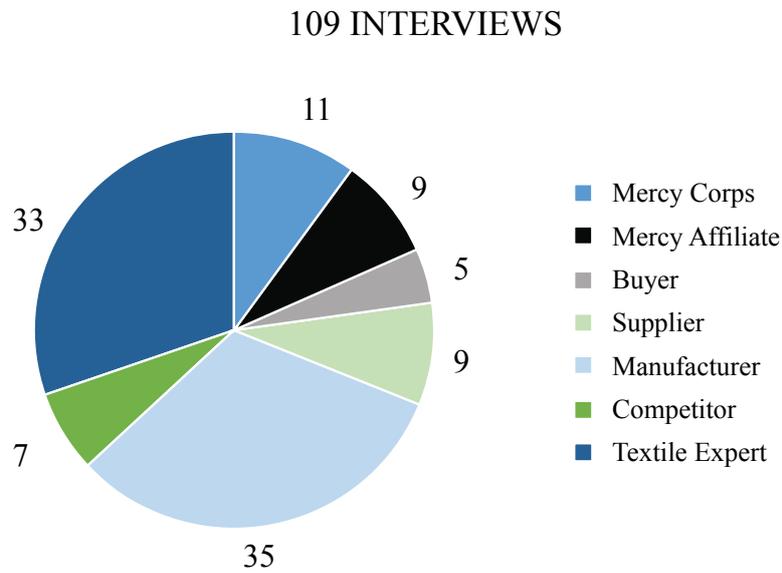


Figure 2: Breakdown of Primary Research Interviews

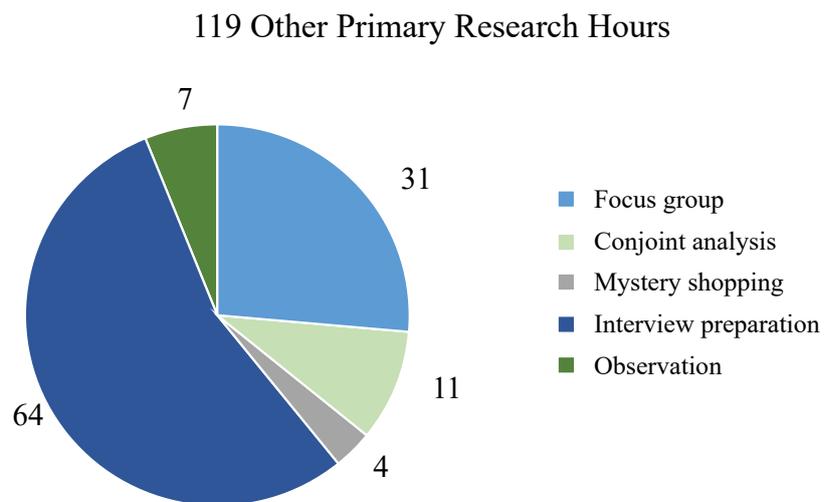


Figure 3: Breakdown of Other Primary Research Hours

There were six main activities that provided primary data and interview subjects:

1. 2015 International Textile and Apparel Association Annual Conference
(November 11, 2015 - November 13, 2015)

Two AMR team members attended the textile conference and interviewed academics and practitioners in the fashion, textile, and apparel industry. The team spoke to several key industry experts and practitioners that have experience in the pashmina, fair trade, artisanal crafts, and ethical production of textiles. See Image 1.



Image 1: The AMR team interviewed fashion and textile experts at the 2015 International Textile and Apparel Association Conference.

2. Wave 1 Trip to Kathmandu Valley, Nepal
(January 4, 2016 - January 11, 2016)

In the first trip to Nepal, three members of the AMR team learned about the production processes and problems facing the pashmina industry first-hand from local Nepali practitioners. The team collected data from local businesses via factory visits (see Image 2) and gained perspective



on the functions of the NPIA and other local partners that would be helpful for implementation of future project recommendations.

Image 2: Pashmina factories in Nepal had a mix of hand and machine looms. Machine looms are pictured here.

3. Pashmina Focus Groups (17 total participants)

(January 22, 2016 - January 28, 2016)

All members of the AMR team conducted four 2-hour focus group sessions with UCLA Anderson students to better understand consumer preferences of pashmina products. The team used qualitative information to calibrate the customer survey and to test the statements made by buyers and other practitioners in the industry. A standard operating procedure ("SOP") outlining the activities and questions asked during each focus group is included in Appendix I. There were four parts to each focus group. See Image 3.

1. Understanding General Cashmere-Buying Behavior. Participants revealed their favorite stores, favorite brands, favorite products, shopping patterns, and the types of people for whom they purchase cashmere in a round table discussion.
2. Reactions to Different Cashmere Marketable Attributes. Participants discussed their thoughts on various certifications that clothing companies could use to market their products. They were also asked to rank all the attributes together as a group from most important to least important.
3. Product Quality Comparison (Nepali vs. Domestic Brands). Participants were presented with a scarf and a sweater from Bloomingdale's and a similar scarf and sweater from a Nepali manufacturer Harati Pashmina. They were blinded to the brand of each product. Participants were asked to compare and contrast the scarves and sweaters both before and after the brands and prices were revealed.
4. Marketing Strategy Using Online Videos. Participants watched three different online videos created by socially-conscious, artisanal organizations before providing their impressions of the manufacturer's pitches to the consumer. This exercise was intended to pinpoint what characteristics a cashmere manufacturer in Nepal should emphasize when speaking to an American consumer via the internet.
 - a. Organization: Mirror in the Sky (2:18 minutes).⁹
 - b. Organization: Shawl Wallah (2:38 minutes).¹⁰
 - c. Organization: The Ants Crafts (3:00 minutes).¹¹



Image 3: Focus group participants prioritize characteristics in order of importance

- 9 Boustead, Robin. "Inspiring Handmade Scarves by Mirror in the Sky." Indiegogo. June 5, 2015. Accessed November 22, 2015. [https://www.indiegogo.com/projects/inspiring-handmade-scarves-by-mirror-in-the-sky#/.](https://www.indiegogo.com/projects/inspiring-handmade-scarves-by-mirror-in-the-sky#/)
- 10 Doudican, Greg. "Ethical Pure Pashmina/Cashmere Shawls." Kickstarter. September 6, 2014. Accessed October 28, 2015. <https://www.kickstarter.com/projects/1123453095/shawl-wallah-ethically-produced-pashmina-cashmere/description>.
- 11 Krishnappa, Pradeep. "The Ants Craft." Indiegogo. January 3, 2015. Accessed November 9, 2015. [https://www.indiegogo.com/projects/create-livelihoods-for-artisans-in-northeast-india#/.](https://www.indiegogo.com/projects/create-livelihoods-for-artisans-in-northeast-india#/)

4. Wave 2 Trip to Kathmandu Valley, Nepal

(February 1, 2016 - February 8, 2016)

Compared to the first trip, the second trip to Nepal focused on interviewing pashmina SMEs. Two members of the AMR team attempted to find more quantitative data on revenue, order size, and cost structure of SMEs. The team hypothesized strategic recommendations and used primary research to substantiate or refute these claims. Additionally, interviews with SMEs as well as Mercy Corps were used to socialize ideas, gauge acceptance, and develop improved implementations for future recommendations. See Image 4.



Image 4: The AMR Team interviewed Euro Pashmina and learned about a scarf that sold 10-15 million pieces over its product lifecycle. Unfortunately, they lost the business to Indian competitors.

5. Women's Wear Daily MAGIC Fair Trade Show and Exhibition

(February 16, 2016 - February 18, 2016)

Three members of the AMR had the opportunity to talk to large retail buyers of pashmina products and other textile products from around the world. The team gained perspective on what buyers seek when sourcing products from least developed countries such as Nepal. The team also interviewed producers of pashmina products from other countries that directly compete with Nepal for foreign buyers. See Image 5.



Image 5: The AMR team at the MAGIC fashion trade show and exhibition

6. Survey Measuring the Value of Marketable Attributes (164 total respondents)

(February 12, 2016 - March 2016)

Based upon the results of the focus groups and interviews with industry affiliates, the team designed an online survey. This survey provided the raw data required for a conjoint analysis,¹² an analytical technique that determines the value associated with each of various marketable attributes on a cashmere sweater. The findings can be extrapolated to cashmere products in general. The survey questions are found in Appendix II. The results of this survey allowed the AMR team to calculate the willingness-to-pay and the relative importance weight for the following seven different product attributes when buying cashmere clothing:

1. Country of Origin. This attribute was designed to test the value of a product “Made in Nepal” vs. “Made in India” or “Made in China.”
2. Eco-Friendly Production. Testing the value of an eco-friendly production certification vs. the absence of any certification.
3. Fair-Trade Certified. Testing the value of a fair-trade production certification vs. the absence of any certification.
4. Hand-Woven using Traditional Methods. This variable was included to capture the value that some consumers would place on a handmade product vs. a product made using standard manufacturing. There are many different variants of handmade products in the cashmere industry (depending on which steps in the production process are automated), but the difference were too complex to explain to survey takers. Therefore this variable should be interpreted as “handmade-ness” in general.
5. Chyangra Pashmina. This is a special certification created and verified by the Nepali government for a particular goat subspecies (explained below). At the start of the survey this certification was briefly explained to the reader and a picture of the label was provided for their reference. The label’s connection to Nepal was blinded. This variable was intended to capture the value a consumer would place on the Chyangra Pashmina trademark, and to control for SMEs which already contain this trademark in their brand and are debating whether to add additional certifications.
6. Brand. This variable was included to test the value of a familiar brand vs. an unfamiliar brand. During the conjoint analysis this variable would be listed as either Bloomingdale’s, a well-known retailer, or Harati, a SME brand name that is unfamiliar to survey participants.
7. Price. This variable was included to establish a specific value for all the relative importance weights calculated within the conjoint analysis. The price variable could take on four different values: \$60, \$120, \$180 and \$240; the highest and lowest prices were slightly above and below the general range of prices found on the market for all the various combinations of attributes above.

12 Conjoint analysis is a statistical technique used in market research to determine how people value different attributes (feature, function, benefits) that make up an individual product or service.

The survey also collected the following shopping, demographic, and socio-economic information about all survey participants:

1. Highest education level
2. Whether or not they are an Anderson student
3. Current income
4. Gender
5. Age
6. Country of residence
7. Country of birth
8. State
9. Postal code
10. Money spent on clothes per year
11. Money spent on cashmere per year
12. Stores frequented when buying cashmere

Survey participants were provided with a list of stores/websites and were asked indicate whether they shopped for cashmere at each location. In addition, participants were also given the opportunity to write in any additional stores not included in the survey. A graphic representing the percentage of individuals who shopped at all these stores is included in Appendix III.

Secondary Research

The AMR team buttressed primary research with secondary sources and examined existing studies about the cashmere industry for insights about the global market and competitors in the industry. Additionally, the team researched the organizations that support the cashmere industry both in Nepal and the United States to identify available resources. Finally the team drew upon existing research that examined and quantified the power of certifications in the context of consumer goods.

General Findings

Factory Layout

Companies in the Nepali pashmina industry often face difficult circumstances and limited resources. Nonetheless, the AMR team often observed suboptimal factory layouts. A number of factories had poor layout, dim workspace lighting, and improper usage of chemicals. Factories had cramped and disorganized spaces, workers shared inadequate light sources that decreased quality of production under dim lighting, and dye masters measured dye amounts by siphoning the liquid with his mouth on the glass dropper rather than squeezing the rubber bulb of the dropper. These problems are all precipitated by constrained financial resources and can be alleviated with either external funding or proper education socialized through the right individuals. In a factory, proper exits, clearly denoted spaces, and organized work areas need to be built, well-lit spaces need electricity which can be expensive and unpredictable based on power outages, and the rubber on rubber droppers deteriorate with age and replacement costs may not pass cost/benefit analysis for a small SME. Firstly the owners of SMEs need to realize the importance of making changes and secondly the workers must be open to behavioral changes in the way they work. Both will take time through efforts proper education and making the changes a new social norm.

Competitive Analysis of China and India

Nepal had a thriving pashmina industry in the 1990's when the "pashmina shawl" became a popular fashion item in North America and Europe. After initial successes as the major exporter of pashmina products, Nepal began to face significant pressures from as India

and China. These players began to dilute the brand of the word "pashmina" which had two major consequences. First, the word "pashmina" became strongly associated with the word "shawl" and moved away from being the equivalent of cashmere, which to this day causes a lot of confusion in the marketplace. Secondly the Chinese and Indian producers began to flood the market with low-cost, low-quality alternatives to pure pashmina and the true value of both pashmina and "pashmina shawls" was diluted and prices began to drop in the marketplace.¹³

Additionally, changes in the fashion industry have favored the Chinese and Indian producers, who have put considerable investment in the ability to produce a high volume of garments at low cost. Over the past decades, the fashion cycle has accelerated. Brands have switched from relatively high margin products released in 4 seasonal rotations, to a model of lower quality, lower margin products released continuously. This resulted in a decreased luxury clothing market. Furthermore, there has been a vertical disintegration in the industry value chain. Increasingly, brands rely on contract producers in countries with low cost of labor and large output capacities. This industry trend, "fast fashion," has benefited India and China.¹⁴

The Nepali Earthquake

The analysis conducted by the AMR Team suggests that the Nepali earthquake had a limited physical impact on the pashmina industry in Nepal. Most of the pashmina production houses are small, and the physical infrastructure required to create pashmina products were fairly untouched. The true impact of the earthquake was driven by a severe downturn in the tourist industry, the

13 Anil Shrestha, Nepal Trade Integration Strategy 2010, (Kathmandu: Govt. of Nepal, Ministry of Commerce and Supplies, 2010), 80.

14 Lecraw, D., Eddleston, P., McMahon, A., A Value Chain Analysis of the Mongolian Cashmere Industry, (Mongolian Economic Policy Reform and Competitiveness Project, USAID.) May 2005.

largest economic sector in the country, and the loss of private and entrepreneurial savings. A significant number of defaults occurred although the country is traditionally very conservative from a financial perspective.¹⁵ The Nepali government has had limited success managing the cleanup efforts. Image 6 depicts some of the damages from the earthquake when the AMR Team visited the Central Carpet Industries Association in Kathmandu.

Domestic Political Conflicts

Nepal has faced a number of significant domestic crises over the last couple decades that limited their ability to produce and successfully market pashmina products.

The Nepali Civil War, a conflict between Maoist rebels and the government headed by the Nepalese Monarchy, started in 1996 and lasted until 2006. This civil war led to the deaths and displacement of thousands of individuals and disrupted the pashmina industry at a time when the “pashmina shawl” was at the height of its popularity. Even during peacetime, political disagreements impacted relationships between business owners and labor groups within the country. Unions limited the ability of business interests to directly control output, raw material costs, wages and production schedules.¹⁶

The Nepali Constitutional Crisis came into effect in September of 2015 when it was ratified by a large majority of the Constituent Assembly after many years of disagreement following the end of the Nepali Civil War. Unfortunately, representatives from the southern regions of the country near India did not agree with the legislation, claiming that they were marginalized politically by the new agreement.

The 2015-2016 Nepal Blockade and Fuel Crisis. Individuals in the southern Terai



Image 6: Earthquake damage to Central Carpet Industries Association

region of Nepal set up a blockade on the major shipping routes into the country in September 2015 as retaliation against the new constitution. This resulted in a fuel crisis and put a great strain on most industries in Nepal. For example, fuel prices quadrupled in the Kathmandu Valley and imports of raw materials, dyes, and chemicals were greatly reduced. Many industries have had to resort to burning biomass for lack of diesel. According to a Mercy Corps SME Call Report in November of 2015, most of the industry was operating at 42% of capacity, while other SMEs shut down completely to await better conditions.^{17,18} The crisis lasted 4 months from September 20, 2015 to February 5, 2016 but there is no guarantee it will not return.

¹⁵ Bholu Bista, Sherin Shrestha, and Moit Pant (Representatives of Civil Bank Ltd., Nepal), interview by Ben Chung, Dan Menaged, and Brendon Pezzack, January 7, 2016.

¹⁶ Nyima Llama (General Secretary of Central Carpet Industries Association, interview by Brendon Pezzack, January 5, 2016.

¹⁷ Surendra Chaudhary, email message with 2015 Mercy Corps Call Report attachment, December 20, 2015.

¹⁸ Jeff Shannon (Mercy Corps program director), interview by Brendon Pezzack, January 11, 2016.

Nepali Regulations Block E-Commerce

Nepali producers generally engage in business-to-business sales, especially as it relates to exports. Most business-to-consumer sales are as a result of local retail in Kathmandu, Nepal in retail shops that cater to tourists. Capital control imposed by the Nepali government ensures that producers receiving foreign currency must receive government

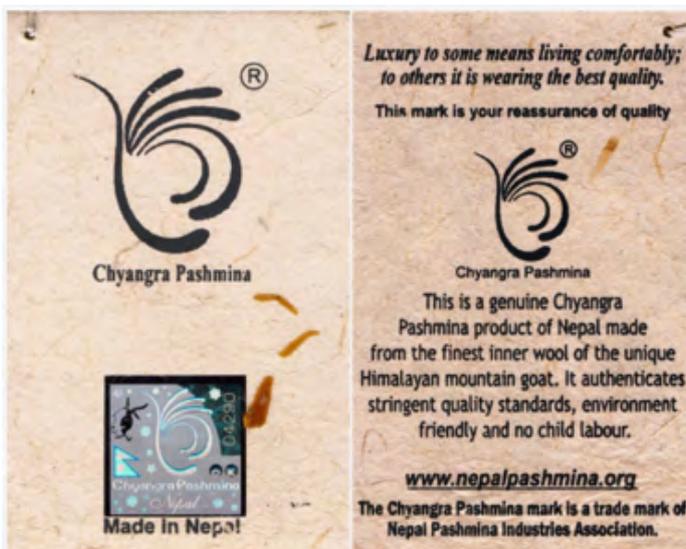
clearance. Hence producers cannot easily engage in E-commerce. Additionally, the AMR team has found deficiencies in the marketing acumen and design capabilities of SMEs that further impedes direct sales to end customers in the US. Nepali producers will benefit from government regulation that makes capital transfers easier with international clients.

The Chyangra Pashmina Certification

“Chyangra” is the local name for the mountain goat subspecies *capra hircus* found in mountainous regions of Asia. After the wool is extracted by hand from the underbelly of these animals it can be manufactured into a very fine form of cashmere. “Chyangra Pashmina” is a certification managed by the Nepali government that can only be applied to products made in Nepal that have been tested and proven to contain this specific sort of fiber. The government inspects samples sent by producers in a lab by testing to see whether fibers under 16.5 microns are presented in the material.¹⁹ “Chyangra Pashmina” is an internationally recognized trademark in 41 countries. Figure 4 below

is the current Chyangra Pashmina label. The hologram at lower left certifies that the cashmere product has been inspected by the Nepali government.

There is some debate in the Nepali cashmere industry about how valuable the Chyangra Pashmina Certification could be. It is not widely recognized and not actively utilized by nine pashmina SMEs that were interviewed during the AMR Team’s second trip to Kathmandu. In addition, none of the focus group participants, other potential end consumers, academic experts, nor many of the buyers approached at the MAGIC conference were aware of the existence or meaning of the trademark.



Conversely, supporters of the Chyangra Pashmina brand argue that the program is still in its infant stages, and has only existed for a couple years. The Pashmina Enhancement & Trade Support (“PETS”) Project is a program commissioned by the ITC, supported by the NPIA, and partially funded by the World Trade Organization (WTO) that has a long-term plan to promote the Chyangra Pashmina brand. The goal of this program is to build a stronger brand around Chyangra Pashmina in the

Figure 4: Both sides of the Chyangra Pashmina Label

¹⁹ “Nepalese Pashmina,” National Pashmina Industries Association. Accessed March 4, 2016. <http://www.pashminaassociation.org.np/npia/home.php>.

international marketplace, particularly in the United States, Japan and France.²⁰ The Chyangra Pashmina brand is also embraced by the contingent of SMEs that travelled to the MAGIC Conference in Las Vegas. The logo is well represented on signage and on the products that were for sale in the Nepal Pavilion, see Figure 5 below.



Figure 5. Entrance to the Nepal Pavilion at MAGIC Las Vegas shows prominent placement of the Chyangra Pashmina trademark

According to Narendra Shakya, the Chyangra Pashmina certification does not guarantee that the product contains 100% Chyangra pashmina; it only confirms that the product contains at least 50-70% Chyangra pashmina. Most SMEs have clients who require third-party lab testing, such as SGS or Intertek labs, to verify authenticity. The NPIA-supported lab for testing Chyangra Pashmina authenticity is not recognized globally. These concerns about quality were echoed by Vijoy Dugar, Secretary General of the NPIA. He estimated that approximately 50% of the samples received by the government were eventually rejected, although this rate has been decreasing over time. For this reason, testing is conducted using a blinded process where the government agencies do not know the names of the producers submitting samples.

The vast majority of the wool tested by the government is still procured from Mongolia, via China. Multiple sources claimed that Mongolian and/or Chinese producers routinely misrepresented the quality of the wool they were selling to Nepali manufacturers, especially if the SMEs were too small to retaliate due to their limited market power and limited longevity. There are government initiatives currently underway to import herds of goats into Nepal. However, despite fierce bidding to acquire what is believed to be a profitable and sustainable industry, the lack of significant tracts of high altitude pastures for the goats limits the size of any eventual domestic vertical integration. Official Chyangra Pashmina testing also takes approximately 2-3 weeks to complete, which can slow down the completion time on orders. It is believed that once the process becomes more automated and computerized, the required time will shrink to 1 week.²¹

²⁰ Bhushan Shah (National Project Coordinator of Pashmina Enhancement and Trade Support, a program of the International Trade Centre), interview by Ben Chung, Brendon Pezzack and Dan Menaged, January 7, 2016.

²¹ Vijoy Dugar (Secretary General of NPIA), interview by Ben Chung, Dan Menaged, and Brendon Pezzack, January 7, 2016.

Recommendation #1: Marketing, Labeling and Certification

SMEs should focus marketing efforts on attributes that are well received by the end consumer and relatively inexpensive to implement.

Key Finding: End consumers value a wide range of cashmere attributes, however price is more important and brand is less important than any other factor.

The AMR Team performed a series of focus groups and an online survey to ascertain the value that consumers placed on different attributes that SMEs in Nepal could integrate into their products. Marketable attributes that received poor reception in the focus groups (such as “No Child Labor” and “Disaster Relief”) were eliminated as test factors in the subsequent survey. The survey precisely quantified the value of these attributes and identified demographic differences. Overall results from conjoint analysis showed that all labels and certifications included in the analysis were of value to consumers (n=164). However price was ultimately seen as the most important factor, capturing 45% of the relative importance weight in the analysis, see Figure 6 and Table 2 below.

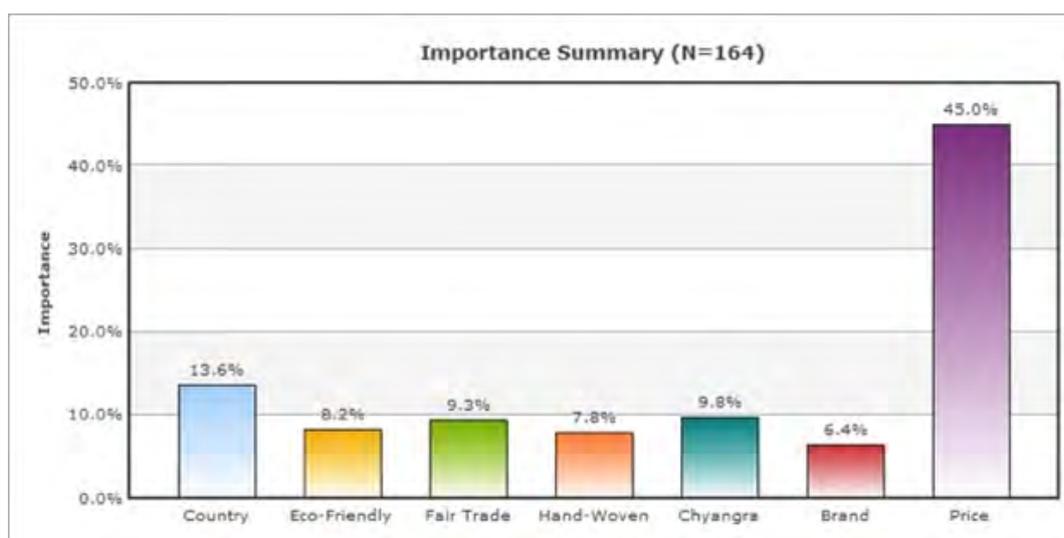


Figure 6: Price has the highest relative importance weight in survey conducted with 164 individuals. Country (origin of production), Fair Trade, and Chyangra Pashmina trademark had the next highest relative importance.

Attributes	Importance's	Standard Deviations	L 95% CI	U 95% CI
Country of Origin	13.6%	8.2%	12.3%	14.8%
Eco-Friendly	8.2%	6.2%	7.2%	9.1%
Fair Trade	9.3%	7.2%	8.2%	10.4%
Hand-Woven	7.8%	5.8%	6.9%	8.7%
Chyangra Pashmina	9.8%	6.9%	8.7%	10.8%
Brand	6.4%	5.8%	5.5%	7.3%
Price	45.0%	15.7%	42.6%	47.4%

Table 2. Descriptive statistics for results from conjoint analysis and survey study.

The team used conjoint analysis to place specific dollar values on each of these attributes by comparing the part-worths data calculated by the Sawtooth® software. Two-sample t-tests were performed on the average importance weights provided by the survey to test for statistical significance. All differences between importance weights were statistically significant at a 0.05 level except for: Eco-Friendly vs. Fair Trade, Eco-Friendly vs. Hand-Woven, Fair Trade vs. Hand-Woven, and Fair Trade vs. Chyangra Pashmina.

The values of each attribute are calculated via logistic regression and are listed below (Table 3). Please note that the dollar values associated with “Made in Nepal” represent the additional willingness-to-pay above what a similar cashmere sweater that was “Made in China” or “Made in India” would be worth to the consumer. All the other attribute values indicate the willingness-to-pay above what a cashmere sweater that did not have the attribute would be worth to the consumer. It is important to note that these values represent the prices that consumers would pay in stores, not the wholesale price paid by a buyer to a manufacturer in Nepal. A rough approximation of the value at wholesale is provided in the final column on the right below. This value was derived by dividing the value at retail by a factor of five, which is a good rule of thumb when converting retail prices in developed countries to wholesale prices in developing countries.

Rank	Attribute	Value at Retail	Value at Wholesale
1	Nepal vs. China	\$44.77	\$8.95
2	Chyangra Pashmina	\$36.37	\$7.27
3	Fair-Trade	\$35.33	\$7.07
4	Eco-Friendly	\$29.50	\$5.90
5	Hand Woven	\$28.74	\$5.75
6	Nepal vs. India	\$16.76	\$3.35
7	Recognizable Brand	\$16.59	\$3.32

Table 3. Attributes and associated price premiums according to conjoint analysis.

These results corroborate what the AMR Team heard in the series of focus groups performed at UCLA. Individuals in these focus groups consistently ranked “price” and “quality” as the two most important characteristics they would consider when buying cashmere products for themselves and for other people. These groups were of mixed gender and country of origin, but they overwhelmingly ranked various labels and certifications as less important factors for purchase decisions, although a variety of different opinions were presented during discussions.

Secondary research lent some support to the value of these labels. A 2015 Harvard University research study tested the impact of retail signage that emphasized ethical production techniques compared to signage highlighting fashion attributes. No discernable difference was seen in the majority of demographics, however, the study did find that women purchasing high price items were 14% more likely to purchase an item associated with ethical production technique.²² Interviews with supply chain experts provided similar results, such as an approximate 10% premium for products that have a socially conscious mission.²³

²² Hainmueller J, Hiscox MJ. “The Socially Conscious Consumer”. Field Experimental Tests of Consumer Support for Fair Labor Standards, 2015

²³ Christopher Tang (UCLA Distinguished Professor, and Edwards W. Carter Chair in Business Administration), interview by Brendon Pezzack, February 9, 2016.

Key Finding: Some consumers value Chyangra Pashmina despite their unfamiliarity with the certification.

Despite the lack of knowledge about Chyangra Pashmina, both the focus groups and online survey provided evidence that it may be a valuable attribute for SMEs to emphasize in their marketing efforts. Both the focus group and survey participants received a brief introduction to the brand and the logo/certification before they engaged in exercises where they discussed or valued the attribute against other potential marketable attributes (such as fair trade etc.). Survey participants were also blinded to the fact that Chyangra Pashmina was a Nepali brand, in order to isolate the effects of the certification from the country of origin during analysis. These introductions to Chyangra Pashmina are included at the end of this report in the Focus Group SOP (Appendix I) and the Quantitative Survey (Appendix II).

Statistical analysis of the importance weights provided by the online survey suggest that Chyangra Pashmina is valued by consumers. Two-sample t-tests were performed on the importance weights provided by the survey, and Chyangra Pashmina's importance weight was significantly higher than that of "Eco-Friendly Production" ($p = 0.022$), "Hand-Woven Using Traditional Methods" ($p = 0.005$), and "Brand" ($p < 0.0001$). Focus group participants had a more mixed reaction, with some individuals expressing significant interest in the unique story behind the product while others drew comparisons to sparkling wine and the Champagne region in France, implying that they saw this as a marketing ploy and not a true point of differentiation. A quote from one focus group participant is included below:



I think this is [a] marketing play because it comes from a goat in a certain area and/or it belongs to a certain species. But the question remains, I'm not sure how the quality of this compares to other cashmere. I think it is kind of like California champagne. - Participant

Key Finding: People who spend more money on cashmere and clothes care less about price and more about Country of Origin, Chyangra Pashmina certification, and Hand-Made products.

The survey collected shopping, demographic, and socio-economic information about all survey participants: highest education level, Anderson student status, income, gender, age, country of residence, country of birth, state, postal code, money spent on clothes per year, money spent on cashmere per year, and stores frequented when buying cashmere.

There were few clear trends across these various sub-groups of participants, and small sample sizes limited the possibility of meaningful significance testing. However the "total money spent on cashmere" (Figure 7) and "total money spent on clothes" (Figure 8) appeared to be a buying characteristics that could be used to define different buyer segments. Individuals who spend large amounts of money on clothes and cashmere per year placed a higher importance on Country of Origin, Chyangra Pashmina certification and Hand-Woven products.

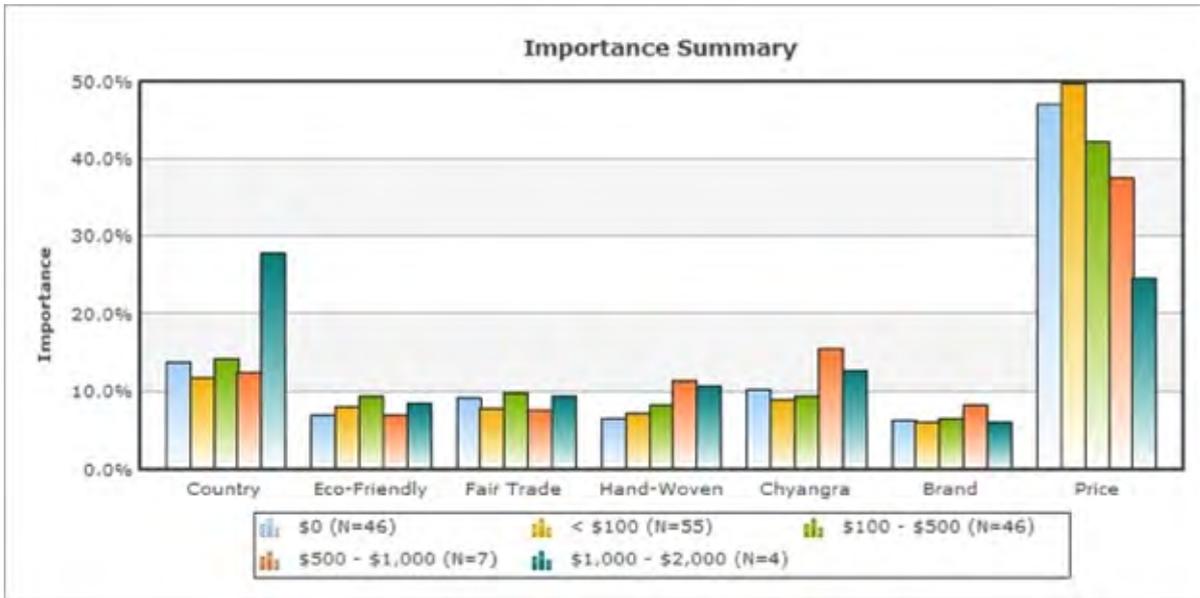


Figure 7: Importance Weights by Money Spent on Cashmere per Year

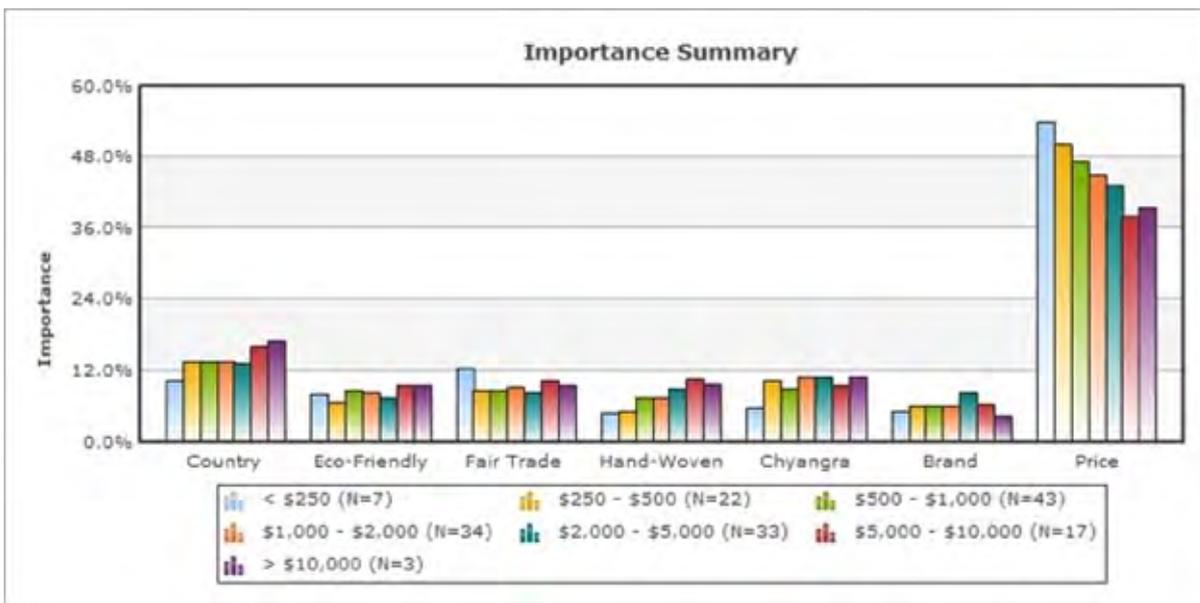


Figure 8: Importance Weights by Total Money Spent on Clothes

A decreased price elasticity for cashmere goods is not surprising in these groups, but it is interesting that the attributes with high importance in the general population seem to retain their importance within the highest spenders. Discussions with buyers such as Susan Easton, who specialize in using little if any modern machinery during production, echo the findings for the “Hand-Woven” variable. She sells almost exclusively to wealthy individuals who pay very high prices for products sourced from trusted manufacturers in Nepal. Despite the potential for high revenue on a per unit basis for “Hand-Woven” products, the AMR Team feels that this market segment is too small and requires prohibitively high investments in human capital to be lucrative for any more than a small number of manufacturers.

Key Finding: “Eco-Friendly” and “Fair-Trade” branding adds value at a small or negligible operational cost. International certifications, on the other hand, are expensive and do not provide enough additional value over branding to justify their cost.

The SWITCH-Asia program’s focus on environmentally sustainable production has created the potential to use branding or certifications to showcase this marketable attribute. Initially, Mercy Corps believed that Nepali producers could capture increased sales and better margins on products by obtaining additional certifications via initiatives such as cleaner production processes. The AMR team learned through primary research that this is not necessarily the case.

End Consumers

Many of the potential consumers the AMR Team interacted with in focus groups were somewhat distrustful of international certification agencies, particularly those with socially-conscious themes. A large percentage of participants of the focus groups felt that certifications could not be trusted. Although almost all participants reported a positive reaction to the thematic goals of “eco-friendly” and “fair-trade” production, they were pessimistic about whether a certification from a large internationally recognized auditing agency insured that these goals were being embraced by a company’s operators. Some paraphrased quotes from the focus groups are included below:

“

[Fair-Trade certifications are] something nice that Starbucks puts on coffee that allows them to charge more. For me, it’s something I don’t really understand, it’s just something I affiliate with higher price points.

- Participant #1

I have some understanding of Fair Trade from being an undergrad activist...Anyone can slap on a label. I wouldn’t be compelled to pay more, even though I understand it. [World Trade Organization is] even worse...They look at the WTO with disdain because the WTO spreads American-style capitalism around the globe. They do more bad than good.

”

- Participant #2

“

I don’t buy [the idea of Eco-friendly certifications] because I came from environmental consulting and everybody lies about that. It is so easy to get certified and you just confuse the consumers...There is no exact standard. Everybody can say that but it could be only 1-2% eco-friendly...I’m skeptical and it doesn’t add value.”

- Participant #3

It is clear that although these attributes carry value, there is significant disagreement across the consumer base about how much certifications can be trusted, or what they actually mean. In fact, in some cases, the “corporate” feel of large certification agencies decreases willingness-to-pay. Fair-trade practitioners in Nepal have echoed some of these statements, suggesting that socially-conscious certifications are for middle-market consumers, not the ideal target for high-priced pashmina goods.²⁴

Relationships with New Buyers

The vast majority of buyers have a list of specific attributes that they look for when sourcing their cashmere products from producers in developing countries. The AMR Team found that large retail buyers rarely seek certifications when making purchasing decisions. They are not willing to pay a premium for an additional certification that exceeds their minimum requirements. Anecdotally interviews recounted multiple instances when large multi-national companies considered using socially-conscious certifications to attract new clientele to their store, only to have negotiations break down when variable costs remained too high.²⁵ Large buyers from department stores also tend to work through agents that source products from multiple sources in order to diversify risk, further complicating auditing and certification maintenance and therefore making it less attractive to the buyer. Textile supply chains are still notoriously opaque. And like consumers, many buyers distrust certifications or claims of sustainability, and thus insist on doing their own audits rather than trusting an “independent” body.

Within the community of buyers there are a small subset of boutique buyers that are interested in products certified as “Fair-Trade” or “Eco-Friendly”. Jody is a boutique store owner in South Carolina who sells products that have a social impact. She prefers to source products that have fair trade certification or spread a socially conscious message. Buyers like Jody are willing to pay for certifications but their order sizes tend to be in the magnitude of hundreds to thousands, whereas large retail order sizes tend to be in the magnitude of hundreds of thousands. For this reason, even within this community of buyers, there is little obvious incentive to pursue certification before contracts (such as a Memorandum of Understanding) or guaranteed business-relationships have been established with a new buyer.

Relationships with Existing Buyers

The team initially believed the manufacturer could raise product prices on existing, locked-in buyers once the company achieved a particular certification. Depending on the certification, the Nepali producer could have varying degrees of leverage for a portion of any price increase captured by the wholesaler. Unfortunately the team learned that buyers have no incentive to source products that possess characteristics exceeding their requirements. Simone Cipriani, head of the Ethical Fashion Initiative and an officer of the UN, notes that “buyers are likely to identify another source rather than pay a premium on top of an existing supplier’s pricing just because they have some new certification for fair trade.”²⁶ In addition, Professor Tang, an expert in international supply chain operations, suggested that there is little precedent for large companies to transparently transfer profit margins captured from socially-conscious certifications back to manufacturers in developing countries. Therefore, it is overly optimistic to assume that manufacturers will be able to successfully bargain for any additional revenue above the added operational cost of a particular certification.

24 Chitra Bahadur (VP of World Fair Trade Asia), interview by Kevin Shah and Ariel Wen, February 5, 2016.

25 Sunil Mahaguthi (CEO of Craft With Conscience), interview by Brendon Pezzack, January 11, 2016.

26 Simone Cipriani (head of the Ethical Fashion Initiative of the International Trade Centre), interview by Kevin Shah, November 12, 2015.

Costs of Certification

Costs to maintain eco-friendly production can range dramatically depending on the current state of operations for an SME. They can be categorized into upfront, audit, and operating costs. Upfront costs for equipment can be prohibitive, anecdotally as high as \$50,000 USD. Audit costs range from \$1,500 to \$10,000 per year. Operating costs are the most difficult to forecast and a new production process may or may not add very little cost to current processes. On the other hand, certain certifications require raw materials of pure and authentic origin that are orders of magnitude more expensive than current raw materials.

Fair-trade certifications are expensive and the auditing process can be overly invasive. Membership in the World Fair Trade Organization (WFTO) costs \$800-900 USD annually plus 0.4% of all sales. Becoming a member is incredibly complex and requires multiple years of auditing and review before the WFTO logo can be applied to products. It should also be noted that local alternatives also exist, such as Fair Trade Group Nepal, which pursues the same goals with annual membership fees of only 6,000 NPR.²⁷

Undoubtedly, the least risky approach to certifications is to leverage buyers who are willing to cover costs. This investment of time and money is significant. Eileen Fisher, an upscale women's fashion brand, spent 6 years working with one of the suppliers, about \$50,000 upfront to procure new equipment, and about \$15,000 of yearly maintenance to get certified SA8000, a premium-end sustainability certification.²⁸ A lack of certifications did not appear to be an impediment to establishing new client relationships. Producers can capture nearly all of this value by emphasizing clean production in marketing materials, without taking on the cost of certification.

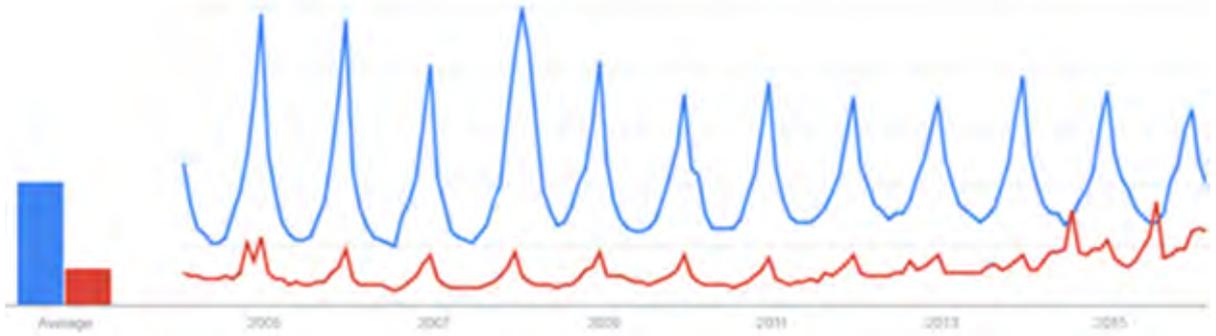
Key Finding: The term "cashmere" is significantly more common than "pashmina" in the markets targeted by Nepali producers. Pashmina is also not a legally recognized labeling term in the U.S.

Pashmina and cashmere are synonymous terms, but their usage and connotation are not. Nepali producers nearly exclusively use the term pashmina, while the U.S. market nearly exclusively uses the term cashmere. In fact, only cashmere is considered a legal labeling term by the U.S.²⁹ The exclusive use of the term cashmere in the U.S. was reflected throughout primary research with U.S. consumers. Focus group participants were all familiar with the term cashmere. On the other hand, the majority of participants had not heard of pashmina. Those who had heard the term thought it was synonymous with a decorative women's scarf and did not believe it had any meaning related to the material itself. The only participant who knew the correct definition had recently traveled to Nepal. Looking at Google keyword searches on a global scale, "cashmere" is exponentially more common than "pashmina". The frequency and relative number of searches are depicted below in Figure 9. In addition, Figure 10 shows an analysis of the frequency of each term appearing in books over time shows the same discrepancy and trend, clearly making cashmere the dominant term in literature.

27 Rabi Prasad Kayastha (Director of Fair Trade Group Nepal), interview by Dan Menaged, January 7, 2016.

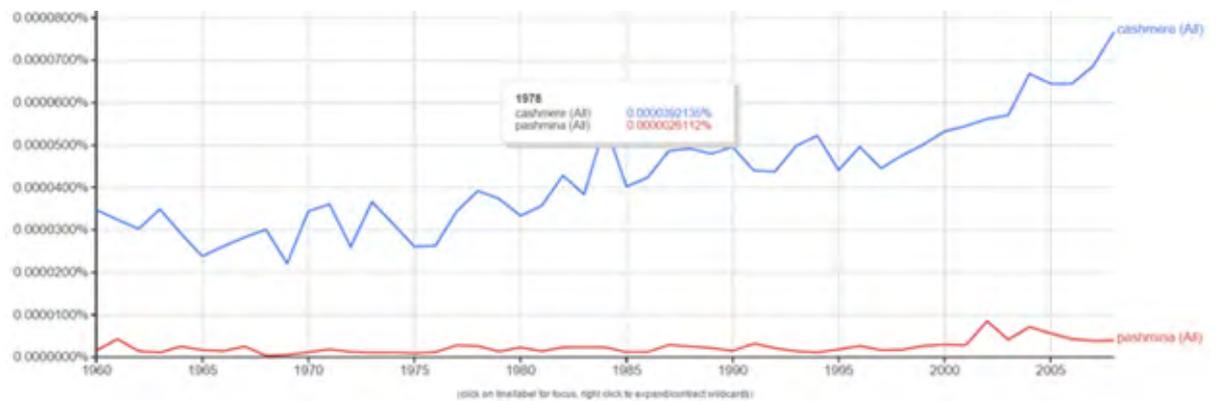
28 Amy Hall (Director of Social Consciousness at Eileen Fisher, a women's fashion brand), interview by Kevin Shah and Ariel Wen, November 11, 2015.

29 Potter, Craft. *The Knitter's Book of Yarn: The Ultimate Guide to Choosing, Using, and Enjoying Yarn*. October 2007.



Source: Google Trends

Figure 9: Global Google Keyword Searches for “Cashmere” (Blue) and “Pashmina” (Red)



Source: Google Trends

Figure 10: Frequency of words “Cashmere” (Blue) and “Pashmina” (Red) in books indexed by Google Books

Analysis of Google searches by country also shows a clear geographic discrepancy in terminology between Asia and target markets for the Nepali cashmere industry. Nepal uses the term pashmina more commonly than any other country aside from Indonesia. Notably, the list of the top users does not include the United States due to the almost insignificant level of word usage. In contrast, the countries that most commonly search for “cashmere” include the United States, in addition to additional developed nations that are target markets for the Nepali pashmina industry (Appendix IV).

Key Finding: Nepal can fulfill small custom orders that the large producers in India and China cannot complete.

The small scale of production in Nepal allows for customization of small orders that would not be possible in China and India due to capital intensive production and large minimum efficient scales. Chinese and Indian producers have larger Minimum Order Quantity (MOQ) requirements that allow them to exploit economies of scale on large batches that consist of tens of thousands of units. The MOQs reported by producers from these countries at MAGIC in were generally around 500 and no lower than 300. It was also clear that orders approaching these MOQs in size would be unusual, and that any clients asking for such small quantities would probably not be prioritized.³⁰

30 Tonglu Cashmere Knitting Co Ltd., Beijing Shanjiayuan Apparel Co., Ltd (SJY), Astoni Far East Ltd (booths at the MAGIC tradeshow in Las Vegas, interviews by Brendon Pezzack, February 17, 2016

Meanwhile, Nepali producer's minimum MOQs are much smaller and drop as low as 5-20 pieces depending on the producer. Based on the discussion with Vivekananda Mishra, Managing Director of Gayatri Pashmina, his company takes orders as small as five pieces with a customized design. His smaller order sizes for boutique retailers in Japan such as Mad Factory are in the range of hundreds to thousands per order.³¹

Many Nepali producers can handle and would obviously prefer orders that are significantly larger, but the ability to remain profitable at the lower end of the spectrum can be utilized as a competitive advantage in this crowded marketplace. This is especially true when attracting new buyers, particularly those who have not yet fully committed to adding cashmere offerings to their product mixes. A small MOQ translates into a low risk investment for any buyer, who will suffer minimal losses if their business plan changes or if they do accept the samples provided by the producer.

Additionally, the ability to create small batches of unique products means that Nepali producers are the natural partners for buyers who explicitly market themselves as carrying unique styles and rare or limited edition articles.

Implementation #1a: Prioritizing Marketable Attributes

Recommendation: SMEs should emphasize “Made in Nepal”, the word “Cashmere”, and “Chyangra Pashmina” on their labels and marketing materials.

Due to the low operational costs, non-existent certification costs, and high value in the eyes of consumers, all SME buyers should emphasize “Made in Nepal” and the word “Cashmere” instead of “Pashmina” on their marketing. This can be accomplished by labeling all products with these descriptions, as well as insuring all websites, business cards, and signage at trade shows contain these messages. In addition, manufacturers should discuss the value of products made in Nepal over those made in China or India in the eyes of the end consumer. Manufacturers report that many buyers remove tags that state the country of origin, and/or replace them with European countries, but if buyers learn the value that Nepal has over its competitors they may decide to integrate this aspect into the final retail product.

Adapting the “Chyangra Pashmina” certification comes with higher operational and certification costs, mostly in the form of the risks associated with testing Mongolian wool for impurities. However, most major buyers conduct their own tests, meaning that low quality products will not be lucrative for Nepali producers anyway. Also, Recommendation #4 in this report discusses some risk mitigation techniques utilization bulk buying that may lessen these costs in the future. In addition, “Chyangra Pashmina” creates a differentiation in the marketplace which Chinese and Indian manufacturers cannot legally copy in many jurisdictions, and it presents an attractive and marketable brand that allows the end consumer and the manufacturer to communicate directly. There is also evidence that “Made in Nepal” and “Chyangra Pashmina” are even more valuable to heavy clothing and cashmere spenders.

Recommendation: SMEs should consider pursuing Eco-Friendly and Fair-Trade certifications, but only if they can find a buyer willing to share or cover expenses.

³¹ Vivekananda Mishra (managing director of Gayatri Pashmina), interview by Ben Chung, January 6, 2016.

Sources such as SEED Nepal suggest that pashmina manufacturers may be able to save money during production if they adopt certain eco-friendly techniques, mainly by saving energy and water. In addition, organizations such as Mercy Corps can facilitate the adoption of these techniques with various monetary instruments, allowing SMEs to transition with minimal upfront costs. SMEs should absolutely pursue these changes to lower their operational costs and lessen the environmental burden in their communities.

However, the certification process to become recognized by large, international Eco-Friendly and Fair-Trade organizations is too onerous and costly for SMEs in this industry to endure alone. Much like manufacturers interested in producing handmade cashmere items, SMEs should find buyers that will help them subsidize these costs before they approach any certification agency. As an alternative, home grown certification agencies such as Fair Trade Group Nepal can allow SMEs to market their eco-friendly and fair-trade values at a fraction of the cost.

Implementation #1b: Marketing at Trade Shows

Recommendation: At trade shows, SMEs must focus on areas where they are differentiated or have a competitive advantage: Country of Origin, Chyangra Pashmina, and low MOQs.

SMEs must do a better job of marketing the Chyangra Pashmina trademark during interactions with buyers. Within the walls of the conference, “Chyangra Pashmina” became synonymous with “Made in Nepal” and it was the unifying brand and motif within most of the Nepali pavilion. Unfortunately, buyers did not know the meaning of the certification despite spending significant time in the pavilions speaking to manufacturers.³² The AMR team’s marketing research has shown that such a label increases the end retail value of a pashmina products in the eyes of consumers and it could draw in certain boutique buyers.

Additionally, Nepali SMEs can do a better job of selling the advantages of a low MOQ to buyers. According to Gerry Chen, manager of a boutique in New York City “I’m really excited by the handmade, custom, and small order capability provided by Nepal producers over those provided by Chinese manufacturers. But they need to do a better job of telling this point of differentiation instead of making me figure it out myself.”³³

Mass merchandise cashmere scarves have been an oversaturated market over the past few years and its future growth is decreasing. In addition, Nepali SMEs will find it difficult if not impossible to compete on price with large Indian and Chinese manufacturers. Therefore, products that are custom-made, differentiated, well-packaged, and/or of limited-quantity should be the focus of these manufacturers. Although the price of raw materials for a 100% cashmere scarf is high, if the product is designed, marketed, packaged, and displayed appropriately, customers will still buy because of quality. The high price is a reflection of a unique and high quality product rather than a detractor.

³² Emina Alivodic (head of product and brands), interview by Brendon Pezzack, February 17, 2016.

³³ Gerry Chen (manager of GirlProps), interview by Ariel Wen, February 17, 2016.

Recommendation: SME representatives must be knowledgeable about Eco-Friendly and Fair-Trade certifications even if they themselves are not certified. If they are already certified, these aspects can add additional value.

Although our marketing research has suggested that the value of certifications to the end consumer may be smaller than anticipated, they are still associated with a higher willingness to pay. None of the Chinese or Indian manufacturers interviewed had any eco-friendly or fair trade certification associated with their products or with their factories.³⁴ Therefore, if a particular SME has already incurred the costs of these certifications, there is little reason for them not to market themselves as a practitioner of socially conscious production in order to differentiate themselves from the competition. These certifications were not clearly visible in the booths at the trade show, although they may have been listed on some of the products. Buyers interviewed outside the Nepali pavilion suggested that they would be interested in eco-friendly and/or fair trade certifications, although no specific increase in dollar value was revealed.³⁵

Most importantly, SME representatives must be well-versed in certifications, and must be willing to discuss becoming certified if any buyers are willing to provide capital support.

Recommendation: The Nepali Pavilion and individual SMEs need more detailed signage listing MOQs, certifications, material categories and the word “Cashmere”.

Although the Nepali stalls were significantly more visually attractive than those from other countries at MAGIC, the Nepali stalls can make interactions more efficient by listing basic facts about their products on company signage as shown in Figure 11. Generic questions consistently asked by buyers upon entrance to a stall include: “What materials do you source, mixed or 100% cashmere?”, “What is your minimum MOQ?”, and “Do you have any certifications?” The Chinese stalls have this information posted on the large overhead placards that contain the name of the businesses and the booth numbers, including checkboxes for certifications and MOQs. This increases the sense of professionalism surrounding the SMEs and it insures only suitable buyers will engage the individuals manning the booths. This also allows discussions to focus on furthering business relationships and subtle points of interest instead of discussing basic facts about production and the products.



Nepali Signage



Chinese Signage

Figure 11: Comparison of Nepali and Chinese Signage at MAGIC

³⁴ Tonglu Cashmere Knitting Co Ltd., Beijing Shanjiayuan Apparel Co., Ltd (SJY), Astoni Far East Ltd (booths at the MAGIC tradeshow in Las Vegas, interviews by Brendon Pezzack, February 17, 2016.

³⁵ Emina Alivodic (head of product and brands), interview by Brendon Pezzack, February 17, 2016.

Recommendation: SMEs should continue to cluster stall setup at trade shows.

There are many benefits to the Nepali SMEs grouping stalls together at trade shows such as MAGIC Las Vegas. The most significant is minimizing the time buyers spend trekking between the stalls owned by cashmere producers on the floor of the conference center. Having multiple SMEs in the same area from the same country cuts down on travel time between stalls, facilitates product comparison, and information gathering. All of this is crucial for new buyers to learn about Nepali products and increase the trust they have for a new business partner. The majority of buyers had only limited time to investigate cashmere products due to other buying commitments and a lack of prior exposure to the industry.³⁶ Conversely, the Chinese and Indian producers were spread out throughout the pavilion, making finding multiple cashmere producers incredibly time consuming. The different producers outside of the Nepali cluster were completely unaware of the location or existence of other cashmere manufacturers unless they were in their immediate vicinity.³⁷

Additionally, the clustered stalls allow the buyers to experience the “Nepali way of doing business” which can prove beneficial for recall once the buyer begins to evaluate and initiate a purchase order. The different SMEs were able to assist one another and share non-cashmere supplies such as refreshments and furniture if a large number of buyers were within one booth at the same time. Representatives of the NPIA were able to support multiple stalls simultaneously, an efficiency that would have been unachievable had the stalls been spread throughout the conference hall.

Implementation #1c: Online Marketing

Recommendation: Marketing videos produced by SMEs should focus on the laborers, goats, products, and the stories behind the SMEs.

In an ideal world Nepali SMEs would be able directly market their products to end consumers online. Although this is currently not an option for the vast majority of manufacturers (due to the e-commerce issues discussed previously) such a channel would allow manufactures to capture a portion of the enormous margins that retailers in developed countries capture when selling Nepali products in their stores. Even standard cashmere textiles, lacking Chyangra Pashmina, eco-friendly, or fair trade certifications, routinely sell for 4 or 5 times wholesale price in markets in Europe and North America. Premium products that are handmade or carry some or all of these certifications are priced significantly higher. It is important to note the lack of value that a recognizable brand carried in the online quantitative survey. “Brand” was statistically less important than any other attribute at the 0.05 level and only carried a value of \$16.59 retail and \$3.32 wholesale. This implies that brand recognition may be less of an impediment than many producers assume. Furthermore, focus group participants were well aware of the discrepancy in prices that existed when buying directly from Nepal when compared to buying from a large department store like Bloomingdale’s.

³⁶ Emina Alivodic (head of product and brands), interview by Brendon Pezzack, February 17, 2016.

³⁷ Tonglu Cashmere Knitting Co Ltd., Beijing Shanjiayuan Apparel Co., Ltd (SJY), Astoni Far East Ltd (booths at the MAGIC tradeshow in Las Vegas, interviews by Brendon Pezzack, February 17, 2016.

For these reasons it is important for Nepali SMEs, as well as supporting organizations like the NPIA and Mercy Corps, to begin to utilize online marketing in preparation for when the e-commerce infrastructure in Nepal becomes more sophisticated. In addition, numerous manufacturers reported that their most valuable channel for finding new clients was their website, despite the fact that the quality of these websites are generally low and not up-to-date.³⁸

Our focus group discussions identified a number of themes that online videos should focus on when trying to sell to customers in North America. Positive themes were: 1) focusing and interviewing the laborers, 2) videos of the goats, 3) displaying a large number of pieces, and 4) concentrating on the stories behind SMEs and the manual aspects of the cashmere production process. Focus groups warned against: 1) creating overly polished videos, or 2) providing prices upfront. An employee from Facebook also suggested creating subtitled versions in case videos are going to be uploaded into their website because sound does not automatically play for any videos listed in a user's news feed. Although buyers were not included in the focus groups, it is fair to assume that they would like to connect with companies that embody a narrative that is already attractive to the end consumer.

38 Bhushan Shah (National Project Coordinator of Pashmina Enhancement and Trade Support, a program of the International Trade Centre), interview by Ben Chung, Brendon Pezzack and Dan Menaged, January 7, 2016.

Recommendation #2: General Business Practices

Conduct training for SMEs focused on business skills and communication to increase efficiency of selling into new channels and acquire clients.

Key Finding: Not all Nepali producers possess the level of fluency in business skills required to attract and retain international clients.

An overall increase in workplace business skills within the Pashmina industry is needed in order to increase the perception of sophistication and savviness of the Nepali producers. This was highlighted during interviews with international textile buyers and manufacturing managers. Anna Maria Hesse, owner of “Here Today, Here Tomorrow”, a sustainable fashion shop in London, claims “email communication by the Nepalese is poor and English fluency is weak for most.”³⁹ Anecdotally, producers have missed deadlines and not communicated this fact until the last minute, leading to frustration for buyers and slower buildup of trust. Susan Easton, owner of “From the Road”, a boutique that sells unique apparels from around the world, said the Nepalese stress low cost but don’t mention timeliness and quality that are very important factors.⁴⁰ Nepali producers need to be better educated about the concept of building a brand that emphasizes not only cost but also timeliness, quality, trust, reliability, ease of doing business, and fairness rather than just on making a sale based on cost, where they lack an advantage over Indian and Chinese manufacturers.

An increase in basic business skills would greatly benefit Nepali SMEs and holistically improve their relationship with international clients. This will increase client satisfaction, client retention, ease of communication, and enhance expectations management between the manufacturer and the buyer. Basic business skills refer to handling client inquiries in a customized manner, email correspondence, phone handling, order taking, order shipping, design discussions, running client meetings, and building good interpersonal relationships between clients as well as factory workers.

Key Finding: New Nepali producers can learn from the operational experience of established SMEs to streamline production processes, understand capital investment projects, and participate in a forum of information exchange.

Nepali SMEs with a long operational history or a large share of export revenue have much knowledge to share with SMEs that are newcomers in the industry. Mercy Corps can work with the NPIA to find manufacturers that have sharable expertise to conduct experience based training sessions to benefit NPIA members. These manufacturers can share advice and best practices that is not too sensitive to the performance of their business, but is generalized enough to benefit the entire pashmina industry. For example, during the Indian fuel blockade between September 23, 2015 and February 5, 2016, many SMEs had to burn wood rather than diesel for the pashmina dyeing process. Customers complained of finished products that smelled of smoke, had a different color, or had a felt-like texture rather than the usual softness of woven

39 Anna-Maria Hesse (owner of Here Today Here Tomorrow), interview by Dan Menaged, December 10, 2015.

40 Susan Easton (owner of From the Road), interview by Kevin Shah, November 18, 2015.

yarn. According to Niranjana Basnet, co-owner of Shree Pashmina, he burned a self-made paper and wood chip brick that produced more consistent heat than firewood and didn't create as much smoke. He created this paper and wood chip brick 10 years ago during a previous fuel crisis and it made a showing during the current fuel crisis. In another example, Kinchu Shrestha, co-owner of Red Kashmir, found that darker colors could not be dyed using firewood but that lighter colors needing less than 1.5 hours of dyeing can be dyed using firewood without loss of quality. This finding was corroborated by Niranjana Basnet of Shree Pashmina. Hence, if NPIA can hold a quarterly meeting for all members to provide experiential training by local experts, it would greatly benefit the entire industry and ensure that each member is getting valuable sources of information from the association.

Implementation for Recommendation #2: Training Programs

Mercy Corps Nepal should organize best practice trainings to SMEs on business skills, communications, and information exchange between SMEs.

Mercy Corps Nepal should organize business trainings for SMEs on topics such as business skills, communication, and business operations improvements by coordinating with the NPIA and inviting the SMEs that have the most experience in a particular area as the speaker for a topic. According to Kinchu Shrestha, co-owner of Red Cashmere, Mercy Corps will do well to coordinate conferences and trainings where pashmina factory workers create behavioral changes in each other within a conference setting rather than having the owners or the SWITCH-Asia team try to change worker practices. SEED Nepal consultants were extremely valuable in providing clean production trainings since workers enjoyed getting to know each other at the workshops, trade ideas, learn from each other, and adopt best practices over old habits.

In this respect, Mercy Corps and the NPIA can create positive change by using local experts and the idea of social proof as a persuasion tool. Social proof is a type of conformity that occurs when two criteria are met: 1) when there is uncertainty about the correct course of action and 2) when the solution offered is presented by an individual that is most similar to the group being persuaded. Mercy Corps Nepal has already organized activities using social proof techniques; they are conducting cross-visits to show off demonstration units that have adopted best practices. In the

future, Mercy Corps should set up a training conference where a factory owner can speak to other factory owners about the usefulness of investing in a solar heater, where a dyeing master can speak to other dyeing masters about using droppers to precisely measure chemicals, where factory workers talk to other factory workers about using gloves and masks, and where an accomplished showroom salesperson leads a session on communication best practices. During the training lunch or teatime, Mercy Corps can plan out the seating arrangement so that individuals with similar backgrounds and interests can sit together and mingle in a non-workshop setting. This will informally help the members become more collaborative.

The AMR team identified specific suggestions that can be incorporated into basic business training in communications with international clients. Mercy Corps can conduct this training or have an esteemed salesperson at an SME emphasize these points and provide anecdotal evidence.

Prompt Communication

For client inquiries, email or call the client back within 24 hours and follow up. If possible, anticipate and answer the most often asked client questions by using an email template. The template would include details of the business such as MOQ, delivery time, and

capacity. Most importantly, each SME should understand its own point of strength and stress this point of differentiation to the client in order to stand out and make a good impression.

Expectations Management

Set realistic expectations for quality control and delivery times. If a product cannot be delivered on time, it is better to give the client a heads up ahead of schedule or as soon as the SME knows rather than to wait until a notice of delay is unavoidable. It is best to succinctly disclose to the client non-controllable factors surrounding the situation, such as fuel crisis and power supply outages, and then spend more time explaining how the SME is trying its best to improve the situation and meet deadlines. Most importantly, the SME must meet the deadline it sets for itself in order to achieve trustworthiness. Once trust is lost early on it is much harder to gain back later.

If SMEs set a good business model initially but fall into hardships, value driven buyers may help SMEs with credit terms and other leniencies.

Communicate the real capabilities of the SME and say “no” to orders that cannot be feasibly met on time, in the amount quoted, at the price quoted, and in the design desired by the client. It is sometimes best to reject buyers that do not fit the capability and vision of the SMEs than try to accommodate the buyer and distort the main operations of the SME. It is the case of the tail wagging the dog. It will be beneficial in the short term but detrimental in the long term on the health of the SME.

English Fluency

Provide targeted business communications and English courses for NPIA members specifically targeted toward sales and business development individuals. Courses on cultural differences of direct/indirect communication, email correspondence formatting, and maintaining communications with client through follow ups could be developed into a course module that repeats every year.

Recommendation #3: Business Operations and Documentation

Conduct business operations and documentation training programs to increase utilization of preferential trade programs.

Key Finding: SMEs require better documentation to improve sales into lucrative channels, who value this documentation as proof of production quality and reliability.

Currently, exports are a predominant portion of business for SMEs. Exports account for 60% to 90% of business for a typical SME. There are various other sales channels that are less attractive due to issues with scalability, lower margins, or small size of market (refer to Appendix V). On the other hand, this sales channel is the most attractive to target; foreign markets hold the most demand. Additionally, as evidenced by the peak in exports in 2008 of \$22 million, there is a latent capability of the Nepali pashmina industry to meet foreign demand. The main challenge to returning to this level of business is due to the recent decimation of infrastructure and of reliable production caused by the earthquakes of 2015 and fuel crisis that occurred in Nepal from late 2015 to early 2016. Many factories went offline to wait out the challenging business conditions.⁴¹ According to Mercy Corps Nepal data the pashmina industry is operating at 42% capacity. Through primary research, the AMR team has encountered foreign buyers who have reported problems with on-time shipment or with quality of product.⁴²

The key issue to be addressed is reliability. Buyers and SMEs alike cited the need for long-term partnerships based on trust to profitably grow the sector.⁴³ In order to initiate this type of relationship, SMEs must instill trust and a sense of reliability with the buyer. Currently, many SMEs rely on Nepali “agents”, or exporters, who connect

suppliers with buyers and charge a fee. An SME leverages the agent’s relationships and trust developed over time, in order to indirectly win new business. While an attractive way to grow topline revenue, this model is not very profitable or sustainable for the industry. Agents take a large fee of 10-30% of revenue and retain control over all buyer relationships. The services that agents provide are testimony to the types of activities that SMEs could improve and internalize in order to improve profitability. Specifically, SMEs need improved sales processes and communication techniques to inspire trust with potential partners, and to ultimately win new business.

A sophisticated buyer may require data such as retail sales velocity or sales per distribution point in an attempt to predict how well a product will sell.⁴⁴ This may not be feasible for an SME with limited access to foreign retail data. However, other signals of efficient business operations will help convince buyers of the reliability of an SME. For example, efficient documentation of financials, past product orders, and production capabilities are valuable to convince a new buyer that the SME has the necessary attention to detail and management systems to reliably meet production and quality expectations. Meeting these expectations are cited as the primary decision drivers, besides desirability of the product.

41 Ganesh Shrestha (co-owner of Ashirbad Pashmina), interview by Kevin Shah and Ariel Wen, February 2, 2016.

42 Melissa Hand (Handicraft Buyer from Ten Thousand Villages), interview by Dan Menaged, Kevin Shah and Ariel Wen, December 18, 2015

43 Anna-Maria Hesse (Co-founder of Here Today Here Tomorrow), interview by Dan Menaged and Kevin Shah, December 10, 2015

44 Melissa Hand (Handicraft Buyer from Ten Thousand Villages), interview by Dan Menaged, Kevin Shah and Ariel Wen, December 18, 2015

Additionally, buyers who were interviewed during the AMR team's research expressed a general skepticism of suppliers in developing and least-developed countries. Buyers often valued suppliers who went through some type of audit to verify working conditions, production quality, and management systems were utilized. Buyers preferred personally conducting informal audits, even over independent certification bodies for audits.⁴⁵ Adequate documentation will streamline this audit process for the SME. It will also enable improved management of business operations. During primary research, many entrepreneurs in the pashmina industry used back-of-the-envelope calculations to describe return on investment and profitability of new projects. Better documents can lead to improved business metrics and management of operations.⁴⁶ These improvements will enable SMEs to tap into lucrative new sales channels. They may increase their export business, or target new channels, such as e-commerce or department stores. See Appendix V for further detail and limitations of these channels.

Key Finding: SMEs do not efficiently use existing preferential trade programs.

At a high level, Nepal, India, and China compete with each other through various export-oriented, trade-friendly policy. While Chinese and Indian pashmina producers have lower cost structure due to scale economies, they also have built-in cost advantages due to export and trade policies (refer to Appendix VI). Nepal has difficulty competing on price due to geographic location and lack of access to a port (see Appendix VII).

Nepali 2% Export Rebate Program

Nepal has struggled to offer globally competitive programs to boost its export industries. Nepal offers a 2% rebate for exports, but the program requires detailed documentation over a two year period. Many SMEs are unable to satisfy this documentation requirement. Interviews have shown that some SMEs doubt the value of the rebate program, citing the extensive time required to prepare rebate application documents. Typically, smaller SMEs did not value the benefit of the rebates compared to the level of effort to apply. The time and cost required to understand and complete the requirements present considerable hurdles for them.

In contrast, larger SMEs with the capability to efficiently complete this documentation have been able to reap the benefits of the program. The ability to complete business documentation currently separates more successful SMEs from smaller SMEs. Smaller SMEs would benefit from a program to bridge this capability divide. Support in the form of streamlined documentation processes or training in preparation for these applications may increase utilization of the program and increase Nepal's price competitiveness in pashmina exports.^{47,48}

U.S. General Specialized Preferences Program

The U.S. General Specialized Preferences (GSP) program is another opportunity that is not being fully utilized by Nepali SMEs. This program gives preferential treatment, through tariff-free status, to exports from developing countries such as Nepal.

45 Susan Easton (owner of From the Road), interview by Kevin Shah, November 18, 2015.

46 Narendra Shakya (owner of Harati Pashmina), interview by Kevin Shah and Ariel Wen, February 3, 2016.

47 Sunil Manandhar (Executive Director of Euro Pashmina), interview by Dan Menaged and Kevin Shah, February 3, 2016

48 Narendra Shakya (owner of Harati Pashmina), interview by Kevin Shah and Ariel Wen, February 3, 2016.

The program has complex requirements that have proven difficult to interpret for Nepali SMEs. For example, the SMEs must distinguish between scarf, shawls, and various material requirements. SMEs must also ensure that the product fulfills the “35% rule”. This rule stipulates that the product must be “substantially transformed” while in Nepal to qualify. Nepali SMEs must verify that their efforts have contributed at least 35% to the finished product’s value. SMEs typically weave raw cashmere into finished products. SMEs are generally unaware whether their products meet this qualification. Navigating the proper classification of products, application of tariffs, documentation, and calculation for the “35% rule” is a challenge for SMEs.

As a result, Nepal’s utilization of the U.S. General Specialized Preferences program has been consistently low, often not exceeding 4 percent. Primary research conducted in Nepal during this study corroborated these low utilization rates. Only larger developing countries such as India have been able to achieve high GSP utilization.⁴⁹

Low utilization in Nepal is due to difficulty complying with the “35% rule” as well as difficulty calculating whether or not a product will qualify. Contributing 35% of final value is challenging because SMEs are in a weak negotiating position compared to both their raw material suppliers and the buyers who bring their product to market. (China controls cashmere yarn supply and pricing, as explained in Appendix VI). The high raw material costs incurred by Nepali producers

and the low price SMEs are able to command from buyers leaves them in a difficult position to determine whether they qualify for the 35% rule. Ultimately, SMEs must consider the prices they are able to negotiate with suppliers and distributors, calculate the GSP 35% rule, and evaluate overall profitability of the deal. These are insurmountable challenges for an SME without the experience or specific knowledge of GSP regulations.

Additionally, complexities of the documentation and application process are challenging for SMEs. For example, a survey of Nepali handicrafts entrepreneurs in 2011 found that a sizable number of respondents reported an increase in cost by 20 to 30% due to documentation processing, fulfilling requirements for registered firms, and delays in release of commodities at custom points due to poor documentation.

During tours of SME factories, the AMR team found that SMEs that utilized GSP were larger and more sophisticated operations. They had built the organizational knowledge and discipline to complete these processes, through generations of operations. There is an opportunity to support smaller SMEs to overcome the learning curve and costs of the documentation and application process for GSP. Knowledge-sharing is one of the common themes of the SWITCH-Asia project, and documentation and application processes are an opportunity to improve utilization of programs like GSP and the Nepali 2% rebate program.⁵⁰

Duty-Free Quota-Free Trade Program

A recently ratified U.S. law presents another significant opportunity for SMEs to increase their global competitiveness. The duty-free quota-free (DFQF) bill was proposed by U.S.

Senator Dianne Feinstein and was ratified by President Barack Obama in January 2016. Stakeholders in the Nepali garment industry believe this new program will revive Nepali

49 D.R., Khanal. “Rules of origin in GSP schemes and their impact on Nepal’s exports: a case study of tea, carpets, pashmina and handicrafts products”. Asia-Pacific Research and Training Network on Trade. No. 98. April 2011.

50 D.R., Khanal. “Rules of origin in GSP schemes and their impact on Nepal’s exports: a case study of tea, carpets, pashmina and handicrafts products”. Asia-Pacific Research and Training Network on Trade. No. 98. April 2011.

garment exports to the U.S. The program ensures zero-tariff access into the U.S. market and removes quotas. This law effectively replaces the Multi Fibre Agreement, a program that expired in 2005 and was a large contributing factor to the collapse of Nepali exports in the readymade garment industry, which counts pashmina as a sub-industry. Since its expiry, over 85% of garment factories shut down and garment exports reduced from 10 billion NPR to 5.29 billion NPR.

Currently, pashmina exporters pay tariffs, typically 6.7%, depending on composition of the pashmina and other fibers. Thus, utilizing the new DFQF program may be crucial to increasing the exports business to the US. However, qualifying for tariff-free export under GSP is already difficult as mentioned above. SMEs will likely face similar burdens compared to the GSP program. Regulatory details for DFQF are anticipated in the next several months, and will present a new set of regulations for SMEs to interpret.^{51,52}

Implementation for Recommendation #3: Training Programs

Mercy Corps Nepal should provide training programs to improve business operations and documentation processes.

Mercy Corps Nepal should expand existing training programs for SMEs to focus on documentation. Mercy Corps Nepal is developing financial management training to help SMEs prepare the financial documentation required by banks for loan applications. These currently planned training programs should be augmented to address the challenges that are preventing higher utilization of the U.S. GSP program and Nepal's 2% tax rebate for re-exports. The training can be extended to the recently ratified duty-free and quota-free program once details are released.

In the short term, these trainings will help improve the profitability and competitiveness of SMEs on the global market. Based on primary research in Nepal, the AMR team corroborated low utilization rates of these programs cited in secondary research. However, some highly sophisticated SMEs have been successfully applying for rebates and GSP already. Training is an effective method to extend trade program benefits to smaller SMEs.

In the long term, these documentation processes will give SMEs greater insight into their business operations, enabling operations improvements. Most SMEs currently rely on intuition and back of the envelope calculations to describe and evaluate profitability of various customer accounts. Improved quality and quantity of financial data will leave SMEs better equipped to assess and value new business opportunities. This process documentation will enable SMEs to more precisely price their products and evaluate new customer opportunities. In conjunction with the planned financial management training program, SMEs will gain the ability to value their business to help facilitate M&A activity described in Recommendation #5.

Furthermore, business documentation could be leveraged to create differentiated strategies. As cited above, the department store retail channel is highly attractive but comes with a difficult sales process. SMEs currently are unable to access sophisticated buyers in these professional retail channels. Instead, they are only able to reach these

51 Acharya, Pushpa Raj. "Nepali garments to get duty free facility in US". The Himalayan Times. December 14, 2015.

52 "President Obama Signs Nepal Trade Preferences Bill" Embassy of the United States, Kathmandu, Nepal. February 25, 2016.

buyers through intermediaries based in Nepal. As a result, SMEs forfeit a portion of the contract value and are reliant on the agent to establish new relationships on their behalf. SMEs also have difficulty establishing this relationship with agents, due to the risk the agent would assume by using a new SME. Detailed business operations documentation and data would give SMEs the tools to instill trust and reliability in potential new clients, and enable them to bypass intermediary agents. This data can help SMEs to negotiate and win profitable contracts.

In order to implement this recommendation, Mercy Corps Nepal should conduct training workshops. Workshops will enable Mercy Corps to deliver this benefit to a broader group of SMEs. Mercy Corps can add this to existing workshop programming planned around financial literacy. Alternatively, this program could be conducted by the NPIA in collaboration with Mercy Corps. The NPIA will benefit by offering valuable services to members, which will encourage additional members to join. The SWITCH-Asia program is currently engaged in building NPIAs capacity to serve the pashmina industry, making this approach an attractive alternative.

Recommendation #4: Sourcing Raw Materials

NPIA should establish a new organization to aggregate demand, purchase, and distribute cashmere yarn to its participating members.

Key Finding: SMEs have limited sources for cashmere and are left with little bargaining power when faced with concentrated suppliers.

Nepal primarily sources raw cashmere from Mongolia, China, and India and supply has become increasingly problematic for Nepal. This was partially caused by policy changes in these supplier countries. In 2004, China joined the World Trade Organization and eliminated an existing 13% subsidy on the export of raw cashmere.⁵³ This was part of a government initiative to shift the domestic industry from exporting raw cashmere to producing finished cashmere products. This change coincided with heavy investment in modern cashmere production facilities in China.⁵⁴ These changes had the impact intended by the Chinese government, reducing raw cashmere exports and increasing production of finished cashmere products.

Mongolia has similarly tried to stimulate domestic production of finished cashmere products by discouraging raw cashmere exports. The Mongolian government initially banned raw cashmere exports. This led to the rise of black market sales of cashmere over the border to China. The government has replaced the ban with a 30% export tax. Over 50% of all raw cashmere is still exported to China due to widespread smuggling across the border that avoids the export tax.⁵⁵

The increased demand for raw cashmere in China has been matched by India. India has built modern production facilities and has increasingly focused on finished cashmere products. Nepal is in a difficult position because it is sourcing raw materials from its main competitors, who likely will continually require more cashmere to match production needs.

This problem is further exacerbated by the fragmentation within the Nepali cashmere industry. Each SME sources cashmere independently. Some SMEs source directly from China, India, or Mongolia, while others work through a wholesaler located in Nepal. The small size of SMEs limits their power in the sourcing relationship.

Interviews with Nepali SMEs reveal that this power dynamic has become problematic for Nepali producers. SMEs often face a 20 to 30% markup when placing small orders. The small order size submitted by each supplier also makes them low priority for suppliers. SMEs report being unable to source cashmere when demand is high in China or India. Even when suppliers are located, the raw cashmere is often lower quality than expected and arrives late. Delays result in slower production schedules and missed deadlines for the SMEs. Low quality raw cashmere results in lower quality finished products and disadvantages Nepali SMEs against competitors in India and China. Nepali SMEs report having no recourse in these relationships due to their small size and the limited cashmere supply.

53 Potter, Craft. *The Knitter's Book of Yarn: The Ultimate Guide to Choosing, Using, and Enjoying Yarn*. October 2007.

54 Hong Kong TDC Research Department, *Guide to Doing Business in China (2004/05)*. <http://www.tdctrade.com/chinaguide/eng/04/4-2.pdf>.

55 Gobi Regional Economic Growth Initiative. *The Impact of a Ban on the Exports of Raw Cashmere*. August 1999.

Key Finding: Efforts are underway to vertically integrate the pashmina industry within Nepal, but the program will not satisfy Nepal's demand for cashmere yarn.

There is an existing initiative to develop a domestic supply of cashmere through the cultivation of goats in Nepal. This initiative is tied to the Chyangra Pashmina certification. Participants in this program would have the right to the raw cashmere from a number of goats. While a domestic supply is ideal, this program is intended to be limited in size. Cost, along with the human resources needed to herd and raise these goats, make this a difficult operation to scale using existing resources. The program has modest goals, intending to meet a small portion of the demand for raw cashmere in Nepal. The strategic purpose of this program is to develop a domestic supply of cashmere that can be differentiated through Chyangra Pashmina branding.

Raw cashmere from the goat is processed into cashmere yarn before SMEs can create any cashmere products. There is an intermediary step to transform the raw cashmere into cashmere yarn. This production step is not currently performed in Nepal due to the lack of goats and the lack of cashmere processors in Nepal. A majority of the global supply of processed cashmere yarn is imported from China and Mongolia. Based on discussions with the Mercy Corps Team, there are a very small number of Nepali SMEs that are vertically integrated and process their own cashmere yarn.

This industry would need to be developed along with the cultivation of the goats. The Fair Trade Group Nepal has partnered with at least one small business entrepreneur in an effort to develop the capability to process raw cashmere. The setup costs alone are \$50,000 USD. Scaling this production capability is a costly endeavor.⁵⁶ Operations of this facility would require knowledge and a trained workforce that does not currently exist within Nepal.

Implementation for Recommendation #4: Bulk Purchase Discounts

NPIA should establish a new organization to aggregate demand, purchase, and distribute cashmere yarn to its participating members.

The NPIA is the pashmina trade organization in Nepal and a natural partner to establish an organization to consolidate cashmere yarn purchases. The cost reduction and quality assurance that would be realized through a collective closely aligns with NPIA's organizational goals. Pooling demand effectively increases the purchasing power of each Nepali SME.

The NPIA charter prevents the organization from directly acting as a buyer's consortium.⁵⁷ The NPIA can operate within its charter and set up a separate entity to facilitate bulk cashmere yarn purchases. This cooperative will likely need 2-3 employees to take orders, and manage inventory, storage, and finances.

Initial batch purchases should be limited to commonly consumed yarn types such as 28 nanometer by 2 nanometer, 100% undyed, cashmere yarn. Purchases should be made seasonally so that yarn consumption forecasts can be batched and made more predictable. SMEs should be able

⁵⁶ Chitra Bahadur (VP of World Fair Trade Asia), interview by Kevin Shah and Ariel Wen, February 5, 2016.

⁵⁷ Bhushan Shah, (National Project Coordinator of Pashmina Enhancement and Trade Support, a program of the International Trade Centre), interview by Ariel Wen, February 4, 2016.

to voluntarily opt into the program so that aggregate member demand determines the orders size. The newly established cooperative should not be expected to supply enough cashmere yarn for full operational needs throughout the year. SMEs will likely still need to make purchases when unforeseen contracts arise. The cooperative can purchase additional material to be held in stock to provide some flexibility to SMEs, but this will be allocated in small batches. Over time, aggregation will give the cooperative insight into the operations of the entire industry, and enable demand forecasting. This data can help track industry growth trends. This data can also be disseminated to individual SMEs that may otherwise not recognize seasonal or other trends in their business.

Recommendation #5: M&A Within the Industry

SMEs should approach struggling competitors to discuss acquisition opportunities.

Key Finding: Nepali exports of pashmina products decreased by nearly 90% between 2009 and 2013.

The Ministry of Commerce published the Nepal Trade Integration Strategy 2010 and declared 19 commodities, one of which is pashmina products, to be considered “top priority” for the country. Furthermore, pashmina products remains the third largest industry in Nepal. All signals indicate that pashminas will remain a strong and important foundation to the Nepali economy.

The significant drop in exports can be attributed to a few key reasons. Firstly, there was an influx of low quality, imitation Pashmina products that were tagged with “Made in Nepal,” damaging the credibility of Nepali Pashmina. In discussion with Lauren, owner of a boutique store in Maryland, she stated that she had ordered cashmere products for her store from a Nepali supplier, but the product she received was not 100% cashmere. This experience has made her skeptical about Nepali suppliers for cashmere.⁵⁸

Secondly, there was increased competition from neighboring countries as government trade policies and subsidies changed to the detriment of the Nepali industry. For example, China removed the 13% rebate for the export of raw cashmere (not cashmere yarn). This influenced Chinese exporters to develop and export finished products such as cashmere scarves and sweaters rather than only export the raw materials. To date, China and India have achieved high economies of scale and are perceived in the global marketplace as the high volume, low cost solution for finished cashmere products.

Thirdly, the global economy went into turmoil due to the U.S. subprime mortgage crisis, and consumers immediately spent less on discretionary goods such as cashmere products. Retail spending is one of the first types of goods that consumers stop spending on when the economy is not performing well, but cashmere products are considered a high-end, luxury item, which is even more likely to be removed from the average consumer’s discretionary spend.

Lastly, the buyers of cashmere products from failed SMEs are lost when businesses close. After failed SMEs close down their cashmere businesses, they often open a different, unrelated business. For example, the AMR Team visited Bishnu Sharma, Managing Director of Kamana Dyeing Service Pvt. Ltd., and learned that the potato chip manufacturer next door used to be a pashmina SME until recently. The buyers that used to purchase pashmina products from this failed SME no longer purchase pashmina products from a Nepali SME. This contributes to the overall decrease on pashmina-based exports.⁵⁹

In discussion with Ganesh Shrestha from Ashirbad Pashmina, he stated that about half of the SMEs that close down do so temporarily until the cost of raw materials stabilize. Most of these temporarily closed manufacturers cater to the local rather than export market. The closing of these SMEs do not impact the export value of pashmina products. The other half of the manufacturers that close down are permanent and consist of SMEs that both

58 Lauren (owner and designer of boutique in Maryland), interview by Ben Chung and Ariel Wen, February 17, 2016.

59 Bishnu Sharma (Managing Director of Kamana Dyeing Service Pvt. Ltd.), interview by Ben Chung and Brendon Pezzack, January 6, 2016.

export and sell locally. The buyers who partner with these export businesses are essentially lost and no longer contribute to the Nepali economy. Within the past decade, there have been thousands of SME shutdowns in

Nepal and multiple foreign buyers have left as a result. Although some of the failed SMEs refer their buyers to another Nepali SME, it is not a common practice and contributes to the decrease in pashmina exports.

Key Finding: Job opportunities in the Middle East reduce the labor pool available to cashmere producers.

In recent years significant numbers of Nepali workers, men in particular, have been moving to the Gulf looking for higher wages than what are available in their native country. Reportedly, Nepali men can earn more than twice the amount in the Gulf nations than in Nepal. As of 2014, there are estimated to be more than 1.1 million Nepali workers in the Gulf States.⁶⁰ There are about the same number of Nepali workers in India.⁶¹

As air travel has become more affordable and logistically feasible, more Gulf companies have sought out labor in low income Asian

countries such as Nepal and Bangladesh. The outflow of workers from Nepal have had two major impacts on the pashmina industry. Firstly, it has limited the labor force that can be employed by entrepreneurs in the country. Secondly, it has lowered the incentive for workers and their employers to invest in the time-consuming and costly training required to prepare workers to contribute in this industry. This is especially true for pashmina producers who are trying to conserve traditional hand-weaving and hand-spinning production houses.⁶²

Key Finding: SMEs are highly confidential about their businesses, which makes it difficult to refer existing buyers to another producer if the SME is unable to fulfill an order or is going out of business.

Failed SMEs often do not refer buyers from their existing customer list to other SMEs. This implies that there is a significant amount of demand for pashmina products that is lost in the overall Nepal economy after an SME closes down. Some of these buyers may seek out other Nepali producers, while a certain proportion begins to source outside of Nepal. According to Mercy Corps, Nepal businesses do not normally partake in any acquisitive activities. This can be largely attributed to business cultural norms in Nepal. Businesses in Nepal are skeptical of sharing information for fear of losing a competitive edge or even customers to competitors.

Nepali SMEs are highly secretive about their businesses and often do not have historical financial statements for a third party to review their businesses. The lack of historical financials makes it risky for another party to buy an SME since there is no transparency into the target business. More recently, banks have required historical financial information for at least six months to obtain a loan.⁶³ In addition, Mercy Corps has been conducting financial management training to SMEs so that they can become self-sufficient and create their own financial statements.⁶⁴ Although these efforts have increased the percentage of SMEs that have historical financials, this

60 Assalino, Jose; Steurer, Dr. Ronald F., *Labour Market Trends Analysis and Labour Migration from South Asia to Gulf Cooperation Council Countries, India and Malaysia*. 2015.

61 Assalino, Jose; Steurer, Dr. Ronald F., *Analysis of Labour Market and Migration Trends in Nepal*. 2015.

62 Carroll Dunham (Founder of Wild Earth, accessories boutique), interview by Brendon Pezzack, December 30, 2015.

63 Bholu Bista (Head of Business Banking at Civil Bank), interview by Ben Chung, Dan Menaged, and Brendon Pezzack, January 7, 2016.

64 Jeff Shannon (Mercy Corps program director), interview by Brendon Pezzack, January 11, 2016.

remains an area for improvement. SMEs that have historical financials will find it easier to obtain loans and participate in M&A activities.

In discussions with Ashirbad Pashmina Proprietor Ganesh Shrestha, the AMR Team learned that he engaged in a transaction that illustrates the potential value of combining multiple companies together. Shrestha hired one of the owners from a failed SME who was a skilled loom engineer and technician, which is considered a highly skilled position. Shrestha drew up a contract with the engineer which included in its terms that the engineer cannot take any of Shrestha's customers. The engineer worked with Shrestha for a year before leaving for the Gulf States which offered better pay for his technical expertise. Mutually beneficial relationships such as this, when sensitive information is shared between former competitors, should be the template for future M&A activity.

Implementation for Recommendation #5: M&A Within the Industry

NPIA can encourage its members to participate in acquisitive activities to retain pashmina export value within the Nepali economy

NPIA can communicate not only the mutual benefits of acquisitive activities, but also the damages to the overall Nepali economy by not pursuing acquisitions. As part of the discussion, the presentation should include some use cases to demonstrate the effectiveness of acquisitions. At this point lacking a representative precedent example, the NPIA can identify a failed SME that had some foreign buyers that are no longer being served by Nepali SMEs. Mercy Corps can support NPIA in this activity of identifying, analyzing and assessing potential acquisition targets. Based on estimates of annual orders made from the buyers, the value of the business can be determined. The benefits to both the SME buyer and the SME seller can be illustrated in the use case. There should be multiple sessions to perpetuate the message and further encourage SMEs to act accordingly. After an SME acquires another SME in the future, NPIA can work with the SMEs to build out a use case to better illustrate impact of such a transaction.

In order for this recommendation to be successful, the biggest hurdle will be to overcome the cultural barrier of no historical M&A activity. The AMR Team has heard from the Mercy Corps Team and many SMEs that acquisitions are currently not a cultural norm. Business owners have a lot of pride and do not like the idea of "being dominated" by a competitor. Some SMEs commented that because an acquisition requires a large sum of cash, this becomes an inhibitor to the deal because of the high risk and uncertainty. While these factors may be true, NPIA can help SMEs overcome these fears by emphasizing the benefits of acquisitions, ultimately benefiting both SMEs and the overall Nepali economy.

Appendix I. Standard operating procedure used to conduct cashmere focus groups

Focus Group SOP 2.0

AMR Team #45: Mercy Corps Nepal

Customer Reactions to Pashmina Products and Marketing Techniques.

Supplies

1. Participants: 5-6 people
2. Researchers: 3-4 total (2-3 scribes and 1 moderator)
3. Direct from Nepal Cashmere Samples: Scarf and sweater
4. Bloomingdale's Samples: Scarf and sweater
5. Cardboard signs with the different attributes written on them
6. Picture of Chyangra Pashmina Label
7. Laptops: 3-4 (1 for showing videos, 2-3 for taking notes)
8. Speaker: for the videos
9. Empty Room
10. Incentives: Food, drinks, Raffle Entry for Nepali Cashmere products
11. Data Collection Form organized by question (electronic)

Focus Group Data Collection Goals

1. General Cashmere/Pashmina Buying Behavior (group discussion).
2. Specific Characteristics of Cashmere/Pashmina Clothing (using forced ranking techniques).
3. Comparisons Between Different Cashmere/Pashmina Brands (H2H blinded product comparisons).
4. Online Marketing (using videos)

Focus Group Data:

Q1	Moderator Name:	
Q2	Scribe No. 1 Name:	
Q3	Scribe No. 2 Name:	
Q4	Scribe No. 3 Name:	
Q5	Focus Group ID:	
Q6	Focus Group Location:	
Q7	Number of Focus Group Participants:	
Q8	Date Start:	___ / ___ / ___
Q9	Time Start:	___ : ___ am or pm
Q10	Date End:	___ / ___ / ___
Q11	Time End:	___ : ___ am or pm

Data for Each Participant:

Participant Name:	_____
Assigned Participant / Focus Group ID	____ / ____
Occupation Prior to Anderson:	_____
Post-Anderson Occupation/Target Occupation:	_____
Age:	____
Gender:	Male or Female
City of Residence:	_____
Postal Code of Residence:	____

Focus Group Questions:

Introduction

Introduction will vary depending on the participants (fellow AMR students or industry experts), but it is important to give proper context for the focus group.

Hello everyone, thank you for coming out today. Our AMR client is called Mercy Corp, and it is a non-profit organization in Nepal that is trying to find ways to increase the number of Nepali cashmere products sold in the United States.

Our job is to develop branding and marketing recommendations that will improve the profitability and sustainability of the Nepali Cashmere industry in this country. Today we would like to ask you a variety of questions about how you, as a consumer, would make decisions about buying cashmere products in the United States. Today's focus group will be split into four parts: 1) general buying behavior, 2) specific attributes you look for in cashmere clothing, 3) comparisons between different cashmere samples, and 4) online marketing.

Please feel free to speak openly in response to any question, or to add your opinions after other focus group members have spoken. If you disagree with someone else's statement feel free to articulate why you disagree with what they think. If someone else says something that you agree with please articulate why you agree with what they said. The data we collect will be much better if this turns into a discussion between all of you about the products we are studying. Occasionally, as the moderator I may have to cut a discussion short in order to move on to the next question, or I may call upon people directly in order to increase the diversity of voices and opinions that are being expressed. However, we will try to keep this discussion as natural as possible. Does anyone have any questions? Ok let's begin.

Focus Group Topic #1: Current Cashmere Buying Behavior

There are no props or other items used during this section. These general questions will be used to warm up the group and get people used to talking and discussing products with one another. However, how people answer these questions will still provide some interesting insight into the "voice of the customer".

So our first topic will just be a series of general questions about Cashmere products.

1. Do you buy Cashmere products ?
 - a. Possible Further Prompts: Why do you like Cashmere products?
 - b. Why don't you buy Cashmere products?
 - c. Do you buy these products for others as gifts?
2. Where do you buy these products currently ?
 - a. Possible Further Prompts: Why do you go to those stores?
 - b. Do you go to specific places for Cashmere that are different than where you normally shop? If so why?
3. Do you target certain brands? If so, why ?
 - a. Possible Further Prompts: Why do you like these brands?
 - b. Are there any brands that you avoid? Why do you not like them?
4. Do you shop in brick and mortar stores or do you shop online for these products ?
 - a. Possible Further Prompts: Is there any reason why you would avoid shopping online?
5. How do you evaluate the quality of a cashmere garment?
 - a. Possible Further Prompts: What physical attributes do you look for?
 - b. Do you measure quality through labels or certifications?
 - c. When shopping for clothes, do you look for any certifications that indicate things like: quality, fair trade, eco-friendly production etc.?
6. How would you define the word "Pashmina"?

For the remainder of this discussion we will consider cashmere and pashmina to be equivalent. They are both the fine material made derived from the fur of goats that live in cold conditions in certain parts of Asia. They have an exceptional hand feel, insulating properties, and most consider it a superior product when compared to sheep's wool. However, (as you probably know) it is often far more expensive than cotton clothing.

Focus Group Topic #2: Cashmere Attributes

This section will allow us to drill down more specifically towards what drives the decision-making of individual buyers. The moderator and scribe should post the list of attributes on the wall or on a table where all the members will be given an opportunity to see them. This will facilitate the group ranking portion (Question 3), where different members can discuss why certain attributes are more important than others. Ideally the list of attributes should be moveable (i.e. with magnets or loose/individual pieces of paper on a table) so that the moderator can move the pieces around during the discussion.

1. Next we are going to talk about the specific attributes you would look for when shopping for pashmina products. Please take a look at the list of 11 characteristics displayed in front of you. Imagine these are attributes of a hypothetical product you are evaluating for purchase. We will go through each one briefly to try to answer the following questions:
 - I. how would these attributes affect your willingness to pay for cashmere products? and
 - II. If a product were certified for one of these characteristics, what would be your impression of the product?
 - a. "Made in China"
 - b. "Made in India"
 - c. "Made in Nepal"
 - d. "Eco-Friendly Production"
 - e. "Fair Trade Certified"

- f. "Natural Disaster Relief"
 - g. "No Child Labor"
 - h. "Made Using Traditional Hand-Woven Methods"
 - i. "Made using Chyangra Pashmina"
 - i. Possible Further Prompts: In general, do you trust this certification?
 - ii. Do you think that this certification is vague/meaningless in this situation?
 - iii. If money was not an object, would you pay more for this certification
2. Most people will not know what Chyangra Pashmina means. Wait and make sure this is the case, and then define it for the focus group members after they have provided the insight of the naive customer. "Chyangra" is the name of the wool taken from the underbelly of a particular goat sub-species found in mountainous places in Asia, it is considered to be a very fine form of cashmere. "Chyangra Pashmina" is a certification which can only be applied to products made in Nepali which have had been tested and proven to contain this sort of fiber. A product can only receive this certification if the Nepali government confirms that it contains this sort of material. It is an internationally recognized trademark in 41 countries. This is what the logo looks like on certified products (show the participants a picture of the label). Knowing what you know now, would this change how you felt about this characteristic when purchasing cashmere products?
- a. Possible Further Prompts: Would the type of goat or animal used to create the material matter to you as a consumer?
 - b. Is it important to you to know that an item you are buying is culturally authentic?
3. I am now going to add two more characteristics to this list, they are "Highest Quality" and "Lowest Price" . If you were shopping for these products in a department store for yourself how would you rank these 11 characteristics in terms of importance from most important to least important ?
- a. Possible Further Prompts: Would these rankings change if you were buying these products as a gift ?
 - b. Would these rankings change if you were buying these products online ?
 - c. Do you think that these rankings are typical for consumers in general ?
 - d. Do you ever feel social pressure to buy products with certain certifications ?

Focus Group Topic #3: Nepali Brand Pashmina vs. Bloomingdale's

This section of the focus group will focus on whether participants can tell the difference between a Nepali Brand's products and the more expensive products which have travelled through the normal supply chains from Nepal. Before the focus groups begin a set of Nepali Brand and Bloomingdale's products will be obtained and their identity will be masked (ideally they will be articles of the same color/size but this may not be possible). This could be accomplished covering up all labels, or by only allowing the participants to touch and feel an unmarked portion of the garment.

After blinding, each product will receive an ID letter, which will be referred to during discussion. It is important to give each article an ID letter, which is not part of a larger group of masked products (ex. Hat-A, Sweater-A, where all "A"s refer to a Nepali Brand) in case one article is unmasked accidentally during the procedure, revealing the ancestry of every product on the table. Each pair of products should be discussed after all participants have a chance to touch both products.

1. We are now going to compare different pashmina products, which you could acquire in North America. In the corner on the chairs we have positioned two sets of very similar products, two sweaters and two scarves. We have positioned the products to mask the labeling so that you cannot tell the origin of the products. You can now walk over to the chairs and touch the products in order to compare the two sweaters and scarves head-to-head. Please do not pick up the products because the tags may be revealed. In addition, try to pretend that the colors/patterns are identical. Please tell us any general comments you have about the product materials in addition to your specific preference between the two examples.
 - a. How do you feel about these two scarves? Do you have a favorite? Do you think they are fairly similar? How much would you pay for each one?
 - b. How do you feel about these two sweaters? Do you have a favorite? Do you think they are fairly similar? How much would you pay for each one?
2. Now I am going to reveal the brands. 1) Item ___ is from ___ a Nepal based textile manufacturing company. This item sells for approximately \$___ in Nepal, and if you could buy it online it would sell for approximately \$___. However, although ___ currently has a website showroom it is impossible to purchase these products directly online. 2) Item ___ is from Bloomingdale's, and it item sells for approximately \$___ in the United States. Bloomingdale's also has an online presence, and you can purchase this product easily through the website.
 - a. Does this change how you feel about the scarves? How do you feel about these prices?
 - b. Does this change how you feel about the sweaters? How do you feel about these prices?

Focus Group Topic #4: Marketing Strategy

This section of the focus group will focus on how online marketing for pashmina's may be an effective way for producers in the Nepal to increase their sales. This component will consist of showing the focus group members a series of online videos made by various agencies that explain how pashminas or other clothing is made in developing countries.

Now, most importantly, we are going serve lunch. But in addition, as you eat, we are also going to show you a series of short videos that have been produced to speak to North American audiences about purchasing products from developing countries. I will briefly introduce each organization, we will then watch each video, and after each one I want to hear about your impressions about what you saw, as a potential consumer of the products they are selling.

1. The first video is by a group called "Mirror in the Sky" (2:18 long). URL: <https://www.indiegogo.com/projects/inspiring-handmade-scarves-by-mirror-in-the-sky#/> They describe themselves as follows: "We love handmade scarves and we love creating amazing designs... put the two together and you have Mirror in the Sky. Our story begins in the Nepal Himalaya Mountains where we discovered a tradition of hand weaving cashmere that is more than 400 years old. We are based in Barcelona, a beautiful vibrant city full of style and for the last three years we've learnt how to make great scarves. At the same time, we've searched for a way to combine our passion for art, design and photography to create a unique range of 'Signature Designs'. After showing the video:
 - a. What did you like about that video?
 - b. What did you dislike?
 - c. Would you consider buying products from this producer?

-
2. The second video is by a group called “Shawl Wallah” (2:38 long). URL: <https://www.kickstarter.com/projects/1123453095/shawl-wallah-ethically-produced-pashmina-cashmere/description>. They describe themselves as follows: “Shawl Wallah was born of Greg Doudican's work in India with the United Nations High Commissioner for Refugees (“UNCHR”), his personal travel, and subsequent need to advocate for Kashmiris. Since returning to Canada after his first trip to Kashmir in 2011, Greg spent time perfecting the relationships and production processes needed to bring these artisanal pieces to the global market. In late 2013, Greg took the plunge and created Shawl Wallah. 20% of each sale is donated to Save the Children India”. After showing the video:
 - a. What did you like about that video?
 - b. What did you dislike?
 - c. Would you consider buying products from this producer?
 3. The third video is by a group called “The Ants Crafts” (3:00 long). URL: <https://www.indiegogo.com/projects/create-livelihoods-for-artisans-in-northeast-india#/> They describe themselves as follows: “The Ants Craft is a 7-year old Fair Trade community business that creates livelihoods for 4,000 Northeast Indian artisans. We return profits to the artisan community via higher wages and employing more people. Most of our artisans are women, and the benefits of empowering women accrue to the whole family”. After showing the video:
 - a. What did you like about that video?
 - b. What did you dislike?
 - c. Would you consider buying products from this producer?
 4. After seeing all the videos, do you have any general comments about all of them? Did you have a favorite?
 - a. Possible Further Prompts: Do you think that marketing to consumers in North America using this channel would be effective?
 - b. What aspects of these videos were effective in marketing these products?
 - c. Would you be interested in buying these sorts of things online?
 - d. Would the videos impact your decision to buy the product, or was the description provided sufficient?
 - e. In general, does the story behind how a garment is made impact your decision to buy a product? Which parts of these stories are most important?
 5. After watching the videos and taking part in the discussion, have your opinions about any of the marketable attributes changed?

End of Focus Group

Thank you so much for all your help! We really appreciate your time and I hope that this was an interesting discussion for everyone. Do you have any feedback that would allow us to run the next focus group more successfully?

Appendix II. Online survey of cashmere buying behavior

Thank you for taking the time to complete this survey. We are a group of UCLA Business School students researching how people shop for cashmere. Our goal is to help clothing producers in a developing country increase sales by creating products that consumers in places like the United States will enjoy.

Please click on the arrow at the bottom of the screen to advance through each page of the survey. This survey will take approximately 10 minutes.



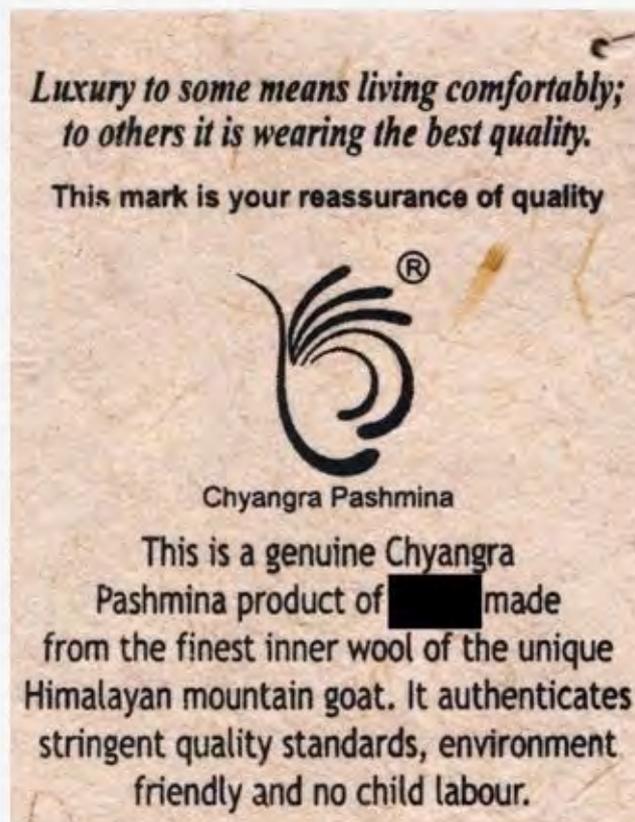
0% 100%

Before we start the survey we need to define a few terms you may be unfamiliar with.

"Pashmina" is another word for cashmere. There is no difference between the end product or the raw materials used to make pashmina and cashmere products.

"Chyangra Pashmina" is a certification created by the government of a developing nation in Asia. The certification can only be applied to Pashmina products manufactured within that country that have undergone testing conducted by the government that confirms the pashmina fibers come from the Chyangra goat. This is a type of goat that is only found in mountainous regions in Asia. The fiber from these goats is considered to be high quality. The "Chyangra Pashmina" trademark is recognized by 41 countries worldwide.

Certified products come with the following label:



0% 100%

In the following 15 questions, we will simulate the buying decisions that you could face while shopping for clothing in a store.

Imagine you are shopping for a **cashmere sweater** for your own wardrobe. You will be presented with multiple versions of a cashmere sweater that are displayed in the store. Please select the sweater that you find most appealing amongst the options provided in each question. Assume that all the sweaters have identical patterns, color and design.

When you are ready to start the simulation please click the arrow below.



0%  100%

If these were your only options for a **cashmere sweater**, which would you choose?

1 / 15

Country of Origin	Made in Nepal	Made in India	Made in China
Eco-Friendly Production	-	-	Eco-Friendly Production
Fair Trade	Fair Trade	Fair Trade	-
Hand-Woven Using Traditional Methods	-	Hand-Woven Using Traditional Methods	-
Chyangra Pashmina	Chyangra Pashmina	-	Chyangra Pashmina
Brand	Bloomingdale's	Harati	Harati
Price	\$240	\$120	\$60
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If these were your only options for a **cashmere sweater**, which would you choose?

2 / 15

Country of Origin	Made in China	Made in Nepal	Made in India
Eco-Friendly Production	Eco-Friendly Production	Eco-Friendly Production	-
Fair Trade	-	Fair Trade	-
Hand-Woven Using Traditional Methods	-	Hand-Woven Using Traditional Methods	-
Chyangra Pashmina	Chyangra Pashmina	-	Chyangra Pashmina
Brand	Harati	Bloomingdale's	Bloomingdale's
Price	\$240	\$120	\$240
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If these were your only options for a **cashmere sweater**, which would you choose?

3 / 15

Country of Origin	Made in India	Made in Nepal	Made in Nepal
Eco-Friendly Production	-	Eco-Friendly Production	-
Fair Trade	-	-	Fair Trade
Hand-Woven Using Traditional Methods	-	-	Hand-Woven Using Traditional Methods
Chyangra Pashmina	Chyangra Pashmina	-	-
Brand	Harati	Bloomingdale's	Harati
Price	\$60	\$120	\$60
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please note that 15 of these forced-choice questions were answered by every respondent, only three examples have been provided here.

Are you currently a university student?

- Yes
- No

Are you a student at the Anderson School of Management?

- Yes
- No

What is your highest level of education?

- No High School Diploma
- High School Graduate
- Some College
- Associate's Degree
- Bachelor's Degree
- Master's Degree
- Doctoral Degree
- Professional Degree

What is your current annual income? If you are currently a university student, please select your anticipated income upon graduation.

- < \$25,000
- \$25,000 - \$50,000
- \$50,000 - \$75,000
- \$75,000 - \$100,000
- \$100,000 - \$125,000
- \$125,000 - \$150,000
- \$150,000 - \$175,000
- \$175,000 - \$200,000
- > \$200,000

What is your gender?

- Male
- Female

How old are you?

- < 15 years old
- 15 - 19 years old
- 20 - 24 years old
- 25 - 29 years old
- 30 - 34 years old
- 35 - 39 years old
- 40 - 44 years old
- 45 - 49 years old
- 50 - 54 years old
- 55 - 59 years old
- + 60 years old

Do you currently live in the United States?

- Yes
- No

What state do you live in?

- AL
- AK
- AZ
- AR
- CA
- CO
- CT
- DE
- DC
- FL

Postal Code of Residence

Country of Birth:

On average, how much money do you spend on clothing per year?

- < \$250
- \$250 - \$500
- \$500 - \$1,000
- \$1,000 - \$2,000
- \$2,000 - \$5,000
- \$5,000 - \$10,000
- > \$10,000

On average, how much money do you spend on cashmere products per year?

- \$0
- < \$100
- \$100 - \$500
- \$500 - \$1,000
- \$1,000 - \$2,000
- > \$2,000

Where do you buy your cashmere products? Please select all that apply.

You will be able to write-in additional stores on the next page.

- Bloomingdale's
- Nordstrom
- Neiman Marcus
- Saks Fifth
- Macy's
- Ten Thousand Villages
- Faliero Sarti
- Chan Luu
- From the Road
- Savannah
- Zara
- H&M
- Forever 21
- Topshop
- Marshalls
- TJMaxx
- Ross
- Vintage Stores
- Ebay
- Souvenir Boutiques While Traveling
- None of the Above
- I Do not Buy Cashmere

Please write any additional locations where you shop for cashmere below. Please separate each different location with a comma.

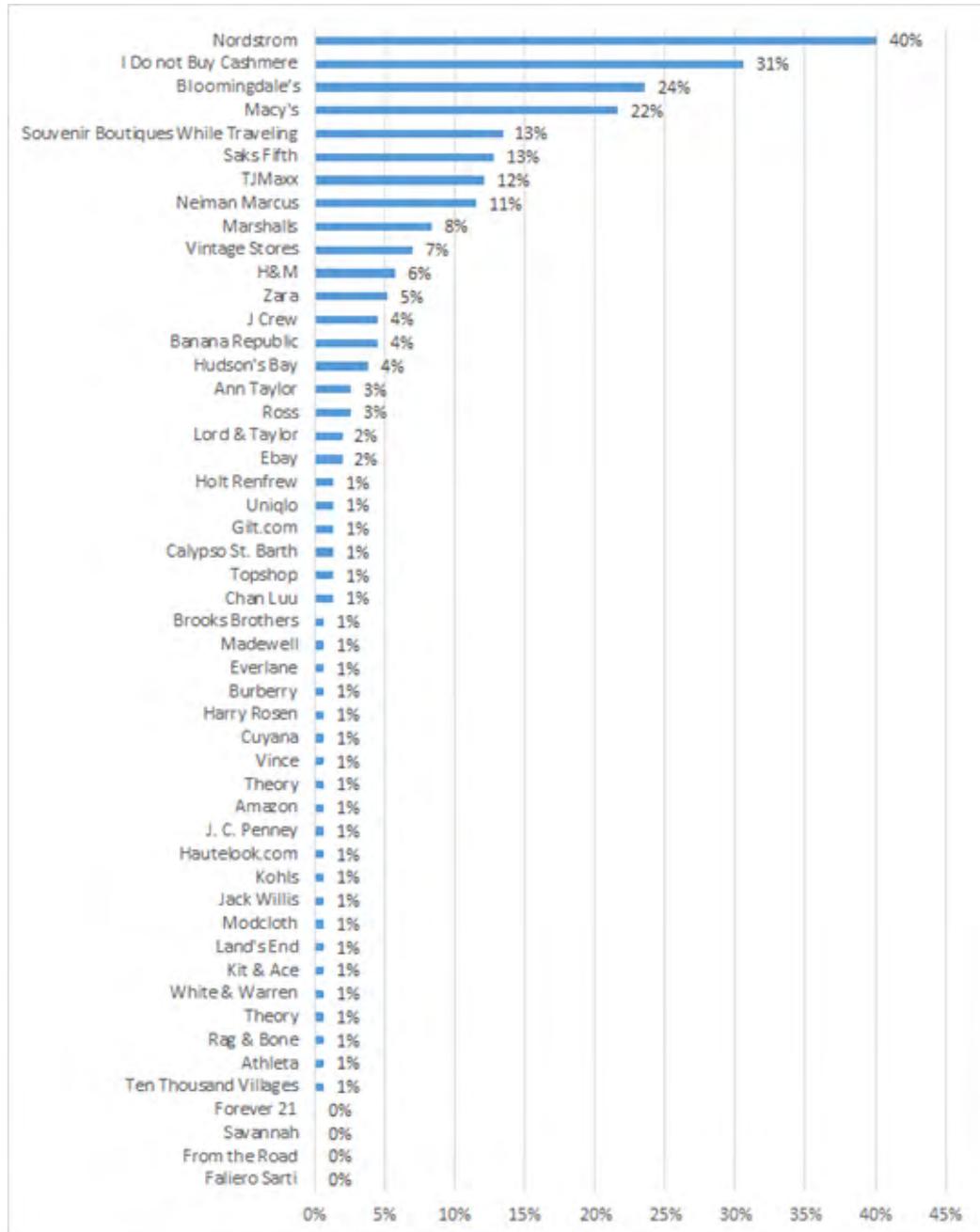


0%  100%

The survey is finished. Thank you for your time and have a great day!

0%  100%

Appendix III. Shopping patterns of survey respondents by outlet

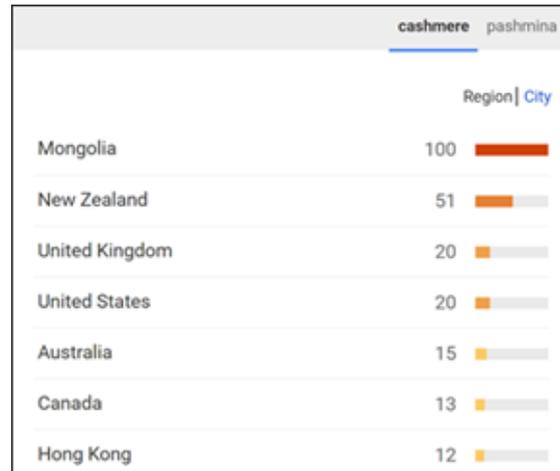
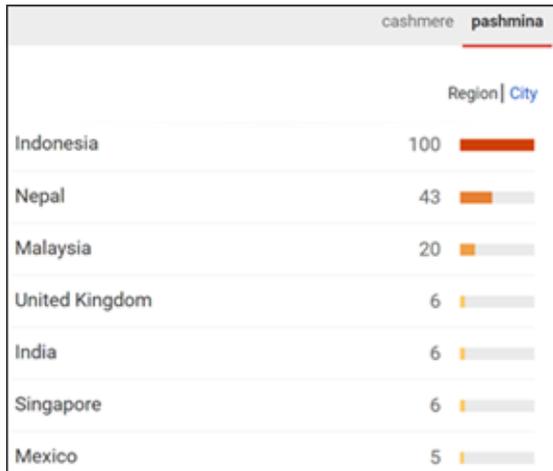


Source: AMR Team Online Survey

Total number of survey respondents, n = 164. Total number of stores and websites, n = 50.

Appendix IV. Countries with the most Google searches for “Pashmina” and “Cashmere”.

All units are displayed relative to the most frequently searched term. For example, “pashmina” is searched the most frequently in Indonesia; Nepal searches the term 57% less frequently



Source: Google Trends

Appendix V. Current sales channels for Nepali SMEs and issues that make certain channels less attractive.

SMEs in the Nepal pashmina industry predominantly sell into the following channels:

- **Local retail** - Local retail shops cater to tourists and Nepali people.
- **Local wholesale** - Local wholesalers source from Nepali producers and export goods to foreign clientele.
- **Foreign boutique** - Small business entrepreneurs will often source from locations such as Nepal to bring unique products to markets in developed countries with premium price points.
- **Foreign wholesale** - Foreign wholesale, or exports, are the primary source of revenue for the typical SME.

Local retail and foreign boutiques often account for a small portion of the average SMEs business. Both offer attractive margins. Local retail cuts out the middleman, but cannot command a very high price point. (There are exceptions where the brand is priced at a premium for expatriate or select tourist segments.) Foreign boutiques price at a premium but the retailer retains a disproportionate amount of the margin. Both channels do not have the scalability and promise of large customer bases.⁶⁵

Local wholesale may be a slightly larger market opportunity. Often larger retailers go through Nepali “agents” in order to procure large order sizes (1000s of pieces). An SME leverages the agent’s relationships and trust developed over time, in order to indirectly win new business. However, the agent will retain a reasonable amount of margin, making this channel less attractive. Further, the agent retains control over the new customer account; the SME cannot exclude the agent from the deal. The typical agent’s fee ranges from 10-30% of gross order revenue, scaling with the size of the order. The services that agents provide are testimony to the types of activities that SMEs could improve and internalize in order to improve profitability. Specifically, SMEs need improved sales processes and communication techniques to grow network, to build relationships, to inspire trust with potential partners, and to ultimately win new business.⁶⁶

Additional channels, such as foreign retail or direct-to-consumer, may be future opportunities to tap into new markets. However, many SMEs currently lack the resources and expertise to sell into these segments. For example, businesses are constrained by financial regulations of the Nepali government, limiting the ability to sell directly to consumers. Specifically, Nepali companies cannot sell product through e-commerce, a natural way to easily tap into direct-to-consumer business models. Additionally, the direct-to-consumer channel, through e-commerce, would enable ultimate control over branding, but targeted consumer marketing is not a current core competency of these SMEs.⁶⁷

The foreign retail channel, such as department stores, represents a very large market opportunity, but these buyer groups require more sophisticated selling processes. SMEs are not currently well-positioned to sell into this channel. They do not have the data and processes needed to negotiate contracts. For example, retail sales velocity, shelf velocity or sales per point of distribution, is an important consideration for retailers such as Nordstrom or Neiman Marcus. Currently, SMEs do not track or have access to relevant data points. Wholesalers are a more attractive channel because SMEs understand the selling process and it puts the onus on the wholesaler to negotiate cutthroat distribution contracts with retailers.⁶⁸

65 Chitra Bahadur (VP of World Fair Trade Asia), interview by Kevin Shah and Ariel Wen, February 5, 2016.

66 Ganesh Shrestha (co-owner of Ashirbad Pashmina), interview by Kevin Shah and Ariel Wen, February 2, 2016.

67 Narendra Shakya (owner of Harati Pashmina), interview by Kevin Shah and Ariel Wen, February 3, 2016.

68 Pamela Kelly (VP Licensing & Brand Management for Museum of New Mexico Foundation), interview by Kevin Shah, November 11, 2015.

Appendix VI. China and India have cost advantages due to export and trade policies and control of raw materials.

At a high level, Nepal, India, and China compete with each other through various export-oriented, trade-friendly policy. China has had a long history of aggressive export subsidies, as the government has long supported this type of economy. For example, China previously provided an export subsidy through a Value Added Tax (VAT) refund on raw cashmere material of 13%. This practice changed in 2004 when China joined the World Trade Organization. China agreed to discontinue these practices and switched policy to encourage migration up the value chain in order to develop value-added product before exporting. Despite discontinuation of export subsidies, China continues to offer very low interest rate loans for cashmere processing technology, inventory holding costs, and other capital costs. Thus, China essentially sets the price of cashmere raw materials on the market, and also is the largest exporters of low price cashmere garments. The end effect enables China's entire cashmere value chain to be extremely price competitive with other countries. India has a similar export subsidy of 13%. Additionally, these export subsidies have streamlined paperwork, making the process simple and quick.^{69,70}

Appendix VII. Nepal's export trade is at a cost disadvantage due to lack of access to a port.

Nepal is at a significant disadvantage from a geographic perspective as an exporting country. First, the country is completely landlocked, and it lacks access to any major waterways that could be used as shipping routes for products made domestically. It is bordered by two large Asian superpowers (China and India) both of which compete directly for consumers with their own domestic pashmina industry. In an interview with Sunil Manandhar, Director of Euro Pashmina, China's access to ship by freight results in Nepal's shipping costs being up to 8 times higher per garment. According to reports by The Himalayan Times and the Garment Association of Nepal, Nepali garments are 7-10% more expensive than those from other South Asian nations, due to transport costs.⁷¹ Other export pathways exist but are very inefficient or unreliable. For example, as referenced previously, the unofficial trade embargo caused prolonged shipment delays.

69 Shakun Sherchand (owner of Himalayan Spirit 8848), interview by Kevin Shah, February 5, 2016.

70 Narendra Shakya (owner of Harati Pashmina), interview by Kevin Shah, February 3, 2016.

71 "Nepali garments to get duty free facility in US". The Himalayan Times. December 14, 2015.

Appendix VIII. Nepali Pashmina Exports dropped 91% between 2008-2013



Source: Mercy Corps provided data

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