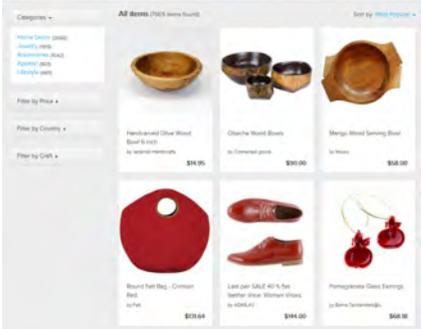


# INCLUSIVE TOURISM

## LINKING THE HANDICRAFT SECTOR TO TOURISM MARKETS





# INCLUSIVE TOURISM

## LINKING THE HANDICRAFT SECTOR TO TOURISM MARKETS

## Abstract for trade information services

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International Trade Centre (ITC)

**Inclusive Tourism: Linking the Handicraft Sector to Tourism Markets – 2<sup>nd</sup> Edition.**

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The second edition of the training module provides facilitators with the know-how to develop sustainable business linkages between handicraft producers and tourism markets - presents a detailed analysis of the tourism-related handicraft value chain; explains how to further develop a tourism-related handicraft value chain through vertical business linkages; producer groups and associations (horizontal business linkages); increasing producer competitiveness on product design, quality, timeliness and quantity; training producers on costing and pricing; improving sales promotion; and supporting government initiatives. Includes case studies from Ethiopia, Cambodia, the Lao People's Democratic Republic, Viet Nam, Mongolia, Myanmar, Uganda and Mozambique and a bibliography.

**Descriptors: Tourism and Travel Services, Poverty Reduction, Artisanal products, Value Chain, Case Studies, Manuals.**

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English

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# Contents

<b>Abstract for trade information services</b>	<b>ii</b>
<b>Acknowledgements</b>	<b>iii</b>
<b>Acronyms</b>	<b>vii</b>
<b>Introduction</b>	<b>1</b>
<b>1. Value chain mapping</b>	<b>10</b>
<b>2. Economic analysis</b>	<b>13</b>
<b>3. Opportunities and constraints analysis</b>	<b>15</b>
<b>3.1. Improve backward business linkages between the tourism industry and the handicraft sector</b>	<b>19</b>
3.1.1. Improve existing retail linkages	19
3.1.2. Increase attractiveness of existing retail outlets	21
3.1.3. Promote excursions to craft villages and community-based tourism	22
3.1.4. Create new retail structures	23
<b>3.2. Promote sales based on producer group and association activities</b>	<b>25</b>
3.2.1. Joint sales promotion activities	25
3.2.2. Build organizational capacity of producer groups and associations	28
<b>3.3. Increase producer competitiveness on product design, quality, cost and quantity</b>	<b>30</b>
3.3.1. Product design	30
3.3.2. Product quality and quantity	32
3.3.3. Cost calculation	35
<b>3.4. Support government initiatives with special focus on replication and expansion</b>	<b>37</b>
<b>Conclusion</b>	<b>39</b>
<b>Bibliography</b>	<b>41</b>
Figure 1: Tourism and craft sales in Ethiopia	6
Figure 2: Pro-poor share of value addition in Na Dang, Viet Nam	8
Figure 3: The Tourism Value Chain in Viet Nam	11
Figure 4: Example of a tourism-related handicraft value chain map	12
Figure 5: Quantification of the market actors	12
Figure 6: Example of a Technical Sheet	33
Table 1: Tourism and craft sales in Luang Prabang, Lao People's Democratic Republic	7
Table 2: Advantages and disadvantages of intermediaries	20
Table 3: Calculate production costs	36
Table 4: Example of direct costs' calculation: knitted baby slippers (felt/yarn mix) from Mongolia	36
Table 5: Calculate mark-up for indirect costs	37
Box 1: Calculation of added value for Krama scarves in Cambodia	13
Box 2: Uganda Inclusive Tourism: Poverty Reduction through backward linkages	17
Box 3: The facilitator role	18
Box 4: Shop decoration advice	21
Box 5: Artisans d'Angkor, Siem Reap, Cambodia	22
Box 6: Community-based tourism in the Lao People's Democratic Republic	23

Box 7:	Creation of new producer outlets	24
Box 8:	Linking local producers and tourism - Example of the Luang Prabang Handicraft Label	27
Box 9:	Handicraft Fair Luang Prabang	28
Box 10:	Example SWOT analysis (extract) of Khmer Silk Villages, Cambodia	29
Box 11:	Success story Tsagaan Alt Wool Shop, Cooperative Union, Mongolia	31
Box 12:	Design and marketing development of the Cambodian Craft Cooperation	32
Box 13:	Use of recycled raw material	34

## Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars and all references to tons are to metric tons.

The following acronyms are used:

ASSET	Association of Small Scale Enterprises in Tourism
CBI	Centre for the Promotion of Imports from developing countries
CCC	Cambodian Craft Cooperation
DFID	Department for International Development
EPRP	Export-led Poverty Reduction Programme
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ICT	Information and Communication Technology
IDC	International Development Consultants
IFC	International Finance Corporation
IT	Information Technology
ITC	International Trade Centre
KSV	Khmer Silk Villages
LPB	Luang Prabang
LPHA	Luang Prabang Handicraft Association
MOIC	Ministry of Industry and Commerce
MSME	Micro, small and medium-sized enterprises
NGO	Non-governmental organization
ODI	Overseas Development Institute
PICO	Provincial Industry of Commerce Office
PPI	Pro-poor Income
PPT	Pro-poor tourism
SME	Small and medium-sized enterprise
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TPO	Trade Promotion Organization
TPPD	Trade and Product Promotion Department
UN	United Nations
UNDP	United Nations Development Programme
UNWTO	World Tourism Organization
VC	Value chain
WTO	World Trade Organization
WTTC	World Tourism and Travel Council



## Introduction



The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations. ITC's mission is to enable small business export success in developing and transition-economy countries by providing, with partners, sustainable and inclusive development solutions to the private sector, trade support institutions and policymakers.

The ITC Trade in Services Strategy is a new programme focusing on three loose clusters of service industries, namely (i) tourism, (ii) transport/logistics/distribution and (iii) Information Technology (IT) and IT-enabled business services. The three-year programme aims at introducing essential information tools and training modules to activate local industry champions to organize themselves better to achieve export success. The programme aims to mobilize support for the development and implementation of service industry competitiveness roadmaps and associated export action agendas. The innovation and value addition capacity at enterprise level will be strengthened and Trade Promotion Organizations (TPOs) will be provided with tailored tools and skills. The programme also aims to facilitate public/private dialogue in service sectors.

As part of these three service industries to be promoted, the tourism sector is characterized by strong growth potential. ITC's assistance to develop tourism from a trade perspective is three-fold:

1. Improve tourism public institutions and sector association's capacities to better serve their clients in the tourism sector, including airlines, travel agencies, tour operators, tour guides, hotels and related industries (food, crafts, entertainment, transport, conference services, health and wellness services, etc).
2. Enable local value addition including via backward linkages assisting local tourism operators to become more competitive (e.g. by increasing the use of Information and Communication Technologies (ICT) opportunities) and local small and medium-sized enterprises (SMEs) and communities to improve competitiveness in offering the right products and services and linking them to the tourism value chain, thus making tourism more inclusive. This can include crafts, agro-food, cultural tourism community tours, music/dance performances, ICT services, environmental and energy services and other areas.
3. Enhance tourism forward linkages by better positioning the offer in target markets, partnering with private companies, driving sector growth such as international outbound tour operators and potential investors, enabling a conducive business environment and increasing the export competitiveness of inbound tourism operators.

ITC has identified a need not only for a closer focus on inbound tourism per se (i.e. travel agencies, tour operators, tour guides, hotels, other accommodation, restaurants and catering) but also for adding other related services areas such as linkages into the handicraft sector. Handicraft production can help diversify the tourism product to include home stays, cultural experiences and facilitate the promotion of responsible tourism principles; it is an important area of job creation in the informal sector.

This manual on linking the handicraft sector to tourism markets outlines the possibilities to strengthen backward linkages from tourism. It indicates ways for handicraft producers in developing countries to become better integrated in the tourism value chain in order to increase their income and provides facilitators with the know-how to develop sustainable business linkages between handicraft producers and tourism markets.

Local communities do not automatically benefit from the growth in tourism. Poor people in developing countries often lack resources, skills and employment, which keeps them from reaching a family income above the poverty line. They have limited access to education and mostly rely on subsistence farming in rural areas or poorly-paid occasional jobs in urban centres. Handicraft production, based on traditional skills and with low investment requirements, can be a way for poor people to increase their income.

Investment by governments, development agencies, non-governmental organizations (NGOs) and the private sector will help realize the potential. For government representatives in developing countries, inclusive tourism is a large and growing service sector, which can be used to benefit poor handicraft producers as the number of international tourists increases.

Development agencies and donors should be interested in promoting tourism-related handicraft production because it is a labour-intensive industry that can support a number of part-time and full-time employees, both skilled and unskilled and which reduces migration into cities as a result of employment creation in rural areas. NGOs can assist handicraft producer groups and can particularly promote opportunities for women.

Tourism enterprises should be interested in promoting the handicraft sector because it can help to increase the attractiveness of the tourist destination and can generate further income sources. Handicraft businesses can benefit more from the tourism industry as a main sales market. The informal sector, including poor craft producers, can be linked to the formal sector and can increase sales to tourists with high purchasing power.

Local communities realize that the handicraft sector is a major contributor to employment in their areas, that the development of the tourist market has the potential to increase the communities' revenues and that handicraft production provides an opportunity for communities to preserve their natural and cultural heritage and exposes it to international visitors.



This manual is part of a series of six Inclusive Tourism training modules of ITC:

The **Core Training Module** provides an introduction to the tourism sector and how it can contribute to poverty reduction. It provides an overview of the potential involvement of local people and ways to expand the tourism supply chains, while recognizing socially and environmentally sustainable practices.

The **Module on Agriculture** uses international examples to provide a realistic account of what interventions and partnerships are possible between agro products and the tourism industry, including the challenges that both producers and buyers may face. The aim of the module is to provide farmers and fishermen with the tools they need to assess the viability of accessing tourism markets and buyers with the skills to develop sustainable partnerships with local producers.

The **Module on Environmental Management** is a tool on how to manage tourism developments optimally in terms of the environment, especially in the context of climate change and global warming, with the need for governments, businesses, communities and people to ‘act locally while thinking globally’.

The **Module on Handicraft Products** indicates ways for handicraft producers in developing countries to become better integrated in the tourism value chain in order to increase their income and to provide facilitators with the know-how to develop sustainable business linkages between handicraft producers and tourism markets.

The **Module on Tourist Hospitality Management** is a tool to train employees in the hospitality sector. It describes how the hospitality and catering industry operates optimally while fulfilling guest expectations and needs.

The **Module on Artistic and Cultural Performance** shows ways to develop local artistic and cultural talents as well as trade services in developing countries through the tourism value chain.



**The aim of the Inclusive Tourism Handicraft Manual is:**

- To show ways how handicraft producers in developing countries can be better integrated in the tourism value chain in order to increase their income, and
- To provide facilitators with the know-how to develop sustainable business linkages between handicraft producers and tourism markets.

## 1. Poverty reduction through tourism and craft production



International tourist arrivals are growing worldwide - from 434 million in 1990 to 677 million in 2000 and reaching a record 1,087 million in 2013. Forecasts predict that this figure will reach 1.4 billion tourists by 2020 and 1.8 billion by the year 2030. Worldwide, travel and tourism is expected to grow by an average of 3.3% a year over the period 2010 to 2030. Developing countries are playing an increasingly prominent role in this growing sector.

International tourist arrivals in the emerging economy destinations of Asia, Latin America, Central and Eastern Europe, Eastern Mediterranean Europe, the Middle East and Africa will grow double the rate (+4.4% a year) of that in advanced economy destinations (+2.2% a year). As a result, arrivals in emerging economies are expected to exceed those in advanced economies before 2020. In 2030, 57% of international arrivals will be in emerging economy destinations (versus 30% in 1980) and 43% in advanced economy destinations (versus 70% in 1980) according to the World Tourism Organization (UNWTO)<sup>1</sup>.

Tourism is a 'transversal sector touching upon many other economic activities that feed the hotel, catering and transport industries, or that sell goods to the tourists'.<sup>2</sup> Tourists desire to encounter and experience different cultures. Handicrafts form an integral part of the tourist experience through representing local traditions and indigenous populations. They symbolize the places visited by tourists, the memories of extraordinary experiences and are given as a souvenir to friends and relatives.<sup>3</sup> 'Through the purchase of locally made items, tourists create and promote employment for sustainable economic development, improve the livelihoods of artisans and promote women and disadvantaged segments of society, for whom other employment may be unavailable'.<sup>4</sup>

'The craft chain is a major beneficiary of tourists' out-of-pocket spending, which is generally more pro-poor than the large ticket items (such as hotels)'.<sup>5</sup> This is based on the fact that crafts are often made by ethnic minorities and poor farming household producers in remote areas. They are often manufactured from local raw materials and sold by informal small traders. However, the percentage of the pro-poor income that is generated in the tourism-related handicraft value chain varies from one country to the next and depends on the kind of crafts sold and the commercialization channels served.

According to the UN, people living under the poverty line, which is less than US\$1.25 per capita per day, are considered to be poor. Compared to the poor, the 'fairly poor' include those who moved out of poverty recently and still belong to the poorer parts of the population. Thus, the term 'pro-poor' describes activities which benefit those living under the poverty line and those who may now be above the poverty line, but still rely on their own manual and semi-skilled labour for their livelihood on a daily basis with some degree of insecurity.

The following three examples taken from very different tourist destinations - Ethiopia, the Lao People's Democratic Republic and Viet Nam - demonstrate how tourism-related handicraft production can lead to poverty reduction.

<sup>1</sup> UNWTO, 2014

<sup>2</sup> Yunis, 2008

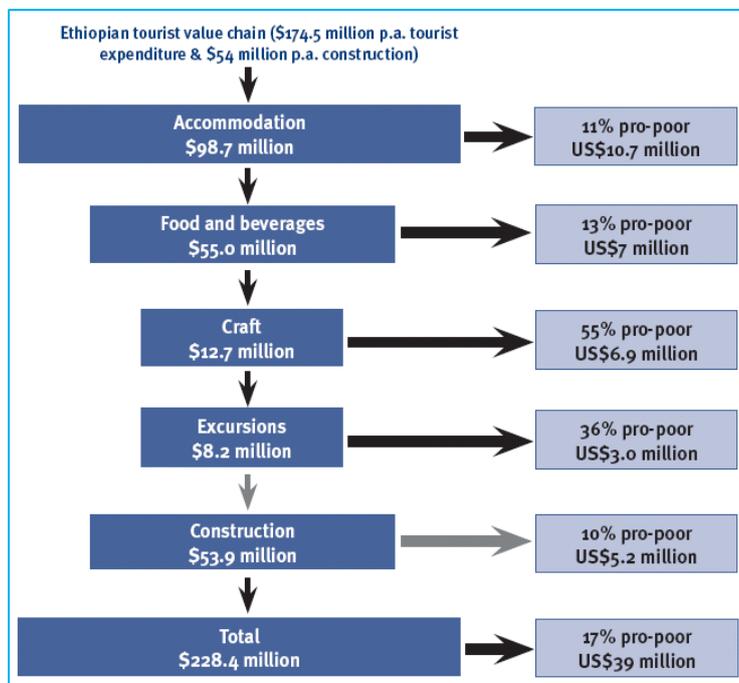
<sup>3</sup> Mustafa, 2011

<sup>4</sup> Shushma, 2012

<sup>5</sup> Mitchell & Ashley, 2009

Tourism-related handicraft sales in Ethiopia are estimated to be as high as US\$ 12.7 million per year (see Figure 1). 55% of these expenditures, US\$ 6.9 million, are considered to be pro-poor income, i.e. income that goes to poor craftsmen, traders or raw material suppliers. Besides the income earned from providing accommodation and selling food and beverages, handicrafts are among the most important tourism sub-sectors with regard to generating pro-poor income.

**Figure 1: Tourism and craft sales in Ethiopia**



Source: Mitchell & Ashley, 2009.

In 2007, Ethiopia attracted 250,000 foreign tourists, meaning that the average tourist spent about US\$ 50 on handicrafts during his stay in Ethiopia, of which US\$ 25 were pro-poor income. The International Finance Corporation (IFC) reports similar figures for other African countries: for Mozambique, the IFC estimates the average spending per tourist, at a minimum, of US\$ 20; for Kenya and for the United Republic of Tanzania the purchases per tourist of handicraft are estimated at US\$ 79 per tourist.<sup>6</sup>

In the Lao People's Democratic Republic, the pro-poor impact of tourist expenditure is high as well. Over 50% of the craft spending per tourist reaches the poor.<sup>7</sup> An assessment of the pro-poor impact of tourism in the Lao People's Democratic Republic's former capital and main tourist destination, Luang Prabang, estimates that a total of US\$ 4.4 million of curios and craft articles are sold to tourists annually (see Table 1). 40% of this amount, US\$ 1.8 million, provide income for semi-skilled and unskilled people, who are considered to belong to the poor and fairly poor, like weavers and suppliers of silk and silver. As a result, crafts rank second with regard to pro-poor impact comparing four main tourism sub-chains; accommodation, food and drink, handicrafts and transport and excursions.

About 135,000 international tourists visit Luang Prabang annually, mostly young backpackers with limited financial means. Nevertheless, average handicraft purchases per international tourist are estimated to be as high as US\$ 31 per person, even under the assumption that young backpackers only spend about one third of what the more affluent up-market tourist spends on handicrafts.<sup>8</sup>

<sup>6</sup> IFC, 2006.

<sup>7</sup> Mitchell & Ashley, 2009

<sup>8</sup> Ashley, 2006

Many of the local craft producers and vendors in the Lao People's Democratic Republic are doing well from tourism, reaching an income level above the national poverty line. They are often no longer considered to belong to the poor, which means that the pro-poor tourism (PPT), which we find in Luang Prabang, was successful in raising poor peoples' income above the poverty line.

**Table 1: Tourism and craft sales in Luang Prabang, Lao People's Democratic Republic**

Sector	Accommodation	Food and drink	Crafts and curios	Transport and excursions
<b>Approx. turnover in LPB, p.a.</b>	\$8,700,000	\$7,000,000	\$4,400,000	\$1,800,000
<b>% accruing to semi-skilled and unskilled</b>	6%	45-50%	40%	33% +
<b>Approx. \$ per annum</b>	\$555,000	\$3,000,000	\$1,800,000	\$600,000
<b>Main earners (approx. aggregate income per year)</b>	Hotel workers (\$290,000), Guest house workers (\$215,000)	Meat and fish producers (\$2,400,000), Fresh food producers (up to \$883,000)	Weavers (\$550,000), Silver and other suppliers (\$505,000), Silk suppliers (\$265,000), Vendors (\$200,000)	Tuk-tuk drivers (\$300,000), Boat owners (\$110,000), Guides (\$150,000)
<b>Income to the 'poor'</b>	Very little. Some poor relatives employed	Farmers (rice, veg, fruit) producing \$883,000 worth of fresh produce (wholesale prices)	Silk producers, gatherers of wood products, sellers of Hmong silver. Producing around \$770,000 of raw material per annum	Villagers – fees, shopping, baci, home stay. Possibly \$100,000 p.a. or \$200,000
<b>Opportunities for increase</b>	(increased employment via bed stock expansion)	More regular fruit and veg supply. Speciality food products and value added	More Laotian silk supply. More rural point-of-sale. Higher value-added & tailor-made products	More products and services in villages for tourists to spend money on. Expanding cadre of village guides

Source: Ashley, 2006.

In the example of Da Nang in Viet Nam, tourists spend \$6.2 million in shopping annually which ranks only fourth comparing the four main tourism sub-chains. However, the pro-poor share of tourist spending on handicrafts is the highest, estimated at 54% (see Figure 2). In general, the share of pro-poor income is high in cases where craft production heavily draws on local raw materials (silk, wood, paper, clay etc.) and where the commercialization is largely done by the producers themselves or (poor) small traders.

Subsistence farmers gain additional income from household-related handicraft production and for the urban poor, the production of handicrafts is an alternative in an environment where employment opportunities are few. Craftsmen in Viet Nam are reported to generate an income which is on average 60% higher than the average income of the rural population.<sup>9</sup>

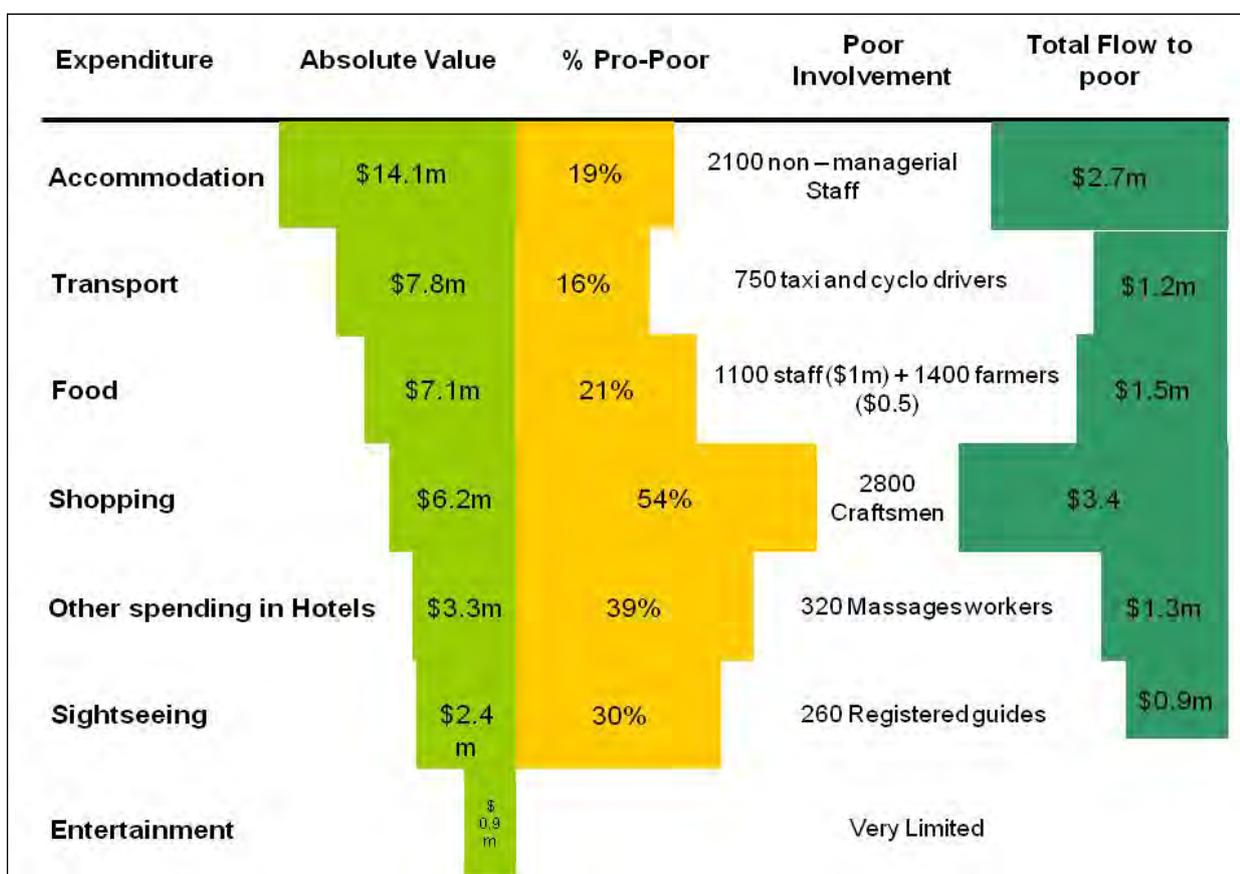
In summary, linking pro-poor tourism with local handicraft production provides ample opportunities for poor people. But there are as well countless examples which still show that handicraft markets in developing

<sup>9</sup> Ngo Duc Anh, 2005

countries are full of imported products or are disappointing for tourists due to their poor product variety, quality and innovation. Who cannot recall the experience of not being able to find a nice and useful local souvenir when visiting a foreign country?

The ITC concludes in its Mozambique programme on cultural tourism development that most of the country's cultural tourism potential exists within poor rural areas where, however, participation of local communities and local entrepreneurs in the tourism industry is weak. During the project, two poor communities were capacitated to develop and manage cultural tourism tours and furthermore, Mozambican craft associations were trained to organize and manage local craft fairs aimed at tourists in a more attractive and market-oriented way. The replication of this project in rural areas will increase the scope for improving the living standards of the poor by providing local communities with the required capacity to effectively serve and supply the tourism industry and operators in their respective areas. Anticipated impact on the poor resulting from this project includes awareness of the income potential tourism represents as well as increased income of farmers, artisans, music and dancing groups selling their products and services to tourists.

**Figure 2: Pro-poor share of value addition in Na Dang, Viet Nam**



Source: Mitchell & Phuc, 2007.

Handicraft producers are often faced with many challenges that prevent them from making full use of the opportunities provided by the tourism sector, such as:

**Supply-related challenges:**

- Limited and/or only traditional product range due to lack of innovation and new designs;
- Poor product quality due to low skills or lack of knowledge about tourist expectations;
- Local producers find it difficult to compete with imported products in terms of price;

- Raw material and other inputs are not available or only available at certain times;
- Producers are not able to invest in machinery/equipment to raise the quality of their products;
- Producers are dispersed and not well organized leading to less continuous, slow and unsure supply.

**Market-related challenges:**

- Lack of suitable market outlets which are attractive for tourists;
- Handicraft traders at tourist destinations are not aware of the supply potential in other parts of the country;
- Different levels of middlemen and intermediary traders increase prices;
- Mistrust between traders and craft producers prevents better cooperation;
- Poorly developed market linkages with retail shops in the main tourist locations;
- Low integration in holiday packages of tour operators and hotel resorts;
- Customers often look for useful gift items, rather than traditional souvenirs.

Strengthening handicraft-tourism linkages is important but is not an 'easy-win'. Successful projects require a market approach that incorporates lessons learnt from past experiences and that allows stable business partnerships to be created.



**Summary: Tourism and handicrafts**

- Handicraft production is one of the key pro-poor income earners in the tourism value chain;
- The average tourist spends US\$ 20-80 on handicraft purchases in developing countries;
- For many producers, tourism-related handicraft production can be a step out of poverty and particularly offers chances for women, ethnic minorities and raw material producers;
- There are a number of supply-side and market-side constraints, which need to be overcome to enable handicraft producers to make full use of the tourist market potential.

## 2. Analysis of the tourism-related handicraft value chain



**The aim of the value chain analysis section is to show:**

- How to apply tools for value chain analysis to the tourism-related handicraft value chain;
- How to estimate pro-poor income in the value chain;
- How to assess market opportunities and value chain constraints.

The value chain (VC) concept is applied to identify opportunities for adding value to local handicraft products and for extending the potential to involve local craft producers and communities in the tourism market.

Value chain analysis helps to understand how a particular business is working and how the different actors within a certain value chain are linked to each other. It is an analytical tool which is used for economic development and provides valuable insight in the supply and market structure for individual companies, producer groups and associations.

A value chain is defined by a particular product or set of products. In order to be more precise, it is sometimes narrowed down to a particular target market. In this training module, we will focus only on handicrafts for the tourist market, namely the tourism-related handicraft value chain and leave out all other export-oriented wholesale business or handicraft production oriented towards the local consumer market.

### 1. Value chain mapping

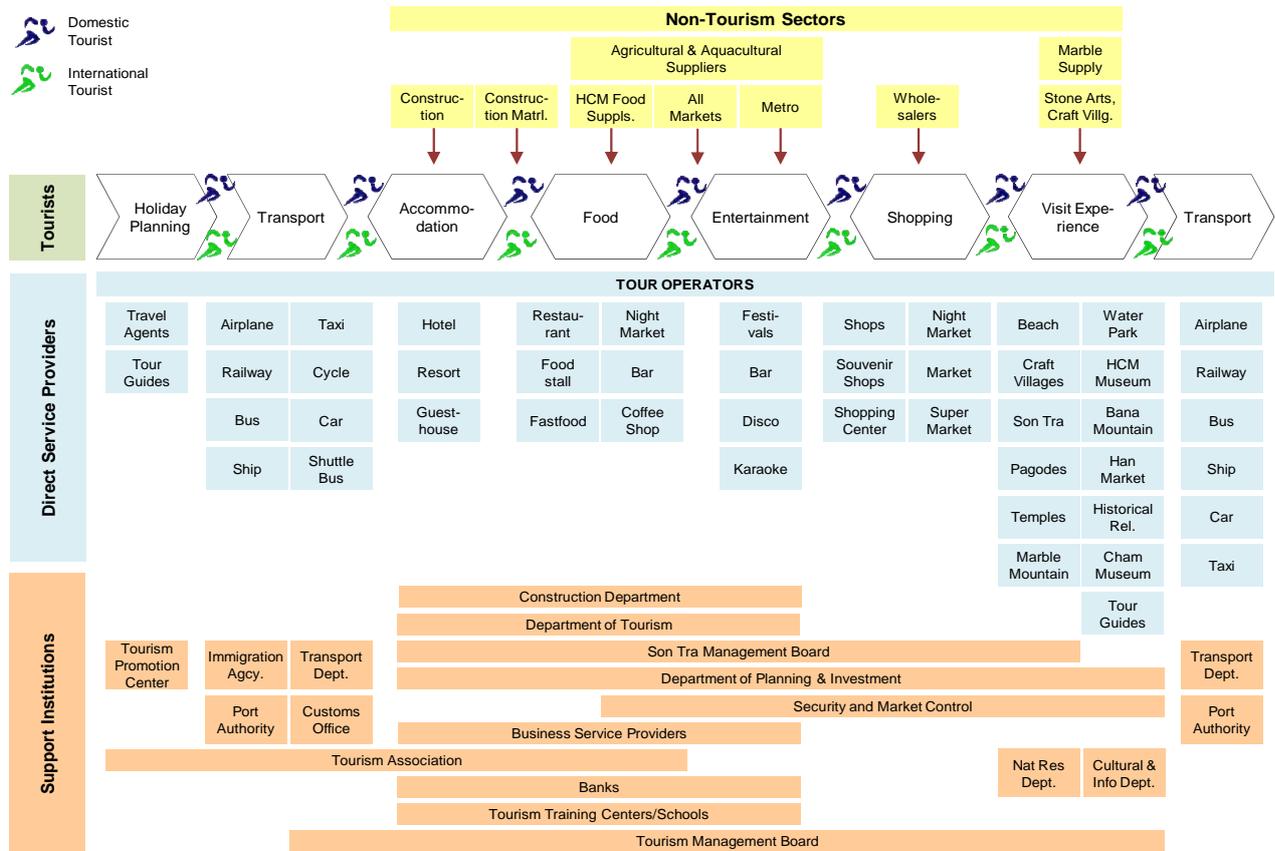
Value chain maps are good tools to visualize the structure of an industry and help promote discussion with project staff and partners. Setting up a value chain map is a way to get a good overview and better understanding of the main business relationships within the value chain. The value chain map shows the flow of the product from input supply to consumption and how the different actors are linked to each other.

Tourism is quite different from other value chains, as the mapping tool is not so easy to apply. There is no real product that is handed over from one actor to another (like from a producer to a trader). In fact here, it is the tourist who is handed over from one operator in the value chain to the next one (see the tourism VC map which follows). The map shows where the tourist goes, what he does and who works with him. All of the tourist's activities and service providers are market opportunities for producers or traders to sell handicrafts.

The following general tourism value chain map includes many actors (blue boxes) who are related to handicraft sales: night market, shops, souvenir shops, shopping centres, markets, craft villages, museums and airports. Even at the beach, railway and bus stations, water parks or other tourist attractions and in general supermarkets, one is likely to find handicraft articles.

The map also shows the dominant role of the tour operators and guides who often decide where they take a tourist and what they show to him. They may also decide which shops to take him to.

Figure 3: The tourism value chain in Viet Nam



Source: Mitchell & Phuc, 2007

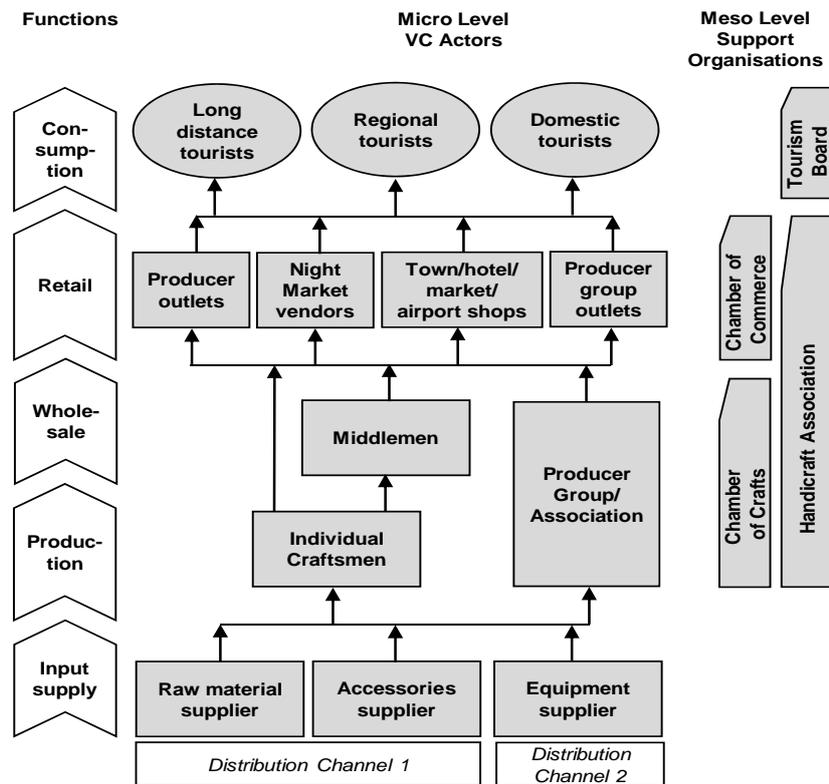
To take a closer look at the handicraft sub-chain in tourism, it is helpful to draw a value chain map which shows how handicrafts are produced and how they are supplied to the tourism market.

The VC map presents:

- The different functions undertaken by the VC actors, such as input supply, production, wholesale, retail, consumption;
- The VC actors performing these functions (micro level);
- Support institutions at the meso level.

As can be seen in Figure 4, the business linkages between the different kinds of specific input suppliers, craftsmen, producer groups/associations, middlemen and retailers should become clear.

Figure 4: Example of a tourism-related handicraft value chain map

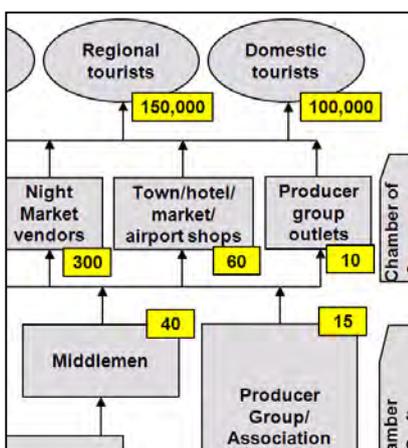


The map becomes more meaningful if a quantification of the market actors is included in a further step. The quantification can be achieved by adding:

- The estimated or known number of the different actors in terms of number of companies,
- The product quantities sold by the different market actors in terms of number of products or turnover;
- Quantification of a particular subject, such as the number of persons employed or gender issues such as women employed at the different levels.

One can either develop one overview map of the value chain or a set of maps reflecting on different aspects.

Figure 5: Quantification of the market actors



Value chain maps are good tools to visualize the structure of an industry, which will help to get into discussion with project staff and partners.



### Exercise 1: Mapping the tourism-related value chain in your country

Considering the example shown above, how does the tourism-related handicraft value chain look in your country?

- What are the main functions?
- What kind of value chain actors are there?
- How are they linked to each other?
- How many of the different value chain actors are there?

You may find that it is more difficult to draw a meaningful map than it may seem at first sight. But that's the aim of the exercise. Some hints on what makes a good map:

- A good VC map has a clear message;
- It provides a good overview but is not overloaded;
- It is easy to understand without further explanation.

## 2. Economic analysis

The economic analysis of the value chain answers questions such as how much economic value is created on which level of the value chain, to what extent the economic value is estimated to be pro-poor and where in the value chain one can seek change to increase pro-poor income (PPI).

The total value generated in a value chain is the final sales price of the product(s) multiplied by the quantity sold. Usually, at each level of the value chain, value is added, which either goes to actors within the value chain (producers, traders, raw material providers) or to service providers outside of the value chain. It includes wages, depreciation, other costs and profit.

An assessment of added value usually starts with assessing market prices at different levels of the value chain: how much money is spent on raw material (an intermediate product), what is the producer price and what are wholesale and retail prices?

### Box 1: Calculation of added value for Krama scarves in Cambodia

The example below shows the value chain for Cambodian Krama scarves for the tourist market. The colourful checkered Krama scarf is worn by rural Cambodians across the country and is also popular in the cities. Krama is truly one of the identity-forming garments of the Cambodian tradition – but has become a popular tourist souvenir.

The simple standard Krama quality is sold very cheaply in local markets. But there are also much more expensive finer qualities, which are mainly sold to tourists.

The pro-poor income in this value chain is mainly generated at weaver level, as most of the raw material (cotton/polyester and dyes) is produced industrially and imported (and therefore not pro-poor) and as traders mostly do not belong to the poor. The value generated at weaver level mostly goes to the weavers, as there are hardly any other inputs provided or services used at this level in addition to the raw material.



In case of the Krama example in Cambodia, the finer tourist-oriented product quality generates more value/product at the different levels, including the weaver level. Between 15% (fine quality) and 36%

(simple quality) of the value generated can be considered as pro-poor income.

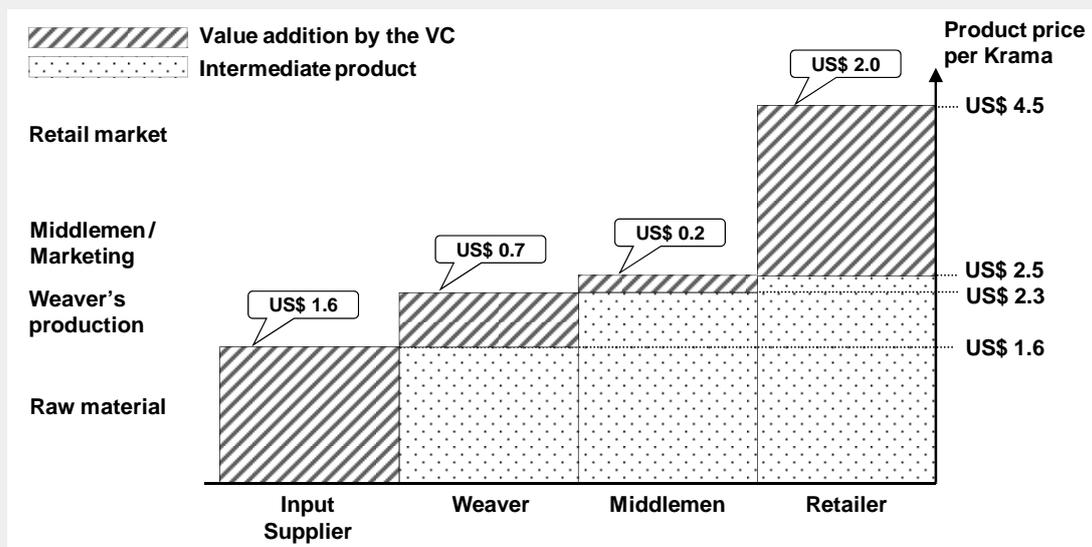
**Simple quality (polyester/cotton), Thai dyes**



**High quality (100% cotton), German dyes or natural dyes**



**The added value stairway**



Source: Dutta 2009, Eiligmann 2009.

Based on an assessment of market prices and equipped with the knowledge of how the article is produced, one can estimate pro-poor income flows in the value chain. In the case of the Krama example above, an estimation of the PPI can be made like this:

- The first question is: where in the value chain do poor people participate? In the case of the Krama example (see Box 1), it is mainly at the weaver level where the rural poor participate in the value chain, whereas middlemen and traders mostly are not considered to belong to poor parts of the population.
- In the case of the high-quality, tourist-oriented product, the value addition at weaver level is US\$ 0.7/Krama. As the weaver is not buying any other services or material in addition to the raw material, his own costs are just his labour and depreciation/repair of the loom. Looms are generally produced and maintained by (fairly poor) village craftsmen. This means that the total US\$ 0.7/Krama value addition at weaver level, or 15% of the total value of US\$ 4.5, can be considered to be pro-poor income, as both weavers and loom producers belong to (fairly) poor target groups.

- If natural dyes are used or if a producer group takes over trading functions, the share of pro-poor income would grow further, as these activities would then take place at weaver's level and contribute to increasing their income.



**Exercise 2: Added value calculation**

Take a typical craft item sold to tourists. Find out the market price of this product at a regular sales spot for tourists. Ask retailers about their purchasing cost of this product when buying from wholesalers or producers. Check with producers, what price they usually get when selling the product to middlemen or retailers. Ask them about the cost of the main raw material used. Calculate added value as the difference between market prices at different levels.

	US\$	VALUE ADDED
Cost of the main raw material/piece		
Price of one craft item at producer level		
Price of middlemen/ wholesalers		
Retail price		

**3. Opportunities and constraints analysis**

After the value chain map has been drawn and the economic analysis of the VC has been undertaken, the next question to answer should be: which particular market opportunities can be identified on the tourism market? Markets are changing continuously, new trends arrive, new attractions and infrastructures are being developed, new holiday resorts and hotels open up.

In order to identify **market opportunities**, the following questions should be asked:

- Is there any particular demand for certain kinds of handicrafts expressed by traders?
- What kind of higher value handicraft products are appreciated by tourists?
- Are there any particular product qualities which are in high demand?
- How will the tourism sector change in the country in the near future?
- What tourism trends are influenced by local and international stakeholders?
- What possibilities are there to substitute imported products?
- Are there any possibilities for new product development? What global trends can be found? What are the main tourist segments visiting the destination and their specific taste & needs (e.g. affluent retired leisure travellers vs. business travellers vs. backpacker tourists)?
- What market channels can be developed further?
- What kind of raw material can be used in addition?
- Can poor people be helped to upgrade their production?
- Can poor people take over additional functions in the value chain?

In order to identify **constraints**, the following questions should be asked.

- What constraints need to be overcome in order to be able to make use of the market opportunities?
- What other constraints do not allow poor craftsmen to receive a higher price paid by the tourists and to increase their income?
- To what extent does the product quality need to be improved in order to increase sales?
- What kind of skills and knowledge are missing?
- Is the raw material supply sufficient?
- Are the technologies and equipment used appropriate?
- How can productivity be increased?
- Are there any particular transport problems?
- How is the relationship between traders and raw material suppliers?



**Exercise 3: Opportunities and constraints analysis**

Considering the points mentioned above, what are the main market opportunities and constraints in the tourism-related handicraft value chain in your country? Find out from discussions or surveys at the different levels of the value chain. What are the crucial points from the perspective of the tourists, the traders, the producers and the input suppliers?

FUNCTIONS	OPPORTUNITIES	CONSTRAINTS
Consumption		
Retail		
Wholesale		
Production		
Input Supply		

The assessment of market opportunities and constraints will identify possibilities to upgrade the value chain so that more handicraft products can be sold to tourists and more pro-poor income can be generated.



**Summary: Value chain analysis**

- Mapping the value chain helps to understand the supply structure and business relationships;
- Calculate added value and pro-poor income effects based on market prices at different levels of the value chain;
- Assess market opportunities and business constraints to develop possibilities for value chain upgrading.

### 3. Project interventions



#### The aim of the project interventions section is:

- To show ways of promoting the tourism-related handicraft value chain;
- To learn from successful examples of handicraft promotion;
- To reflect on an appropriate facilitator role.

The value chain analysis will have provided a good overview of the different market actors within a value chain and of the income generated at different levels. It will have shown some market opportunities and constraints that are to be found in the value chain. The question now is: what are the project interventions that are needed to further develop the tourism-related handicraft value chain?

Generic project activities to develop a tourism-related handicraft value chain are:

- To improve backward business linkages between the tourism industry and the handicraft sector;
- To strengthen handicraft marketing and promotion by producer groups and associations;
- To increase handicraft producer competitiveness on product design, quality, cost and quantity;
- To support government initiatives with special focus on replication and expansion.

#### Box 2: Uganda inclusive tourism: poverty reduction through backward linkages

A project proposal has been developed that aims to strengthen the capacities of potentially competitive craft and processed food producers and to create linkages between the producers and the traders of handcrafted products and the tourism industry in order to provide work and income generating opportunities for some of the most marginalized communities of the country.

Tourism market opportunities are converted into sustainable and inclusive trade of high value local craft and processed food products through the enhanced skills of local producers and intermediaries. A census of existing raw materials and crafts and handmade food-producing communities, including about 3,000 producers, was made, as well as a selection of targeted product sectors with high potential (wood carving, textiles, clothing, jewellery and handcrafted edible products like jam and juices).

Selected community craft-project leaders, traditional trainers and leading craft support associations will be familiarized with product design, innovation, quality and presentation to conform to tourism market requirements. The existing production tools such as looms and others will be upgraded to attain international standards. Producers will also be trained in the use of local and environmentally sound raw material, the design of product labels as well as efficient costing and pricing.

Market linkages between the tourism industry and local suppliers of crafts and processed food will be strengthened. Partnerships with tour operators will be created to include visits to craft-producing communities on their tours and communities trained to develop short itineraries for tourists followed by a sales outlet. To build up craft cooperatives, communities and intermediaries are trained on encouraging agreements and contracts between communities and the tourism industry.



To promote a value chain, a project should not get involved in direct business transactions itself, e.g. the project should refrain from buying and selling products itself and limit its role to forging better business relationships between private sector actors.

The project should be a facilitator to mediate partnerships between tourism enterprises and traders selling handicrafts to tourists on the one hand and handicraft producers as suppliers on the other.

The facilitator role is to assess the value chain and its market opportunities as well as to facilitate business linkages with buyers.

**Box 3: The facilitator role**

When planning a VC upgrading project, the facilitator should assess all publications on market structure in the country to be able to speak knowledgeably to the value chain stakeholders and to be able to build on previous experience in project planning.

The second step would be individual interviews with resource persons from different types of companies in the value chain. At this stage, it is preferable to have individual interviews to allow all value chain stakeholders to express their own opinions frankly so that the less well-educated, not so outspoken craftsmen are not intimidated in an open meeting.



Stakeholder meeting in the Lao People's Democratic Republic



Individual interviews should preferably be conducted with semi-structured questionnaires, i.e. questionnaires which include both standard precise questions and some general open questions stimulating a discussion and general comments.

The main conclusions drawn from the individual interviews can be compiled by the facilitator and discussed in stakeholder meetings with representatives from the different groups of market actors. Bringing the stakeholders together will help them to agree on a joint activity programme.

The results of the opportunity study and needs assessment will lead to an action plan proposal, which will be discussed and agreed upon with key value chain stakeholders in a validation workshop before the project implementation starts.

The main facilitator activities are to:

- Create a forum for discussion and exchange of information;
- Create partnerships between traders, tourism companies and handicraft suppliers;
- Set up long-term tourism or handicraft marketing and development boards and councils;
- Build the capacity of institutions and organizations to provide improved services;
- Improve business linkages;
- Qualify handicraft producers as suppliers of higher value products;
- Help with market research and promote innovation;
- Business matchmaking.

A facilitator should be a good mediator and communicative person. He should listen carefully to expectations and concerns of all parties involved and should make sure that the opinion of less outspoken value chain actors gets the same attention as the opinion of other more dominant actors. He should be able to identify opportunities and to conceptualize a suitable activity package.

### 3.1. Improve backward business linkages between the tourism industry and the handicraft sector

#### 3.1.1. Improve existing retail linkages

Strengthening linkages between tourism and the local economy is one of the most effective ways to promote pro-poor tourism by increasing the out-of-pocket expenditure of tourists. The best way to help the poor is simply to have a more valuable tourism industry. A linkages approach aims to actually enhance the relationship between tourism and poor people.<sup>10</sup>

Tour operators and guides often play a particular role when it comes to directing the tourists to certain areas and shops. Usually they take a commission on handicraft sales and they can bring large groups of tourists to a chosen shop. Tour operators and guides tend to bring tourists to shops which are both attractive (so that their tourists appreciate the recommendation) and from which they are offered a high sales commission. Retail shops need to forge partnerships with tour operators and guides and their price calculation should allow paying a reasonable commission.

The first question is: which market outlets, retailers and wholesalers are already there and to what extent are handicraft producers linked or not linked to these market outlets? Perhaps the current market linkages are very limited and there are plenty of possibilities to link producers to other retailers or wholesalers. There are many countries in which, although craftsmen have been trained by earlier initiatives, producer groups are still somehow isolated from market access and not able to sell many products.

One can start from a needs's assessment of existing traders described in the value chain map and ask them who their suppliers are and what kind of products would they be willing to sell in addition to their current product range. What kind of quality and price expectations do they have? Can local producers come up with suitable products?

Traders could be met individually and asked about their relationships with handicraft suppliers to explore possible win-win-situations.

Very often, craftsmen are not aware of the potential that the tourism market offers their products. They may not have considered the tourism industry as a potential customer and may concentrate on lower value products for the local market only, as seen in the Krama example.

A partnership with tourism enterprises may help them to develop a new and possibly more profitable, business activity. There are also advantages for handicraft exporters, which could benefit from the possibility of selling second quality products (not suitable for the export market) for lower prices for the tourist market, or test international acceptance of new products in the country first.

Working with local craftsmen is a marketable asset for a souvenir shop, hotel or any other tourism company which can improve their image and their sales as well. If they offer local products of a higher quality, the attractiveness of their product range is increased, and they can generate higher profits than if they only sell imported products.

Better market linkages should be forged with local market outlets, retailers and wholesalers.

- **Traders at handicraft markets:** In many Asian countries, large handicraft markets with hundreds of small shops can be found, such as the night markets in Chiang Mai and in Luang Prabang or the Russian market in Phnom Penh.
- **Traders in handicraft villages:** In many African countries, handicraft villages are located in the urban centres, where handicraft workshops and sales outlets are concentrated in one place in order to attract visitors like in Mali's capital Bamako.
- **Individual handicraft shops in town** which are often located close to tourist attractions or entertainment areas.

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<sup>10</sup> Mitchell & Faal, 2006

- **Hotel shops** which can be found in larger hotels and usually sell a variety of local craft products. Hotel shops are of particular importance at destinations where all-inclusive package holidays dominate and where many tourists hardly leave their hotel.
- **Street vendors** who mainly serve the cheaper market segments can be found at many places: in the immediate neighbourhood of hotels, restaurants and tourist attractions, at the beach etc.
- **Airport shops** which concentrate on small items to be carried in hand luggage and less expensive articles allowing tourists to spend left-over foreign currency.
- **Museum shops** which tend to put more emphasis on fine arts and original products with cultural and ethnic value.
- **Weekly markets** and all kinds of **national, cultural and religious festivals** attract tourists as well. Generally speaking, markets are crowded with people who are ready to spend some money.

Intermediaries or middlemen can often be found between the craft producers in rural areas and the outlets in tourist centres. Their role is to create a link between buyers and producers. Their importance in the value chain is dependent on the services provided. For instance, if a producer is a long distance from a potential buyer and has limited access to transport, an intermediary can provide a crucial link by selling products that would otherwise not be marketable. The advantages and disadvantages of intermediaries or middlemen are explored in the following table.

**Table 2: Advantages and disadvantages of intermediaries**

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>• Have existing relationships with buyers</li> </ul>	<ul style="list-style-type: none"> <li>• Add another link in the chain, that reduces the potential revenue to producers</li> </ul>
<ul style="list-style-type: none"> <li>• Reduce marketing costs of producers</li> </ul>	<ul style="list-style-type: none"> <li>• Offer lower prices to producers than other customers in the value chain</li> </ul>
<ul style="list-style-type: none"> <li>• Are convenient to sell to</li> </ul>	<ul style="list-style-type: none"> <li>• Intermediaries may use lack of market knowledge of producers to exploit them</li> </ul>
<ul style="list-style-type: none"> <li>• Provide essential services such as bulking, sorting and transporting</li> </ul>	<ul style="list-style-type: none"> <li>• Producers become dependent on intermediaries because they cannot access buyers directly</li> </ul>
<ul style="list-style-type: none"> <li>• Can provide additional services such as know-how and technical support</li> </ul>	
<ul style="list-style-type: none"> <li>• Sometimes provide pre-financing or supply of raw material needed</li> </ul>	

In many cases, middlemen provide a stable and to some extent reliable market access. Often not for the best conditions, they nevertheless provide a way to sell products. Development projects should be careful not to destroy existing linkages with middlemen by replacing them with new linkages which still need to prove their stability.

A better way to involve middlemen is to include them in the development of a project strategy. Usually they also face the need to develop their product range in order to offer better products to their clients. Some of the more dynamic middlemen may have the potential to expand their activities and develop into formal companies.

The facilitator may also help both sides with market research assessing tourist expectations. In the Lao People’s Democratic Republic, Cambodia and Viet Nam, for instance, Asian tourists from neighbouring countries are becoming increasingly important. They have very different taste when it comes to buying handicrafts compared to Western tourists from America and Europe. It is important for handicraft producers and shops to identify the kind of handicrafts that they prefer and to adapt the product collections accordingly.

In order to ensure that the market linkages created are sustainable, discussion and decision-making forums among the different value chain stakeholders should be institutionalized to create a long-term forum for exchange and innovation. One way to do so would be to establish national or regional tourism development boards and councils or to integrate representatives of tourism-related handicraft companies in existing tourism boards and councils.

The geographical diversification of sourcing or supplying handicraft products is another constraint. Market linkages between handicraft producers in one part of the country and handicraft shops in the main tourist destinations in other parts of the country need to be strengthened.

Another important aspect to be considered when promoting market linkages for handicraft producers with the tourism sector is the demand which many tourist-related businesses in the country may have themselves for handicraft products, as hotels and restaurants need to be furnished and decorated and are often important customers of local craftsmen. Tourists see and appreciate products as decorative items in hotels and restaurants, such as table ware, bed ware and smaller items of furniture. Similar products can be sold in craft shops at hotels and restaurants.

### 3.1.2. Increase attractiveness of existing retail outlets

Tourism companies and local shops sometimes refrain from working more closely with local handicraft producers, as shops and production centres are not interesting enough. Their offer is of the same poor quality throughout the tourist destination.

One promotion possibility is to improve the attractiveness of handicraft retail outlets in tourist destinations. This can be done by helping some retail shops to develop to a more distinct higher quality level or to be more informative, pleasant venues.

#### Box 4: Shop decoration advice

In Cambodia, ITC's High Value Silk Project, among other activities, helps handicraft shops to upgrade their shops to become more exclusive boutiques. This is done by focusing on well-selected craft items and improved shop decoration. Products are arranged clearly and neatly following the concept of 'less is more' in order to avoid the 'bazaar effect'. The project aims to make a difference to the normal handicraft outlets in order to attract a more affluent tourist clientele.

Fine hand-woven silk scarves, garments and other accessories shall not be sold cheaply. The shop decoration shall reflect and underline the high value of the product. Product branding, promotion activities and shop decoration advice go along with design innovation, quality improvement and organizational advice.

The variety of locally produced handicrafts is being increased in order to give more choice to the tourist. Linkages between producer groups in remote areas and the traders in the capital are strengthened.



Lady Penh Designs, Phnom Penh



Craft Village, Phnom Penh

A good way to increase the attractiveness of handicraft outlets is to allow tourists to learn more about the production of handicrafts. The Ock Pop Tok Textiles and Living Craft Center in Luang Prabang, the Lao People's Democratic Republic, combines a weaving workshop with a small handicraft museum and a restaurant area with a panorama view on the Mekong. Tourists like to visit the centre, watch how the silk fabrics are woven, learn about tradition and technologies and relax enjoying a light meal. Interested tourists, individuals or groups, can make a tour through the complex. They can experience how the cloth is dyed and woven and have the chance to buy final products like silk scarves in the shop next to the workplace.

The Myanmar project as part of the Export Sector Competitiveness Programme of the Centre for the Promotion of Imports from developing countries (CBI)/ITC aims at creating export capacity among Kayah State tourism-related enterprises, improving local supply chains for the tourism industry and strengthening business linkages for local producers and service providers as well as for tour operators. Kayah State was chosen because of its culturally rich and untapped potential to develop cultural community tourism tours, linking handicraft and food producers to the tourism value chain, while at the same time addressing high poverty levels especially among ethnic minorities. Furthermore, the region has a good tourism potential being geographically and strategically located close to both, Naypyidaw the national capital of Myanmar, and the much visited Inle Lake, one of the three main tourist attractions in Myanmar.

Tours in Kayah State are usually combined with tours to Inle Lake and are limited to visiting ethnic groups as a photo shooting attraction, neglecting other important cultural assets. As a result, there is little positive economic impact for local producers. All revenue goes to tour operators and guides, not benefiting the minorities (the ethnic groups receive only a few dollars as tips for photos taken). There is untapped potential to develop cultural community tourism tours including the presentation of local traditions such as rice washing, rice wine production and tasting, explanation of the typical architecture, religious sites, dance and music performance, cooking and handicraft production classes and eating in a home style ambience.

Thus, tour operators might include in their tours a visit to the only local craft shop in Kayah State. The development of cultural community tours could also include a component of marketing crafts to visiting tourists. Memorable experiences for the tourists could be created by letting them see the various steps of craft production and also letting them experience for themselves the art of craft making. At community level, the project would help to set up appealing craft exhibitions, where tourists, after having understood and even participated in the production process, could then purchase the items. The Inle lake destination is already quite advanced in showcasing craft production to tourists and offers souvenir shops combined with authentic coffee and tea shops.

### Box 5: Artisans d'Angkor, Siem Reap, Cambodia

Artisans d'Angkor, a private company at Cambodia's main tourist destination, Angkor Vat, runs its main retail store in combination with production workshops. Tourists can walk around and observe how the craftsmen work. The tourists can talk to them, inquire about production techniques and take photos. Tourists can also participate in guided tours which end at the retail shop. A second retail store is combined with a sericulture museum. Guides inform tourists about silk production from mulberry tree plantations, to silk worm raising, to silk weaving. Again, their tours end at the retail shop. The increased motivation of tourists to buy an authentic craft item is evident. Tourists are willing to pay higher prices when knowing more about how much work goes into the production process.



Artisans d'Angkor workshop

Over the years, Artisans d'Angkor's two handicraft centres in Siem Reap have become main tourist attractions and add value to the attractiveness of Siem Reap as a main tourist destination in Asia. Tour operators bring their groups to the centres as part of their regular programme. The chance to experience local craft production is an attractive part of their tour. To experience local craft production and to learn about national culture, traditions and techniques complements well the visit of the ancient Angkor Vat temples.

### 3.1.3. Promote excursions to craft villages and community-based tourism

Cultural tourism, community-based tourism and eco-tourism all offer possibilities for the direct marketing of craft products. They are of particular relevance for pro-poor tourism as a higher share of tourist expenditure goes to the population in remote areas.

### Box 6: Community-based tourism in the Lao People's Democratic Republic

Community-based tourism is popular in the Lao People's Democratic Republic. There are a number of tour operators who offer overnight stays in villages in different parts of the country. Tourists usually stay a few days or a week in a village, live in traditional wooden houses, experience the tropical nature, participate in the daily life of the community or learn some handicraft techniques such as how to make ceramics or how to weave a silk scarf. Other tour operators visit handicraft-producing villages during daytrips.

The local craftsmen produce handicrafts in front of their houses. If there are no visitors around, they will just concentrate on weaving or other production activities. If tourists are around, they interrupt their production and try to sell products. Prices are lower than in town, but the craft producers earn more compared to when they sell to intermediary traders.

Tourists attach a higher value to the products bought directly in the village, as they can appreciate the effort and the living conditions under which the crafts are produced and can see for themselves the extent to which their purchase will directly increase the household income in a poor community.

Handicraft tradition and skills are preserved and young people are trained in handicraft techniques which would otherwise get lost.



Village accommodation, Paksé, Lao People's Democratic Republic



Local craft sales and production, Paksé, Lao People's Democratic Republic

Excursions to craft villages are interesting for both handicraft producers and tour operators or holiday resorts that can offer their guests an interesting day visit experiencing local culture, tradition and village atmosphere.

#### 3.1.4. Create new retail structures

In addition to improving the market linkages with existing outlets and wholesalers, the tourist market may have enough potential to develop new market linkages. This, however, should only complement and not replace the improvement of existing linkages. By doing so, an additional sales channel can, for instance, be developed. Figure 4 (p. 12) provides an example of a second distribution channel, where products are sold at the same time through producer groups and associations acting as wholesalers.

Producers may establish their own outlets or develop joint retail or wholesale activities to be run by a producer group or association. There are also many examples of NGOs which create their own retail outlets to reap the direct benefits from the tourist market, as value addition from trading activities is usually high. In the example of the fine-quality Krama scarf for tourists, about 50% of the product value goes to the traders. Retailers often add a 100% - 300% margin on their purchasing price.

### Box 7: Creation of new producer outlets

Producer outlets enabling direct sales to tourists can be a powerful tool to generate pro-poor income, if they are well connected to the tourism industry. In order to choose the right location, it is important to know the places where tourists are attracted to and to understand how they spend their time and where and when they are interested in buying local crafts.

In Paksé, Lao People's Democratic Republic, for instance, tourists will only stay overnight in a town, in order to reach the main tourist attractions like the ruins of Wat Phu, the Boloven Plateau or the Four Thousand Islands in the Mekong river. In the daytime, there are hardly any tourists in town, but in the late afternoon, tourists return from their daytrips. Shops are located on the way back from the main destinations and the best time for selling crafts is from 17:00 to 20:00. But tourists are tired after a long day, need a shower and their schedule is controlled by the tour operators. Further on, shops are dispersed and what is needed is a critical mass of shops concentrated at one point which would be attractive for buses to stop. Sales at the main roads are not as good as they are downtown in the city centre, where tourists are strolling around in the evening hours.



Craft shop in Paksé,  
Lao People's Democratic Republic

One silk handicraft producer in Paksé opened a handicraft shop 9 km from the city centre on the way to Wat Phu upon recommendation of the local authorities and with public support. Basically, the municipality made an attractive wooden house available (see photo) but the producer is now struggling to cover the operating costs. Sales were high during an annual festival, but are otherwise too low to run the shop profitably. They find it difficult now to cover costs, to attract more tourists to the shop or to correct the decision on the shop location.

Hotel owners, tour operators and the municipality want to have more craft outlets in the city centre to make Paksé more lively and interesting for tourists in the evening. The tour operators' association and the municipality are thinking about opening a handicraft night market and plan to make a suitable area available for traders to open up craft shops. ITC has already successfully helped to set up a shop in Hotel Paksé as well as a sales outlet in the transfer area at the airport.

A number of new handicraft outlets are also opening up in Paksé at the new airport terminal, which is currently under construction, and a large museum shop has been opened at Wat Phu. A local handicraft association has been formed to address the increasing tourism demand and ITC has provided training to local silk weaver communities for upgrading product quality and diversification of the product range.

Another possibility of creating new market linkages is to promote and operate regulated craft markets. Communities can organize such markets which concentrate a large number of craft stalls in one place giving them more business than if they were dispersed around the town.

In the Gambian tourism industry, for instance, a total of 384 licensed small craft stalls were counted in 2006, which generated an average income of US\$ 130/stall per month. The pro-poor impact of establishing regulated, formal craft markets and supporting traders to design and manage their stalls and products more professionally was a significant achievement of the Association of Small Scale Enterprises in Tourism (ASSET) and DFID-funded support.<sup>11</sup>

<sup>11</sup> Mitchell & Faal, 2006

Establishing regulated handicraft markets helps to increase the visibility of handicraft vendors, helps tourists to orientate themselves and reduces the risk of their being disappointed or feeling insecure about buying souvenirs around street corners and roadsides. To set up centres that provide both training and selling opportunities is a major tool to support the tourism-related handicraft value chain.<sup>12</sup>



**Exercise 4: Potential for promoting retail business linkages**

Think about your individual situation and fill in the following table:

	Stronger marketing linkages with existing craft shops	Increased attractiveness of retail shops	Promotion of community-based tourism	Creation of new market outlets
What kind of promotion possibilities do you see in your country?				
What pro-poor income effect would you expect?				
What kind of facilitation activities would be needed?				

**3.2. Promote sales based on producer group and association activities**

The improvement of organizational structures, e.g. the promotion of producer groups and handicraft associations, is often a prerequisite for undertaking efficient promotion activities. It may be necessary to promote a handicraft producer group, cooperative or association in order to:

- Undertake joint sales promotion activities;
- Improve access to training and government support;
- Upscale the supply potential and achieve economies of scale.

**3.2.1. Joint sales promotion activities**

Hardly any product can be sold without some form of promotion and marketing. In order to sell, customers must be made aware of the product and of the possibilities to buy it.

Handicrafts are more appealing to tourists when they are related to the local cultural heritage. Authentic, locally-produced handicraft products have a higher souvenir value for many tourists. Producer groups, and particularly national or regional associations, can promote craft sales to tourists by making local handicrafts more apparent.

Promotion material about local crafts can be developed by a producer association. The promotion material could provide the history of the crafts tradition in the country and describe how the products are made. In this way, tourists will learn more about the background of the handicraft products and may be motivated to buy.

Useful promotion material for tourists can be:

- Leaflets and brochures;
- Posters, information tables and banners;

<sup>12</sup> IFC, 2006

- Advertisements;
- Product hang-tags;
- Video films;
- ICT like Apps, websites.

Leaflets can be distributed at airports, hotels, restaurants, travel agencies, bars and other places where tourists usually go. Hotels and holiday resorts often have information counters, at which all kinds of leaflets and brochures are made available to tourists.

At most tourist destinations different kinds of publications can be found informing tourists about local attractions, possible excursions, public events etc. If tourists read advertisements and articles in such magazines they may be motivated to visit craft shops. Producer groups and associations can sometimes negotiate with the publishers to insert articles describing their activities in addition to advertisements for which they pay. Another possibility is advertisements in airline on-board publications.

When preparing leaflets, posters, advertisements, hang-tags and video films, give tourists background information and, most importantly, appeal to their emotions. Use photos, simple sentences and clear examples. Even small product hang-tags provide enough space for mentioning, for instance, some social benefits which would be gained by the craft producers.

Tourism information points and notice boards are further possibilities to inform tourists about handicraft outlets. Notice boards can be placed at all busy places in villages or towns, for example on the central square, close to shops and restaurants. Information panels can be displayed at airports.

Larger producer groups and associations can further intensify their marketing tools by developing brand names, which can be recognized as trusted quality signs by the local tourism industry. For launching a brand, develop a unique, augmented product range with distinctive quality features (hard facts) and combine it with a slogan, label, logo and soft core values related to the heritage of craftsmanship, traditional roots and social commitment.

Many tourists are more likely to buy a handicraft product if it contributes to pro-poor income. Handicraft producers are therefore advised to use 'Fair Trade' arguments, as this helps to increase the volume of products sold and the prices obtained. Fair trade means that poor producers are paid a fair price for their product, a price which enables them to earn a decent income and enable their family to live a life above the poverty line.

There are quite a number of handicraft producer groups and associations in developing and transition countries, which are formally fair trade certified. This is an advantage, but may also be too complicated or too expensive for other groups. With regard to the tourist market, it is often enough just to use fair trade arguments. Producer groups and cooperatives should ideally explain in their promotion material whether and to what extent the sale of the handicrafts offered by them will contribute to poverty reduction.

An important function of producer groups and associations is the organization of handicraft fairs and festivals. Annual fairs and festivals that combine culture, folklore and handicrafts have, by themselves, become important tourist destinations and attract large numbers of international visitors. The Pushkar Fair in Rajasthan in India has become a delightful carnival of culture and crafts, complementing traditional markets. The Jerash Festival of Culture and Arts, held annually at a major archaeological site in Jordan, celebrates all forms of art, including the handicraft industry.<sup>13</sup>

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<sup>13</sup> O'Connor, 2008

### Box 8: Linking local producers and tourism - Example of the Luang Prabang Handicraft Label

The label 'Handmade in Luang Prabang' aims at increasing sales of local handicrafts, predominantly textiles, and distinguishing local, handmade products from cheap imports that have been undercutting producers and traders in Luang Prabang, the Lao People's Democratic Republic. The label helps to connect weavers to potential business and market opportunities.

The label was introduced in November/December 2012 by the Luang Prabang Handicraft Association (LPHA) in the framework of the Ministry of Industry and Commerce (MOIC)/United Nations Trade Cluster Project on 'Enhancing Sustainable Tourism, Clean Production and Export Capacity', a project funded by the Government of Switzerland. The label scheme was planned in close cooperation with the Trade and Product Promotion Department (TPPD) of MOIC and the Provincial Industry and Commerce Office (PICO). Technical support for the introduction of the label was provided by ITC.



Label 'Handmade in Luang Prabang'

Within just 12 months the label was making an impact and was widely accepted by handicraft traders and tourists in Luang Prabang. Following a survey undertaken in November 2013, 109 traders and producers in Luang Prabang had registered to use the label and 30,500 labels had been sold by the Luang Prabang Handicraft Association during the first year after its introduction. Night market traders and Ban Phanom Trading Centre members reported a 30% increase in income (ITC Communications, 2013). By purchasing the label for US\$ 0.10, the traders cover LPHA's administrative costs, reinforcing the sustainability of the project. Their increased income has a positive impact on an estimated 1,500 local handicraft producers in Luang Prabang province.

The majority of traders indicate explicitly that the label is helpful for increasing sales of locally made handicrafts which confirms the effectiveness of the label. Promotional materials in English, including banners, posters, and leaflets, help traders communicate to tourists.

Tourists are willing to pay a higher price for handmade products, as they prefer to support local artisans rather than buy imports. Tourists trust in the label and take it as a proof of authenticity for handmade products from Luang Prabang. They say that it is helpful and interesting for them to identify handmade products from local artisans, since they prefer to take home genuine handicrafts from the region visited and value locally produced items more.

The handicraft label helps to increase the attractiveness of Luang Prabang's night market which is an important entertainment element of a tourist stay in Luang Prabang. A night market with a more diversified product range and a higher percentage of locally manufactured products contributes to an authentic experience of Luang Prabang's traditions and culture.



Use of promotion material

The overall feedback is very positive and the high percentage of traders who bought labels several times is a good sign that traders will continue using the label scheme. For 2015, Lao PDR is expecting an increase from 3 million visitors to 5 million. Linking local artisans to the tourism industry is an important step towards promoting inclusive development, women's economic empowerment and sustaining cultural capital and artisanal traditions that may disappear without sufficient economic incentives.

### Box 9: Handicraft Fair Luang Prabang

The Luang Prabang Handicraft Association organizes an annual handicraft fair which helps to boost direct sales to tourists and to local customers. Both groups see a more diverse offer on display than is usually the case. It also enables the exhibitors to have contact with some professional buyers as well.

Fashion shows and design awards are used to increase the awareness of the association members on product quality and to stimulate design innovation. The trade fair is an important event for an exchange of experience. Producer groups can meet with other groups from the province, can compare their products and can learn about new trends.

Experience exchange is also fostered with the national handicraft association. Similar, even larger handicraft fairs are organized in tourist centres in neighbouring countries, e.g. the handicraft fair in Siem Reap, Cambodia.



Handicraft Fair Luang Prabang

### 3.2.2. Build organizational capacity of producer groups and associations

As shown above, the cooperation among craftsmen can strengthen their market position. In many cases, there may already exist some kind of producer group or association. In such cases, the potential of the existing groups should be assessed before considering starting new groups from scratch.

When new organizations need to be created, the facilitator should ascertain to what extent master craftsmen or experienced and respected producers are interested in forming a producer group. The facilitator should not force them into forming a producer group. Instead, it is important that they themselves become committed to the idea. Involve leading community members right from the initial assessment and planning stage. Tell them about the aims of the project and seek their inputs, as well as their commitment. Local leaders can then help to organize meetings and introduce the facilitator to the community members.

The role of a facilitator is to mobilize the group, to foster their motivation and action towards group formation. However, group formation cannot be achieved simply by getting people together. To be sustainable, the group must be able to function independently of the support structures. One way to achieve this goal is to ensure that the group operates in a democratic and participatory manner right from the start. All the members of the group must be involved in decision-making, planning and management and must contribute towards its creation and development.

It is important to note that any producer organization can only be sustainable if supported by local leadership. At the first few meetings, facilitators can therefore help local residents learn the tools necessary to understand the local economics, to organize themselves in order to attain greater bargaining power, and to diversify production according to demand, so as not to drive down prices of the crafts produced. Then after the initial training, the local artisans can determine how to share responsibilities, roles and obligations.

There may be diverging experiences and opinions among members of the community or there may be sensitivity in divulging information to outsiders or even to others within the community. This is where a moderated discussion can be useful. Initially, it can be beneficial to organize separate sessions for different interest groups. Record their contributions carefully, so that it is easier to share their special concerns as a group when the different sub-groups are brought together.

Common interests of members help bind a group together. Major social and economic differences between members can lead to friction and conflict. Discuss carefully the problems and advantages that can occur if more influential or richer individuals become group members, as they may dominate the group or use it for their own benefit. However, such people can also bring relevant knowledge or contacts to the group, in which case they could be admitted as long as they are willing to participate on an equal basis.

It is essential that all the potential members are involved in the group formation process, not only a few sub-groups. Open communication will encourage teamwork and help in building strong bonds. The

information displayed at meetings must be ‘transparent rather than hidden’ - all members can contribute to it, comment on it, criticize it and revise it.

For producer associations, it is advisable to develop a business plan which usually consists of:

- Introduction Description of the organization and its activities;
- Executive summary Summary of the main content of the business project;
- Vision Statement of the objectives of the organization;
- Strategic analysis Elaboration on how the goals will be reached;
- Marketing plan Planning marketing and sales promotion activities;
- Financial planning Estimation of costs, revenues, investment, profit and cash flow.

A SWOT analysis, an overview on strengths, weaknesses, opportunities and threats, can help building the strategic analysis part of the business plan.

**Box 10: Example SWOT analysis (extract) of Khmer Silk Villages, Cambodia**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Strong technical know-how on sericulture and weaving</li> <li>• Strong organization for working on the ground</li> <li>• Trust-based relationship with farmers and weavers</li> <li>• Brand well known for its yellow silk and technical knowledge</li> <li>• Management team has good links with different projects and donors; projects keep coming in to keep KSV alive</li> <li>• A large number of strong producer groups, many of them have group funds</li> <li>• KSV covers largest independent weavers and breeders’ groups in Cambodia</li> <li>• Tourism trail in place; eco-tourism experience</li> <li>• Number of well-designed collections available; in-house design capacity in place</li> <li>• Initial export experience (Japan) available</li> </ul>	<ul style="list-style-type: none"> <li>• No suitable information material available like website, flyers, information about services and project references, corporate statement</li> <li>• Poor promotion of KSV activities, local authorities do not know much about KSV</li> <li>• Lack of funds and no continuity in funding. KSV depends on obtaining income from new projects.</li> <li>• Little experience on proposal writing leads to limited own pro-active project acquisition</li> <li>• No external auditing of financial statements leads to less credibility at donor level</li> <li>• Producer groups and breeders’ networks are difficult to manage/link because of long distances</li> <li>• No active export marketing of final silk products; lack of export market linkages</li> <li>• The market situation for silk yarn only allows to take a commission of 8%</li> <li>• No certification of Cambodian silk yarn</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• KSV is fully set up and functional, it is able to increase its programmes and impact with little additional effort</li> <li>• High political interest in promoting the national silk sector</li> <li>• Good relationships with different donors and stakeholders</li> <li>• There is a speciality niche market for fine golden silk, with KSV as the main provider</li> <li>• KSV can benefit from projects to get new knowledge and technologies for its members</li> <li>• Growing number of tourists provide market opportunities for silk products and potential for eco-tourism</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of funds can halt the organization</li> <li>• There are not enough larger programmes, which can provide stability</li> <li>• Sericulture farmers may switch to other agriculture produce offering higher income</li> <li>• Migration of sericulture farmers to Thailand</li> <li>• Weavers stop their activities and start working in garment factories</li> <li>• Production depends heavily on weather conditions</li> <li>• Weavers may replace Cambodian silk by cheaper imported material from Viet Nam</li> <li>• The global economic crisis reduces international demand</li> </ul>

Source: KSV, 2009.

Some additional recommendations for writing a business plan:

- Aim for a plan that is brief, but includes everything important to the business. Focus on the main ideas. Leave secondary issues and details for later discussion.
- Focus on the goals of the producer association. Use the plan to organize efforts around the objectives of raising incomes and economic growth.
- Be realistic – base projections on the results gathered from analysis.
- Be honest about positive and negative findings about markets and sales.
- Try to include as much data and market information as possible.

Note that the business plan is a 'living document'. It must be reviewed and updated regularly so that it always reflects the current goals and strategies of the company. It should be written by the producer association or company itself as it helps to work through a problem and develop a way forward.



### Exercise 5: SWOT analysis

Conduct a SWOT analysis according to above example for an organization, which you know well. Keep in mind:

- Strengths and weaknesses are internal factors over which you have some control or influence;
- Opportunities and threats are external issues that you cannot control. However, you can develop a strategy to deal with them when they arise.

Consider the following:

- Do the strengths outweigh the weaknesses of the association?
- Was tourism identified as an opportunity?

How do you think this business should move forward?

## 3.3. Increase producer competitiveness on product design, quality, cost and quantity

### 3.3.1. Product design

In order to make products more attractive to tourists and in order to improve business linkages, the producers' supply capacities must be strengthened and their product portfolio upgraded. There are many tourists who are used to travelling a lot and who are tired of seeing the same type of animal statues, masks or traditional cloth over and over again. There is not much to discover at many craft markets in the world, just as there is not much variety between products at one shop and the next one.

- Many tourists no longer search cheap souvenir articles, but rather prefer some innovative higher value products.
- Many tourists prefer products whose design fits into both worlds, the country they visit as well as their home country. They prefer products to be both a nice souvenir and a useful item.
- Tourists particularly look for items which can be easily packed into a suitcase. Therefore, items should neither be too bulky, nor too heavy or fragile.
- Moreover, tourists prefer useful items such as articles of daily use, not another 'dust catcher'.

To meet with tourists' requirements, producers need to be creative and experiment with new designs. Tourism is not different from any other industry in so far as innovation is needed to stimulate demand. The feedback from buyers can be used to identify the products that sell well and that can be further developed. Producers should try not to imitate existing products but to create their own contemporary designs. They can develop a new product or adapt their existing products to create a new style.

### Box 11: Success story Tsagaan Alt Wool Shop, Cooperative Union, Mongolia

To reach two goals at the same time, that was the idea on which the Norwegian Lutheran Mission embarked in Mongolia: to increase the income of Mongolian shepherds by opening up a new market channel for wool and to generate income for unemployed deprived urban poor by producing felt articles (felt shoes, clothes, cushion covers, bags, souvenir articles etc.) based on Mongolian wool.



The main market opportunity was seen in the large number of foreign tourists visiting the capital Ulaanbaatar after the fall of the Soviet Union. In 2008, about 440,000 tourists visited Mongolia. A retail store, the Tsagaan Alt Wool Shop, was opened in the city centre by the Cooperative Union. Producers belonging to the cooperatives were trained and new product collections were developed with support from ITC's Export-led Poverty Reduction Programme (EPRP). In 2009, the Tsagaan Alt Wool Shop's turnover was as high as US\$ 15,000 per month on average. 300 members of the producer cooperatives benefit from stable market access.



Key success factors were the innovation on product design and strict quality management. In the beginning, the shop was just selling all kinds of individual felt products, mostly souvenir articles, produced and supplied by the craftsmen as they thought such articles would be of interest for tourists. But then the producers were trained to supply well-designed collections according to specified colour codes, specifications and Western taste. A superior sales outlet and a focus on useful products (such as shoes) instead of purely decorative gift articles (such as stuffed animals) helped to push sales. In fact, shoes and fashion accessories are Tsagaan Alt's best-selling articles, and their modern designs and well-balanced mix between old and new are very attractive to tourists.

With the local production having been boosted by local sales to the tourist market, the Cooperative Union also started a successful export business with support from ITC. Felt shoes and other products are now exported to Germany, Netherlands, Norway, Japan, China, etc.



Other Mongolian companies decided to replicate the Cooperative Union's success, opened their own shops and approached the well-trained craftsmen to supply them as well. The local raw material supply of fine wool has now become scarce, which has already forced the Cooperative Union to invest in its own livestock. In any case, the Tsagaan Alt Wool Store has become such an attraction in Ulaanbaatar that tourists do not wish to miss visiting it.

Development programmes can help producer groups to build up their own design competence and can motivate them to develop new products by:

- Creating awareness for design innovation needs and market expectations;
- Training local designers working for producer groups, NGOs and associations;
- Encouraging local craftsmen to experiment with new design developments;
- Providing access to information sources on design and colour trends;

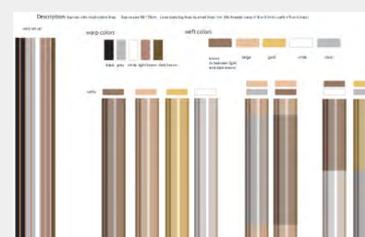
- Arranging partnerships with universities and design schools;
- Helping municipalities to organize exhibitions and design awards.

### Box 12: Design and marketing development of the Cambodian Craft Cooperation

The partner for the Cambodian EPRP programme is the Cambodian Craft Cooperation (CCC), an association with a number of producer groups working with silk, ceramics, silver and wicker-ware. Its most successful products are silk scarves, which are sold to local tourists in Phnom Penh and exported to Europe, Latin America, the United States and Asia.

EPRP trained CCC staff and producers to try out new designs, new colour combinations and styles. The programme draws on the knowledge of international designers and initiatives of the producers themselves, with the aim to create a mix of new styles. Creativity and design workshops were held and local designers trained. Most of CCC's collections were developed based on a combination of inputs from local weavers and designers.

In Phnom Penh, CCC sells to a number of retail shops. 'Your designs are somehow different, one does not see similar products elsewhere in town' was a frequent quote made by retail shop owners. EPRP focused on creating own design innovation skills of CCC and its producer groups, so that they could be independent from external assistance. Today, a young Cambodian in-house designer develops new designs regularly and also weavers continue to experiment with new designs on their own. Constant innovation is needed, as copies of scarf designs appear on the market after some time.



Design: Gabriela Byrde, 2009



Own collection designed by weavers



#### Exercise 6: Improve product design

Collect ideas based on brainstorming on the following three questions:

- In your individual situation, how do you judge the quality, innovation and diversity of handicraft products sold to tourists?
- Which local resources are available to draw on for product design improvements?
- How can you facilitate product innovation, upgrading and diversification?

#### 3.3.2. Product quality and quantity

In addition to introducing new designs, the improvement of the product quality can increase the market potential as well. Product quality upgrading requires a basic 3-step quality control system:

- It starts with ensuring that the right kind of raw material is supplied, which is suitable for a higher quality end product;
- Regular checks during the production are necessary to reach a more consistent product quality;
- Handicraft producers need to apply a strict final product quality control before sending the products to the shops (Figure 6).

Whether or not a product is competitive in terms of quality and price depends heavily on whether the producers have access to the right kind of raw material. Having access to quality inputs at reasonable prices enables handicraft producers to upgrade their products successfully.

**Figure 6: Example of a Technical Sheet**

<b>PRODUCT SPECIFICATION SHEET</b>			
<i>Company logo</i>		<i>COLLECTION NAME</i>	
PRODUCTION DATE:		PRODUCER NAME:	
PRODUCT DESCRIPTION:			
FABRIC USED/CODE:		PRODUCT SKETCH/PICTURE:  FRONT          BACK                  SIDE	
SAMPLE DIMENSIONS:			
COLOURS CODE 1:			
COLOUR CODE 2:			
DETAILS:			
MOTIF NAME/CODE:			
MOTIF SIZE:			
RAW MATERIAL USED FOR MOTIF:			
MOTIF COLOURS CODE:			
MOTIF TECHNIQUE:			
MOTIF DESCRIPTION:			
ZIPPER:		LINING:	
BUTTON:		OTHER:	
FINISHING:			
FABRIC SWATCHES			

Source: Byrde, 2014.

The main issues to be considered regarding backward business linkages are:

- Is there enough raw material available throughout the year?
- To what extent is the quality of the raw material suited for the handicraft production?
- Where can craftsmen buy the raw material and at which price?
- Where can they obtain additional material for applications and finishing?
- Can raw material be bought in bulk for a better price?
- Can the processing of raw material, for instance dyeing of fabric, be organized more efficiently at a central place, by an external service provider or by each artisan individually?
- Can imports of raw material be substituted by local raw material production?

Just like the value chain can be upgraded through promoting forward market linkages, this can also be achieved through the facilitation of raw material supply. By doing so, raw material suppliers can be qualified in order to supply inputs in qualities that are required by the producers.

There are many examples of successful handicraft development projects that have generated a need for more raw material production in the country. In Mongolia, the production of felt articles requires keeping more livestock of local sheep breeds with high-quality wool. In Cambodia, increasing sales of silk articles go far beyond the supply potential of Cambodian Golden Silk yarn produced by local sericulture farmers.

Qualifying raw material suppliers helps in improving the competitiveness of the value chain and contributes towards generating pro-poor income for the suppliers of raw material.

### Box 13: Use of recycled raw material

The Cambodian NGO Villageworks produces bags, e.g. travel bags, made of used cement sacks. The combination of unusual raw material and the different look make the different bags attractive as a useful souvenir. A crucial success factor is the high finishing quality.

Stable supply of raw material is important for the production. Garbage collectors in major cities in Cambodia are aware of Villageworks' demand and look for used cement sacks at construction sites. This means that some of the poorest of the poor benefit from the tourism-related handicraft chain.

After successful introduction of the recycled bags in tourist shops in Cambodia, Fairtrade wholesalers recently started exporting the product to Europe.



Travel bag made of used cement sacks

Supply material producers should also make sure they are able to produce sufficient quantities, which allow a regular, continuous and reliable supply to tourist shops. Products need to be available in sufficient quantity and timely, particularly during tourist peak season.

Note that not all raw material supply is allowed to be traded. It is therefore important for producers to realize that:

- Products should not be made from endangered species;
- There are quarantine restrictions for live plant and animal species, as they can introduce pests into other countries.

### 3.3.3. Cost calculation

Producers should be aware of their production costs and know how to set prices in order to have competitive prices, which are attractive to the customer, but still allow generating a reasonable profit.

The easiest way to set prices is to see what other producers ask for when selling similar products and set their own product prices accordingly (market-based pricing). There will be some kind of standard prices for many product types. Producers should also identify which kinds of product are sold at a higher price than other articles and, therefore, offer them higher income potential.

Producers should also keep in mind that tourists often expect to be able to bargain with the sales person about the price of handicraft products.

Cost-based pricing for handicrafts starts by calculating raw material and labour cost (direct cost) to which indirect cost are added.

The producer probably knows by experience how many items he/she can make from one unit of raw material. This unit can be a kilo, a meter, etc. The material costs per product are calculated by the price which the producer pays for the material, divided by the amount of handicraft products created from this material. In many cases, different kinds of material are needed to come up with one handicraft product. One should not forget that some material is wasted in the production process. However, the costs of waste material must also be included in the price.

Labour is the time that the producer (and his/her employees) spends actively working on the product. To calculate the costs of labour per person, multiply the amount of hours a producer spends on production by an appropriate average hourly wage.

Indirect costs are all the fixed operating costs that are not directly related to production. They can include shop rental, depreciation for equipment, telephone, electricity, maintenance, transport, taxes and marketing costs. Product prices should include a certain percentage (mark-up) for covering such costs and enabling the producer to have some money available if old machinery is to be replaced or if he needs to invest in marketing activities.

**Table 3: Calculate production costs**

MATERIAL	COST/UNIT	QUANTITY NEEDED/PIECE	COST/PIECE
Raw material 1			
Raw material 2			
Other small material			
Other small material			
<b>A) Total material cost</b>			
LABOUR <sup>14</sup>	COST/HOUR	HOURS NEEDED	COST/PIECE
Dyeing			
Loom set up			
Weaving			
Sewing			
Packing			
<b>B) Total labour cost</b>			
<b>C) Total direct cost per piece (A+B)</b>			
INDIRECT COST			
+ x% mark-up for indirect cost			
+ x% mark-up for raw material price fluctuation/wastage			
+ x% mark-up for taxes			
+ x% mark-up for expected profit margin			
<b>D) Product price</b>			

**Table 4: Example of direct costs' calculation: knitted baby slippers (felt/yarn mix) from Mongolia**

RAW MATERIAL (IN US\$)	
▪ 100 gram dyed wool, 17.7 US\$/kg	1.77
▪ 30 cm leather, 185/10 cm	0.39
▪ Yarn	0.07
▪ Soap	0.07
▪ Knitted yarn, 40 gram	0.43
LABOUR COSTS	
3.8 hours, 0.5 US\$/hour	1.90
<b>Total direct costs</b>	<b>4.63</b>

EPRP Mongolia, 2009

The costs for rent, telephone and electricity can be estimated and calculated on a monthly basis. In order to estimate the indirect costs per piece, one should then ask how many items can be produced/sold per month. As the production and sales volume can vary a lot, one may estimate the indirect costs per piece based on different quantities likely to be sold on average.

Tools and equipment are bought once and probably last a long time. They are relatively expensive and money must be put aside over time to be able to replace the tools when they are worn out. These necessary savings are part of the indirect costs of the product and are called depreciation expenses.

To calculate these depreciation expenses, divide the costs of the new equipment over the amount of years that it is going to be used before it is replaced by a new machine.

<sup>14</sup> Examples

**Table 5: Calculate mark-up for indirect costs**

INDIRECT COSTS PER YEAR		
<ul style="list-style-type: none"> <li>▪ Office and production facilities' rental</li> <li>▪ Labour costs: office/administration/permanent employees</li> <li>▪ Office running costs/communication</li> <li>▪ Marketing expenses</li> <li>▪ Repair works</li> <li>▪ Transport/car</li> <li>▪ Insurance</li> <li>▪ Other costs</li> </ul>		
	<b>Total indirect cost/year</b>	
INDIRECT COSTS PER PIECE		
<ul style="list-style-type: none"> <li>▪ Low production quantity      (... pieces/year)</li> <li>▪ Medium production quantity    (... pieces/year)</li> <li>▪ Large production quantity      (... pieces/year)</li> </ul>		= Indirect costs/piece = Indirect costs/piece = Indirect costs/piece


**Exercise 7: Calculate product price**

Make an estimation of direct costs per item and add mark-ups for indirect costs, sales tax (if necessary) and calculated profit margin.

<b>Direct costs per piece (see example in Error! Reference source not found.)</b>	
Material 1	
Material 2	+
Material 3	+
Material 4	+
Labour 1	+
Labour 2	+
Other costs	+
<b>Total direct cost per piece</b>	<b>=</b>
+ x% mark-up for indirect costs	
+ x% mark-up for taxes	+
+ x% mark-up for expected profit margin	+

### 3.4. Support government initiatives with special focus on replication and expansion

National, regional or local government organizations are in charge of development strategies or master plans for tourist destinations. Their main role is to provide sound legal and social framework conditions and a conducive environment for enterprise growth. Adequate infrastructure, political stability and security need to be ensured. The government usually takes a high interest in tourism promotion as a main income earner for the country with the aim of increasing the attractiveness of their destination, for which having a vibrant craft retail sector can be an important asset.

Important areas of government activities are to:

- Improve the legislation framework for MSME companies;
- Provide land and facilities for the crafts and tourism industry;

- Organize festivals, events and markets which support the tourism and crafts industry;
- Coordinate and promote project activities;
- Run vocational training facilities for the tourism and crafts industry.

The promotion of the tourism and handicraft sector often concerns different governmental organizations and requires coordination between the government departments, organizations and institutions concerned with tourism and handicraft development. Important long-term decisions with high implication on craft sales are often prepared by tourism boards and councils, which are key partners of inclusive tourism.

Inclusive tourism projects can support government initiatives by:

- Demonstrating pro-poor income generation possibilities through pilot projects, which can be replicated by government organizations for increasing outreach;
- Facilitating a discussion forum between the tourism-related craft industry and government organizations for improved cooperation;
- Contributing to better organization and performance of handicraft producer organizations to enable them to become a valuable cooperation partner for the government;
- Assisting in the organization of festivals, events and market places to create more public awareness;
- Improving know-how and training skills of vocational training centres.

Government organizations can build on inclusive tourism activities and increase impact and sustainability. Lessons learned can be integrated into existing government initiatives and implemented on a larger scale.

Tourism officers at public institutions can support inclusive tourism project initiatives to promote better market linkages between handicraft producers and the tourism sector. They can facilitate an exchange of information and particularly focus on promoting handicraft-related tourism activities.

There are many possibilities for win-win situations based on a close cooperation between the government and handicraft development projects. The relevant government organizations should be involved in the project design from the beginning and be close and active cooperation partners during project implementation. Lessons learnt from project activities should be reported back to the government authorities and be integrated into future sector policies.



**Summary: How to develop the tourism-related handicraft value chain**

- Improve existing retail linkages;
- Increase attractiveness of existing retail outlets;
- Promote excursions to craft villages and community-based tourism;
- Create new retail structures;
- Promote joint sales promotion activities;
- Build organizational capacity of producer groups and associations;
- Increase producer competitiveness on product design, quality, cost and quantity;
- Support government initiatives.

## Conclusion



Less developed countries in particular recognize tourism as one of the most important industries in terms of economic development. This is due to the fact that the diverse tourism industry involves not only inbound tourism per se but also indirectly related services and products, like handicrafts. As handicrafts are mostly produced by the disadvantaged poor, it is evident that handicraft production is one of the key pro-poor income earners in the tourism value chain.

Handicrafts form an integral part of the tourist experience through representing local traditions and indigenous populations. Through purchasing locally made handicrafts, tourists create and promote job opportunities and employment for sustainable economic development as well as positive socio-economic impacts for the local population. For many producers, tourism-related handicraft production can be a step out of poverty and particularly offers chances for women, ethnic minorities and raw material producers.

However, handicraft producers are often faced with many challenges that prevent them from making full use of the opportunities provided by the tourism sector. There are a number of supply-side and market-side constraints, which need to be overcome to enable handicraft producers to make full use of the tourist market potential.

In order to generate pro-poor income possibilities for handicraft producers it is important to identify opportunities for adding value to local handicraft products and for extending the potential to involve local craft producers and communities in the tourism market. Value chain analysis gives a good overview on the income generated at different levels. It helps to calculate pro-poor income effects and to assess market opportunities and business constraints to develop possibilities for value chain upgrading.

As shown above, there are numerous possibilities to promote the tourism-related handicraft value chain with a double perspective:

- To promote inclusive tourism in order to generate income possibilities for poor craft producers;
- To increase the attractiveness of tourism destinations by improving the entertainment and cultural experience of tourists.

On the basis of different project interventions it was shown how to develop the tourism-related handicraft value chain at different levels. In order to strengthen backward business linkages between the tourism industry and the handicraft sector, it is important to improve existing retail linkages and to create new retail structures. Furthermore, the promotion of excursions to craft villages and community-based tourism helps to increase the attractiveness of tourism destinations and to sustain the cultural and social heritage of the local population.

A fundamental part of the development of the tourism-related handicrafts sector is the promotion of sales based on producer group and association activities. This is necessary to make customers aware of the product and of where to buy it. Since tourists prefer to purchase authentic, locally-produced handicraft products, the promotion material should provide the history of the crafts tradition in the country and describe how the products are made.

In order to make products more attractive to tourists and to improve business linkages, the producers' supply capacities must be strengthened and their product portfolio upgraded. Therefore, assistance on product design, quality and quantity are necessary to promote locally made items. Producers should be

aware of their production costs and know how to set prices in order to have competitive prices, which are attractive to the customer, but still allow generating a reasonable profit.

These strategies can help ensure local participation and direct income to disadvantaged groups in tourism. Linking the handicraft sector to tourism markets contributes to the creation of employment, economic growth and poverty alleviation through involving suppliers of raw materials, distributors, transporters and sales people. Such indirect export of handicrafts is also much easier to accomplish for many local producers than a direct export of crafts.

Governments, donors, NGOs and the tourism industry can jointly promote the development of an inclusive tourism industry, in which local handicraft traditions play an enriching role for tourists and open up income generation opportunities in the informal sector.

Therefore, it is necessary to recognize the importance of local handicrafts in tourism development and reciprocally, the importance of tourism for the protection and preservation of traditional crafts, production methods and indigenous culture.

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