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Mongolian Cashmere Industry A Review of the Industry's Preparedness for Visits and Inspection by International Buyers

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INTRODUCTION

The purpose of this review was to determine what measures, if any, might be necessary to improve the Mongolian Cashmere Industry for inspection and visitation by international buyers. The term 'Buyers' covers designers, merchandisers, and quality control inspectors, of varying seniority, coming to Mongolia in advance of sampling and bulk orders being placed.

It is important to bear in mind that this group of people have several criteria to satisfy before orders will be placed. The following points are all equally important and no weight should be given to one over another.

- a. Quality. Can the supplier demonstrate that their factory can produce goods of acceptably high standard, throughout all processing, consistently?
- b. Design. Are design staffs capable of interpreting the technical and aesthetic requirements of the buyer's specific marketplace?
- c. Capacity and Productivity. Is the factory able to produce the quantity of units required to fulfil orders placed, on time?
- d. Logistics. After production, how are the goods brought to market, and what are the average transit times and costs?
- e. Communication. Is the factory able to demonstrate good communication skills in order to facilitate requests and changes without misunderstanding? Speed, precision, and a devolved management structure are vital in this process.
- f. Reliability. In many respects this is an intangible on a preliminary visit, and can only be proved empirically over time. However first impressions are important and may be a deciding factor in whether or not there is a second visit.
- g. Market awareness. Do the staff and management appreciate the concerns and drivers at work in the customer's market, such as seasonality, scheduling, niche, competition, or market share?
- h. Competitiveness. All of the above factors are part of the competitiveness mix.

Each of the topics listed above is explored in the following pages. All comments are aggregated from the meetings and factory tours during my time in Ulaan Baatar. They apply to a greater or lesser degree to all the factories visited.

It is up to individual businesses to assess how much of each of the recommendations applies to them, and what if any actions they may take in response to the report.

SECTION I: QUALITY

Overall there is a good level of manufacturing quality. The products I saw were of a good standard for their end use.

There are two discrete markets for Mongolian cashmere, domestic and export. It is perhaps not surprising that the domestic product is of a lesser quality than goods destined for markets abroad, given the relatively low levels of income in Mongolia.

This will change in the future, but at present and for the short to medium term, there are insufficient economic imperatives to ensure equally high standards for the home market as in export.

It is important that domestic products should not be shown to export buyers in the first instance. Domestic and export products must be kept separate. If possible, domestic quality goods should not even be in the same room as an export customer on arrival at the factory.

First impressions are important.

If a factory does not have any export quality goods on show, then it should make a range of export quality garments before any visits by buyers. If this requires input from international designer and development experts, then this help should be sought.

Domestic products should only be displayed or drawn to the attention of export buyers after they have been convinced that the supplier is capable of demonstrating a full understanding of export quality production.

All buyers have concerns that new suppliers will not understand what standards are to be applied to their orders. Any supplier's priority must be to give them this comfort.

It is much better to show a few higher quality items that will demonstrate an acceptable level of competence, rather than a wide range of products that demonstrates potential.

Buyers are worriers by nature, are looking for problems, are easily confused, and in the main unable to take in large amounts of information quickly. This is not in any way to denigrate buyers. To reach Ulaan Bataar they may have been travelling for 24 hours, be jet lagged, and tense. It is unreasonable to expect them to be feeling positive and full of the joys of life.

Do not give them cause to worry, and make their life simple and comforting. When buyers are convinced that standards are high then it is OK to introduce a few ideas and products from domestic production that can be shaped and developed for their markets.

Finally, quality control is not an afterthought. It should be a demonstrable, pre-planned, stage of the production process. The average, skilled, manual worker, in any factory will not be expected to have the appropriate appreciation of export standards without instruction and constant reminders that high quality standards are the way to ensure future employment.

It is important that time and effort is spent on the factory floor to instil best practices. Buyers, and in particular QC inspectors, are able to gauge any supplier's quality standards simply by walking around a factory and observing operatives at work. I am not convinced that these best practices were in place to give consistency.

Recommendations

Quality control is not visible enough in any of the factories I visited. It is necessary to overtly demonstrate that commitment and systems are in place to satisfy clients that goods will be delivered to agreed standards.

ISO 9000 and ISO 14000 are both well-recognised certification schemes that give comfort on quality issues. If a company has them, attention should be drawn to them and how they are implemented. If not, then the factories' individual QC controls should be explained, and perhaps consideration given to acquiring certification in the future.

Short courses in QC management and control for shop floor supervisors would be a good investment.

Most clients now wish to see environmental and social policies publicly stated on factory notice boards and implemented. At the very least a supplier will have to demonstrate compliance with local legislation pertaining to protecting the environment and workforce from pollution; prohibiting exploitative labour practices such as child labour, excessive working hours, and the provision of health care.

SECTION II: DESIGN

The people of Mongolia have a deep-seated appreciation of colour, form, and practical design. It is expressed in traditional textiles, crafts, traditional architecture, and other facets of everyday life. It is a resource to be nurtured and encouraged. That this inspiration has survived the economic trials of the past decades is confirmation of its strength in Mongolian society.

Technically, all of the designers I met operate to a very high standard, and are perfectly capable of producing goods to any strict, well-defined, brief.

It was apparent that of the designers I met only two had travelled widely to export markets (mainly Japan). This was clearly reflected in the aesthetic and commercial value of their work.

Whereas the majority were competent, and inspired by local influences, those whom had travelled displayed an understanding of clients' styles and design influences. These influences were in turn refined and developed by their own creative talent and produced very attractive and distinctive product.

At this stage clients may well instruct some companies with a very precise and narrow brief that will require little or no creative input. This will suffice in the short term, but will contribute in keeping prices low.

For the future security, and added value for, the industry, it will be necessary to have designers travel to customers' markets to gain an appreciation of current influences and culture of clients' fashion environments. This will allow them to participate fully, and contribute to the creative process with customers.

Design is a valuable selling tool. Designers in the most successful textile companies are also involved in sales and production. When a client talks to a representative who speaks knowledgeably about a product, then they have an incentive to buy. If that representative can also contribute to the creative process then that incentive is increased geometrically.

It must be noted that this should be a continuous process. Our business changes from month to month and season to season. It would be unwise to have designers visit markets only once and expect them to be up to date with customers' requirements. Design is ongoing function and cannot be carried out in a cultural vacuum.

There are no longer any monolithic fashion trends in terms of colour or form. Most successful brands and major retailers aspire to be different from their competitors. This differentiation - individual style and handwriting - is sometimes referred to as 'lifestyle' marketing. This is achieved mainly through design separation. The post industrial world's desire for individualism, expressed partly through clothes, is not going to diminish in the foreseeable future. Mongolian designers are more flexible and creative than their Chinese counterparts and this advantage should be capitalised fully.

A lack of a conversational proficiency in a foreign language, most usefully English, is lacking in designers. In some it is a merely a lack confidence and use, in others it is a lack of learning. That there is design talent in the Mongolian industry is not up for question. The ability to express that talent, and to communicate the creativity that exists, is a concern.

Recommendations

Factories should be encouraged to raise the status of designers and have them travel to clients' market places. Whilst there, designers should also be encouraged not only to visit customers, but local museums and art galleries. (For many years the Scottish textile industry sent their designers abroad on artistic and cultural trips, en-masse. This was amply rewarded in Scottish

producers' ability to attract higher prices than the competition through focused and innovative design strategies.)

Self-teaching aids to enable a basic level of English, and knowledge of export markets should be provided. This can be done easily and cheaply through pre-recorded language courses, DVD's, radio, television, and Internet exposure.

Until designers communication skills are addressed the industry will be led almost exclusively by customers looking to reproduce designs originated elsewhere, and the Mongolian industry will be rated on the same level as their Chinese counterparts. At its simplest this will result in price being the only competitive factor.

Strategically, Mongolia is too small to compete with China without political advantages such as non-application of tariffs, and the lifting of quotas. These can be rescinded as quickly as they can be extended, and the spread of free trade policies may remove these relative advantages across the board.

The industry, through the implementation of good design policy, can add value to products supplied over the medium term, and build long-term relationships with clients to enable stability and growth.

SECTION III: CAPACITY AND PRODUCTIVITY

Factories, like jugs, have finite capacities. If more capacity is required you can always buy more jugs, or machines, or factories. However when a client is being shown around factories they like to see capacity, in terms of machines and personnel, already in place to produce their potential orders.

If a client is interested in more capacity, quickly, than currently exists in-house, producers have two alternatives – turn down all, or part, of the potential order, or sub-contract.

It is not acceptable to pretend that current machines and workforce can produce more than is apparent to visitors. It should be understood that if a client makes it as far as Mongolia, then they will have experience of many factories, in many countries, and be more than capable of assessing capacities very quickly.

It is acceptable to make factories ‘look busy’ for the duration of a visit even if work is scarce, and to clean up more than usual is sensible, polite and mannerly. However to say that a factory, for example, with 10 machines is capable of producing the same as a factory with 50 machines is not only dishonest, but underestimates the experience and intelligence of any potential client.

Productivity levels in factories visited are low compared with other producing countries. In general operatives are working low rates.

Recommendations

A maxim that is worthwhile repeating on a daily basis is: ‘Resist, at all times, the urge to bullshit clients.’

Be open, and you will quickly build the respect and confidence of customers.

It is not necessary to conceal shortcomings. Apart from anything else they are usually very apparent. If you do you will sow the seed of doubt in a client’s mind that you can be trusted. It is refreshing for most experienced buyers to be told the truth, or at least a close approximation, every so often.

The knitting industry would benefit almost instantly from having their knitters and linkers trained to work more quickly, without any consequential loss in quality. A team of instructors in linking, knitting, and finishing from the Scottish industry for example, involved directly with machine operatives, would make substantial increases in productivity.

I am confident that these productivity gains would not be measured in percentiles, but in terms of multiples.

Present rates of pay for piecework may look absurdly generous if some factories workforce’s true potential can be realised. A full assessment of piece rates, adjusted to achievable productivity rates should be phased in over a period of time.

I did not see enough of the weaving industry to make informed comment, but I would be surprised if the same gains could not be made through a shop floor training programme.

SECTION IV: LOGISTICS

Whilst acknowledging that I am in danger of stating the blindingly obvious, Mongolia is landlocked at the centre of an immense continent, with limited overland routes to markets and seaports.

It is perhaps not foremost in the minds of buyers when they fly into Ulaan Bataar over many miles of a vast and empty landscape, but sooner or later the question will be asked, 'How do we get goods to market, cheaply, quickly, and safely?' (Cashmere garments are valuable, easily stolen, and non-traceable.)

Given the recent significant increases in fuel costs, airfreight may have a limited future. I am aware of a number of international retailing companies who are now questioning the cost of airfreight charges. They are moving to sea freight with all the tactical changes to the supply chain that this implies.

The road system is not well developed in Mongolia as yet, and rail links to external ports are limited in choice.

Recommendations

Whilst not an immediate problem, some further thought should be given to developing a secure and reliable rail route through Russia from Ulaan Bataar to a western seaboard. Some reservations were expressed about the possibilities for theft and delay on the rail route through Russia as an alternative to airfreight. These will have to be addressed at senior governmental levels.

Short air routes to feed major airport hubs or seaports in China, and South Korea should be explored as alternatives.

This is not a matter for individual companies, but the industry as a whole. Co-operation on this matter is key to negotiating favourable, commercial, consolidated freight rates.

It may also be advisable to lobby parliament in order to persuade the legislature to impose a favourable policy towards exporters with support for exporters' freight costs using tax relief or subsidy. It may already be in place, but I could not ascertain this with any certainty.

A transport strategy should be in place sooner rather than later.

SECTION V: COMMUNICATION

It is difficult to express strongly enough the importance of fast, effective communications. Silence from a supplier usually pushes a customer's anxiety levels beyond sustainable levels. In this business 'no news' is usually 'bad news'.

Businesses should be pro-active in communications, and inform customers how orders are progressing without them having to ask. Above all tell customers as soon as possible if there are any problems, especially if they will make deliveries later than confirmed. Problems can usually be solved if enough time is allowed to find a solution.

Managements should have policies in place regarding maximum response times to acknowledge all enquiries by emails, phone calls, letters and faxes. In my own businesses there is a 24-hour maximum response time for all communication in the clients' time zone.

Enquiries should be acknowledged even if all that can be said is 'We have no answers just now, but we will get back to you in 1 hour, 1 day or 1 week.'

Communication builds trust, and that is perhaps the most important part of any business relationship.

Recommendations

It would be my recommendation that letters and packages are sent by private courier. International postal systems are slow and unreliable, and it is a false economy to jeopardise orders for the sake of a few extra dollars postage costs. Good consolidated rates may be able to be negotiated for the industry as a whole, or by two or more companies acting together.

Make sure all local holidays are communicated well in advance to customers, and if possible retain a skeleton office staff during long holiday breaks to respond to enquiries.

If possible invest in broadband technology. Satellite/radio network links are now relatively cheap, and may be pooled over several businesses to spread the costs. Some links are better at download than uptake speeds, but with some research good services can be found.

Broadband is important in order to send not only written messages but also photographs and sketches. Without access to broadband links, the process will be slow and unreliable.

Good agents and distributors in export markets are the best, proven, method of promoting effective communications. However, effective agents are like hen's teeth – scarce. That is not an excuse not to appoint agents, but care and time should be taken to find the best available.

In Europe and America, law favours the agent unless the contract is carefully written. There is a happy band of quasi-agents who collect a long list of suppliers and then do nothing with them until they want to sever their contract. It is only then that they discover it is an expensive process.

Investment in a thorough agency search and appointment programme with design, marketing, technical, and interpretation skills is a key requirement for the industry going forward.

A possible weakness in some management structures is the concentration of responsibility and knowledge in too few hands. It creates a wrong impression for a company not to respond to a customer's enquiry because the owner or senior manager is not available. A customer might think that a company stops when the boss leaves the factory. A company cannot be seen to be dependant of one person. It gives customers something else to worry about, should that person become ill, or worse.

Knowledge and responsibility should spread throughout the management structure, at the very least to enable proper responses to be made to customers' enquiries.

Invest in English language training for administration and key production staffs that they can speak on behalf of the company.

SECTION VI: RELIABILITY

As stated at the beginning of this report, reliability can only be proved over time. It is a measure of a company's commitment to success and long-term business relationships.

It should be part of management's policy, clearly stated to all members of staff from the owner to the floor sweeper that deliveries must be met, quality maintained, and promises kept.

Recommendations

It would be advantageous to discuss this aspect of an established policy with visiting clients, and to continually reinforce the message to all sections of the work force with posters, and seminars, that reliability is key to success.

It is also important that it is the responsibility of someone to check orders through the factory at every stage. Customers will want to know who is the 'order chaser' in a factory, and how they can be contacted.

SECTION VII: MARKET AWARENESS

Too often market awareness is confined to sales staff, and this does not result in good service since other departments will be unaware of changes that may be proposed or actually be in the pipeline from customers.

It is to be expected that over a period, sales people, designers, and agents will form strong business relationship with customers. The common aim is to achieve a level of sales and profit that is acceptable for everyone involved.

Knowledge gained in the marketplace will include timing of deliveries, potential order size, new product design proposals, sampling programmes, price/costs, information on competitors, customer trends, successes and failures, problems to be solved, and targets to be set for each department.

This knowledge should be shared regularly between all departmental managers. It is a common shortcoming all over the world that sales, design, production, and administration staffs do not share information. This results in mistakes, misunderstanding, and ultimately bad service to customers.

Market awareness also allows a supplier to offer advantages to clients to help give them an edge over competition, either in marketing terms, product development or price.

Finally, market awareness allows a supplier to negotiate price more fairly from a position of facts and reality rather than ignorance and supposition.

Recommendations

Regular meetings should be scheduled where sales, design, administration, and production staff can share information. Everyone on the management team, and through them to the factory operatives, should be aware of what customers want and need. As far as possible the customer should get what the customer wants.

In addition, when customers visit, and where it is appropriate and practical they should be offered the opportunity to address a management meeting where they can speak to all of the departmental heads directly, to air concerns requirements, and congratulations.

SECTION VIII: COMPETITIVENESS

Competitiveness can be confused with cheap prices. Anything can be made cheaper, but not always better. It is my contention that as a medium-to-long-term strategy Mongolia should aspire not to be the cheapest source of cashmere. It should rather concentrate on quality, service, design, and reliability, and become the best source of cashmere, at a competitive price.

In the short-term it may be necessary to invest in narrower margins in order to attract initial interest from key customers, market exposure, and market share.

Interest from other clients will follow, for the best reasons as stated above. There is an opportunity to take the market share that is being left by the closure of the Scottish, and now Italian, cashmere producers.

Chinese producers in general have acquired a reputation for low prices, bad workmanship, late deliveries, no design potential, and mislabelling. This has left them in a relatively uncompetitive position relative to the medium/top end of the market.

There will always be customers that want large, cheap, bulk orders, such as Tesco in the UK, and Wal-Mart in the USA, but I do not believe this is where the Mongolian industry should be directing its marketing efforts. It will always be difficult to compete directly on price for any length of time with China, so other strengths need to be developed.

Recommendations

In order to maximise competitiveness, manufacturers would benefit from an open forum to discuss areas of concern, and common ground for the future development of the industry.

It would be naïve to assume that all manufacturers would want to take part in such a forum, or that a consensus could be reached over all matters. However, it is evident that buyers find it easy to set manufacturers against one another in Mongolia. Part of preserving and increasing competitiveness is to present a united front that is less easy to be manipulated by clients.

Subjects to be discussed might be intellectual property (plagiarism), common quality issues, pooling of buying power, sub-contracting, common marketing efforts (shows, labelling, branding), and perhaps a small levy to cover costs based on an identifiable marker such as numbers of people employed.

Finally, there is a dichotomy in the industry where some companies are in private hands, and others are in state control.

It is conceivable that the manufacturers under state control can use the resources taken from the private sector, in the form of corporate taxes, in the form of a hand out or subsidy, to improve their competitiveness in the short term. This has the potential for state controlled manufacturers being able to undercut private companies in the marketplace.

Until the industry is wholly privatised then this potential for unfair competition will continue.

CONCLUSION

The Mongolian cashmere industry is at an important crossroads. There are short and mid-term opportunities to attract new and profitable business to the woven fabric, knitted, and tailored garment sectors, with a stable, mid-to-top-end, customer base.

The decline of producers in Europe, and the seeming inability of Chinese producers to manage their marketing and customer base effectively has opened up a window. We would do well to learn from the mistakes of others.

With control, cooperation, planning, and foresight, the industry can develop in a sustainable way into a leader for quality, design and service.

The basic building blocks exist. The goal must be to establish strong bonds with good international agents and distributors, who in turn can establish long-term relationships for the industry with a mid-to-top-end customer base in target markets.

Ultimately it is for suppliers to manage clients, and clients should be happy for this to happen.

The time for consultants' reports is at an end. What Mongolian factories need now are customers, agents, operative training, and English language instruction.