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AGENTS FOR GLOBAL BUYERS IN THE HOME ACCESSORIES INDUSTRY

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TABLE OF CONTENTS

- EXECUTIVE SUMMARY II**
- 1. INTRODUCTION 1**
- 2. BACKGROUND OF SURVEY 2**
 - 2.1. Sampling Method..... 2
 - 2.2. Definition..... 2
 - 2.2.1. Agent 2
 - 2.2.2. Home Accessory Categories 2
 - 2.2.3. Sustainable Products 2
- 3. PERFORMANCE OF AGENTS 3**
 - 3.1. Identity 3
 - 3.2. The Relationship Between the Agent and Buyer 4
 - 3.3. Sustainable Products 4
 - 3.4. Buying Agent Business..... 5
 - 3.5. Vendors 6
- 4. CONCLUSION 7**
- REFERENCES 8**

EXECUTIVE SUMMARY

This paper aims to identify and analyze the gap between global buyer demand and Indonesia's home accessory industry, by means of information available from agents representing global buyers. The offices of these agents are located in Jakarta, Bali, Central Java and East Java, which are locations that can accurately represent the growth of the home accessory business in Indonesia as a whole. Agents serving as respondents were located through information provided by exporters and suppliers of home accessories (although there is no official list of agents or companies acting as agents, these aforementioned entities generally file for licenses with the Industry and Trade Department of Indonesia or serve as the representative office of foreign companies that are located in Indonesia). These companies all act as agents for buyers that are primarily located in the United States of America (USA) and Europe, which have become main markets for Indonesian home accessory products.

Typically, agents have developed a long relationship with their respective buyer that has lasted somewhere in a range between 5 to 10 plus years. Buying agents are responsible for: 1) sourcing products to reliable suppliers; 2) selecting new designs resulting from the buyer's idea or as proposed by suppliers; 3) conducting quality inspections, which can involve checking on various items including raw materials, the production process, random final inspections, and other types of inspections; 4) consolidating shipments of orders with a forwarding company, as well as sometimes packaging products; 5) settling payments to be sent from the buyer to suppliers; and 6) any other tasks as instructed in the contract executed between the agent and their respective buyer. In most cases, agents are paid a commission after the shipment is completed.

Buyers commonly purchase products made of wood, rattan, bamboo, metal, leather, paper, pottery, textiles, stone, glass, bone or a combination of different materials and techniques. Such combinations may include renewable resources and recycled materials. Most buyers prefer for eco-friendly materials to be used to produce the goods in their order. These buyers will make an effort to buy eco-friendly materials from legal sources with the appropriate accompanying legal documentation. Most buyers want sustainable products to be manufactured from legal materials and use safe but inexpensive production processes. Buyers have often been very impressed with the design and color of products made in Indonesia, but sometimes finds that Indonesian products are of a lower quality and higher price when compared to products made in other countries. The negative perception of sourcing certain goods from Indonesia, where such perceptions exist, is not limited to just the products themselves, but also extends to the manner of packaging, loading process and transport to the final destination.

Buyers work together with suppliers to develop designs. Some buyers claim exclusive rights to their own designs and do not allow sales to any other buyers.

The lead-time for production depends on the quantity of an order, but usually takes between 30 to 90 days. If agents carry out inspections, it will become more likely that products can be received in good condition. Although problems still exist, the percentage of acceptable products is still reasonable. Most problems usually involve late deliveries and products that contain a high moisture content (MC).

The most sought after home accessory products consist of handicrafts and furniture. Furniture buyers purchase Indonesian furniture more frequently than handicraft buyers, who purchase specific handicrafts on a seasonal basis. Quite often, furniture buyers will place orders at least three times a year. China and Vietnam are known as competitors of Indonesian products,

especially in price and quality. But Indonesian products have special characteristics that contribute to their competitiveness. For example, Indonesian manufacturers attempt to create a product that is 100% sustainable. Such a strategy is a part of the business plan of such manufactures, as Indonesian manufacturers expect that increased business will follow in the coming year if sustainable products are used.

The vendors, artisans, and craftsmen who supply handicrafts are located in villages and cities spread across many locations on the islands of Bali, Java and Lombok. In order to have all transactions confirmed, it is necessary for vendors to sign Purchase Orders (PO) that contain clear contractual terms and conditions. Also required are the documents or certificates issued by the government that legalizes the materials.

Some buyers classify vendors based on the criteria of production capacity, quality, and type of products or materials used. Better quality products will be given priority. Unless a vendor ensures that products will carry a MC of 12% or less, contain no mildew or bugs, and possess the size and color that matches samples provided by the buyer, the vendor's products will fail inspection. With respect to matching previously provided samples, there is some leeway in acceptability, but products must be in proportion to a sample's guidelines. Handmade products are given more leeway when it comes to size, but functional products must be precise. In comparison, some artistic items can contain large differences, but must still prove acceptable to buyers.

In order to improve Indonesian products, prices must be competitive and reasonable. Good production management can reduce production costs. In addition, designs must be copyrighted, as many Indonesian products are copied in other countries. Vendors or suppliers must become more creative in developing designs by being knowledgeable about the culture or market trends. Suppliers must begin to possess tools that can support quality including MC testers, kiln dry rooms, among other tools. For orders to be delivered on time, vendors must be careful with the quantities shown on purchase orders. If a vendor has extended its capacity, it must extend the delivery time or find subcontractors that can increase the needed capacity and prepare sufficient raw materials. In addition, government rules and export policies should support businesses. Government support must include quickly facilitating and lowering the price of processing the legal documentation of materials.

Agents play a very important role as a bridge between global buyers and suppliers of home accessory products. Factors contributing to the Critical Success Factor (CSF) gaps between global buyer demand and the performance of Indonesia's home accessory industry include: delivery time; improving the quantity and quality of deliveries; design innovation; and competitive pricing of products. An artisan or a craftsman who desires to be a successful supplier or vendor in the competitive global marketplace must be smart and creative. Presently, artisans and craftsmen still face several problems that include: decreasing market access; and the weakness of craftsmen in obtaining access to capital, design, production systems and market information. As such, agents must improve their ability to decrease these gaps.

1. INTRODUCTION

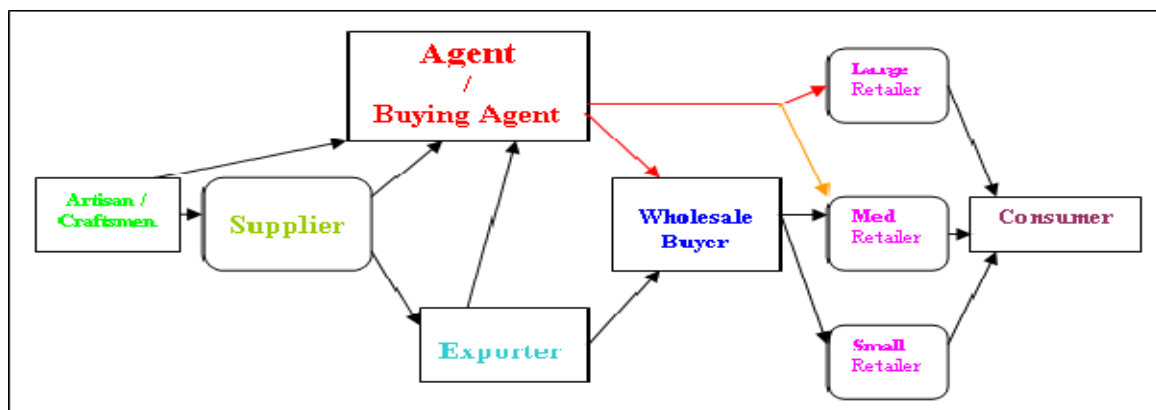
This report entitled: “Agents for Global Buyers in the Home Accessory Products Industry”, identifies and analyzes the gap between global buyer demand and the value offered by Indonesia’s home accessory industry. Through in-depth interviews with agents that serve as representative of buyers, a great deal of information has been gathered about CSF gaps in the business activity of agents with artisans or craftsmen who serve as the suppliers or vendors of home accessory products.

Home accessory products constitute one of the key Indonesian commodities exported to foreign countries. Exports represent a very important way for Indonesian products to expand their market reach beyond only local customers. The production of furniture and handicrafts, which can be considered a part of the home accessory products category, is mostly concentrated in villages or districts. Such production takes place in small-to-medium enterprises that are often family owned and operated. Household production by the small home industry has improved the social and economic conditions of numerous village communities. Export activity has also become a very important way for a developing Indonesia to acquire more foreign currency. It is important to note that home accessories will have the highest value when the quality of such products are improved and the production of such products utilizes sustainable materials that do not harm the environment.

Global buyers and suppliers undergo many problems that result from gaps in their business relationship. Agents in the home accessory products market can play the role of decision makers responsible for minimizing the gaps between buyers and suppliers.

Below is a figure that describes the dominant channels in the home accessory products market.

Figure 1. Dominant Home Accessories Product Market Channels



Source: Adapted from Barber and Krivoshlykoa, 2006

An agent can use its position to act as a market channel between producers and buyers. Global buyers, such as wholesalers and large or medium sized retailers, need an agent to arrange all the activities in a producing country necessary for importing the products from home accessory suppliers. Big suppliers usually have their own production facilities, but sometimes also subcontract their production requirements to other suppliers. Some suppliers collect goods from the artisans and craftsmen who produced the products and then subsequently supply the products to exporters or buying agents. Normally, an agent works for a commission paid by the global buyer.

2. BACKGROUND OF SURVEY

2.1. SAMPLING METHOD

Interviews were conducted using a questionnaire sent to 12 buying agent companies that currently serve as representatives of global buyers. The offices of these companies are located in Jakarta (1), Bali (8), Central Java (2) and East Java (1). Respondents were located by means of information given by exporters or suppliers of home accessory products.

2.2. DEFINITIONS

2.2.1. Agent

A buying agent is an individual or company based in the producing country that is responsible on the behalf of an importer, for all interaction with the suppliers or producers. Such interaction may include, but is not limited to, communicating, sourcing products, creating samples and ordering, overseeing production, ensuring quality control or conducting inspections, labeling, packing, handling inland freight, and ensuring payments are made. An agent typically works for a commission paid by the buyer.

2.2.2. Home Accessory Categories

Home accessory categories include gift or handcraft items including, but not limited to baskets, picture frames, boxes, decorative accessories, ornaments, vases, candles, candle holders, ceramic, sculptures, masks, bowls, paper-mache products, toys, furniture, portable lamps, and wall décor items. Other home accessory categories include functional wares, traditional art, designer goods and souvenirs of many varieties. Home accessories can be produced with primary materials such as wood, rattan, bamboo, metal, leather, paper, pottery, textile, stone, glass, bone and other combinations of different materials and techniques. Home accessories can also be produced using renewable resources and recycled materials.

2.2.3. Sustainable Products

Sustainability is a characteristic of a process or state that can be indefinitely maintained at a certain level. The World Business Council for Sustainable Development, founded in 1995, has formulated the business case for sustainable development and argues that "sustainable development is good for business and business is good for sustainable development". This view is also maintained by proponents of the concept of industrial ecology. The theory of industrial ecology declares that industry should be viewed as a series of interlocking man-made ecosystems interfacing with the natural global ecosystem. For the Indonesian home accessory producer who is interested in tapping the market, the basic business concept involves producing home furnishings in a manner that will generate a profit without harming the environment or exploit workers. In order to compete effectively for market share in this cutting edge segment, a producer needs to combine sleek, multi-functional design with materials acceptable to the buyer. By doing so, a producer will signal to buyers that it shares the buyers' concerns regarding sustainability.

Such materials include:

- Certified wood: verified by a credible third party to be legally and sustainable sourced.
- Rapidly renewable resources: such as pandanus, rattan, pisang batu, water hyacinth, mengong, vetiver, lontar, lidi, agel, etc.
- Recycled materials: including recycled glass, paper, metal, and plastics.

3. PERFORMANCE OF AGENTS

3.1. IDENTITY

The companies that participated in this survey as buying agents have offices located in Jakarta, Bali, Central Java and East Java. These locations are places that can represent the growth of the home accessory business all across Indonesia. These companies all act as agents of buyers that are located primarily in the USA and Europe, which have become main markets for Indonesian products. The respondents' name, address and their buyers are listed below.

Table 1. List of Agents who were Respondents:

No	COMPANY	ADDRESS	BUYER
1.	William E. Connors & Associates Ltd (WECA)	Graha Aktiva Suite 601 Jl HR Rasuna Said Blok X-1 Kav 3, Jakarta	Pottery Barn
2.	Gusti Ayu Tirta (GAT)	Br. Pasdalem, Belega, Blahbatuh Gianyar, Bali	ReGolden Alligator
3.	PT. Bali Reka Mandiri (BAREKA)	Jl. Muding Sari 96X Kuta, Bali	Belle Furniture Corp.
4.	CV. Nikki Bali	Perum Dalung Permai Blok L.32 Dalung Denpasar, Bali	Sunweb Inc
5.	PT. Sourcing Bali	Jl. Gunung Salak 31A Kerobokan, Bali	(not provided)
6.	Nirvana	Jl. Peti Tenget 08M Kuta, Bali	Mutiara Deco Simply City
7.	CV. Damba	Jl. Gunung Salak 43B, Br. Abasan Kerobokan, Bali	Jay Enterprise
8.	Graven Image	Jl. Raya Andong – Tegalalang – Gianyar, Bali	Near and Far Inc Oasis Sea Import.
9.	CV. BALI BAKU (Buying Agent Division)	Kompleks Duta Wijaya 7 Jl Raya Puputan Renon, Denpasar, Bali	Indolotus Imports Frederic Deco Tenerife
10.	AuraJava Buying Agent	Jl. Imogiri Timur Km. 7 No. 91 Grojokan - Bantul, Yogyakarta	Carmant.com
11.	CV. Kawan Baik	Jl. Raya Blora – Cepu No. 177 Bangle Blora, Jawa Tengah	LT Collection
12.	CV. Sinar Mas	Jl. Karya Bakti Blok G/7 Gading Rejo – Pasuruan, Jawa Timur	Lacanca VMC J. Gomes

3.2. THE RELATIONSHIP BETWEEN THE AGENT AND BUYER

The companies that participated in this report have developed their cooperation with their respective buyers for periods lasting between 5 years (50%), 6 years (16.67%), 7 years (8.33%), 9 years (8.33%) to over 10 years (16.67%).

As a buying agent, these companies are responsible for:

- Sourcing products to reliable suppliers.
- Selecting new designs from a buyer's idea and from a supplier's proposal.
- Distributing the PO to suppliers.
- Conducting quality inspections, as follows:
 - checking a supplier's company and production facilities,
 - checking on whether the quality and quantity of raw materials is sufficient,
 - checking on the necessary documentation of materials, such as the Phytosanitary Certificate for bamboo and rattan and the *Surat Keterangan Sabhya Hasil Hutan* (SKSHH) for teak and mahogany wood, etc., which is issued by the Head of the Regional Office of the Forestry Department (*Kepala Dinas Kehutanan*),
 - scheduling the production process,
 - monitoring production progress up to the final inspection,
 - conducting final random inspections,
 - Issuing a certificate of inspection.
- Consolidating shipments of an order through a forwarding company.
- Some companies also engage in the packing of products.
- Booking and checking the condition of empty shipping containers.
- Controlling the loading process.
- Controlling the fumigation process.
- Settling and controlling payments from the buyer to suppliers.

Buyers will commonly pay agents a percentage of the PO amount after the shipment is completed. An agent will also receive a commission and additional bonuses depending on the success of the exports. The buyer and agent will sign a business contract that stipulates all of the terms and conditions of their business relationship.

3.3. SUSTAINABLE PRODUCTS

Buyers commonly buy home accessory products made of wood, recycled materials and other natural fibers that are found in Indonesia. Most buyers prefer that eco-friendly materials are used to produce the goods in their orders. Buyers will make an effort to buy such materials from legal sources that can provide accompanying documentation. For most buyers, their preference is to purchase sustainable products that are made with legal materials, use safe production processes, come with low production costs, and have full functionality.

Most handicrafts ordered from suppliers in Bali are made from a soft wood called albezia (*Albezia falcate Baker*) that is very easy to grow. Albezia takes only 5 to 6 years of maturation before it is ready for use as a raw material for statues or other woodcarvings. Other wood materials include hard woods such as jack fruit/nangka (*Artocarpus heterophylla Lamk*), ebony (*Diospyros celebica*), rain tree wood (*Samanea saman*) and coconut wood (*Cocos nucifera*). All of these types of wood come with legal documentation called the *Surat Keterangan Asal Usul* (SKAU), issued by the relevant village officer who

serves as the representative of the village government. The SKAU can be offered as proof that the specific material in question comes from a sustainable source.

Recycled materials and other natural fibers are also commonly used for home accessory products. Recycled glass is shaped into vases that can come in many varieties of color and size. Furniture can be manufactured from recycled paper from old magazines, newspapers, other paper products, unused wood, and recycled wood, that is combined with new wood material. In Yogyakarta, Lombok and Bali, suppliers use other natural fibers such as sea grass, *enceng gondok*, *pandanus*, *lontar*, *lidi*, in making many types of handicrafts and woven products.

Bamboo and rattan also serve as material for home accessories, and are produced in Cirebon (Central Java), Yogyakarta and Lombok, as well as other crafts centers. Craftsmen will plant bamboo in their own backyards and gardens. Rattan comes from the islands of Kalimantan and Sulawesi. The legitimate sourcing of bamboo and rattan materials is usually supported by obtaining a Phytosanitary Certificate from the Agriculture Department.

Furniture made primarily of teak wood (*Tectona grandis*), known as *jati* in Indonesian, is famous for its extraordinary durability and usually effective resistance to decay and attack by insects and marine worms. Other utilized wood materials include mahogany (*Swietenia mahagoni Jacq*) and black rose wood/sonokeling (*Dalbergia latifolia*). All wood materials must come with legal documentation called the SKSHH (previously described above).

New designs are selected by agents as instructed by buyers. These new designs can develop from the ideas of buyers and proposals from suppliers. Some buyers will want to claim exclusivity to their own designs for specific customers, and will not allow any sales to other customers. Buyers will often work together with suppliers to develop new designs to fit market trends.

Buyers are greatly impressed with Indonesia's sustainable products, especially with the design and color of products. However, buyers sometime find that Indonesian products have a lower quality and higher price compared to similar products made in China, Vietnam and other countries. Buyers also sometimes find issues in the manner in which Indonesian products are packaged, handled and loaded into shipping containers.

The production lead-time of POs will be between 30 days for small quantities and up to 90 days for big quantities. Production lead-times also depend on the capacity of the suppliers and whether necessary materials can be obtained. In some cases, the quantity that is ready for shipping is sometimes less than the quantity ordered in the PO. Inspections carried out by agents do result in products being received in better condition. Although some problems still exist, the percentage of problematic products is still reasonable, being between 1% to 5% of all orders. Problems usually concern late delivery times, the low quality of products when compared with their original samples, and unacceptable MCs of higher than 12%.

3.4. BUYING AGENT BUSINESS

The size of containers utilized in shipping is usually forty feet (40F). One agent with a high shipping volume ships out 200 40F containers per month from May to December. During the high season of January to April, this agent can ship approximately 500 40F containers, containing mostly rattan furniture. Such shipments only contain a few of the handicraft products made in Cirebon. Agents with a medium shipping volume usually ship 30 to 75 40F containers per month. Agents with a small shipping volume usually ship 3 to 10 40F containers per month.

Buyers placed POs about 5 times a year on average. Buyers who work with wood and rattan furniture and handicrafts always buy Indonesian products on a more frequent basis than buyers who buy handcraft products on a seasonal basis.

China and Vietnam are known as important competitors of Indonesian products, especially with respect to price and quality. However, Indonesian products have special characteristics that can help their competitiveness. Indonesian producers all try to make products that contain 100% sustainable materials as a business strategy, as these producers believe that sustainable products will bring more business in the coming year.

Mostly payments are conducted by Telegraphy Transfer (TT), but some are processed by Letters of Credit (LCs). The payment method used depends on the condition of buyers and how long a particular relationship has existed between a buyer and a supplier. Some larger suppliers will receive direct payments to their bank account from buyers. However, some of these suppliers still receive payments via an agent.

3.5. VENDORS

Vendors of home accessories include artisans or craftsmen who produce products on a house-hold industry scale. Other vendors have factories complete with high-tech facilities that are capable of handling large shipping capacities. The location of these vendors is spread out over Central Java, East Java, Bali and Lombok, near the source of materials or close to where craftsmen are located. In order to create key performance indicators, some buyers will classify vendors based on the location of producers, production capacity, and the quality and type of products. Better quality vendors will be given priority orders by buyers. In order to confirm all transactions, it is necessary for vendors to sign POs. Vendors must ensure that their products are manufactured as stipulated by the contract, with a MC of less than 12%, no mildew, no bugs, and with the size and color that is in accordance with the samples. If vendors do not meet these requirements, its products will fail inspection.

Some leeway exists in the quality control of products. Handmade products that do not match in size will sometimes still be acceptable to buyers. However, functional products must be exactly the same as their samples. Artistic items can also contain differences and might still be acceptable to buyers if the defect is only between 1% to 3%.

In order to improve Indonesian products, vendors must become more creative in developing designs by using their knowledge of culture or market trends. In addition, the prices of products must be reasonable. Good production management can reduce production costs. Furthermore, designs should be copyrighted as many Indonesian products are copied in other countries.

For orders to be delivered on time, vendors must be careful with the quantity shown on a PO. If a vendor cannot meet the capacity stated on a PO, such vendor must either extend the delivery time or find another subcontractor that can meet the gap in capacity. The Indonesian government's rules and policies must also play a role in supporting the business of vendors by facilitating the process of proving the legality of materials. As such, proving the source of materials must become faster, easier and more inexpensive. Vendors must also start buying tools that can support added quality, such as MC testers and dry kiln rooms.

4. CONCLUSION

In their orders, buyers always ask for sustainable products. Buyers are strictly committed to ensuring that the production of their order is carried out in an environmentally friendly manner.

Most buyers complain about the following problems: late delivery of orders; delivery of quantities inconsistent with what is required by the PO; and product inconsistency when the final product is compared to buyer approved samples and production guidelines. Although some products have been improving in quality, the quality of other items has diminished. Buyers expect that suppliers will understand that it is very important for products to possess the same quality as previously approved samples. Suppliers would be immensely helped if they could own dry kiln facilities that can measure the MC of products. Even with all of the efforts performed by agents, buyers still recorded damage in approximately 1% to 5% of their product totals. But this statistic is an improvement, as buyers have found that the quality of their products has improved compared to previous years.

Suppliers also complain about a variety of issues. Most suppliers claim that they do not have enough time to fulfill POs. Other suppliers claim that they are sometimes forced to store excess production because they are typically not allowed to sell those items that exceed the quantity required by the PO. In many cases, finished orders are not shipped on the stipulated delivery date because payment from the buyer is unsettled. Suppliers also claim that buyers will sometimes continually request new samples, which results in added cost in terms of time and materials.

While buyers and suppliers claim the above problems, agents also list a few problems about the industry. These problems include difficulties in reserving empty shipping containers and in interpreting frequently changing government rules. All of the problems for buyers, suppliers and agents are CSF gaps in the home accessory products industry that must be resolved.

Agents play an important decision-making role in facilitating commerce in the home accessory products industry between buyers and suppliers. As such, agents have a responsibility to minimize CSF gaps. Agents should improve their abilities and knowledge in order to increase the quantity and quality of Indonesian exports in the home accessory products industry.

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