



Businessplan for outsourcing the production of handcrafted design pieces to Africa

Master Thesis
of
Rene Hofstätter

Graz University of Technology
Faculty for Mechanical Engineering and Economic Sciences
Institute of Business Economics and Industrial Sociology
O.Univ.-Prof. Dipl.-Ing. Dr.techn. Ulrich Bauer

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bSTUDIO Architectural Design, LLC



STATUTORY DECLARATION

I declare that I have authored this thesis independently, that I have not used other than the declared sources / resources, and that I have explicitly marked all material which has been quoted either literally or by content from the used sources.

22.06.2016

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Abstract

This thesis deals with ramping up a business on the African continent for hand-made design pieces as a foreigner from a Western origin. Before the Industrial Revolution, artisans were the dominant producers of consumer goods which nowadays become harder and harder to find. The desire for unique, hand-made design pieces is increasing in the Western markets and this niche shall be filled by the concept introduced in this thesis. The question “Should bStudio start the project ‘Love, b’?” arises and is the central research question of this thesis.

The methodologies applied include primary as well as secondary market research in the United States and in South Africa. Furthermore, expert interviews are a major part that serves the results section, the method applied to analyse the interviews is the qualitative interview analysis by Kuckartz.

One major pillar of the results section is the qualitative data resulting from the expert interviews which help to assess whether the project is feasible. The results show a clear tendency towards initiating a project, however, there are struggles in various aspects to be expected and not to be underestimated. The second major pillar of the results is comprised of financial calculations, which show an expected ROI above 1000% for the first five years.

Finally, the results on the research questions are very promising so that the project can be started quickly. The company structure which bStudio already has in place will be a strong catalyst to this project since it will mostly be an extension of what is already functioning very well. The calculated numbers promise a financially sound investment with an extraordinary good Return on Investment. On top of it all the already acquired network in Africa should be very helpful to get the business started quickly.

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1 Introduction

Artisans were the dominant producers of consumer products prior to the Industrial Revolution. As the world becomes more industrialized and automated in its production of goods, hand-made products with their imperfections and one-of-a-kind authenticity are increasingly harder to find and more desirable in the Western market.

This is the base upon this project is based. The US market shall be served with high-end hand-made products manufactured by artisans in Africa. The desire to produce in Africa is not only based on their very skilled community of artisans but also on the humanitarian aspect.

The desire is to:

- reverse the commodity trap by keeping the value-add in Africa.
- uplift African artisans especially women by giving them routes to new markets and expanding their production capability and meaningful income.
- contribute to the rebranding of Africa by pushing the barriers of excellence of African-made products.
- support the conservation and promotion of Africa's cultural heritage.
- foster the contemporary African identity through a dialogue between tradition and modernity.

The desire is to create a brand, running under the name 'Love, b', under the umbrella of bSTUDIO which designs one-of-a-kind products with a contemporary aesthetic and function.

The design of the products will be by bSTUDIO in New York City, while the production would be out-sourced to communities in low-income and third-world countries where the production method to be employed is a traditional craft. Local artisans would be given the design direction and any additional tools necessary to prepare a limited edition series of pieces. While the design would be unique to the artisans, the material and production method would not.

1.1 Initial Situation

bSTUDIO Architectural Design, S Corp. is a multi-disciplinary international design practice founded in 2006 by Breanna Carlson. Based in Brooklyn, New York and Los Angeles, California, the work includes jewellery, home products, lighting, furniture, interiors, and architectural projects. Integral to every project is a desire to stretch the imaginative bounds of quotidian objects, programs, and materials to reveal latent graphic, spatial, and tactile relationships in an engaging way.

Breanna Carlson is also a co-founder of Studio NU, a young Design Agency, exploring concepts in architecture, industrial design, furniture and social media. The Studio NU research collaborative is currently focused on product, media and architecture from labs and offices in New York City and Cape Town.

The intent of this collaborative research is to clearly define niches within the US market in which hand-crafted home goods are lacking and would be desirable. The design of these products would be by bSTUDIO, while the production would be outsourced to communities in Africa.

The desire is to develop the brand 'Love, b' which designs one-of-a-kind contemporary products viable for sale in the US. The products will be fabricated utilizing traditional production methods overseas. Designs will be created through digital modelling and drafting software processes to generate complex and unexpected iterative designs. The combination of digital design and hand-made execution will yield completely original products. The goal is to empower artisans in low-income areas to be self-sufficient and aid them in improving their quality of life through the production of a product or series of products made from a material and process familiar to the artisans. The resulting product however will not be associated with the local crafts of the region where it is produced, but will instead fill a niche in the interiors and home goods markets in NYC, New York and Los Angeles, California in the United States.

1.2 Goals of the thesis

There are many aspects to be examined in the course of this thesis, serving the preparation of the actual project.

The following goals were defined:

1. Market and demographics

Define niches within the US market in which hand-crafted home goods are lacking and would be desirable. Define a rollout plan which contains desired locations to start promoting the brand and products. Display options about how the brand could be developed.

2. Geography of skills and products

Identify companies which are already working with artisans to produce specialty products, who would be considered competitors with the brand and/or products. Use those companies as benchmark on which products might be feasible to produce in Africa and gather information about the process. Ideally some competitors might be ready to share information since the project will be non-profit and less profit oriented than in a classical business environment.

3. Assessment of potential production locations

Research countries in Africa to assess viability of implementation of this type of business based on social, political, economic, geographical, and other outside forces. Set parameters for the selection of locations and artisan groups for the production of goods to attain a high potential for permanent change in a community and high quality and yield for production.

4. Competitive- and Marketing strategy

Develop a competitive strategy which best fits the needs of the project. Compare forms and techniques for branding and advertising which would appear to be most appropriate to this business model. The humanitarian aspect of the business must be prevalent and a key area of focus of the advertising. I.e. Toms shoes 'one-for-one' campaign, celebrity spokespeople, providing free 'samples' to be used in high-profile projects or photo-shoots, donating a percentage of profits to charity or re-investing back in the communities producing the products.

5. Financial requirements and projections

Get a clear picture of start-up and production costs, initial investment needed and anticipated cost of operations over set periods of time. Project different scenarios for sales and development of the project and assess financial requirements.

6. Establish pricing and profitability models for products

Use a bottom up approach of the various costs to come up with desired product prices. Furthermore, benchmarking of potential competitors with respect to pricing is desired to see where bSTUDIO can fit into the market.

Also determine the wages which the artisans should be paid and different ways of compensation e.g. payment per piece vs. per hour. Incentivised productivity should also be looked at, paying bonuses when the artisan reaches certain goals.

7. Logistics

Research possible means of shipment feasible to different product types.

Compare ways of shipping possibilities with respect to lead times, shipping costs and quantities of products.

Research import taxes, duties and restrictions on certain items coming into the United States. The carbon footprint of the whole logistics chain is also to be considered and evaluated, empowering artisans is the main focus of the project, the environmental perspective are also a focus which should not be neglected in the course of the project.

8. Strategy for Implementation

Lay out the method and steps for the development of this new off-shoot of bSTUDIO. A guideline through the whole process should clearly state what steps and actions should be taken at what time. This guideline should be very simple to follow so that also a non-business savvy person can follow.

In summary, after working on all of the mentioned goals for the thesis, the following research questions shall be answered:

1. *Should bStudio start the project 'Love, b'?*

- This is the most central question of the thesis that summarizes the whole work.
- The answer will be based on financial perspectives, which will then be dominantly used to promote the humanitarian aspect of the project.

2. *How should the firm be set up?*

- Expert interviews and benchmarking will be used as tools to develop an answer on this question.

3. *How can top quality be achieved?*

- Again, expert interviews and benchmarks will be used to develop concepts which can be applied to achieve high quality products.

4. *What is the expected Return on Investment?*

- For this questions, a whole business case is calculated through, using reverse engineering of products as a base for cost structure. For the revenues, sales volumes and market prices will be analyzed to create figures to be used.
- A dynamic investment calculation will then be applied to calculate an estimated ROI.

1.3 Scope

The scope defines to what extent the goals will be elaborated and what steps will be taken.

ad Goal 1: Market and demographics

- Define locations for initial rollout.
- Display a desired route to grow the business.
- Outline cities and retailers to set up sustainable sales.
- Conduct interviews with companies on the US market.

ad Goal 2: Geography of skills and products

- Identify companies which are already working with artisans.
- Prepare questionnaires to conduct interviews with.
- Try to conduct interviews with the identified companies.
- Analyse those companies and look for ideas which bSTUDIO can apply for 'Love, b'.

ad Goal 3: Assessment of potential production locations

- Come up with criteria to transparently rank different countries.
- Create a long-list of potential countries.
- Analyze the countries from the long-list via predefined criteria.
- Short-list the countries by cutting down to the top few and take a closer look on the remaining countries.
- Include specific cities or areas which would fit for the project when analyzing the short list.

ad Goal 4: Competitive- and Marketing Strategy

- Develop a suitable competitive strategy for the brand 'Love, b'.
- Identify branding and marketing techniques employed by other start-up companies in the field.
- Compare and assess appropriateness of forms and techniques for different types of branding and advertising.

ad Goal 5: Financial requirements and projections

- Research start-up costs, and project a required initial investment required
- Anticipate cost of operations over set periods of time.
- Elaborate different scenario of sales. (Project, Best case, Worst case).
- Elaborate when the project is going to break even.
- Elaborate the expected Return on Investment.

ad Goal 6: Establish pricing and profitability models for products

- Research labor costs, shipping costs, and taxes to establish pricing and profitability.
- Get a clear picture of what drives employees in a possible location. Is compensation the main driver or can we increase satisfaction by granting extra vacation, performance based bonus payments or sharing profits with employees.
- How can we reach employer loyalty or is it even desired? What is a typical employee turnover rate and is this even relevant?

ad Goal 7: Logistics

- Research import taxes and duties on products coming into the US.
- Comparison and research of shipping methods.
- Research resulting lead times.
- Shipping costs from Africa to the East- and West Coast of the US.

ad Goal 8: Strategy for Implementation

- Create a timeline for the business development.
- Outline the steps and reasoning behind the strategy proposed.
- Create a guideline which clearly shows steps and actions to take on a timeline.

Finally, after elaborating all of these goals, the results will be evaluated as a whole and narrowed down to answer the research question.

1.4 Area of examination

The major part of the research is going to be conducted as secondary market analysis. The graduand is then situated in Graz while also preparing material and questionnaires for interviews to be conducted in the United States.

Within the research in Africa a research trip was conducted in addition to secondary market analysis. The duration of this trip was 18 days and the outcome of the trip resulted in the major part of the content of this thesis.

2 Literature

This chapter examines the various topics in this thesis from a theoretical standpoint. Everything that will be discussed in the results section in chapter 4 will be pre-discussed here with existing literature.

2.1 Business model

A business model is the plan of a company about how it generates revenue and makes a profit from operations. The model includes what revenues it generates and which expenses occur, as well as various functions of operations.

A detailed definition was formulated by Al-Debei, El-Haddadeh and Avison:

“A **business model** is an abstract representation of an organization, be it conceptual, textual, and/or graphical, of all core interrelated architectural, co-operational, and financial arrangements designed and developed by an organization presently and in the future, as well as all core products and/or services the organization offers, or will offer, based on these arrangements that are needed to achieve its strategic goals and objectives.”¹

Over time, business models have developed and especially through the internet, new business models arised. One that is very applicable to what bStudio plans, is having an online presence as well as a physical location, also known as “bricks and clicks”.

To display the business model of bStudio, the model by Osterwalder will be used. Osterwalder describes the businessmodel as a puzzle of nine blocks as illustrated in Figure 2-1.

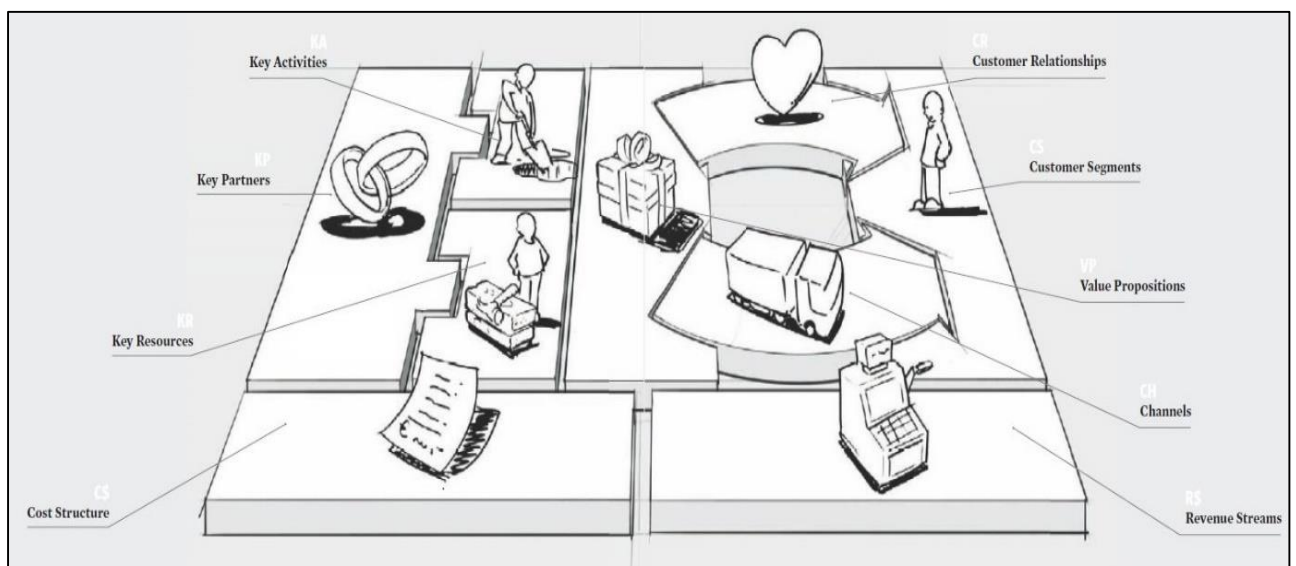


Figure 2-1: Business model canvas by Osterwalder²

¹ Al-Debei et al. (2008), p. 7 f.

² Osterwalder (2010), p.18 f.

The nine building blocks according to Osterwalder are:

- Customer segments
- Value Proposition
- Channels
- Customer Relationships
- Revenue Streams
- Key Resources
- Key Activities
- Key Partnerships
- Cost structure

All of the named segments are elaborated in different sections of chapter 4, a brief description of all the building blocks shall follow here:

- Customer segments: This is where the type of customers and organizations that the company tries to target are defined.
- Value Proposition: This is what the company has to offer for their targeted customer segment like the spectrum of products.
- The channels are there to communicate with the customers and reach them with the products.
- Customer relationships describes how a company establishes relationships with their clients.
- Revenue streams are the way a company creates revenue with their different or only one customer segment.
- Key resources is about which resources are required to make the desired business model work.
- Key activities on the other hand are specific activities to make the business model work.
- Key partnerships are the network of partners and suppliers who are required for the business model.
- Cost structure list all the costs that incur during operations.

It is crucial to have a clear vision of what the company should look like before moving forward and this model is a great framework to use when developing a business model.

2.2 Marketing strategy

Marketing is the collective term for any of the communication between a firm and its potential and existing customers. The goal is to increase sales, increase company value, and create a name for a brand.

The base for a successful marketing strategy is the marketing mix or also well known as the 4Ps of marketing:

- Product
- Placement
- Promotion
- Price³

Other approaches suggest a more extensive view, which contains additional elements in the marketing mix:

- Price
- Placement
- Product
- Promotion
- Personnel
- Physical
- Procedure⁴

No matter whether the extended or the more compressed version of a marketing mix is deployed, there are various elements that have to be dealt with before entering the market. Marketing will only be discussed in a rather brief manner in chapter 4.6.5. It becomes too comprehensive to analyse the complete situation for this thesis and will be kept to a basic elaboration.

2.3 Competitive Strategies

In present time it is crucial for businesses to know where they want to position themselves on the market. Through competitive strategies, businesses can serve different parts of the market and different kind of customer. Every company should have a clear strategy it follows and the company should represent the strategy they are following. Also a company's employees should know about the firm's strategy and think and act the way the strategy advises them to. This is often not the case in reality.

Company success is often related to a long term oriented, strategic approach. Success can be achieved in various ways such as innovative ability, market shares or the survivability of the company.

2.3.1 Three generic competitive strategies

A firm's position within its industry determines whether a firm's profitability is above or below the industry average. In the long run above average profitability results in long-lasting, sustainable competitive advantage.

³ Cf. Burnett (2008), p.19 f.

⁴ Cf. Yasanallah (2012), p.196 f.

Two basic types of competitive advantage can be distinguished:

- Cost leadership
- Differentiation⁵

The two basic types of competitive advantage alongside the activities to achieve them leads to three generic strategies for achieving above average performance:

- Cost leadership
- Differentiation
- Focus strategy⁶

The focus strategy has two variants, the low-cost focus and differentiation focus.

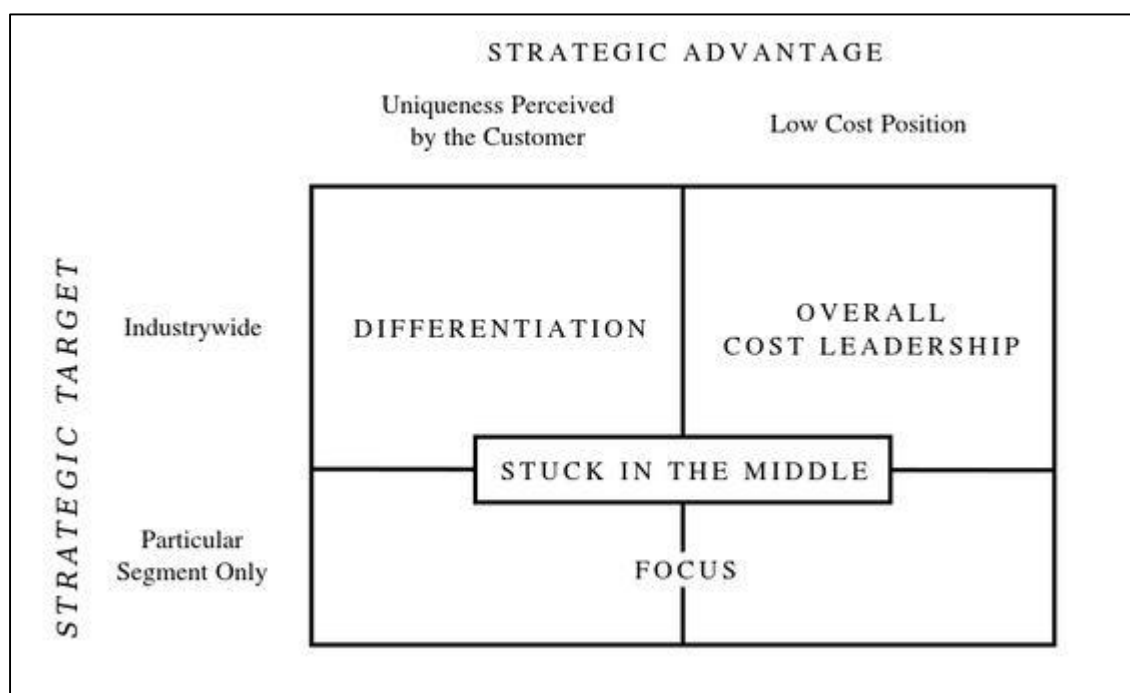


Figure 2-2: Porter's three generic strategies⁷

The introduced strategies are not necessarily compliant with each other and firms then risk to be "stuck in the middle". When a firm tries to gain advantages on both, cost leadership and differentiation, it may well result in gaining no advantage from the set activities at all.

- As an example, when a firm tries to differentiate itself by offering high-quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality stayed premium, the firm would risk a confusing image.

That is why Michael Porter argued that to be successful in the long-run, a firm must select only one of these generic strategies and then stick to it.

⁵ Cf. Porter M. E. (1980), p. 39

⁶ Ibid.

⁷ Ibid.

Cost leadership

Cost leadership is one of the three generic strategies by Porter with the goal to gain competitive advantage. Firms using that approach sell their products either

- at prices around the industry average to earn above average profits or
- at below average prices to gain market share

As prices decline, cost leaders which can produce cheaper can remain profitable for longer as competitors start to struggle.

Two main ways of how to be successful with a cost leadership strategy are the following:

- Increasing profits by reducing costs while charging industry average prices and earn above average returns.
- Increasing market share through charging lower prices while still making a reasonable profit on each sale because of the reduced own costs.⁸

Differentiation strategy

Achieving differentiation strategy involves creating a position on the market that is perceived as unique throughout the whole industry and also sustainable in the long-run.⁹ Differentiation can be achieved in various ways such as unique design or brand image, technology, or innovation. The differentiation should be hard to copy or imitate.¹⁰

Generally, firms pursuing differentiation create customer value by offering high quality products supported by great service level at premium prices. The effectiveness of that approach depends on how well product costs and customer benefits can be balanced in relation to competitors on the market. Companies following a differentiation strategy seek to create and market unique products for various customer groups.¹¹

The aim is to create a superior fulfilment of customer needs in one or more product characteristics in order to achieve customer loyalty as well as satisfaction, which can often in turn be used to charge a premium price for the products.

Successful firms that use differentiation often show typical characteristics:

- Availability of access to leading research.
- Product development team is highly creative and skilled.
- Sales team is able to communicate the strengths of the product well.
- The firm's reputation stands for quality and innovation.¹²

Focus strategy

The focus strategy gains its strategic advantage by producing products or services for a particular group of customers with unique needs. The idea behind this strategy is when there

⁸ Cf. Porter, M.E. (1998), p. 2-2 ff.

⁹ Cf. Allison J. (2013)

¹⁰ Cf. Baroto et al. (2012), p.122 f.

¹¹ Cf. Almeida (2014)

¹² Cf. Porter, M.E. (1998), p. 2-4 ff.

is a narrower focus, the need of the target customers can be better served. A high customer loyalty often comes with serving a focused customer segment and therefore there is a higher barrier to enter the market for competitors.¹³

However, when dealing with suppliers, firms with a narrow focus have less bargaining power due to smaller volumes. On the other hand, customers might be willing to pay a premium for the good service in the narrow market segment.

Stuck in the middle

The model of Porter suggests the threat of being stuck in the middle between cost leadership and differentiation. In the case that neither the cost leadership nor the differentiation strategy is purely followed, company performance might suffer in the long run. However, another study was not able to confirm that theory. There are companies which lack of clear identification and are “stuck in the middle” but anyhow perform well.¹⁴

2.3.2 Five Forces analysis

Porter’s five forces analysis is a tool to analyse levels of competition within an industry and helps to develop business strategies. Knowledge about the level of competition is essential to decide which competitive strategies to follow.



Figure 2-3: Porter’s Five Forces Analysis¹⁵

¹³ Cf. Porter, M.E. (1985), p. 11 ff.

¹⁴ Cf. Pertusa-Ortega (2009), p. 512 ff.

¹⁵ Cf. Porter, M.E. (2008)

This figure shows a simple but very powerful tool for assessing situations in business. Each of the five forces shall be illustrated with a quick example to clarify the use of this tool.

- Rivalry among existing competitors means there are multiple companies on the market competing for the same customer segment. This is the base for a difficult situation to compete in where there are price- and advertising wars.¹⁶
- Bargaining power of buyers deals with how much power the buyers have to drive prices down. This situation often occurs when there are few buyers and plenty of firms offering a product. Through differentiation the bargaining power of buyers can be lowered.¹⁷
- Bargaining power of suppliers describe the strength of the position of the sellers on the market. It is the opposite case of the bargaining power of buyers and is based on supply and demand.¹⁸
- Threat of new entrants: A new competitor on the market always tightens the market and it is crucial to offer some differentiation in order to stay on top of the situation. The threat is especially high if there is are low barriers for new competition to enter the market like little capital requirements and low switching costs for customers.¹⁹
- Product substitutes are a delicate topic that is often an unknown threat. Often it is not clear what the competition is up to or if there is some completely other technology that might threaten the whole organization.²⁰

2.4 Financials

Financial scenarios about a project is important to be carried out thoroughly before the actual initiation.

Details to look at include:

- Incomes and expenses.
- Profits and losses.
- Investment analysis.
- Break-Even point analysis.
- Liquidity analysis.
- Different sales scenarios.

The financial appraisal of potential projects to invest money and time into have to pass the screening phase before further action is taken. This project analysis or financial appraisal provides the estimations of value add to the firm after being discounted to the present time through different methods like the Net Present Value (NPV).²¹

¹⁶ Porter, M. (2008), p.2 ff

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Cf. Dayananda, D. (2002), p.7

2.4.1 Investment calculation

The financial perspective on a project is a crucial one. Knowing what to expect from a project, what costs and profits will be connected to the investment at which point in time. In order to properly assess an investment, there are various ways to choose from.

The two basic forms of investment calculations are:

- Static calculation
- Dynamic calculation

The deciding difference between the static and the dynamic methods of investment calculation is the way how time plays into the calculation. While at the dynamic methods, the point in time of a payment or revenue is relevant and interests are used to take the factor time into account, at the static methods, the factor time is not taken into account.²²

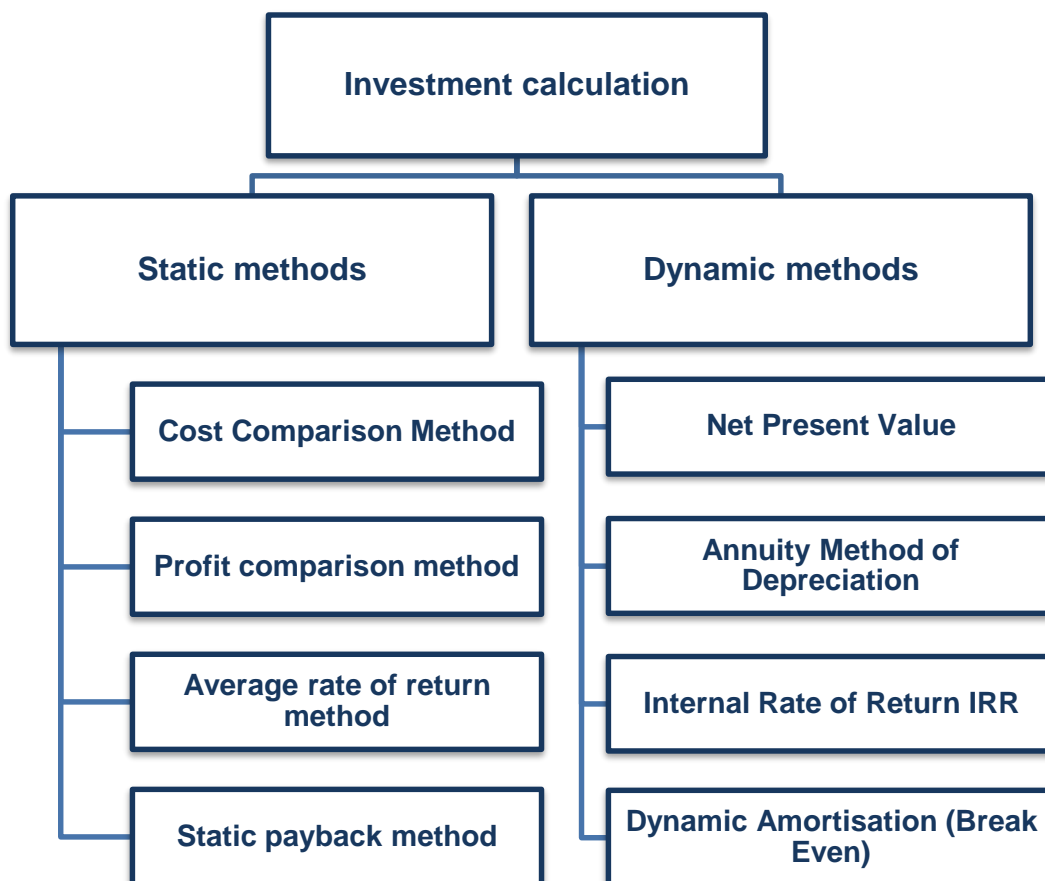


Figure 2-4: Overview of investment calculation methods²³

One characteristic that all of the introduced methods have in common, is they are all based on estimates for future costs and payments. That fact gives all calculations some degree of

²² Cf. Heesen (2016), p.6 ff.

²³ Cf. Götze et al. (2015), p.30 ff.

uncertainty and the figures resulting from a calculation are often rather indicative than hard facts.

2.4.2 Static methods

The static methods are characterized as looking at only one period without any interests involved.

In summary, the following characteristics apply to the various methods:

- The Cost Comparison Method (CCM) deals with costs as a target measure to identify success of an investment. It is considered a quite simple method.
- The Profit Comparison Method (PCM) differs from the CCM because it not only considers costs but both, costs and revenue. The success of an investment is then measured by the difference between revenues and costs which results in the profits.
- The average rate of return (ARR) method uses a different measure to evaluate success.

$$\text{Average rate of return} = \frac{\text{Average profit} + \text{Average interests}}{\text{Average capital tie-up}}$$

Figure 2-5: ARR formula²⁴

In most regards, the ARR is similar to the PCM and CCM. The difference is again a different target measure.

- The Static Payback Period (SPP) method uses time to evaluate the investment. It measures the time it takes to regain invested capital.²⁵

All of the mention methods use only one time-span as an investment period, however long that may be. Reliability of the outcomes always depends on the quality and reliability of the data. There are multiple reasons for not using static methods but they are still often used because of the following reasons:

- Cheap and fast
- Easy to understand
- Feasible without large efforts
- No need for higher mathematics
- Often subjectively accurate enough results²⁶

Especially when the projected numbers are uncertain, the accuracy of static methods is often sufficient.

²⁴ Götze et al. (2015), p.39

²⁵ Cf. Ibid. (2015), p.30 ff.

²⁶ Cf. Heesen (2016), p.15 ff.

2.4.3 Dynamic methods

As introduced in Figure 2-4, there are multiple different dynamic methods to assess an investment. All of them now use multiple time-spans for the estimations and discount or compound interests.

For an overview, those are:

- The Net Present Value (NPV) method is used when the objective is to maximize profits. The net present value is calculated from incomes and expenses in different time-spans and then discounted or compounded to the desired point in time.²⁷
- The Annuity Method of Depreciation is similar to the NPV method, but instead of looking at the success of a period, the overall performance of the investment is indicated and then distributed through the periods.
- The Internal Rate of Return is the discount rate at which the NPV of the costs of a projects are equal to the expected NPV of the benefits. This is when the NPV of the entire project equals Zero. The higher the IRR, the more valuable an investment is.
- The Dynamic Amortisation method is simply the Break Even calculation.²⁸

In the case of this project, the following formula from Figure 2-6 is used. There is only one capital outlay at the beginning of the project, which makes the formula as simple as displayed.

$$NPV = \sum_{t=1}^n \frac{C_t}{(1+r)^t} - CO$$

Figure 2-6: Net Present Value formula²⁹

- NPV...net present value
- CO...Capital outlay at the beginning of year 1 where t=0
- r...Discount rate
- Ct...Net cashflow at the end of the year
- t...year
- n...Number of years

The profits of each period are discounted or compounded to the desired point in time.

²⁷ Cf. Heinhold (1999), p.85 ff.

²⁸ Cf. Benesch et al. (2005), 156 ff.

²⁹ Dayananda (2002), p.3

3 Methods

This section deals with the methods that are applied on different kinds of tasks during the thesis. Those methods are based on literature and have been proved by a wide spectrum of researchers.

3.1 Market Analysis and Research

Throughout the thesis, analysis of two different markets from two different perspectives are required. On the one hand the US market, where the future clients will be and on the other hand the African market, where all of the artisans are located and the production will happen.

The goal of analysing the market is to find out how attractive a market is at the moment and how attractive it will be in the future. The analysis of the market happened with a combination of primary and secondary market research.

Primary research is the collection of data of the researcher who then might analyse the collected data. The disadvantage is that it is very comprehensive and expensive to carry out extensive primary research and therefore is only possible to a limited in the course of this thesis.³⁰

Secondary research, also called desk research, on the other hand uses primary research from different sources and summarizes or analyses the data. For the most part, the market research of the US market was executed through secondary research because of the comprehensive amount of data and influences.³¹

Typical steps of market analysis can be:

- Gathering of information
- Analysis of the gathered information
- Describing the whole market
- Describing the market segments
- Revenue estimates
- Analysis of competition³²

The various topics are dealt with in various segments within chapter 4.

³⁰ Glass, G.V. (1976), p.3 f.

³¹ Ibid., p.3 f.

³² Vorbach, S. (2015), ch.8-34

3.2 Expert interviews

Interviews are the essential part of this thesis and a major portion of the content is based on statements by industry experts.

Analyzing large amounts of data can become very comprehensive and there are multiple techniques that can be used to help analyze raw data.

To categorize all of the methods, Bernard summarized it in the following figure:

Analysis		Data
	Qualitative	Quantitative
Qualitative	A Interpretive text studies. Hermeneutics. Grounded theory, etc.	B Search for and presentation of meaning in results of quantitative processing.
Quantitative	C Turning words into numbers. Classical content analysis, word counts, free lists, pile sorts, etc.	D Statistical and mathematical analysis of numeric data.

Figure 3-1: Qualitative and Quantitative Data and Analysis³³

The data collected in this research is qualitative and also the analysis shall be conducted qualitatively. This results in category A of Bernard's graph and is explained in the following chapter 3.2.1.

3.2.1 Questionnaire

The questionnaires were the base of all of the interviews and were a set of roughly 20 to 25 questions, depending on the interview partner and took between 45 minutes and two hours and more.

Since the interview partners were from various different backgrounds, the interviews were customized for different interviewees.

Two interviewees can be divided in four major groups:

- US companies
- South African Companies
- Public non-profits as a supporting force in the crafts industry
- Umbrella of multiple organizations in the crafts sector

In the first step the questionnaire contained roughly 30 questions, which turned out to be far too comprehensive after the first interview. After the learnings of the first interview, the questionnaire was cut down to less questions to get through the interviews more quickly but still gather valuable information.

³³ Bernard, R. (2012), p. 393

The final questionnaires were roughly structured in the following main areas:

- General information about business in Africa
- African market information
- Company structures
- Community involvement
- Skillsets and training of artisans
- Struggles and cultural differences of doing business in Africa
- Sales and competition
- Financial information and pricing
- Logistics

The focuses lied on different topics for the different interview partners since they came from various backgrounds as described above. However, it turned out that asking more general questions at first and then going more into depth depending on the answers leads to more valuable information.³⁴ This also allows for a more general set of questions instead of customizing for every single interview partner. Throughout the interviews also personal experiences were tried to be included since several of the interview partners came from the Western world and made the same experiences as bStudio will in the future.

The principal of openness requires the whole interview process to be open for and to include unexpected results. Especially relevant information that adds unexpected results to not foreseen topics are urged to be included correctly. There often is a tendency to categorize results into pre-organized categories that don't actually fit well. Some literature formulates this topic very sharp, meaning that the structuring of the interviews should happen after the interviews were conducted.³⁵ The interview therefore should not be pre-structured and then conducted along a stiff guideline but pursuing the answers of the interviewee into more depth. Some surprising results also came to light during the interviews in this thesis, the questionnaire was moreless a rough guideline on where the interview leads to.

The qualitative questioning of twelve experts in their area resulted in an accumulation of information through the free speaking of the experts and through guidance of the interview leader. The guidance was only partially applied when the interview partner drifted off too much from the topic.³⁶

The interviews were then structured according to qualitative analysis by Kuckartz. The methodology is described in detail in chapter 3.2.1.

3.2.2 Qualitative analysis of contents

In this category, again several approaches can be taken to analyze the data and the decision fell on the method by Kuckartz.

³⁴ Cf. Gläser/ Laudel (2010), p.174

³⁵ Cf. Glaser/ Strauss (1967), p. 37, Kleinig (1982), p. 231-232 or Lamnek (2005), p. 21-22

³⁶ Cf. Gläser/ Laudel (2010), p. 206

Udo Kuckartz is a Professor who had many students writing on various projects. He tried to fill the need for a manual to qualitative analysis of content, which so many students were struggling with. The method of Kuckartz is comparably very rules-driven but nevertheless rather easy to apply.³⁷

Kuckartz divides qualitative content analysis in three major groups:

- contentual texturing
- evaluative, and
- type-creating qualitative analysis of content.

In the course of this thesis the contentual texturing of content was applied.

There are seven steps that describe the procedure of contentual texturing by Kuckartz:

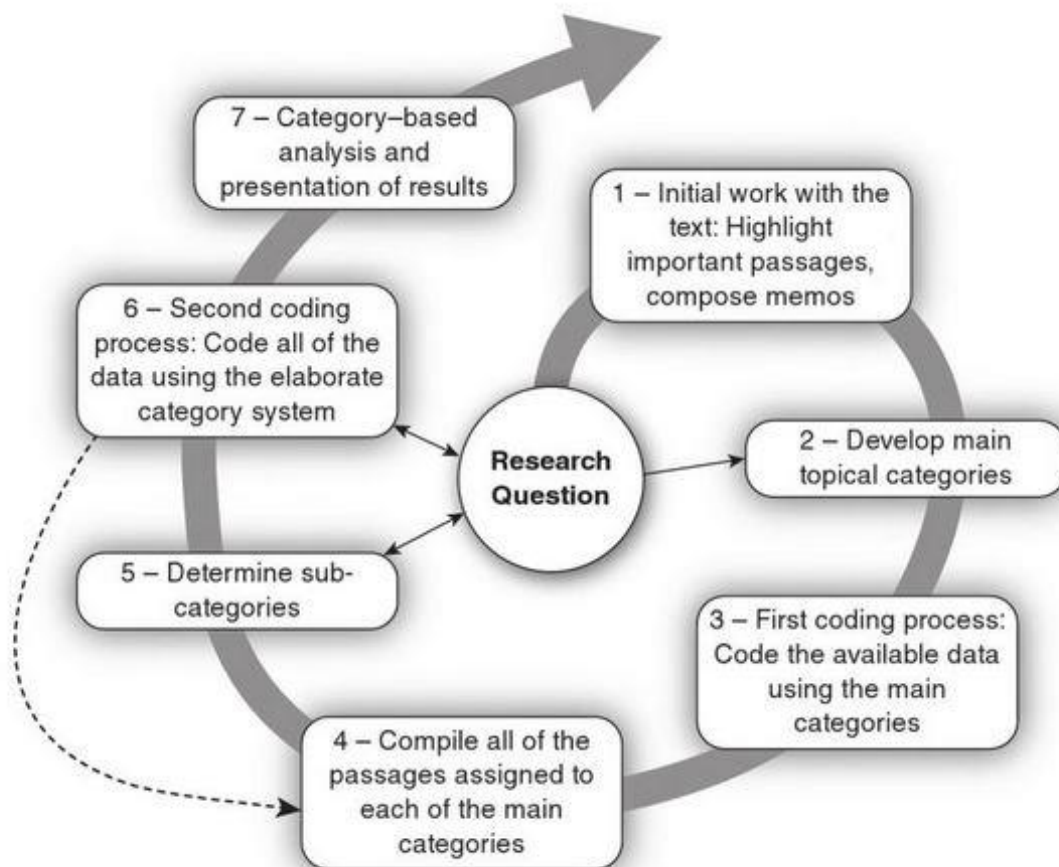


Figure 3-2: Thematic Qualitative Text Analysis Process³⁸

The seven steps from the figure above were elaborated by Kuckartz in detail. Summarized, the contents of the various steps are:

1. Initial text work: In the first step, important passages are highlighted to get a better overview when aiming for the second step

³⁷ Pawicki, M. (2014), p. 141

³⁸ Kuckartz, U. (2014), p.70

2. The main categories in terms of topics are developed. Trying to find contents that occur more often and define categories to group different statements from the interviews.
3. In the third step, the first coding happens. The main categories are applied to the total content using abbreviations of the various categories, e.g. 'F' for financial information regarding the project.
4. In the next step, all of the highlighted passages are compiled, creating a chapter full of information from various interview partners for each of the defined categories from the previous step.
5. Following the compiling, each of the main categories are divided into subcategories. Just as in step 2, expect on a more detailed level.
6. The second coding step follows for the subcategories defined in step 5. The same procedure as in step 3 is applied.
7. The various categories are analysed and elaborated, the result are presented or elaborated.

In this case, most of the elaborated information from the interviews can be found in chapter 4.1, but generally chapter 4 deals with all the results from this thesis.

4 Results

In this results section of the thesis all the information from the primary and secondary market research comes together. The goal was to get the best preparation for starting the project 'Love,b' by bStudio through the work of this thesis. For that, interviewing several entrepreneurs and leading employees was essential to get an idea of what exists and how things are done. Very importantly, the mistakes of others in a similar situation shall be avoided and that was also a specific focus of all the questioning.

Starting from the early stages with secondary market research of how the arts and crafts market in the United States is set up, following through with a similar approach on the African market. Interviews from entrepreneurs in the US as well as from Africa were questioned on essential aspects of running a business.

Additionally, financials were calculated through by using dummy products and reverse engineering to simulate a business case in different scenarios.

From all the aspects that will be discussed in this chapter, all essential information shall be used to base strategic decisions for the project 'Love,b' on this thesis.

4.1 Interviews

During the course of this thesis, getting in touch and interviewing existing organizations was a central desire. The goal was to study how successful organizations run their businesses, how they are organized, how they impact their surroundings and what strategies they follow.

The interview partners came from various backgrounds with multiple different intentions of their businesses. In total, twelve businesses were interviewed. Eight of the twelve were located in South Africa and four of the interview partners were located in the United States.

The interview partners from the United States all manufacture in a single or multiple locations in Africa and then shipping their products to the United States to distribute them on the US market.

The African organizations were mostly located in South Africa on the Western Cape, one of the most developed areas in whole Africa. The location was chosen for multiple reasons, the most important one being language and accessibility to many different organizations.

In order to gain the most insights into the market and maximize the profits for the project, the interview partners were chosen from various different backgrounds with different intentions of their businesses.

The variety of interview partners can be distinguished as follows:

- Pure US-based importer, who knows the US market well and then tries to source products from existing organizations throughout Africa. Sometimes they use agents to travel African locations with the intention to source the desired products.
- US based company, which also has a presence in Africa with local employees. Those employees work on the African market to source products or to run their own manufacturing site.

- African based company, which produces their products in Africa and sell on the local or on the international market
- Small African organization which works out of a township and sells their products on flea- and craft markets in the areas nearby
- A publically funded organization which promotes the South African crafts industry in various ways such as product support, business support or market support.
- An internationally known retail store which offers plenty of crafts which originate anywhere in Africa. Additionally, offering an astonishing knowledge about the African craft scene.

The interviewed organizations ranged from a small 10 people production up to one organization which partners with multiple thousands of artisans producing various goods in 15 countries all over Sub-Saharan Africa.

4.1.1 General market information of South Africa and beyond

The interviews mostly started with general questions about the market situation, the way business is done in different areas, and what Western expectations are struggling with. The interview partners were mostly based around Cape Town in the Western Cape and since Cape Town was announced the World Design Capital (WDC) in 2014, the impact of that year was named as a big push for the creative industries as a whole. Over 460 official projects were supported financially by public funds.

Generally, during WDC 2014, ordinary people were encouraged to engage themselves in various design workshops. A general change in the understanding of design was triggered, design has become the image of a catalyst for social change for many. Many of the projects were also focused on education and skills development.

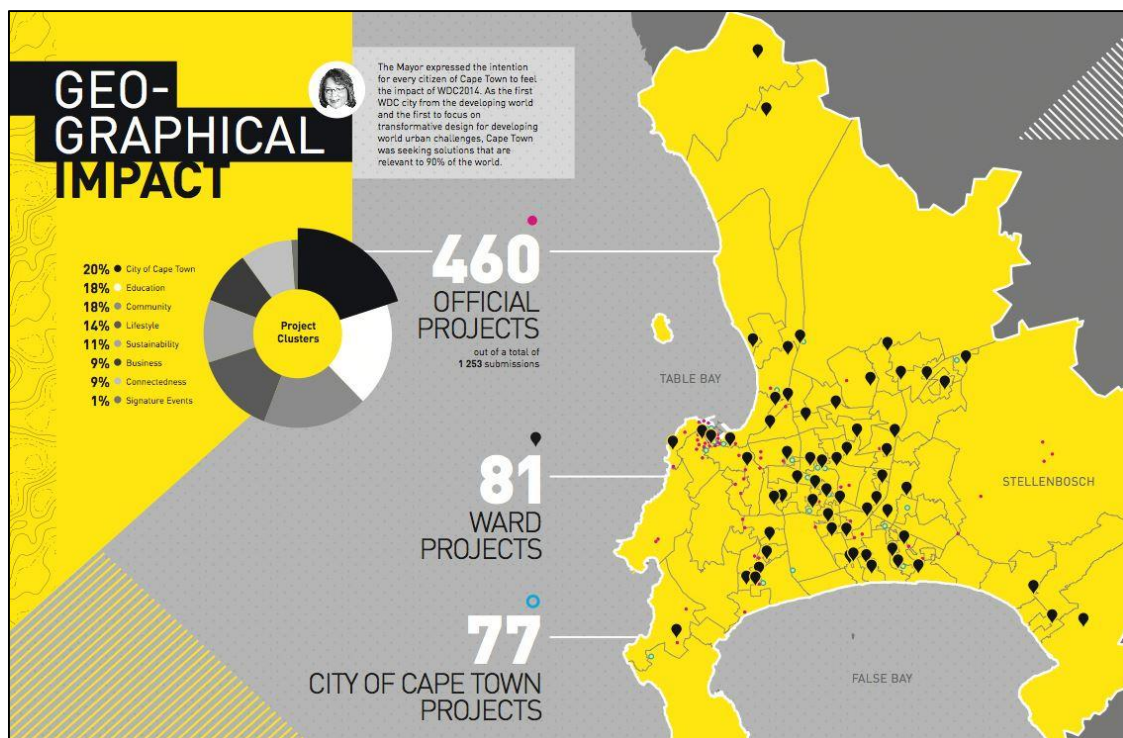


Figure 4-1: WDC 2014 projects and the geographical impact³⁹

Furthermore, the design community obtained a lasting, more valued standing in the area and also nationwide. An innovation culture within the city was institutionalized.

A very representative project during WDC 2014, since the theme was social design, was the wet ceramics project by Hennie Meyer. This project featured 10,000 ordinary people from various cultural and social backgrounds. Hennie Meyer created all those wet ceramic mugs, which were not baked in the oven yet. He let all of the 10,000 participant grab one of the wet mugs and squeeze them so that lasting dents caused by the fingers remained in the ceramics. Additionally, all mugs were signed with age and signature of the participant at the bottom and then baked in the oven. All 10,000 mugs were then exhibited on Robben Island off of Cape Town. Robben Island experiences tremendous tourist traffic since it is the place where Nelson Mandela served his prison sentence. The project served as a very representative one with much public attention.

Resulting from the Cape Town WDC 2014, the Western Cape has extended their lead in the area in craft and design. It was also well positioned before WDC 2014, but many artists and artisans came into the area for the events and then were able to maintain their businesses. The second region which offers a large crafting community is KwaZulu-Natal. KwaZulu-Natal is a South African province in the East-Northeast of the country with the capital Pietermaritzburg and the largest city Durban. It is home to the Zulu tribe, who are responsible for a large portion of the crafting industry.

³⁹ ICSID (2014)

Although the arts and crafts industry profited heavily from 2014, there is a lack of collaboration between organizations. During the course of the thesis not a single collaborative movement between two or more organizations became apparent and according to the Cape Craft Design Institute the issue has been recognized many years ago and still the situation has not changed much. The different organizations all see each other as competition instead of tackling the national and international market by forming collaborations.

In this context, the wine industry would be a great example to study. South Africa is one of the top wine producing countries even though the country is geographically far from all major global markets. A strong unity between the various manufacturers can be seen and as a result, the South African industry is very well recognized. Picking up on those ideas and forming a unifying umbrella organization would be a promising approach to conquer the international competition.

Unemployment rates

In every talk with experts that happened during the thesis, it clearly came out that unemployment rates are a central issue to the various countries' economies. The rates are not anywhere near where unemployment rates are in the Western world. As a result, all the experts encouraged an involvement and investment in Sub-Saharan Africa and were sure that governments and authorities will be supportive of most actions.

The following Table 4-1 shows unemployment rates for all the countries that were found to be of interest for the project of bStudio.

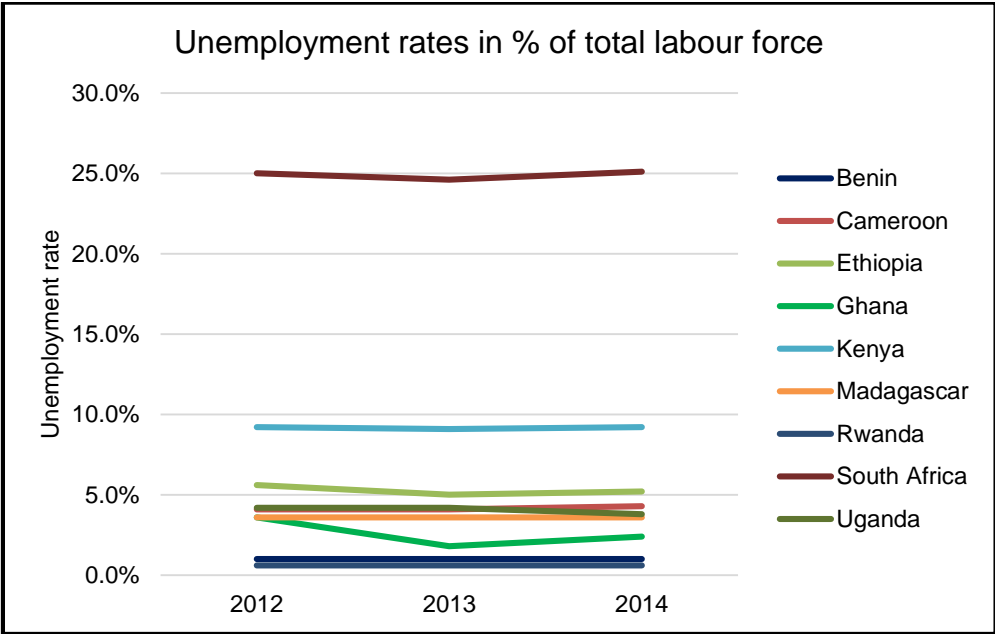


Table 4-1: Unemployment rates of total labour force⁴⁰

⁴⁰ World Bank (2015a)

Those numbers originate from world bank data and were found to be questionable and do not match what interview partners stated. The reason for the big fluctuation of numbers might be, that the unemployment rate is the number of people of actively looking for a job as a percentage of the total labour force. Since many people are possibly not actively looking for a job, numbers like 1% unemployment in Benin make more sense but are still highly questionable.⁴¹

There are two exceptions where the numbers do make sense:

- South Africa: The by far the most developed country in Africa has the highest unemployment rates by far. The rate of about 25% total unemployment matches what interview partners stated who were familiar with the current situation. The high rate of unemployment mostly comes from uneducated citizens and also from a large stream of immigrants coming to South Africa for a better economical perspective. Recent figures of January 2016 even state a rise in unemployment in South Africa to 26.7% of the total labour force.⁴²
- Kenya: The country with the second highest unemployment rate within Sub-Saharan Africa is also one of the most established countries. Not only the craft industry is quite present but also tourism picked up. That is why that number is believed to be somewhere near the real unemployment rate.

The following Table 4-2 lists the GDP per capita of the same countries as listed in Table 4-1 for unemployment rates:

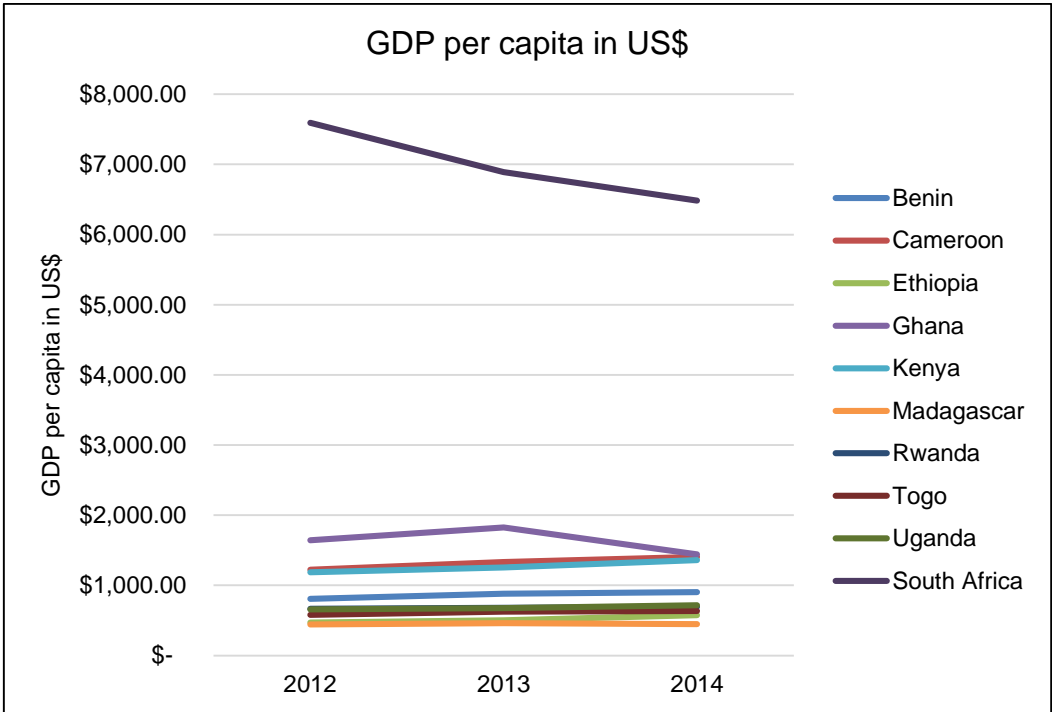


Table 4-2: GDP per capita for countries of interest⁴³

⁴¹ Mojdeh (2016)

⁴² Mojdeh (2016)

⁴³ World Bank (2015b)

The purchasing power of the individual citizen rises with a higher GDP per capita and countries become more developed the higher the GDP per capita becomes. The numbers of unemployment were found to be higher in more developed areas, which could be for the following reasons:

- More people are actively looking for a job
- Less people live autonomously and sustain themselves all by their own
- There is barely any possibility to verify data in undeveloped areas. Barely any informational systems are in place, internet is only available in urban areas. Some areas are very remote and hard to reach at all, that is why even numbers of inhabitants or numbers of infected people by diseases are not reliable at all according to an epidemiologist of the Clinton foundation who is actively involved in Africa.

To underline the relevance of the project ‘Love,b’ by bStudio, Table 4-3 is introduced, the unemployment rates by gender.

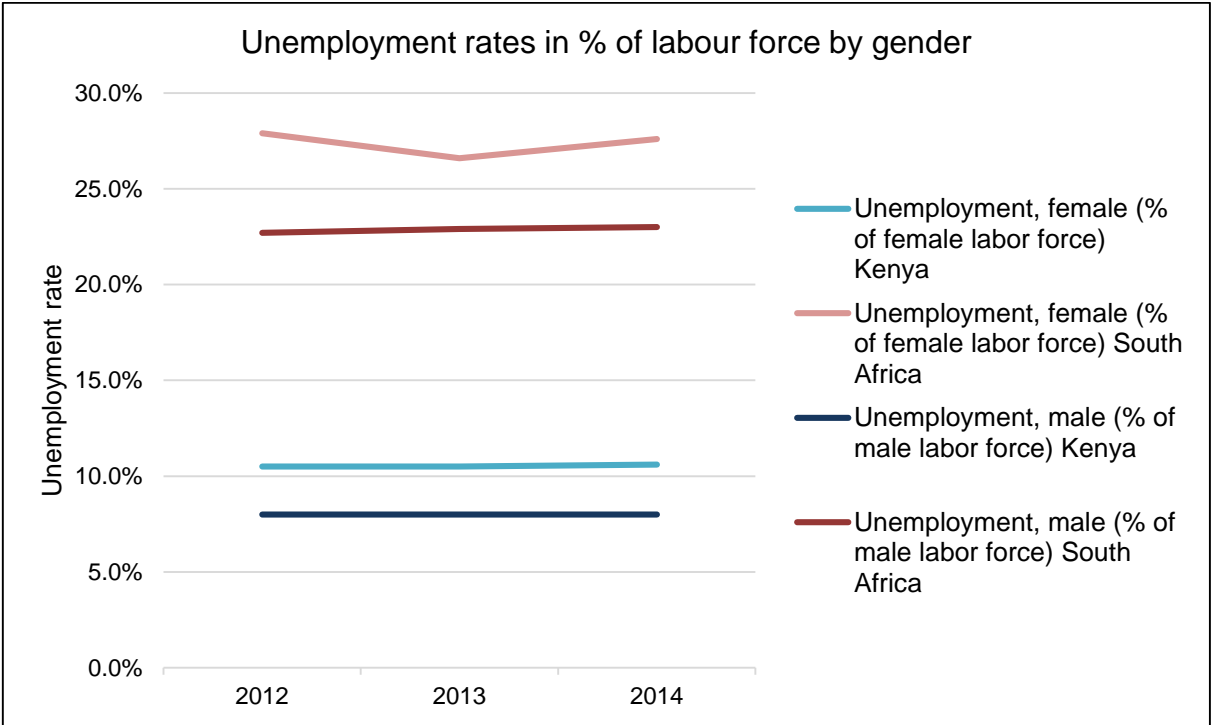


Table 4-3: Unemployment rates of labour force by gender⁴⁴

It is clearly visible that the unemployment rates are higher within the female labour force compared to the male labour force. Since in the arts and crafts industry, the percentage of female artists and artisans exceeds their male counterparts by far, job creation through projects like ‘Love,b’ can add valuable jobs and help decrease the unemployment with the female labour force.

Additionally, only two countries, Kenya and South Africa, were listed in this table because the unemployment figures of the other listed countries in the previous graphs did not allow for a well-founded analysis.

⁴⁴ World Bank (2015a)

Another issue is Africa's high youth unemployment displayed in Table 4-4, where again the countries of Kenya and South Africa are used display the prevailing inequalities.

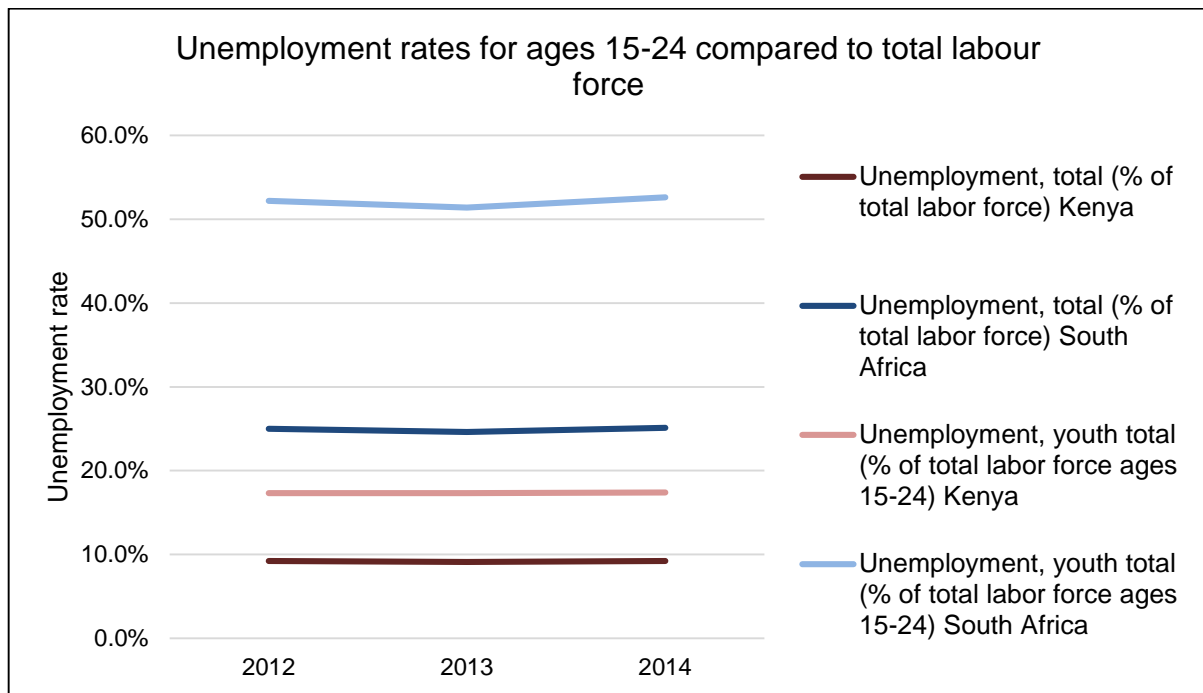


Table 4-4: Unemployment rates for ages 15-24 compared to total labour force⁴⁵

The essential information from this graph is the extremely high youth unemployment compared to the unemployment of the total labour force.

Sub-Saharan Africa has the fastest population growth projected between 2013 and 2050 and also the highest youth population in the world. Africa's population is estimated to increase from 1.1 billion to 2.4 billion in 2050.⁴⁶

Summarized, there are big challenges ahead of Africa to allow the new generation to prosper in a good environment. Creating jobs for artisans is a great way to help empower women and young people to give them a more promising outlook in their futures.

⁴⁵ World Bank (2015a)

⁴⁶ Population Reference Bureau (2016)

Languages

When doing business in Sub-Saharan Africa, languages become a quite central topic. Proper communication is key in many aspects of running a business and the variety of languages throughout the continent makes this very challenging.

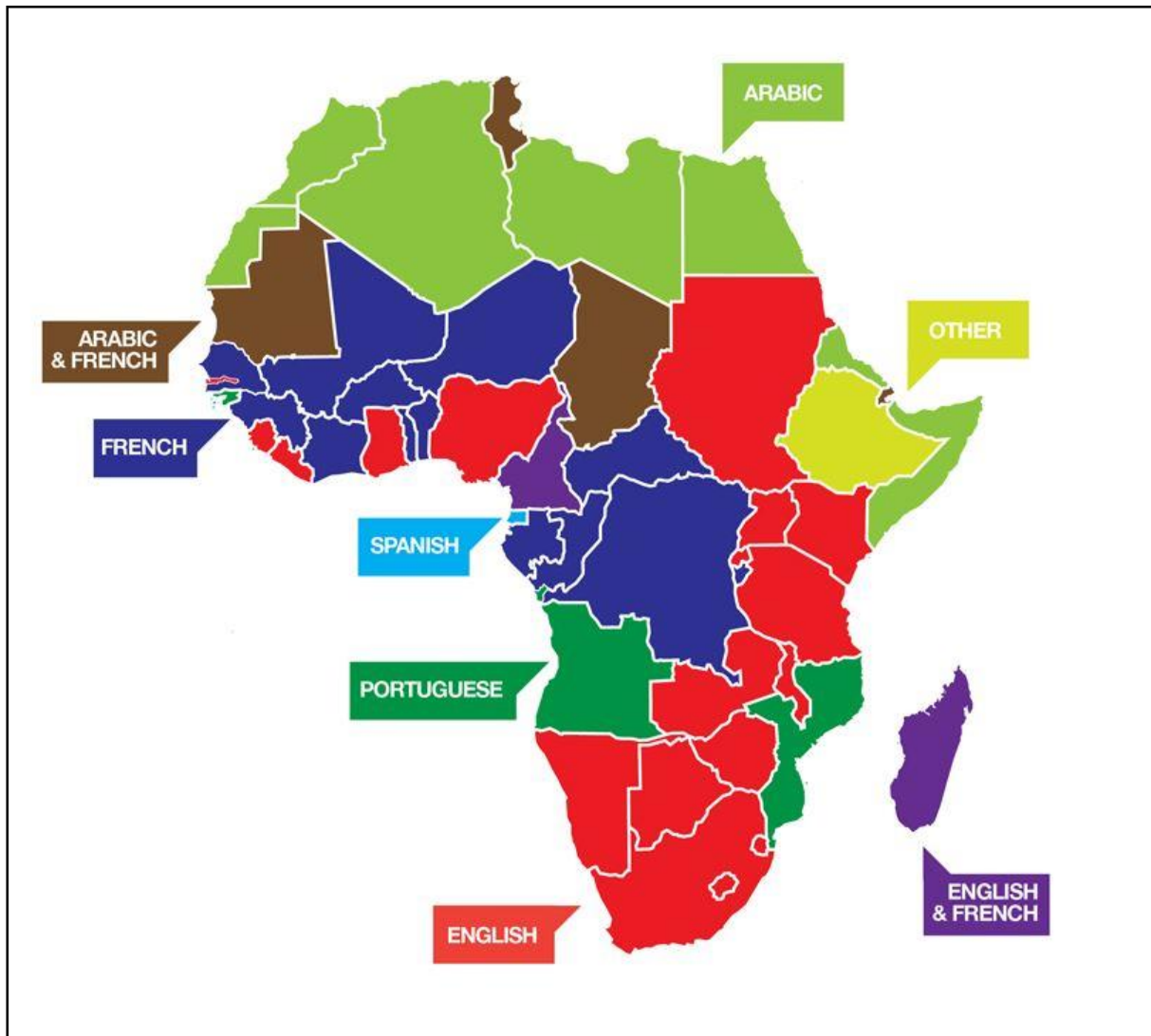


Figure 4-2: Business languages in Africa⁴⁷

Figure 4-2 shows the map of the whole African continent with colour-coded business languages. The business languages are named after globally renowned languages that are commonly used in the business world.

The North strip of Africa is not directly interesting for the project of bStudio for several reasons, those are all the countries on the map with Arabic languages.

⁴⁷ Afrographique (2011)

The project is focused on Sub-Saharan African countries for reasons like:

- Political stability
- Higher density of creative industries
- Ease of logistics
- Less language barriers

The higher density of creative industries further South on the continent together with political stability are the key reasons for focusing on the Sub-Saharan part of the continent. None of the interview partners mentioned being active or having connections in North Africa and therefore the region was not further pursued.

According to Figure 4-2, the main business languages for the different countries are:

- English
- French
- Portuguese
- Other

'Other' is in Ethiopia, where the official language is Amharic but in reality also Oromo is widely spread and most importantly, English is understood in most urban areas.⁴⁸

The graphic shows a very reduced view of languages, in reality there are hundreds of spoken languages throughout the continent. Especially in the more rural areas, traditional languages dominate, which means that partnering with someone who is already active in the creative industry can be a huge advantage. Otherwise the use of translators is inevitable and even then, communication is still complicated and critical.

The following countries have been associated with at least one relevant existing organization which could potentially become a partner for the project:

- Benin
- Cameroon
- Ethiopia
- Ghana
- Kenya
- Madagascar
- Rwanda
- South Africa
- Togo
- Uganda

One thing that for all of the above countries has to be mentioned, is that in the more rural areas, the mentioned business languages are barely spoken by the locals. Only in the more

⁴⁸ Afrographique(2011)

urban areas the mentioned business languages from Figure 4-2 are more commonly spoken. Apart from those areas, traditional languages that mostly have no context to more widely spread languages dominate and translators are inevitable.

South Africa has a special role in this context because most of the primary market research was done around the Western Cape, it should be discussed more in depth.

South Africa has eleven official languages, and all of them except for English and Afrikaans are traditional tribal languages.

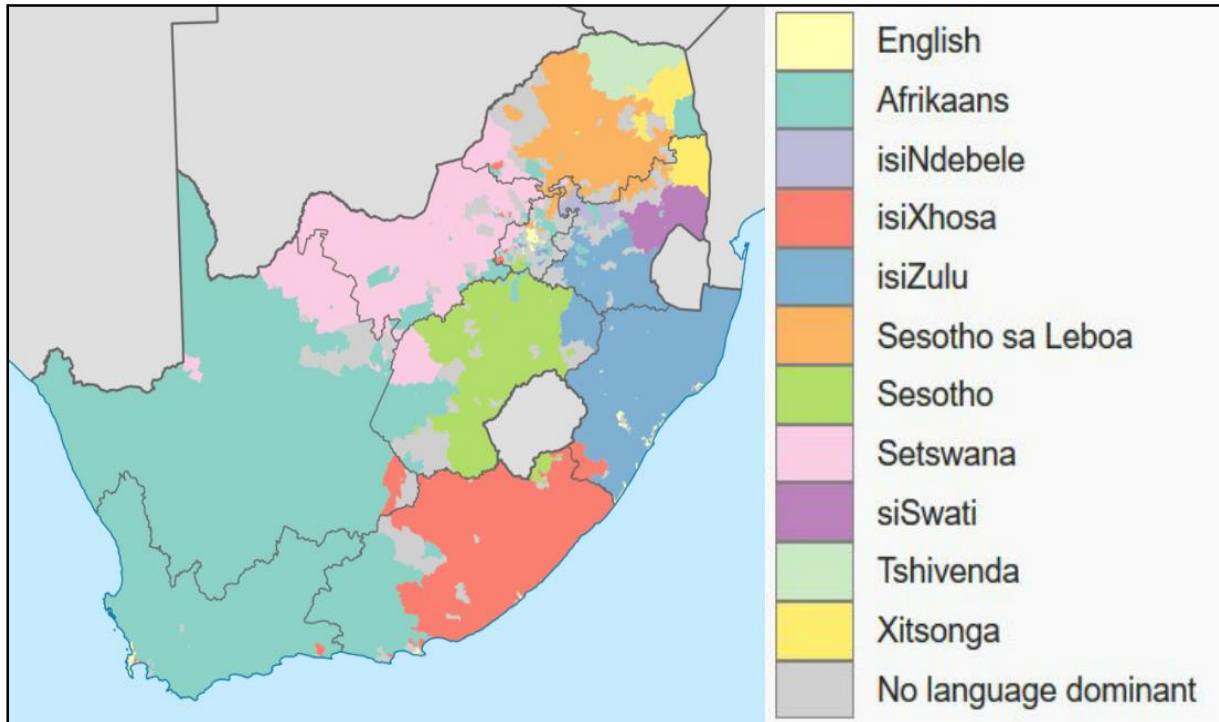


Figure 4-3: South Africa's 11 official languages⁴⁹

Even though there are eleven official languages, not all of them are very widely spread. Some are very specific to a certain region and others, such as Afrikaans, Xhosa, or Zulu, are more widely spread.

⁴⁹ Bezzleford online (2016)

The four most relevant languages are the following:

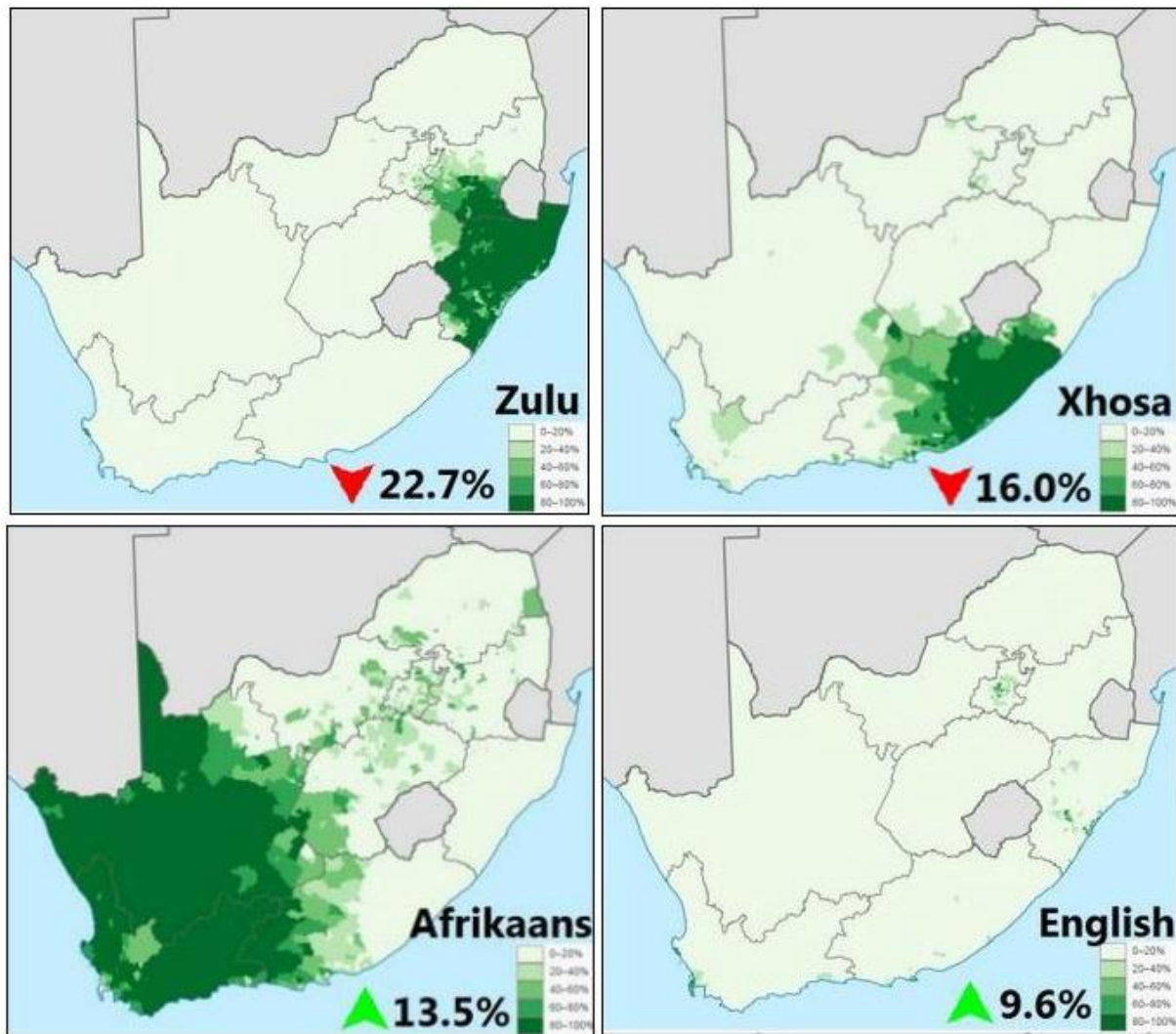


Figure 4-4: The four most commonly spoken languages in South Africa⁵⁰

The most widely spoken native language in South Africa is Zulu with about 23% of people speaking it as a first language, followed by Xhosa with about 16%. Both of those languages are traditional South African languages that are mostly spoken by Black South Africans. Xhosa is especially interesting because it uses clicking consonants while speaking regular sounds. Both of those traditional South African languages are most widely spoken on the East and Southeast coast.⁵¹

Afrikaans is the most widely spoken language on the West and Northwest Cape, that is basically the Western half of South Africa. Afrikaans is derived from Dutch and was brought to South Africa by settlers in the 17th century. Around 13% of inhabitants of South Africa speak it as a first language, it is the primary spoken language by approximately 61% of whites and

⁵⁰ Bezzleford online (2016)

⁵¹ cf. Bezzleford online (2016)

76% of multiracial Coloured. Afrikaans is also widely spoken among Black South Africans, but not as a first language.⁵²

As of 2011, the percentage of people speaking English as a first language is only about 10% and Figure 4-4 shows that the regions where it is spoken are very concentrated in urban areas like Cape Town, Durban, Pretoria and Johannesburg.⁵³

Nevertheless, English is the dominant language in the media and in government. It is also well understood by most people in various urban areas around the country.

Further discussion of the topic will follow in chapter **Error! Reference source not found.**, where the interesting countries and organizations for the project of bStudio are discussed in more detail.

Doing business as a foreigner

Generally, doing business with a foreigner can be an issue if the business partner is from a different country. However, throughout the thesis the interview partners and also people on the various markets and in stores that were visited presented a totally different picture. Everybody who was approached was happy to give at least some information about their business, possibly also because a potential customer was detected, but generally the impressions were very welcoming.

Additionally, the interview partner from Madagascar, a native Malagasy woman, stated the same impressions. In Africa as well as generally around the globe, local people really appreciate if someone is trying to promote business and gets involved within the country. The only real advantage the Malagasy woman has compared to a foreigner would occur, when she is on a US trade show or craft market and people are actually interested in the country of Madagascar. In that case it is very easy for her to make lasting impressions and generate revenue with clients.

B-BBEE Codes

Broad-Based Black Economic Empowerment (B-BBEE) codes were introduced to promote the collaboration of Black- and White-owned businesses. Those codes represent guidelines and quotas for how to cooperate.

Especially for White-owned businesses, fulfilling B-BBEE codes is of great interest. Many subsidies can only be obtained when certain codes are met. For example, for certain sizes of businesses a White-owned business must have a specific number of non-white employees who also have to be in specific senior positions in order to qualify for subsidies and grants.

This will become of more interest once a business grows, very small businesses are not affected by B-BBEE codes.

⁵² cf. Lehohla (2012)

⁵³ cf. Bezzleford online (2016)

4.1.2 Company structures of existing businesses in the field

During the course of the thesis, several different types of organizations were studied in order to learn about how business is generally done in Africa. The major number of interview partners were located on the Western Cape of South Africa. Nevertheless, a majority of them had done business in Africa internationally in the past or were involved in something international in some other way.

Going back to when the interview partners' organizations were founded, they had multiple different intentions in doing so.

Following business forms were named:

- Running a for-profit firm which pursues the primary target of job creation with another distinction:
 1. One sort of organization tries to empower people by paying above average wages to help employees become more established.
 2. The other kind does not try to stand out with high wages for reasons of stable employment possibilities.
- Running a for-profit firm with the same reason of job creation but an additional non-profit or charity organization on the side which is funded by the for-profit.
- Running a non-profit organization

This forms being introduced, it already becomes apparent, that a large portion of businesses have an intention of giving back and investing in the community as part of their goals.

Running a for-profit organization for the reason of job creation

Five out of the ten interview partners named making profit and creating jobs as their main objective for running the business. Looking at where unemployment rates of several countries are, discussed in subchapter 0, this is a very reasonable objective. Especially the young generation, where unemployment rates are the highest, can profit the most from new businesses.

A central topic of running a business in a low-wage country are the labour costs. It is a large part of the motivation to set up a base in a low-wage country and it is a very sensitive topic in Africa. A major part of the interview partners named that they have had issues with wages within their organizations in the past.

Many employees have a lack of vision and only live in the very moment, so paying above average wages might result in employees not showing up for work as soon as they have enough funds for the next days or weeks. This seems hard to grasp for somebody from an industrialized country but it is a big issue. The topic of wage sensitivity and ways how to deal with it are discussed more in detail in chapter 4.1.5.

Running a for-profit for the objective of funding a non-profit organization

For these organizations, making profit and creating jobs is still a major objective. But the distinction to the pure for-profit organizations is that they use parts or all of their profits to fund another or their own non-profit organization.

Two different versions to organize such a construction were named:

- The for-profit and the non-profit are two separate entities
- The non-profit owns the for-profit organization

The main advantage of having two separate entities is that the profits of the for-profit section do not have to be invested in the non-profit necessarily. This gives the owners more flexibility in running their for-profit organization while in the other case, where the non-profit owns the for-profit section, there are several restrictions to that. Those restrictions were not named in detail, however, that structure works well to keep the non-profit well-funded by their own network.

Running a non-profit organization

Three interview partners were from organizations that were set up as non-profits. Running a non-profit organization comes with multiple different constraints and chances:

- All information about financials has to be published
- All wages are fixed and have to be covered
- No money can be held on reserve for investments
- Donors can apply for tax deduction

In conclusion, the various types of company structure are all being used by many businesses. Different organizations from different fields can all be found in any of the named forms, so that for a project of bStudio any form can be relevant dependant on what path is going to be chosen.

Early stages of businesses

Starting a business can be done multiple different ways, with different financial backgrounds and out of various different motivations.

Especially in the Western world but also in Africa, most of the business are founded for the reason of making profit, generating revenues and creating jobs. All of the interview partners were found to be, without exceptions, exceptionally passionate and energetic about what they do. All of them made the impression to not see the generation of revenue and profits as their first priority.

The interview partners came across as very warm-hearted and energetic individuals with a passion for investing in people's lives. When they were talking about how their business works they tended to emphasize the importance of the community, meaning the actual labour force.

One organization, the CCDI, has a very clear structure of stages a business is in. They distinguish the following stages:

- Stage 1: Business that sells locally at flea markets.
- Stage 2: Businesses that own or rent stores and have exposure to tourists to generate revenue.
- Stage 3: Established businesses which sell their products nationally.
- Stage 4: Export ready businesses, but no exports are happening yet.
- Stage 5: Internationally successful business.

Stage 5 is not from CCDI, but the first four stages are from CCDI internally. They don't do much work with businesses which are already successful on the international market, they deal mostly with helping firms to access markets.

Therefore, a fifth stage is suggested to fully describe the range of stages, the stage of an internationally successful business, selling on the markets globally.

One of the very clear discoveries of the interviews was, that all of the firms started very small. None of those interviewed firms had large funds to start with nor had a quick start of getting productive.

It is common for someone to start designing and crafting as a hobby or part-time occupation and then slowly expand. It is common to first start selling at a local market. Various markets also happen within or around the townships on the Western Cape, and most of the designs and creations origin from people within the townships.

A slightly different approach was taken by two interviewed firms. The founders were not actually the creative minds in the beginning but the business people who wanted to get involved in the craft industry. Those business people partnered with experienced crafters in their early stage to create an appealing product which the founder then tried to market.

This approach proved very successful to those two businesses which now run operations with multiple hundreds of employees.

The design process

The design process is a very crucial part of a creative business, the final product has to be appealing to the targeted clientele in order to sell well and create revenue.

The results from the interviews show that there are multiple approaches to a design process that can work, depending on the organizational structure and how creative employees are.

The following results were seen:

- Designs are created centrally by an employed designer
- Designs are created in collaboration of a designer and the artisans
- Designs are created by the artisans themselves

Each of the named approaches can work and it should be decided as the business progresses which of the options works best. No clear patterns could be detected on how to decide which path to go.

In the case of bStudio, the path would most likely be decided by the principal Ms. Carlson, who will be the leading designer on any product. There will likely be a collaboration with the artisans on what techniques can work for which products and also how something can be realized, but the lead in the process of design will be in Ms. Carlson's hands since the products have to sell well on the US market.

4.1.3 Organizational structures

Some interesting discoveries were seen when it comes to organizational structures of firms in Africa. Culture plays an important role in how responsibilities are distributed and how the organizations run on a day to day basis. The working environment of an average artisan has to offer a relaxed feel without pressure and that is a very central issue that became apparent during the research. Any pressure that is applied to make someone more productive or any deadline that has to be held creates issues. It is the way someone in an industrialized country is used to but that does not apply to any country in Africa. Not even South Africa, which is the most developed nation on the continent.

Companies have come up with different approaches to deal with those issues and took various routes.

Summarized, those routes are:

1. Make artisans work on their own from home and not employ them.
2. Form working groups of artisans in a workshop and employ them.
3. Constantly monitor and supervise employees.

To illustrate those ways of dealing with those issues, one firm from each structure is taken to show a possible way of dealing with the productivity issues.

Make artisans work independently from home

The idea behind this is to not employ any of the artisans but buy the products they produce or make from them. An outstanding example of a firm which perfected this is called Monkeybiz. Monkeybiz was founded by an English woman who wanted to get involved in working with artisans and help to empower local women from townships.

The firm now sells their products internationally and has about 400 artisans in their organization. Their products are all made out of beads with or without filling and range from purses to various animals to co-operations with internationally renowned artists like the Haas brothers.



Figure 4-5: Monkeybiz' product range⁵⁴

Beaded products can be found at various firms throughout South Africa but the creations of Monkeybiz were found to be exceptionally well done. For the project of bStudio the firm is not only an example to showcase how organizational structures can look like but also a source to get knowledge, skill, and tips from. Monkeybiz' also does partnerships, which might be of interest in the later phase of this project and since beading is a very widely spread craft around South Africa and even over all of Africa, beaded product and the various applications can often be used to showcase possibilities.

The top left picture shows the creations that resulted from a collaboration with the Haas brothers, which became one of their best selling product line.

⁵⁴ Block (2015) and Monkeybiz (2015)

The following Figure 4-6 gives an overview of the organizational structure of Monkeybiz:

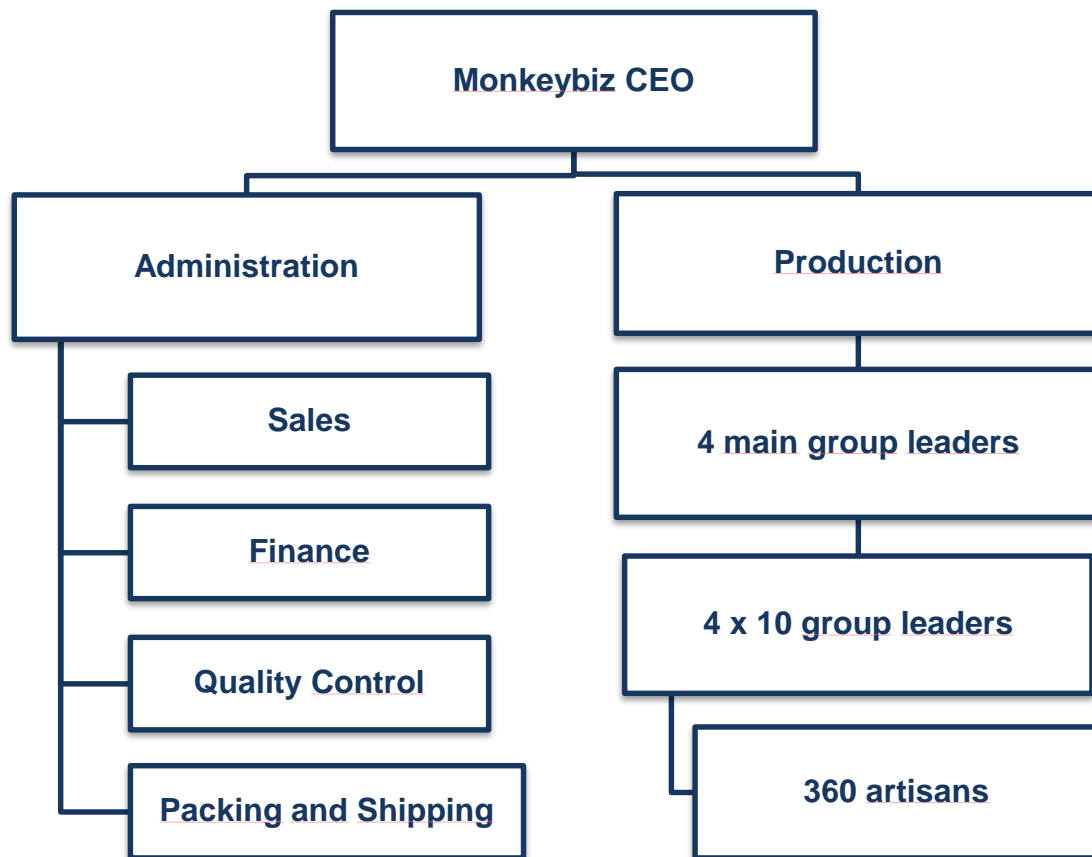


Figure 4-6: Organizational structure of Monkeybiz⁵⁵

The organizational structure of Monkeybiz is divided into the two main streams of production and administration.

In the administration stream, everybody is employed by Monkeybiz, but this really is a very small team and consists of:

- CEO Kate Carlyle
- Sales and Finance is one person each
- Quality control is combined with packing and shipping and handled by a team of three

It should be noted that quality control is a very central topic in most operations in the design and crafting industries in Africa. To receive products with the desired product quality requires comprehensive quality checks and the topic is discussed more in detail in chapter 4.1.5.

For the production stream can be said, that this is where most people of the business are involved.

The production stream is organized the following:

- Only the four main group leaders are fully employed

⁵⁵ Own figure

- Additionally, the overall forty group leaders are partially employed
- None of the roughly 360 artisans are employed

The reason for having exactly four main group leaders is the number of townships Monkeybiz has their partnering artisans located in. For each township there is a responsible woman who manages the operations of the artisans on site.

Furthermore, within each township there are roughly ten group leaders who each run the operations of about ten artisans. The group leaders are organized in a way that makes sense geographically to keep the distances to cover as low as possible.

All of the group leaders and main group leaders are partially or fully employed. The main group leaders are fully employed since they are overseeing operations of roughly a hundred artisans and there is plenty of time that goes into managing that many individual workers.

On the other hand, the group leaders are partially employed. Meaning, they still do bead products by themselves except that they take time to spend with the beaders in her group. Usually there are around ten beaders a group leader oversees, so the group leader is compensated with a fixed amount per person she oversees.

This way, a greater bonding inside the group is intended to be generated. There is no real rivalry in between the groups but there is something like a comparison every time the artisans come together for the market day at the headquarters.

The market day is part of how the operations of Monkeybiz is set up. It is not a very common way to operate businesses in the Western world but highly effective in the environment the company works in.

Operation works the following way:

- Monkeybiz' headquarters is located quite centrally in Cape Town
- Monkeybiz hosts what they call a market day twice a month at their headquarters
- On a market day all artisans from all townships come into the city to the headquarters, many travelling multiple hours to get there
- Artisans then present their work to the quality control, the CEO also oversees the products presented
- The quality control then decides whether the company buys the pieces from the artisan
- If the quality requirements are not met, artisans have the chance to do rework on their products until it meets the requirements
- As soon as all requirements are met, the artisan gets paid
- The amount that is paid for a piece is predefined in seven product sizes
- Each of the predefined sizes has additional margin when a design is very complex or particularly simple

Form working groups of employed artisans

Dealing with productivity issues through the organizational structure of the firm proved to be effective to many organizations.

Not every firm is able to allow their employees to work from home like Monkeybiz does and there are several reasons to that:

- Required machinery
- Required tools
- Employee interaction required
- Raw materials bulky or heavy
- Danger of theft of materials or products
- Product complexity

For all those reason only few companies have managed to have their employees work from home. Still Monkeybiz is an outstanding example to showcase how it can be done when the circumstances are right.

Since there can be many issues in successfully operating with artisans working from home, many companies do have physical workshops where the artisans come to make products. Two interview partners stated, that they were able to rise productivity and quality by forming working groups.

Working groups in those examples mean that a group of five to ten artisans work together on the same product, each of them does different working steps. Additionally, all of the group members know every step of the process and positions and changed regularly. This concept is also successfully applied in the automotive industry and there even is literature of the effectiveness of reducing the repetitiveness of working tasks.⁵⁶

One member of the group is the leader, the one who gets the directions from higher up in the ranks. As mentioned previously, applying pressure in the African culture is more counterproductive. The more pressure, the less people feel the urge to perform well. The work environment needs to offer a warm and relaxed feel.

That being said, the group leader must be the one who can handle pressure. And according to the interview partners, there are some people who clearly stand out and the firms try to lift those people in positions like a group leader or higher.

The group leader then:

- Takes the orders from the managers
- Communicates orders within the group
- Coordinates the working group to meet deadlines
- Checks the products for quality

What the group leader does not do, is the final quality check. Those are done by someone solely responsible for quality or in case of a small firm, the CEO.

⁵⁶ Cf. Otto & Scholl (2012), p.2

Constantly monitor and supervise the employees

The third option of enhancing productivity that became apparent during the interviews was to constantly check on the employees.

Monitoring employees is a delicate topic, not only in the Western world. In this context, monitoring employees does not address monitoring employees on camera to check what they are doing.

It means that they need to be supervised in a very kind way to make them feel comfortable and create a relaxed environment. Most Africans do not perform any better under pressure, in most cases the opposite is the reality.

Six interview partners mentioned that they have had issues in the past with employees who did not understand why pressure was applied due to a deadline. There is a lack of understanding how a Western market works and that there are contracts to comply with and deadlines to be met.

Especially in the small firms, where there are no real organisational structures, this third option is often seen. The CEO has to be a very energetic and enthusiastic person about the business. But at the same time very patient with how to communicate that things have to get done. So there might be a constant need to check on what employees do and whether they are doing something productive. It is very much a cultural thing that is not compliant with what a Western person is used to and therefore hard to grasp when getting involved in a business in Africa.

A very smart way of dealing with this issue is again showcased by Monkeybiz. Since they do not employ their artisans and therefore don't pay them wages, they avoid the issue of generating pressure on the artisans. They make their artisans responsible for their own income depending on their productivity, quality, and working hours. Every artisan works from home and can organize their own working hours.

Training and skillset of artisans

People who work as artisans in Africa come from various different backgrounds, but the majority of artisans we came across came from very basic, simple backgrounds. Most of them have no education, some attended a school in a township but the level of education is very poor. On top of that, many artisans are illiterate and can barely write their names or read.

As a result, they often end up in very basic jobs executing repetitive tasks for a living. Since the unemployment rates especially for uneducated people are exceptionally high, getting in touch with the creative industry is a big chance to prosper.

Often people start out with no skill at all. In the communities of townships, often the elder people learned the skill of a craft in the past. That skill then is passed on to the younger generation, keeping alive the skills of weaving, beading etc. within the community.

This is only possible on a small scale but very effective.

What another firm described that they are doing, is to have a professional 'beader' in this given example, who is only there to teach people beading. The organization is called Monkeybiz and

was introduced earlier in chapter 4.1.3. Their training method works extraordinarily well which makes it a good example to showcase.

The lead trainer of Monkeybiz, Mokatiso is her name, oversees all of the training of every person who is going to work for Monkeybiz. They try to not turn anyone down who wants to learn beading. So people who come in for the first time work together with Mokatiso for usually three to four weeks. Their work with Mokatiso lasts as long as it takes for the product to be on a level so that Monkeybiz will buy it from the artisan.

The speciality of this set up is, that Mokatiso, the trainer, only gets paid for the training as soon as the artisans is able to create products which meet the standards of Monkeybiz. Through this measure, the quality and speed of training has gone up drastically, the trainer as well as the students are more motivated to finish the process in order to receive pay or to start beading products for Monkeybiz.

Additionally, the firm offers product series that are called collectibles. Those are products that sell exceptionally well and the artisan who makes them gets paid a significant premium. On the other hand, artisans who make the same or boring patterns over and over again are sent back to a training stage to learn how to make sellable products.

4.1.4 Community Involvement

The goal of the whole project is not only to fill a niche within the US market and sell high-end handcrafted goods made in Africa.

The prevalent aspect of the business must be the humanitarian aspect. The emphasis of the intend of bStudio is to empower artisans in low-income areas. The project shall create jobs and improve their quality of life and impact the society in a lasting manner.

Many of the artisans who are discussed in the course of this thesis live in or around townships. The term township originally comes from the times of Apartheid and it refers to a designated non-White, meaning Black Africans, Coloureds and Indians, living area. Townships are usually located on the outskirts of towns and cities.⁵⁷

Various measures were detected on how existing organizations impact local societies. Some of the community involvement measures are quite specific to the cultures and religions where the organizations work in.

The following measures stand out and will be discussed in slightly more detail:

- Bank accounts
- Burial funds
- Involving school classes in a playful way
- One-for-one campaigns
- Reinvesting in the communities via solar panels
- Organize workshops with renowned artists

⁵⁷ Cf. Pettman, Ch. (1913), p.298

Bank accounts for employees

Most townships around Africa aren't very secure places to live in. Crime rates are constantly high in Africa but the concentration of crimes is the highest within the townships. As a result, it is everything but safe to carry around large amounts of cash.

Additionally, most of the artisans that work in crafts are female, which makes the topic even more delicate. Most women in the townships are married and they don't have much say in their families. Often the husband takes the money the woman earns and manages the funds of the family altogether.

So what four out of the ten interview partners mentioned, was that they urge their employees to get bank accounts. That way there is no risk of them being robbed while carrying cash on them. Furthermore, they are more in charge of their own funds compared to handing their income to their spouses.

Burial fund

The burial fund is something that has been established in the area of South Africa in order to help employees cover the costs of funerals.

It is specific to the religion that when someone passes away, it is very crucial how their funeral is handled. There is usually a large ceremony where all the extended family is present to say good bye to their family member.

During the course of the interviews it became apparent that in all of South Africa this is quite a crucial investment for a large portion of the employees. Many people living in the Western Cape now moved there from further East in the country with the prospect of getting a better job and living a better life.

As a result, when somebody dies, the body has to be transported to where the family grave is located, which is often far away from where the family now lives. Additionally, all extended family has to travel to the location of the funeral as well which is often not fundable for many people since the culture of saving money for the future is basically non-existent.

So what the burial fund is set up for, is to partially cover the cost of those transports and ceremonies in order to allow the people to say good bye to their family member in the way their religion tells them to.

Companies usually put money into a burial fund for each employee on top of their salary each month.

Involving school classes in the art of pottery

Another example of community involvement was shown by an organization which is specialized in pottery. The firm is called Art in the forest and is located in the Cape Town area and literally deep in the forest.



Figure 4-7: High-end ceramics from Art in the forest⁵⁸

The nature of the art of pottery is that there is a lot of skill involved in order to create a sellable product. Art in the forest is an example of the company structure that runs a for-profit organization for the reason of funding a non-profit organization. Chapter 4.1.2 deals with company structures in more detail.

So what Art in the forest came up with, is to work with only a few artisans and train them to fully developed potters that are able to create high-end pottery items. At the moment, Art in the forest employs 13 artisans who work in the studio full time.

This way, Art in the forest is able to maintain an art studio instead of growing into a mass producing manufacturing site. They do some licensing for a US company, where they did the design and now the product is mass-produced for the US market in Asia. That will stay an exception according to the CEO, but it funds the non-profit organization well and therefore it is kept operating.

Art in the forest has a store on site in the middle of the forest as well as in all major shopping areas around town and also sell their products online. The art studio and all the training is done by Anthony Shapiro, an internationally renowned potter who introduced several world class artists to pottery e.g. Madoda Fani, who is now one of the leading artists in pottery throughout the continent.

⁵⁸ Shapiro, A. (2015)

The for-profit organization Art in the forest is owned by the non-profit "Light from Africa Foundation", which is responsible for all the community involved work they do. So a large portion of the profits of Art in the forest go directly into the charity.

Light from Africa mainly organises art classes for schools in the townships in the extended Cape Town area to get the children out of the townships, away from their everyday environment and out in the nature in the middle of the forest. They claim to offer ceramics as a healing art, which apparently offers a deeper experience for the children since it is a place for them to feel more safe than in their everyday environment. Many children open up during those workshops like they usually would not.

Some school classes only come once or twice and others come there on a weekly basis for extended periods of time. All the transport and the training is funded by the profits of Art in the forest as well as from donations.

One-for-One campaigns

The idea behind One-for-One campaigns is the buy one, give one principle. When a customer buys a product, the company donates an equivalent item to someone in need. One of the first firms to market this type of business model was TOMS, a US shoe company founded in 2006.



Figure 4-8: Toms One-for-One campaign⁵⁹

The company is described more in detail in chapter 4.6 because of the usability of their business model for the project of bStudio and the principle behind TOMS is one that could work very well for bStudio.

The product that is donated to someone in need doesn't necessarily need to be the exact same product, but could also be something similar that actually adds value to the person who receives the donation.

A possible scenario would be selling a product manufactured in Africa on the US market and advertise that with every purchase a solar kit like the one from Tough Stuff is distributed in rural areas in Africa.

The possibilities to realize such a project are nearly limitless and certainly such a campaign does not hurt the sales volumes in the United States.

⁵⁹ TOMS (2016)

Tough Stuff

Reinvesting in the community was the goal of an organization called Tough Stuff. They produced solar-powered energy units which were then distributed in the very rural areas so that people living without access to electricity had the opportunity to access electricity. They used an independent micro solar power unit combined with a LED lamp and a phone connector.⁶⁰ People then were able to have light at night, which is rare in rural Malagasy areas as well as were able to charge their mobile phones.



Figure 4-9: Tough stuff units in Madagascar and in mountaineering⁶¹

The project was funded by selling the same units on Western markets for mountaineering and from the profits, the same kits were distributed in Madagascar.⁶²

A project like that could be a way to improve many people's lives with comparably little effort. An important aspect that should not be neglected is that the handed out products have to be very durable and simple to handle. As soon as things break, people just throw them away and create lots of additional garbage. Also, most people are not educated, so the use has to be very straight-forward.

Workshops with renowned artists

Many of the artisans who work in the creative industries come from a very basic and poor background. Some organizations organize workshops with well-known artists who came from a poor background as well or someone who started working in the very same firm and then made a name for themselves on the market.

Interview partners called it very inspiring for a large amount of artisans taking part in such a workshop. It is also a boost in creativity to see how they made it. Overall those events are very

⁶⁰ UN Framework Convention on Climate Change (2012)

⁶¹ Ibid. (2012)

⁶² Ibid. (2012)

inspiring to many artisans and work very well to lift the work ethics. Most artisans do not have an idea of what is possible, many lack of vision of what is possible. Therefore, it is highly effective for them to see someone of their own who has made it and shares their experiences with the artisans.

4.1.5 Cultural differences and issues

It lies in the nature of going somewhere else on the planet that things are done differently than someone might be used to from one's home. In this case, doing business in Africa opens a whole new spectrum of challenges and struggles that were not thought of before when doing business in the Western world. 80 percent of the interview partners originated from a Western country, so the findings in this area are very applicable to what bStudio will be facing when moving there with the project 'Love,b'.

Several different kinds of challenges and issues became apparent during the research and they were divided into the following categories:

- Work ethics
- Quality control
- Volatility of quantities
- Legal topics and copyrights
- Education
- Know what you want before you physically go to the country
- Stealing provided materials
- Can't rise above each other
- No desire to be empowered

Some of the issues presented in the next passages are common sense, nevertheless it will be important to not neglect the potential difficulties that arise with them.

Work ethics and culture

The moment someone from a Western country sets foot on African soil it quickly becomes apparent that the culture is quite different. Things happen in a more relaxed way, there is no urge in getting around quickly and things seem disorganized and sometimes chaotic. This is great for holidays but it definitely makes it more difficult to get things done.

In a business environment, many times the clients are waiting for a product to be delivered on an agreed appointment in an agreed quantity. In order to hold those agreements, the loose and relaxed forms of life of the majority of inhabitants of the African continent are not helpful. There is hardly any understanding in meeting shipping dates and that creates enormous challenges in running a business.

Organizations have come up with different ways to deal with that situation, the following ways became apparent:

- Organizational structures
- Make wage dependant on productivity
- Permanently be on their sides to make sure there is progress

With the organizational structures, quite useful outcomes can be generated like several organizations demonstrate. One example would be to have them work in groups, while one group member is responsible for the outcome of the whole group. Usually some better performing artisans are put in the position of a group leader and they have to be able to deal with the pressure of meeting deadlines. It proved useful to form those working groups to get the overall performance to increase as independently stated by four of the interview partners.

Another measure seen in various organizations is to not employ the artisans but to buy the ready products from them. The example was described earlier in chapter 4.1.3 by the example of Monkeybiz. The more productive employees then automatically make more money as long as they deliver adequate quality.

Another big advantage is that many artisans are women with families. So if they have the chance to work from home they can still be with their kids and do the chores. In parallel, they can create their own working hours and only work part time if they don't have time to do more work.

What other organizations have implemented are different forms of performance dependant wages and incentives. Even though the artisans are employed by the organization, in that scenario a specific percentage of the wage depends on quantities delivered in adequate quality. While this favours the more experienced artisans, it also encourages the less experienced artisans to learn quickly in order to make more money.

Additionally, to the mentioned measures, especially in smaller organizations, there is a need to monitor the employees. Constant presence by the CEO or a leading employee is inevitable for good productivity. Two interview partners who both ran organizations smaller than 15 artisans mentioned, that whenever they aren't able to spend the day in the firm, the productivity goes down drastically even though they both have incentive systems in place.

Two of the organizations that were part of the interviews mentioned another interesting observation. They have detected major differences in organizational cultures of the different countries and the reason lies in the colonization of the African continent in the past. Africa was widely colonized European countries, the following Figure 4-10 shows the areas of Africa controlled by European colonial powers in 1914, alongside with current national boundaries:

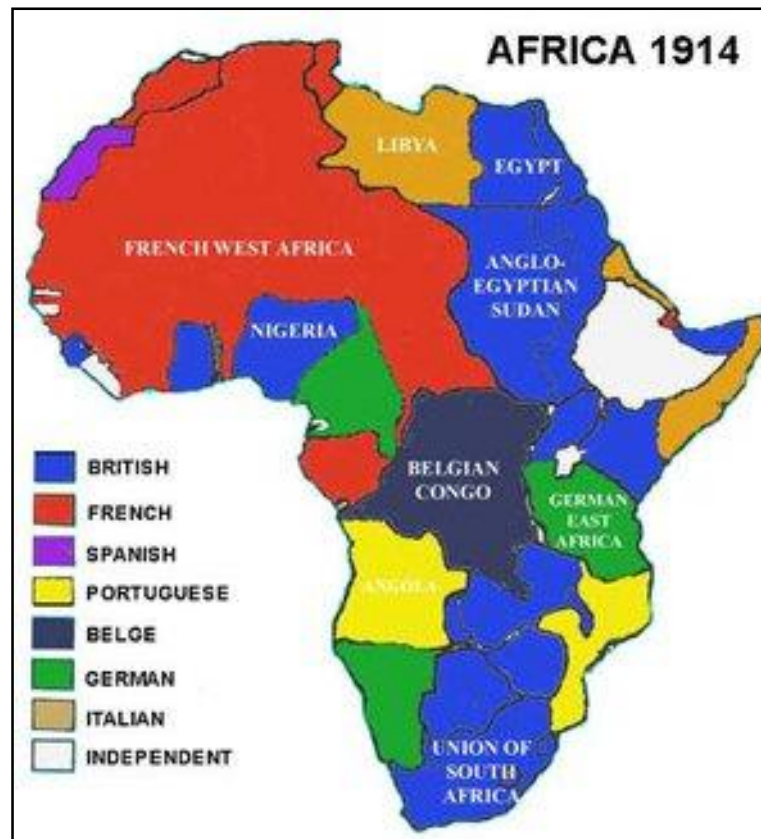


Figure 4-10: Colonization of Africa by 1914

The colonial powers that occupied the largest areas of land in Africa were France and Great Britain. In the context of organizational cultures, the interview partners detected major differences between countries occupied by the France and countries occupied by Great Britain and by Germany.

While the former German and British occupied countries are good at building infrastructure and organising in general, the French occupied countries were found to be:

- more socialist
- less business oriented
- more loose

As a result, doing business in the following countries might be better suitable and less of a hazard than others. In the South those are:

- South Africa
- Namibia
- Botswana
- Mozambique
- Zimbabwe
- Zambia
- Malawi
- Tanzania

Going further North and still of interest to the project, there is:

- the area of Kenya up North to Eritrea
- Further east is Cameroon and Nigeria
- also today's Ghana

When it comes to the French occupied countries, the following countries are of interest or even of great interest:

- Senegal
- Togo
- Benin
- Ivory Coast

The countries listed are only a selected variety of total countries that were occupied. The selection of the countries that are listed is based on what was found to be at least loosely of interest to the project 'Love,b' of bStudio.

The differentiation between the different colonies that date a century back are only an indication of what to expect when going to a country to do business in. Also the extent of the influence from back in time varies by location and therefore it is not more than an indicator. Still it is something to consider according to the two interview partners who both have or have had projects in more than 25 countries over the last 20 and 40 years, respectively.

There are also many other factors that come into play when considering to locate a business in a new location like:

- Strength and size of the Arts and Crafts industry
- Political stability
- Language
- Currency and its stability
- Export duties
- Corruption
- Unemployment rates
- GDP
- Logistics

All of the named factors are important to investigate before moving forward with entering and new country. For the course of this thesis, the extent of this research is too deep to cover all of the countries which are of interest. Nevertheless, before actually moving forward in a real project, the location has to be studied in depth ahead of time. Additionally, the owner of Tribal Trends, Eugene Kramer, offered his assistance when assessing a new location. Mr. Kramer has done business all over Africa for over 40 years, collecting arts and crafts from various countries and selling them in their store in the centre of Cape Town, South Africa.

Quality control

No matter where business is done, quality is always an important factor in a product. To a customer, quality might not become apparent right away but in the long run, high quality products will leave a lasting impression and create a reputation that is crucial for re-purchasing customers.

The following findings regarding quality became apparent:

- Quality control is one of the most central topics for a business in Africa that tries to sell on a Western market. In many organizations that operate internationally, the position of quality control is the highest paid position on the work site.
- Through organizational structure, quality can be drastically improved. This is showcased by Monkeybiz in an exemplary manner. They do not employ their artisans but they buy the products from them only when the quality is right. They used to ship items back and forth, hoping the quality would be adequate once the artisan does the rework on the product but this proved very time-consuming and did not work well. They then changed their system so that the products are kept in the headquarters once the artisan brings it there. If the product lacks quality, the artisans then has the chance to do rework on the product in the headquarters until it meets quality specifications, the item is not shipped back and forth.

According to the CEO, Kate Carlyle, the amount of rework on products has gone down drastically since it is a big effort for the artisans to have to travel to the headquarters for the rework. The artisans all live within townships while the headquarters is within the city of Cape Town, therefore artisans often get the quality right at the first time instead of doing one or even multiple reworks.

Volatilities in demand

In the case of employed artisans in an organization, there is a risk that comes with volatilities in demand. Countries in Africa have regulations on what employees get in the event of being laid off. Two interview partners mentioned three months of continued pay in Madagascar and South Africa if an artisan has to be laid off.

Depending on how the structure of clients is, the danger of losing large amounts of demands varies. Often companies have a large portion of wholesale clients and if a contract is lost, large percentages of volume and therefore finances are missing to keep the employees within the firm. One interview partner suffered a short-time loss of nearly 70% of revenue and had to lay off almost half the staff in Madagascar. The firm was only kept afloat with an US investor who made connections to a new large wholesale client which kept the losses reasonable.

That being said, having flexibility in the organizational structure can be a big advantage. Especially in times of low sales and revenues, being able to cut down quantities is much easier when the artisans are not employed and can cut down to working only part time for adjusted periods of times.

Legal topics and copyrights

Legal issues with products are an important topic in the Western world but in the craft industry this is a less dominant issue. Additionally, the copyright laws in Africa are more loose than in the Western world and furthermore it is hard to bring something to court in case of a major infringement. As a result, even if there is an infringement, it is really time-consuming to pursue and will cost a lot. On top of that, the result might not even be very useful since in some areas corruption is quite a big issue.

The problem that arises then is that anything a company produces has to be somewhat hidden until it is on the market. This proves to be very challenging as stated by multiple interview partners such as Fanja Sylvie Rakotonirine, co-founder and CEO of Tropical Items Madagascar. The company produces raffia hats in the sub-urban areas around Antananarivó, the capital of Madagascar. Around 400 artisans are working on hand-made raffia hats for the US market, mainly for wholesale clients but they also sell their products on the local markets in Antananarivó. At those markets they have their own stands where they sell their hats.

The main competition for their hand-made raffia hats comes from China. Chinese mass-produced hats are made out of synthetic raffia, some of them even come in good quality. Those mass produced products are up to 70% cheaper than the hand-made hats from Madagascar, even though the wages for the artisans in Madagascar are far below 1 USD per hour. The amount of work that goes into a single hat is 3-4 full days of labour, that's why the Chinese competition is still far cheaper. The cost perspective can only be compensated by delivering top quality pieces and use the quality as the selling point.

The real issue is something else though. On the markets mentioned before, there are plenty of Asians walking around, looking for things they can copy. According to Mrs. Rakotonirine, their biggest concern on the markets is to keep people from taking photographs of their products since they claim that their products are highly fashionable and they are an easy target for Asians to copy.

Education

Another issue that became apparent is a lack of education throughout the community of artisans. While in the capitals and the more urban areas good education is definitely available, in the more rural areas and especially in the townships this is not the case or has not been the case in the past.

Only looking at South Africa, the most developed country in Africa, the unemployment rates are tremendously high and particularly throughout the young generation the numbers are even higher. The problem is not that there aren't any jobs available, the problem rather lies in the lack of people with proper education for those jobs. The job market for uneducated citizens is oversaturated and this makes it hard to make a good living without good education.

An additional point applies to townships, that is also where a large percentage of artisans come from or live and work in. Those artisans often did not have the possibility to get education at all and that makes it particularly hard to work with them. They often have a lack of vision and

knowledge, they are just fine with their current situation and don't have the courage to think bigger.

Artisans often honestly don't have any clue about what it means to:

- run a business in market surroundings
- meet deadlines and quantities
- deliver good quality or even
- plan working hours and to be productive

This applies particularly to rural areas where in many occasions education is not available at all. The general lack of vision then causes people to not think ahead even for a week. Alcohol too is a big issue in the rural areas, home-made liquors are widely spread and are not helpful to improve the situation.

Theft of provided materials

This issue depends on the organizational structure of the firm but unfortunately this is a major problem to some organizations. All of the organizations that were set up with artisans working from home mentioned issues with material shrinkage when they supplied the artisans in the townships.

The organizations buy large quantities of supply products and then distribute it to the townships and the artisans. What often happens that artisans claim to never have received items or they were robbed, which actually is a legitimate claim around some townships. But organizations are doing what they can to mitigate those risks.

Additionally, in the case of beadery, the firms simply handed out beads as the artisans requested them. They found out that supply materials were sold within the townships on a large scale by many artisans. As a result, now all the supplies, even the tiny beads, are counted or weighed as they are supplied to make sure the shrinkage is within acceptable limits.

Change in social standing

Something less expected was noticed from multiple sources, often artisans do not have any desire to be empowered. Some of the artisans are perfectly comfortable where they are, making just about enough money to live from day to day. As long as they get their money at the end of the day or end of the week so they can have food in their mouth they are perfectly fine. That is hard to grasp for someone in the Western world but it is the reality for many people and organizations have issues to have motivated artisans who want to create things and move forward with their lives.

Additional to the mentioned issue, there is something that even tops that lack of empowerment. Organizations reported issues with people not showing up to work once they have enough money for a week or two. They don't give notice but they do come back to work once they are out of money and expect to start working again, just so they can do the same thing over and over again.

Furthermore, if artisans work in groups, none of them can rise above the others or that person will no longer be a fully accepted member of that group. That especially happens when the group leader gets preferred treatment, extra pay or some other amenities. An example to demonstrate how they handle sharing compared to how the Western world is used to would be the following:

- If there is a table full of drinks at a get-together, in the Western world everybody who wants a drink grabs one. In the situation described, all the drinks are distributed equally through all of the present people and no one starts having a drink before everything on the table is all equally shared.

Altogether, there are a couple of points that are not immediately apparent to someone from the outside coming into Africa, but once this is understood there are ways to work around those issues that seem hard to understand in the first place.

Know what is desired before physically going to the country

Something else that two of the very experienced interview partners advised, is to know exactly what product or service is desired before physically going there. Because if one just walks around the roads and checks what is out there, just wanting to do something to empower local people becomes too extensive and unmanageable. It then ends up with doing everything but nothing really.

So a key to meeting the goals one sets in working with artisans is to narrow the ideas down to specific products which then should be further pursued. Starting small with a small variation of products and then, if desired and manageable, grow bigger. Unless there is a whole team behind the project working full time on managing various product groups, starting small is the only advised option to grow a sustainable business.

4.1.6 Sales related topics in the interviews

The companies who are actively selling good on the US market also answered some questions regarding sales.

There were various different kind of findings, the most applicable to the project 'Love, b' were compiled in the following list:

- Most smaller or early stage companies aim for landing a large wholesale client to get their name out. Alternatively aim for retail space at one of the large retailers in the country. This is usually not profitable but it is great marketing.
- Running an online store as a small producer is difficult. It is much easier to create a presence on a website like 'etsy', which is a peer-to-peer e-commerce website focused on handmade and vintage items.
- Lead times are critical, especially if the means of transport is a shipping container. Container shipment takes up to four months from Africa until clearing customs in the US.

- Chinese products are the biggest competition for most hand-made things. This is only partially applicable to high-end clients, but it is still a potential threat.
- It is absolutely crucial to US customer to not have to ship items from Africa. Therefore, a warehouse within the United States is a must. Sellers have to be able to state 'Shipments out of an US State'.
- When presenting a product at a trade show or other customers, all the marketing material and pricing has to be figured out up front.
- If larger quantities of sales are targeted, being present at trade shows is a great way to get a lot of exposure to potential clients.
- US business language is different from the European or the African. An US agent between the organization and the buyer may help a lot to reach larger sales volumes. This was surprising but even stated by two independent interview partners.

Probably not all of those points are fully applicable to the further steps of the project, but all of them can definitely occur. It is better to be aware ahead of time than to get surprised.

4.2 Existing manufacturers and projects in South Africa

There are plenty of organizations and companies working with hand-crafting within Africa. The research contained roughly 100 firms that potentially looked interesting. Those firms were then narrowed down to the following tables.

4.2.1 List of potential cooperation partners

The first table shows a selection of researched firms within South Africa and also contains one firm that is active in Rwanda.

Product	Producer / Retailer	Comments
Artifacts and artwork	African Trading Port	Artwork from various African countries
Gemstone jewelry	African Spirit	Multiple lines, professionally managed.
Beaded chandaleers, jewelry	Helloow	Interesting products, works with HIV infected women
Beaded products	Monkeybiz	Work with Haas brothers, 400 artisans in the townships, big international success
Wooden jewelry	Simon´s artwork	Wooden jewelry most interesting, also build ships and various other products
Sophisticated beaded jewelry	Beloved Beadwork	Sophisticated beaded jewelry, 12 women collaboration; Sells in MOMA, NYC, USA

Ceramics studio	Art in the forest	Anthony Shapiro runs the place, well known ceramicist in SA. Team of 14 total. Offer ceramic classes for students.
Handmade silver jewelry	Spirit jewelry	Small team producing jewelry, run a permanent shop in Cape Town
Jewelry and accessories	Mr. And Mrs.	Couple who runs the firm in Cape Town
Fur	SUKUMA Africa	Run by Taryn Calmeyer who took over in 2011, founded 1997, different leather bags with animal skin, sourcing locally.
Bracelets, Necklaces	Jabulani jewellery	Geometry based beading; established brand; Stand for fair pricing towards artisans and help the rural communities.
Woven baskets	Telephone wire baskets	Deirdre Moser organizes a whole set of artisans since 19 years
Leather Bags	Lucy and Muffet	Leather Bags out of used leather, great skills
Jewelry	Bead for Life	Ronowned South African line.
Wolanani	Wolanani	Work with HIV infected people. Help them to help themselves.
Leather products	Wolf&Maiden	Source for great leather work if any is needed.
Weaving and jewelry	Beauty of Rwanda	Rwandan-UK Founder

Table 4-5: Interesting African organizations⁶³

A full list with more detailed information has been elaborated and is available to bStudio. In addition to information like name of the firm, their product and some comments more detailed columns like contacts and links are available to bStudio.

⁶³ Own table

The following table lists similar information, except that in this table there are companies which have their headquarters in the United States.

Organization	Product	Comments	Country
Servv	Umbrella for organizations	Umbrella for organizations working with artisans. Invested in several countries worldwide; Organizations working directly with artisans sell to servv.	Various
MAR Y SOL	Baskets, bags, hats out of Raffia	Brooklyn based designers produce in Madagascar and sell in the US.	Madagascar
Beauty of Rwanda	Weaving and jewelry	Rwandan-UK Founder, sell internationally	Rwanda
Akola	Jewelry	Jewelry handcrafted by artisans in Uganda who receive vocational training and employment. Grew large, professionally managed with retailers all over USA.	Uganda
INDEGO	Jewelry, Apparel	Professionally managed; release social impact reports.	Kigali, Rwanda
Swahilimodern	home decor, baskets, jewelry	Develops products with artisans, sell in the US; active in 20+ countries for 20 years	Various
Tropical Items Madagascar	Handbags, hats	400 artisans around Antananarivó	Madagascar
Jimani	Jewelry	Professionally managed jewelry line, working with artisans.	Nairobi, Kenya

Table 4-6: Interesting Western organizations working within Africa

The column where the country is listed gives information where the organization is actively involved. The base of all the countries is the United States except for “Beauty of Rwanda”, which is based in the UK.

This list doesn't not contain all of the interview partners since they don't all fit into this table. However, most of the interview partners were mentioned somewhere along chapter 4.1 Interviews and again the whole list of interview partners is available to bStudio.

In the next chapter 4.2.2 two truly outstanding firms will be introduced which can be a great source for the further course of 'Love,b'.

4.2.2 Outstanding organizations

Many different organizations were approached and studied during the course of the thesis. There are a lot of great businesses in Africa which have fantastic intentions and have great people leading them. Some show outstanding creativity and enthusiasm in what their business does.

However, two of those firms were found to be really exceptional and to be very relevant for the project this thesis is all about and therefore will be discussed separately.

The two firms are:

1. Cape Craft Design Institute and
2. Tribal Trends

The Cape Craft Design Institute npc (CCDI)

The CCDI is a South African non-profit organization located in Cape Town. The CCDI is funded by the public and offers a great range of support to businesses in the design and crafting industry.

The experience with CCDI during the course of this thesis was extraordinarily good, everybody who was involved in the interviews and workshops, especially Winston Richard and Mara Fleischer, were a great help in understanding the situation.

The CCDI was originally founded to support the needs of creative business people. Over the years a range of activities were developed to help business owners improve their businesses. Their three main areas of supporting businesses are divided into:

- Product support
- Business support
- Market support

For product support, company owners can come to the headquarters of CCDI and work in the product support spaces. This is a prototyping and sampling space where existing products can be refined or new prototypes can be developed. There is always a product support advisor available for assistance and all of this service is free of charge.



Figure 4-11: 3D-printing and 3D-scanning in the CCDI lab⁶⁴

For business support, there are great training and development programmes available which are designed specifically for creative businesses. There is a wide range of business and creativity workshops offered to support business owners.

In terms of market support, CCDI offers to assist in opening a range of sales channels, from local craft markets to national and international trade and consumer events, as well as supporting with B2B matchmaking.

CCDI offers support and training in various aspects of a creative business. The following figure shows the spectrum of contents in their workshops and trainings:



Figure 4-12: Aspects of training for creative businesses by CCDI⁶⁵

⁶⁴ Own figure

⁶⁵ CCDI online (n.d.)

Generally, the CCDI is a great non-profit organization funded by the South African government. They offer support and training for all aspects of a successful creative business and have a very competent staff coming from various backgrounds.

For further steps of the project 'Love,b', the CCDI is definitely a great source of information. They are very well connected within the field and also have great contacts internationally. For bStudio, as investors coming into South Africa from the United States, the CCDI is very welcoming to provide information and to help with getting started quickly.

Tribal Trends

The other firm that was found to be extraordinary was Tribal Trends and the owner Eugene Kramer. Mr. Kramer sells design and craft pieces from all over Africa in his store in Cape Town that he is sourcing from various countries. Once a year, Mr. Kramer and his wife organize a tour where they visit new and existing sources to maintain their outstanding inventory. Many extraordinary pieces were found in his store and he was also offering information about the background of the pieces and where they come from. He is very knowledgeable about traditions and cultures of the various countries and he has been in this field for over 40 years.



Figure 4-13: Selection of items of Tribal Trends⁶⁶

⁶⁶ Own figure

The table above shows a small selection of items from Tribal Trends, the amount of items in their stores is enormous and Mr. Kramer knows the details behind any of the items.

Bottom line, Tribal Trends and its owner Eugene Kramer are a great source for a future reference. He provided very useful information when he heard about what bStudio is trying to start and offered his assistance in questions that might arise. He is definitely the source to go to when trying to find out where to go for a specific skill or product.

4.3 Where do artisans make which products

In order to get a better overview of which crafted products are available in Africa, this chapter should display the key findings from the primary as well as the secondary market research.



Figure 4-14: Summarized countries of interest⁶⁷

The following countries are of interest to the project:

- Benin
- Cameroon
- Ethiopia
- Ghana
- Kenya
- Madagascar
- Rwanda
- South Africa

⁶⁷ Own figure

- Togo
- Uganda

The named countries in this context are only the ones that became apparent during secondary market research or were mentioned or discussed during the interviews.

1 Benin and Togo

The countries Benin and Togo both have an interesting geographical position right in between the more developed countries of Ghana and Nigeria.

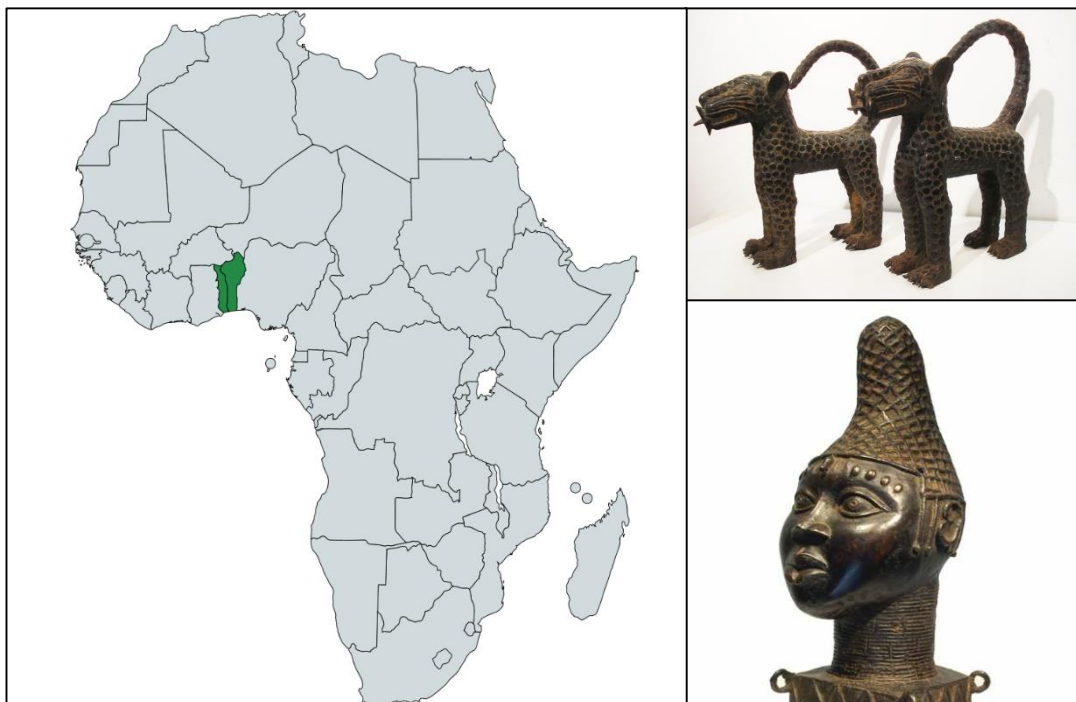


Figure 4-15: Benin and Togo map with Bronze and Brass artworks⁶⁸

Craftwork from Benin:

- **Brass** and **Bronze** items: Very highly skilled professionals can be found. Outstanding product quality that is not matched by any other sources on the continent is available.
- **Cowrie shells** for products like shell necklaces are available on the coasts of both, Benin and Togo.

⁶⁸ Own figure of Africa and African Bronze (2013)

2 Cameroon

Cameroon has French and English-speaking regions, the French regions are more located in the North of the country and are considered to be more artistic.



Figure 4-16: Cameroon map and traditional feather hats⁶⁹

Wood carving is very traditional to the country of Cameroon, but the available quality differs a lot by region. Further North, in the more French speaking areas, the best quality of traditional **wooden masks** can be sourced. This could especially be of interest for a product like the introduced Apparatus lighting from chapter 4.4.1, where the carving of the bowl sconce could happen in regions of Cameroon or alternatively in Kenya.

Feather hats are also traditional to Cameroon. People from Cameroon are mostly very short and the feather hats they make are really large on them. According to Mr. Kramer from Tribal Trends, they wear the hats and walk with it up and down their hills for religious reasons and all one can see when looking at the mountain is those feather hats.

⁶⁹ Own figure, Snapwidget (2016) and Juju Decor (2016)

3 Ethiopia

Ethiopia is one of the few countries that were not colonized in the 19th century and therefore maintained their local language. As in most other African countries, within the urban areas, English or French is understood to some extent but communication might still be more difficult than in other countries.



Figure 4-17: Map of Ethiopia and typical products⁷⁰

In terms of arts and crafts, Ethiopia is one of the more established countries and also many organizations from the Western market source products from or have subsidiaries there.

Typical products of Ethiopia are the following:

- **Leather** products of all kind like the bag displayed above.
- **Metal jewelry** from various raw materials like silver, copper, and brass.
- **Woven products** of all kind.

Woven products are not very specific to Ethiopia but plenty of extraordinary objects were seen and are therefore mentioned here.

⁷⁰ Own figure

4 Ghana

Ghana is one of the more established countries with a large port in Sub-Saharan Africa with one of the highest GDPs per capita after South Africa.



Figure 4-18: Map of Ghana and ceramic products⁷¹

Typical products for Ghana are various **ceramic** items as well as plenty of **woven** products like in Ethiopia.

5 Kenya

Kenya is also one of the more established countries in Sub-Saharan Africa and definitely suitable for doing business in the country. Just as in their neighbouring country Ethiopia, many international firms are actively involved in the country.

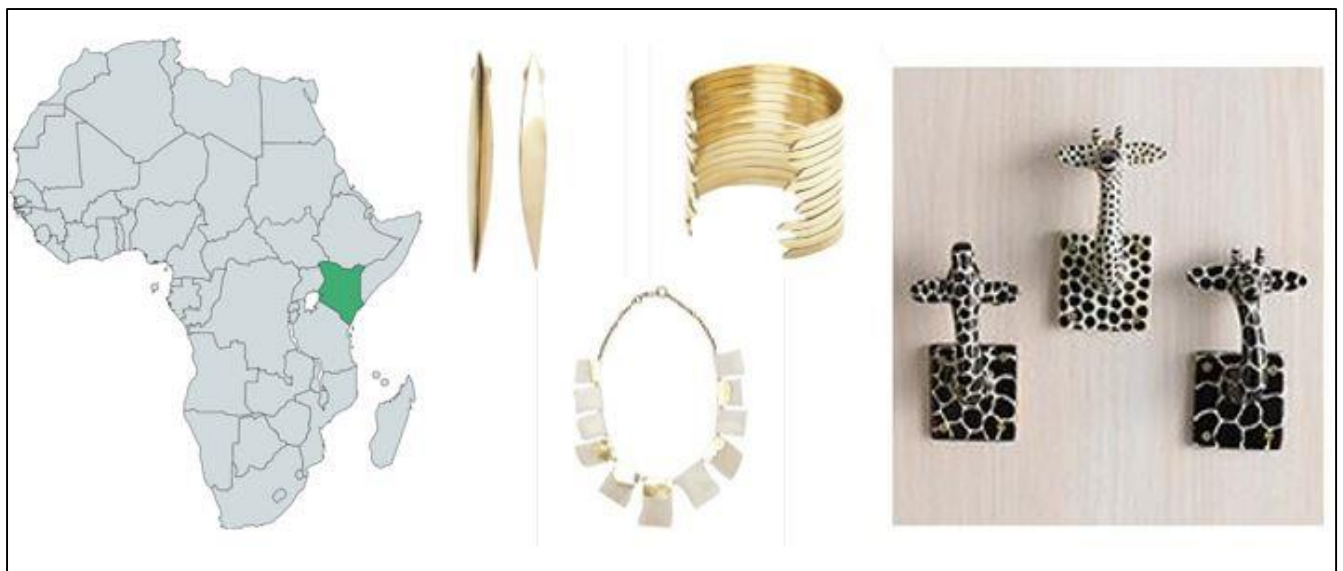


Figure 4-19: Map of Kenya of display of typical products

⁷¹ Own figure and African Crafts (2010)

Typical product for Kenya are:

- **Horn, brass, and beaded jewelry** items
- **Carved soapstone**
- **Knit and cotton apparel**

6 Madagascar

As one of the poorest countries on the African continent, Madagascar is especially interesting to bStudio since there is the most potential to empower a large number of locals.



Figure 4-20: Map of Madagascar and typical Malagasy items⁷²

The variety of products to be found there includes:

- **Raffia hats** and everyday items
- Shell and cowrie **shell necklaces**

⁷² Own figure, Houzz (2016), and Goal2020 (2016)

7 Rwanda

Rwanda is a very small country but became quite well-known for the horrible genocide in 1994. Due to the proximity to well-established countries in the craft scene, namely Kenya and Uganda, multiple international organizations became active there and many items originating from Rwanda can be found.

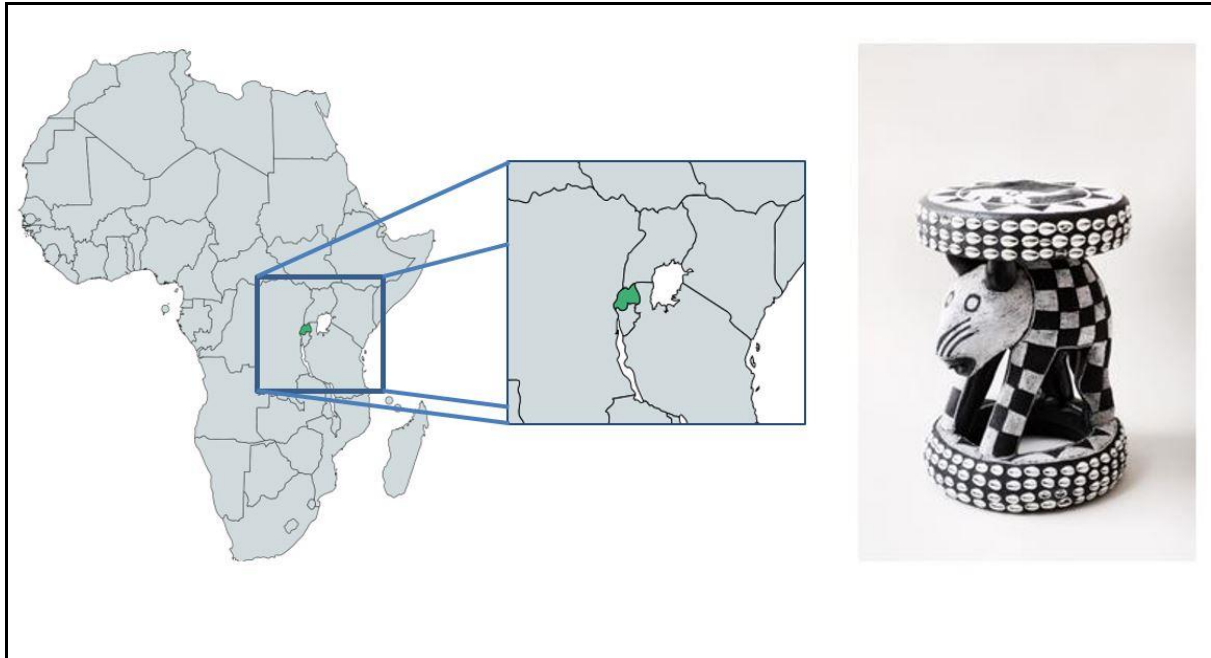


Figure 4-21: Map of Rwanda and a typical local item⁷³

Typical items from Rwanda are:

- **Wood carving** such as the outstanding Bamileke stool displayed above.
- **Beaded jewelry** as well as **woven items**

8 South Africa

South Africa is the country that is by far the most developed on the whole continent and it seems that most traditional items from all over Africa are available in the larger cities across the country. Many artisans try to sell their items in this more established areas where they can charge higher premiums.

It is tough to pick products that are typical for the country, but bottom line everything is available. Everything being available does not mean that the things are authentic then. Wood carving, to take an example, is not traditional to South Africa, yet masks can be carved by various artisans throughout the country. The problem is that the items then lack authenticity and do not carry the history.

However, here are extraordinary designers located throughout Cape Town and the other large cities. Those designer could be a helpful entrance to start doing business in the country. Often those designer know how and where to get things without being ripped off, which is actually not that easy.

⁷³ Own figure

Still the following kinds of products might be best to source from South Africa:

- **Wood work** like furniture
- Everything that includes more **sophisticated machinery** like metal work. Machinery is often not available in poor areas.
- **Glass blowing**
- **Jewelry making**

9 Uganda

Uganda has a quite extensive network of crafters, also due to the proximity to Kenya. Many international organizations have set up operations in the country.



Figure 4-22: Map of Uganda and items made in Uganda⁷⁴

Typical products from Uganda are:

- **Horn, glass, and metal jewelry**, the portrayed items from the figure above are inspired by an international organization called Akola but the skills of working with the named materials is well established.
- **Paper beaded** products
- **Woven items**

The introduction of the various countries is based on the research and the interviews from the United States and the extended Cape Town area. The displayed items are only exemplary.

⁷⁴ Own figure and Akola (2016)

Additionally, when the step of actually going to do business in a country, the country and the desired location should be studied more thoroughly in terms of:

- Political stability
- Language
- Currency and its stability
- Export duties
- Corruption
- Logistics

South Africa, specifically Cape Town, presented itself to be a good location to start the project due to the availability of most skills and product. In further stages, expansions can always happen in various directions.

4.4 Financials

In this chapter all of the financial aspects of the project 'Love,b' shall be worked out. Different scenarios of how the business could be set up will be calculated through. The central part is the investment calculation, which will be a major deciding factor how an investment will look like and if the project can be profitable.

Additionally, in order to receive the financial information about products, some dummy products were reverse engineered.

4.4.1 Reverse Engineering

Extracting knowledge that lies in a product is a great way to better understand the product at hand. Reverse engineering is the process of extracting that knowledge out of a product, stripping the product apart and analyzing the components and how they are made.

Usually, reverse engineering is conducted when there is knowledge about the product missing, such as pricing, materials, manufacturing processes, or simply to get new ideas how a possible solution can be approached.⁷⁵

For this thesis, a selection of outstanding products was chosen to be analyzed in a reverse engineering process. Those products were chosen for their extraordinary characteristics and are specifically suited for the further progress of the project 'Love,b'.

The following four product types were chosen to be analysed:

- Tribal shell necklace
- Lighting objects by Apparatus
- Brass necklace
- Mud cloth and table cloth

⁷⁵ Eilam, E. (2005), p. 3f.

While the tribal shell necklaces, the mud-cloths as well as the brass necklaces are traditional to Africa, the lighting objects origin from US-based designers. However, all of those objects are well suited for being made or manufactured within Africa.

Tribal shell necklaces

The following tribal shell necklaces in Figure 4-23 origin from various different places within Africa, while they all have one thing in common, their natural shells.

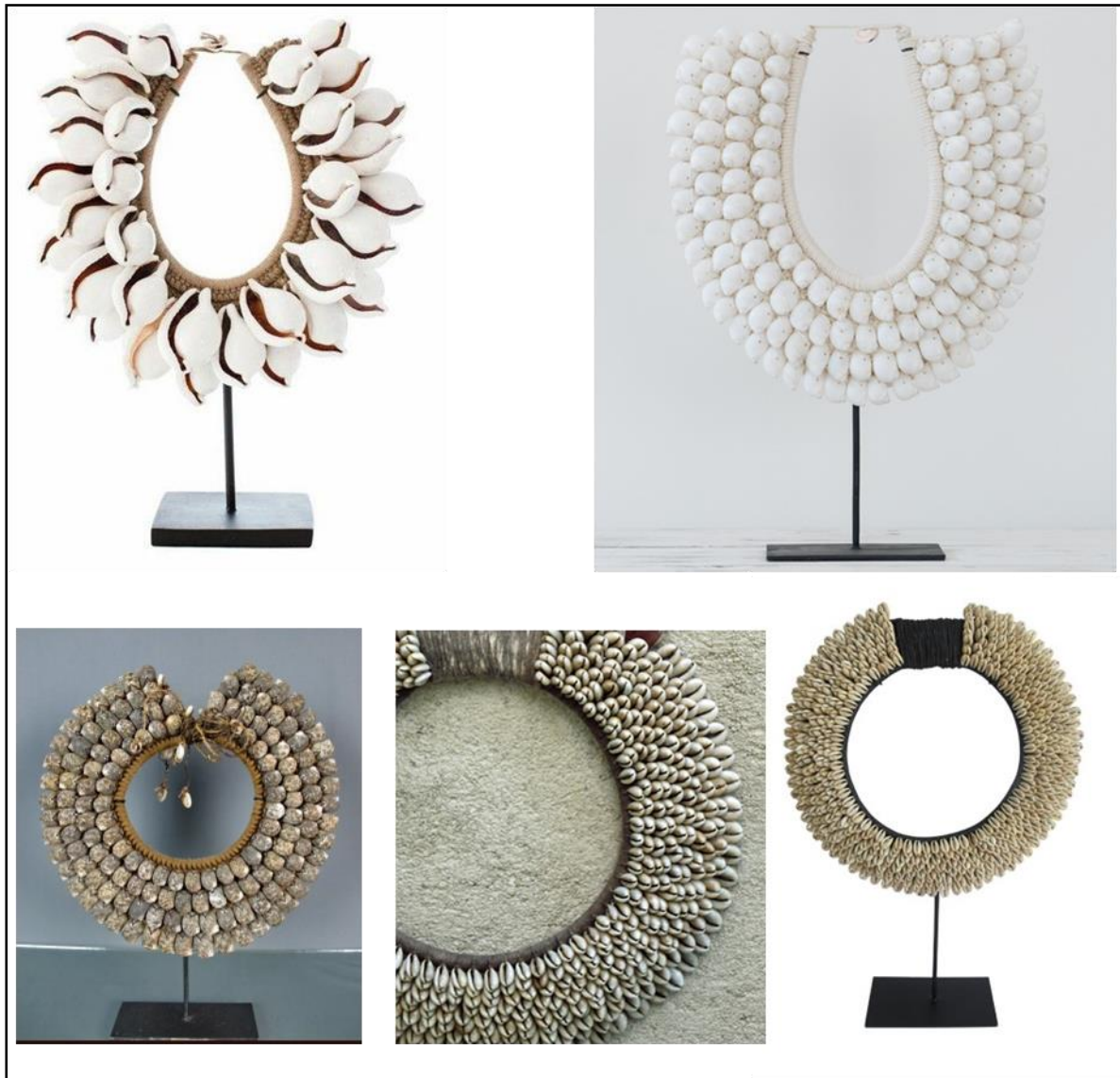


Figure 4-23: Collection of tribal shell necklaces⁷⁶

What all of the illustrated necklaces have in common are cowrie shells. The following details about these shells were researched:

- Cowrie shells are often used in a very traditional context and they can generally be found in Ethiopia, Nigeria, Mali, Benin, Togo and generally further West in Africa. In exceptions they can generally be found along the shorelines and along large rivers.

⁷⁶ Own figure

- Tribal trends, the store that is described in chapter 4.2.2, sources many of those tribal shell necklaces in Madagascar, where the cowrie shells are found on the shorelines in the North of the island.
- Cowrie shells were used as currency up until mid-19th century due to their unique shapes and their rarity.
- Cowrie shells used to be worn with great pride since they represented great value.
- Cowrie shells are sometimes cooked to give them this very glossy, shiny surface or just kept naturally matt.
- Although cowrie shells only naturally appear in certain locations, they are imported to South Africa by various dealers and are available for making products within South Africa if desired.
- The price points of the pictured necklaces range from USD 119 up to USD 259. All of them are sold on Western market at Western prices.
- Tribal trends in Cape Town, South Africa sells comparable pieces ranging from 1495 ZAR up to 3300 ZAR, which means ranging from USD 99 up to USD 219. Tribal Trends is a store in the heart of Cape Town where the main clientele are tourists and therefore the pricing is adapted.

Analysis of a traditional tribal shell necklace

The shell necklace analysis is going to be carried out on the following piece from the store Tribal Trends in Cape Town. The necklace originates from a source in Madagascar.

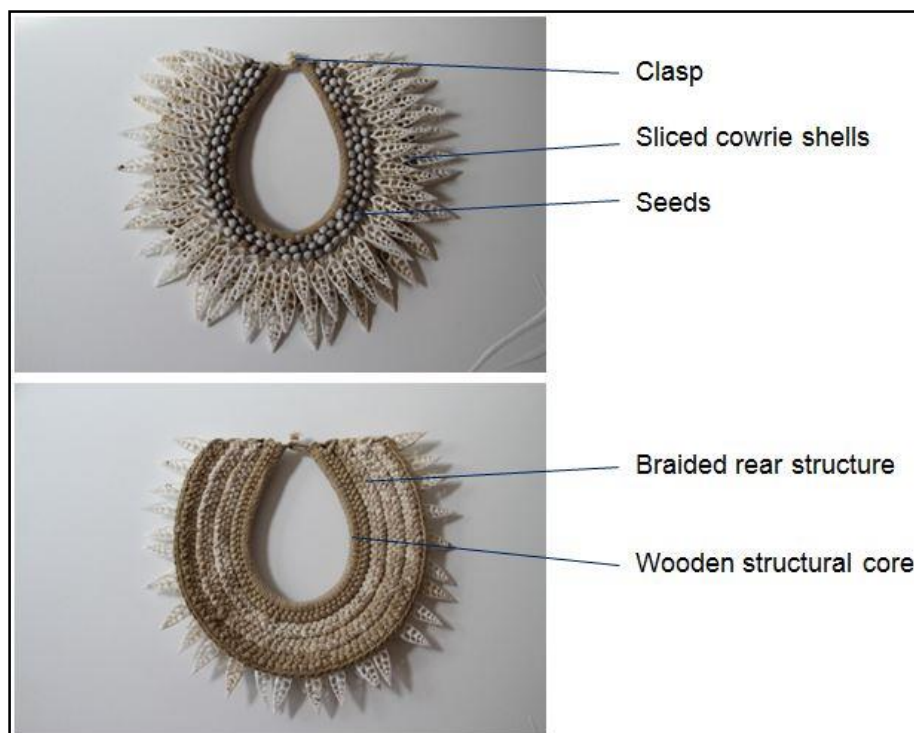


Figure 4-24: Parts of the tribal shell necklace⁷⁷

⁷⁷ Own figure

Only the clearly visible materials and parts of the necklace are showed on the figure, the complete bill of materials and the estimated sourcing costs for the various components of this object are the following:

Components	Quantity	Unit	Cost [USD]
Metal Carrier	1	pc	3
Cowrie shells	50	pc	2
Seeds	130	pc	1
Wooden structural core	0,3	m	1
Cotton Rope	7	m	
Yarn	3	m	
Clasp	1	pc	
Sum			7 USD/necklace

Table 4-7: Bill of material and sourcing costs for a shell necklace⁷⁸

For the reverse engineering process, the steps of making the necklace were identified at first and then analyzed in regards of amount of labour involved and use raw materials. An illustration of the major working steps is shown in the following figure:



Figure 4-25: Visualized process steps of a shell necklace⁷⁹

The following Table 4-8 shows the detailed list of steps involved in the making of the shell necklace introduced. Additionally, costs of labour are derived from the hours required to fulfil the working steps.

⁷⁸ Own table

⁷⁹ Own figure

Process Step	Duration [h]	Cost of labour [USD]
Knit the rear-structure, which eventually holds the seeds and shells out of cotton rope, and include the wooden core on the inner ring.	6	4,5
Source cleaned and polished shells.	0	0
Slice the shells with a bandsaw. Two slices out of one shell. Need 100 slices for the whole necklace.	1,5	1,125
Cut off one end of a shell to receive the clasp before slicing.	0,01	0,01
Braid the shells onto the knitted rear structure, using the thread.	5	3,75
Drill holes into the seeds so the yarn goes through.	1	0,75
Braid all the seeds onto the rear structure, using the thread.	5	3,75
Mount the clasp to hold the knitted holding structure together.	0,1	0,075
Total amount and cost of labour per unit	18,61 h/pc	13,96 USD/pc

Table 4-8: Process steps, their duration and costs of a tribal shell necklace⁸⁰

The hourly rate for labour used in this calculation was derived from the interview information. The range of hourly wages ranged from 60-78 Cents per hour for South Africa, in this calculation a rate of 75 Cents per hour was applied.

All of the calculations will be based on hourly rates from South Africa since those will be the highest within Africa. This way it is ensured that the calculation is not undervalued and resulting margins will not shrink but rather increase when deciding to produce elsewhere.

The total product cost for a tribal shell necklace then comes from adding the labour, the machinery, and the material costs.

Cost position	Costs [USD]
Total cost of labor per unit	13,96
Total cost of material per unit	7
Total cost per unit	20,96 USD/pc

Table 4-9: Total costs per shell necklace⁸¹

⁸⁰ Own table

⁸¹ Own table

Lighting by Apparatus

Apparatus is a US-based, renowned lighting and furniture design company. The piece was chosen to be analyzed in a reverse engineering process for its suitability to be manufactured in Africa with a combination of hand-crafted and machined components.

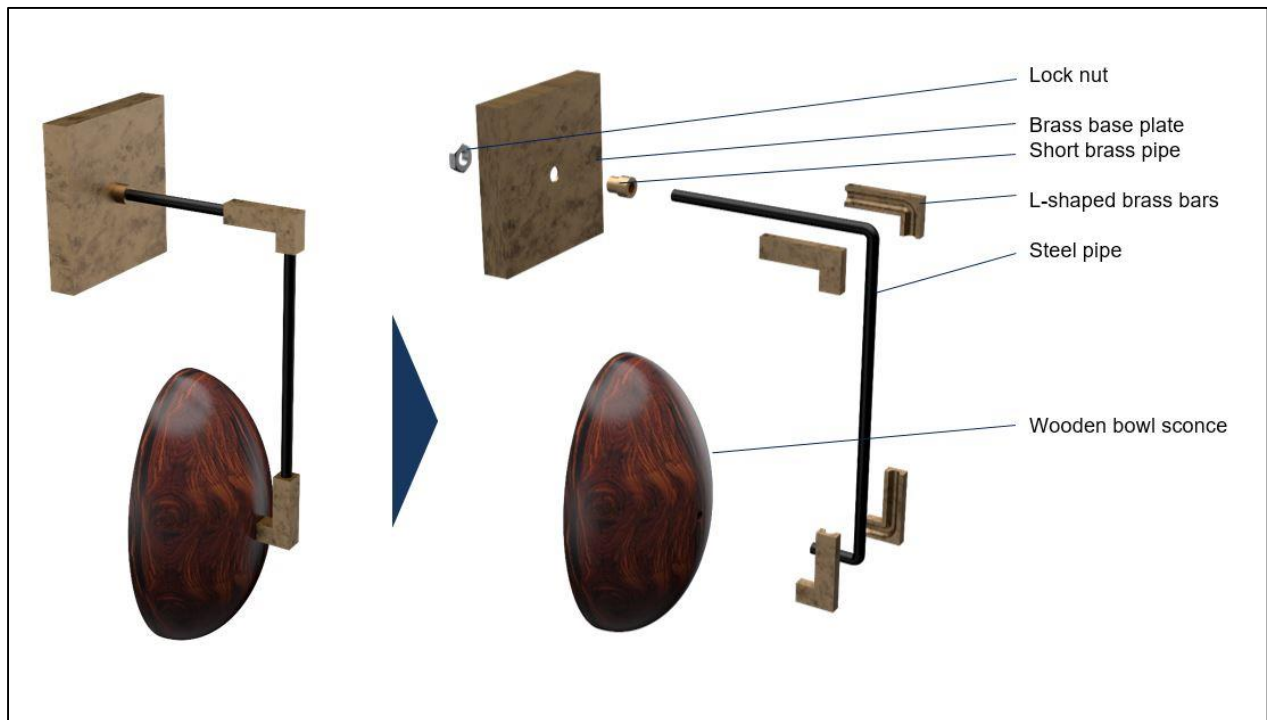
Additionally, the expected margins of such products look very promising for a successful implementation into the 'Love,b' portfolio.



Figure 4-26: Bowl sconce lighting by Apparatus⁸²

The wooden sconce in that example is hand carved by the Turkana tribe of Northern Kenya, where wood carving is a traditional craft. However, the most sophisticated wood-carved pieces within Africa can be found in Cameroon, where wooden masks are used for tribal rituals and spiritual celebrations. The quality differs a lot by region though and the sourcing has to be analyzed thoroughly according to Eugene Kramer, Founder of Tribal Trends in Cape Town. Within South Africa it is difficult to find skilled artisans in the area of carving wood.

⁸² Apparatus Studio (n.d.)

Figure 4-27: Components of the bowl sconce lighting⁸³

The visualized bill of material can be seen above, the complete table with details including sourcing costs are found in the table below.

Components	Quantity	Unit	Total cost [USD]
Wall mounted base plate, originated from brass bar	1	pc	18,48
Pipe short, brass, Ø25x5mm	30	mm	2,00
Steel pipe Ø10x1,5mm	650	mm	3,84
Lock nut	1	pc	0,20
L shaped brass bars	4	pc	12,36
Wooden bowl to make sconce	1	pc	0,50
Electric wire	700	mm	0,10
Socket	1	pc	0,30
Sum			37,77 USD/pc

Table 4-10: Bill of material and sourcing costs for an Apparatus lighting⁸⁴⁸³ Own figure⁸⁴ Own table

The visualized process step on the part itself can be found below:

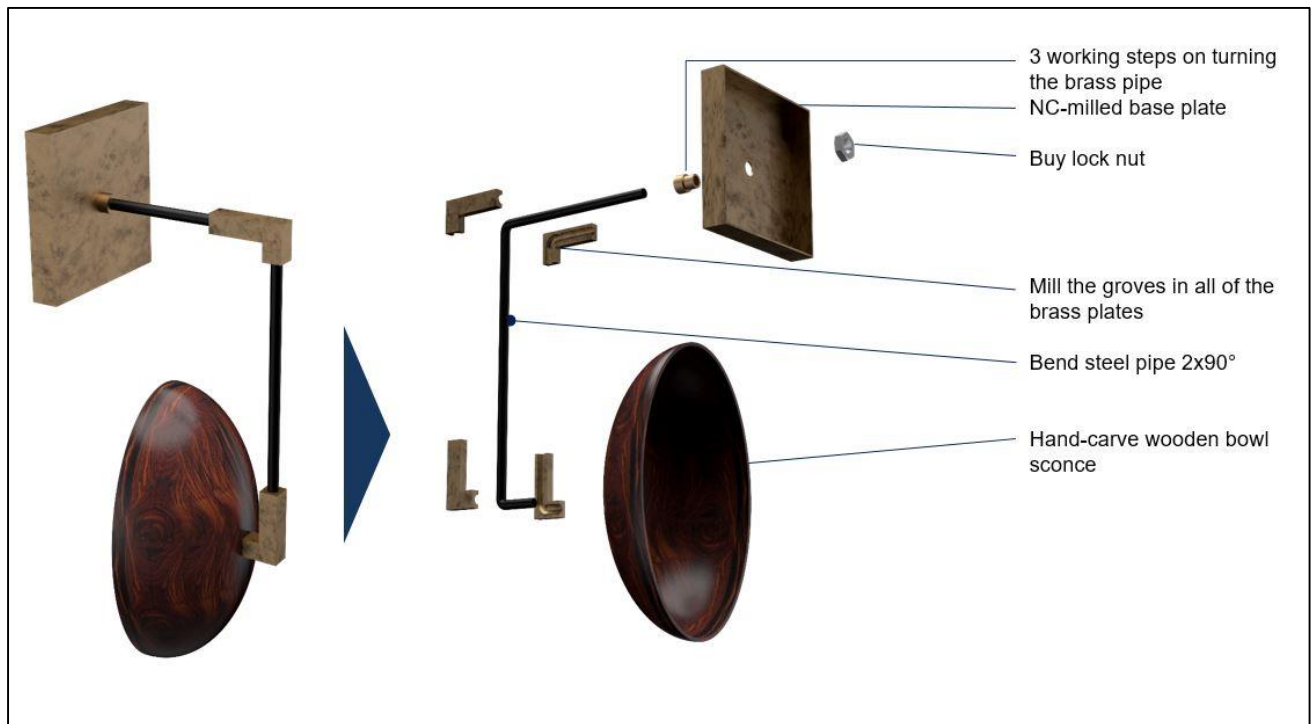


Figure 4-28: Process steps to produce a bowl sconce lighting by Apparatus⁸⁵

The detailed list of process steps is elaborated in the following Table 4-11, where again all the specific process steps plus the duration of each working step is listed. Additionally, some of the parts have to be machined. The machine time is more expensive than the labour time and therefore drives the costs of the working steps including machine time on a milling or turning machine.

Process Step	Duration [h]	Total cost of labour and machinery [USD]
Carve bowl sconce	2	1,5
Cut black pipe to length	1	1,25
Bending of the black pipe twice, Radius 15mm		
NC-Milling of base plate	1	8,75
Turning of short brass pipe:	0,8	5,4
Turn outside geometry (nur den Absatz)		
Tap thread on readily turned part		
Drill hole		
Cut off four pieces from L-shaped brass rod	0,5	1,38
Milling the groove into the four brass pieces	0,5	3,38
Glue two times 2 pieces of the L-shaped brass pieces together on the corners of the bended black pipe	0,5	0,43

⁸⁵ Own figure

Place scone at the end of bent black pipe and fix it with glue	0,2	0,2
Mount the socket with screws	0,2	0,15
Mount the base plate and the short brass pipe onto the other end of the black pipe using the nut	0,3	0,23
Total amount and cost of labor per unit	4,8 h/pc	16,90 USD/pc

Table 4-11: Process steps, their duration and costs of the introduced lighting⁸⁶

In this calculation, just as before, an hourly rate of 75 Cents per hour of labour is applied even though there might be a lower rate available when actually realizing certain parts of the product outside of South Africa. This makes sure the calculations are on the safe side.

The total costs per bowl scone lighting are the following:

Cost position	Costs [USD]
Total cost of labor and machinery per unit	16,90
Total cost of material per unit	37,57
Total cost per unit	54,47 USD/pc

Table 4-12: Total costs per lighting⁸⁷

This is the net price for one piece in production, margins, packing, shipping, taxes, and tariffs still come on top of that.

Brass necklace

The idea behind the brass necklaces were found to origin from a traditional Zulu instrument, the Malimba, which is illustrated in the centre of Figure 4-29. The Zulu tribe is one of the biggest tribes within South Africa, with most of the population located on the North-Eastern coast of South Africa.

⁸⁶ Own table

⁸⁷ Ibid.

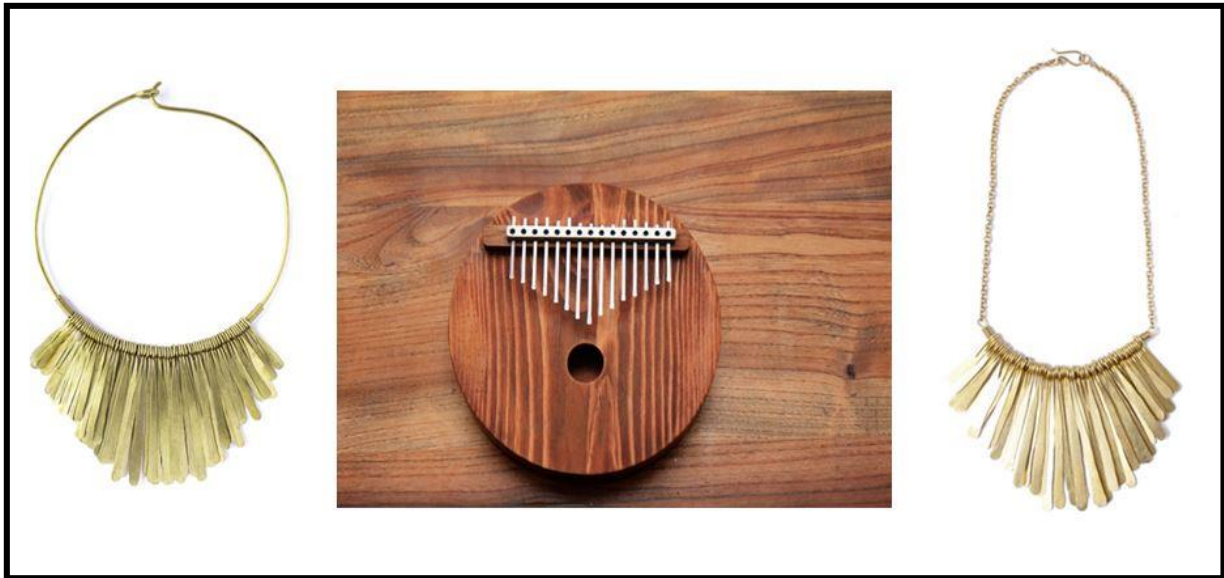


Figure 4-29: Brass necklaces and a Malimba⁸⁸

The main components of the Malimba as well as the brass necklaces are the brass plates which are hand hammered to be flat on the ends or all the way from the mounting. The brass plates have different lengths in order to make different tone pitches on the instrument.

The following figure again shows such a typical brass necklace, the item which will be analyzed in a reverse engineering process:



Figure 4-30: Brass necklace components⁸⁹

⁸⁸ Own figure

⁸⁹ Ibid.

The detailed list of components required for the production of a necklace, including quantities and pricing is the following:

Components	Quantity	Unit	Cost [USD]
Brass rod Ø3mm	0,5	m	2,00
Brass spheres Ø5mm	2	pc	
Brass rods Ø3mm, 4-10cm long	50	pc	
Nylon thread, coloured	2	m	
		Sum	2,00 USD/pc

Table 4-13: Bill of material and sourcing costs for a brass necklace⁹⁰

The overall price was estimated and since the quantities required are very small, the pricing of the components heavily depends on quantities of brass necklaces to be made.

The detailed list of working steps is displayed in the following Table 4-14. Additionally, the duration of each working step was estimated together with an interview partner in the field in South Africa and then taken into account with a rate of 75 Cents per hour of labour.

Process Step	Duration [h]	Cost of labour [USD]
Brass rod is cut into length and bent into a circle.	0,8	0,6
Short brassrods are cut into 50 individual pieces with a length from 4 to 10cm.		
Brass rods are hammered so they are flat at the end.	2,5	1,88
Brass rods on the other ends are twisted with plyers so they can fit around the diameter of the main structural brass rod.	1,5	1,13
Two brass spheres are soldered onto the end after all the brass blades are slid onto the main brass rod.	0,1	0,08
Thread woven around the short, hammered rods.	1,5	1,13
End of the thread is glued onto the thread itself to keep it in place.		
Total amount and cost of labor per unit	5,4 h/pc	4,80 USD/pc

Table 4-14: Process steps, their duration and costs of labour of a brass necklace⁹¹

In this calculation, just as before, an hourly rate of 75 Cents per hour of labour is applied even though there might be a lower rate available when actually realizing certain parts of the product outside of South Africa. This makes sure the calculations are on the safe side.

The total costs per bowl sconce lighting are the following:

⁹⁰ Own table

⁹¹ Own table

Cost position	Costs [USD]
Total cost of labor per unit	4,80
Total cost of material per unit	2,00
Total cost per unit	6,80 USD/pc

Table 4-15: Total unit costs for the brass necklace⁹²

South African mudcloths

Another piece to analyze that was acquired in South Africa were mud cloths and table cloths, respectively. They are often used as decoration or as pillow covers and were picked for pricing analysis because they are well suited for being imported to the United States or used as part of other products.

The following prices in Table 4-16 for the exact same products were found in both, South Africa and the United States.

Product	Cost in Cape Town, South Africa	Cost in Brooklyn, New York	Upcharge
Mud cloths	\$ 6,67	\$ 108,00	1619%
Table cloths	\$ 40,00	\$ 288,00	720%

Table 4-16: Pricing of mud- and table-cloths in Cape Town vs. New York⁹³

All the pricing in the table is retail pricing. The only thing that is missing is, that in case the items need to be shipped to the United States, costs for logistics and tariffs will have to be added to the prices. Anyways, the margins achievable will remain extraordinary and again those pieces are well suited to be used in the course of the project of bStudio.

For all of the discussed products, the wage that came out of calculations from the interviews was taken for the calculations. Since in South Africa the GDP is by far the highest of an African country, the calculations were based on the maximum wages that will likely be required to be paid. In order to be sure what wages are appropriate in different countries and regions, there is no way around getting information from an official source or other businesses active in that area.

Summarized, the total costs of the reverse engineered products compared to the selling prices result in a significant price gap. The details for this matter are discussed in chapter 4.6.1 Pricing and profitability.

⁹² Ibid.

⁹³ Ibid.

4.4.2 Investment calculation

The investment calculation deals with the profits, losses, income, and expenses. The period of investment was defined to start in the third quarter of 2016 and end in December of 2021, that is a 5.5 years long period.

Income

The incomes in the case of the project 'Love,b' are solely generated through sales of the manufactured products.

Period	Q3 2016	Q4 2016	2017	2018	2019-2021
Income	\$ -	\$10.064,00	\$ 80.512,00	\$ 161.024,00	\$ 241.536,00
Sales shell necklaces	\$ -	\$ 1.352,00	\$ 10.816,00	\$ 21.632,00	\$ 32.448,00
Sales Apparatus lighting	\$ -	\$ 7.920,00	\$ 63.360,00	\$ 126.720,00	\$ 190.080,00
Sales brass necklace	\$ -	\$ 792,00	\$ 6.336,00	\$ 12.672,00	\$ 19.008,00

Table 4-17: Income from sales until 2021

The volumes were projected from an expected scenario so that those number were found to be realistic and achievable by all parties involved.

Additionally, the revenues for the projected years come only from the same three products that were used in the reverse engineering process. The product range will definitely be modified over time but the three analysed products were found to represent a good range. As a result, the product quantities were raised above expected numbers to simulate additional product types.

Expenses

Period	Q3 2016	Q4 2016	2017	2018	2019-2021
Current expenses	\$ 6.705,87	\$13.205,87	\$ 48.230,78	\$ 92.461,55	\$ 134.692,33
Staff	\$ 5.000,00	\$ 8.000,00	\$ 24.000,00	\$ 48.000,00	\$ 70.000,00
Product costs shell necklace	\$ 370,27	\$ 370,27	\$ 6.328,11	\$ 12.656,22	\$ 18.984,33
Product costs Apparatus lighting	\$ 711,10	\$ 711,10	\$ 12.014,10	\$ 24.028,20	\$ 36.042,30
Product costs brass necklace	\$ 124,49	\$ 124,49	\$ 1.888,57	\$ 3.777,13	\$ 5.665,70
Advertising	\$ 500,00	\$ 4.000,00	\$ 4.000,00	\$ 4.000,00	\$ 4.000,00

Table 4-18: Expenses until 2021

In the Table 4-18 the various expenses from each period until 2021 is listed. Expenses are divided into:

- Staff
- Product costs of the three reverse engineered products
- Advertising

The costs for staff are expected to arise in the United States where there needs to be someone available to clients. Everything else than the customer service will be handled from South Africa, where labour costs and office spaces are much lower.

The stated product costs were calculated in chapter 4.4.1 Reverse engineering and advertising will be held at a small amount since most of the sales shall be generated through the projects of bStudio.

All of the presented figure assume a collaboration with an existing manufacturer. The option of gathering artisans into a separate workshop, train them and do quality control has been found to be not feasible in the earlier stages of the project. Therefore, there are additional overheads of 20% included in the product cost to cover margins of an existing manufacturer.

Net Present Value

The calculation of the net present value is one of the most common ways to assess investments. In this case, the future profits and losses will be calculated to the date of July 2016 and an annual rate will be applied.

			Annual interest rate	6%	8%
Year	Discount factor 6%	Discount factor 8%	Profit	Present value of profit	Present value of profit
0	1,000000	1,000000	\$ -9.847,75	\$ -9.847,75	\$ -9.847,75
1	0,943396	0,925926	\$ 32.281,22	\$ 30.453,99	\$ 29.890,02
2	0,889996	0,857339	\$ 68.562,45	\$ 61.020,34	\$ 58.781,25
3	0,839619	0,793832	\$ 106.843,67	\$ 89.708,01	\$ 84.815,95
4	0,792094	0,735030	\$ 106.843,67	\$ 84.630,20	\$ 78.533,29
5	0,747258	0,680583	\$ 106.843,67	\$ 79.839,81	\$ 72.716,01
			Total profit	\$ 335.804,59	\$ 314.888,78

Table 4-19: Net Present Value calculation of the investment⁹⁴

The assumed annual interest rates were 6% and 8%, respectively. The resulting profits of this 5-year investment are above USD 300.000 for both scenarios. This is an extraordinary good investment for bStudio since the initial capital required is very low.

Through the existing operations of bStudio, in the initial stage of the project there is no extra office space required nor are the product costs very high compared to the profits coming in. This makes the whole project very attractive from a financial perspective, since the humanitarian aspect can then be even more prevalent and more profits can be reinvested in different various projects.

⁹⁴ Own table

Liquidity

The change in liquidity is shown in Figure 4-31, where the expenses are subtracted from the income and then cumulated after each period.

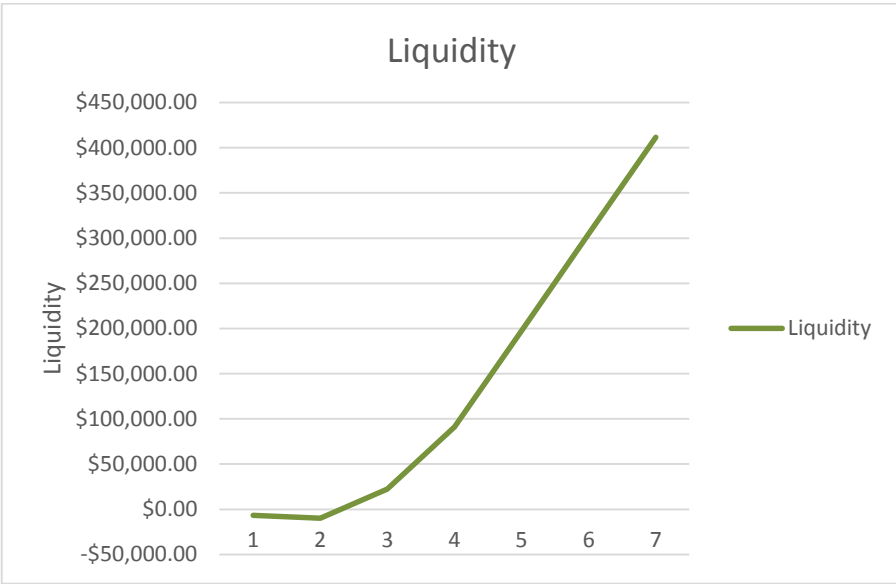


Figure 4-31: Change in liquidity from Q3 2016 until 2020⁹⁵

The negative financial at the beginning will not exceed USD 10000 and will be matched by funds of bStudio. With additional funds coming in from the first sales of products through projects of bStudio, the financial gap will be closed as soon as mid-2017.

⁹⁵ Own figure

Break-Even Point

For the Break Even point analysis, the cumulated expenses and the cumulated incomes are compared. The point where the cumulated expenses hit the cumulated incomes is called the Break Even point and the company does not make any profit or loss.

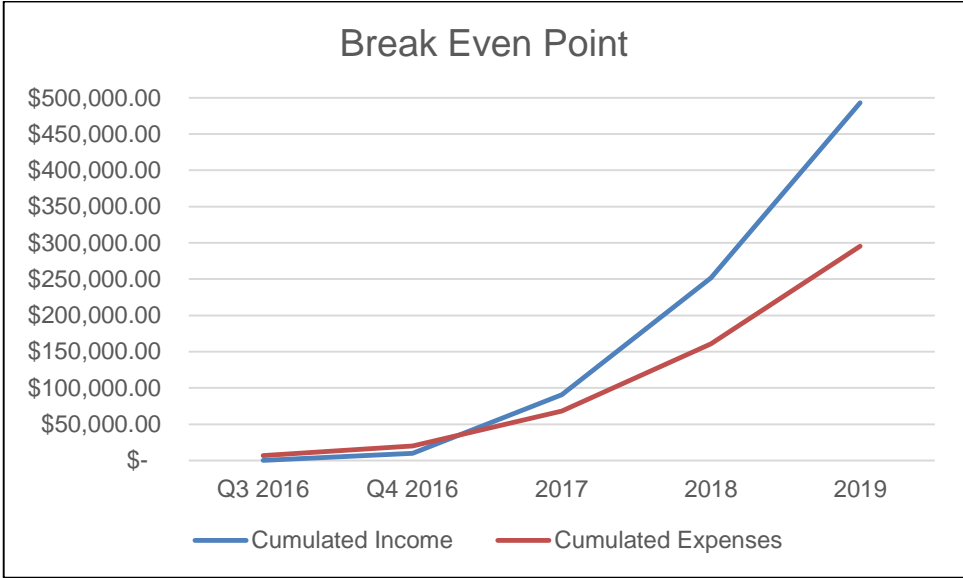


Figure 4-32: Break Even Point⁹⁶

So the projected point in time to break even and starting to make profit is in early 2017.

Different scenarios of sales

The assumed scenario from the previous calculations is based on estimations and can vary. The numbers used were found to be realistic and feasible and shall therefore remain as the base of all the calculation.

However, things can always run differently than expected and therefore different scenarios are simulated in the following chapter.

In the worst case scenario, 50% less sales volume was assumed. Also the total product costs become less, but also the fixed costs remain the same.

⁹⁶ Own figure

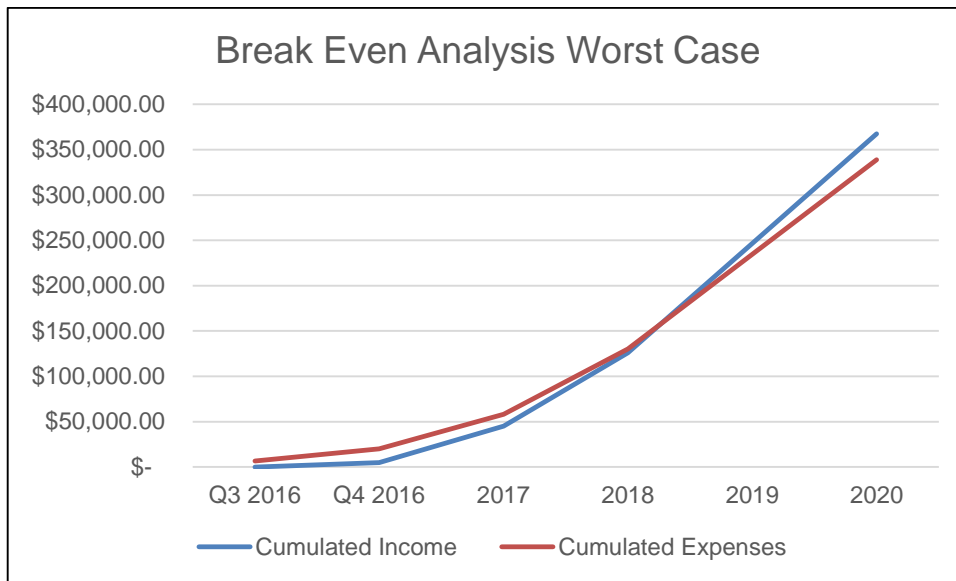


Figure 4-33: Break Even point in worst case scenario⁹⁷

In this worst-case scenario the Break-Even point would be in the beginning of 2019. Additionally, the profits are only very small and this scenario would mean a low growth rate due to limited funding.

On the other hand, a best case scenario was simulated. The assumption was an increase in sales of 50%, which boosted the profits from a very early stage of the project.

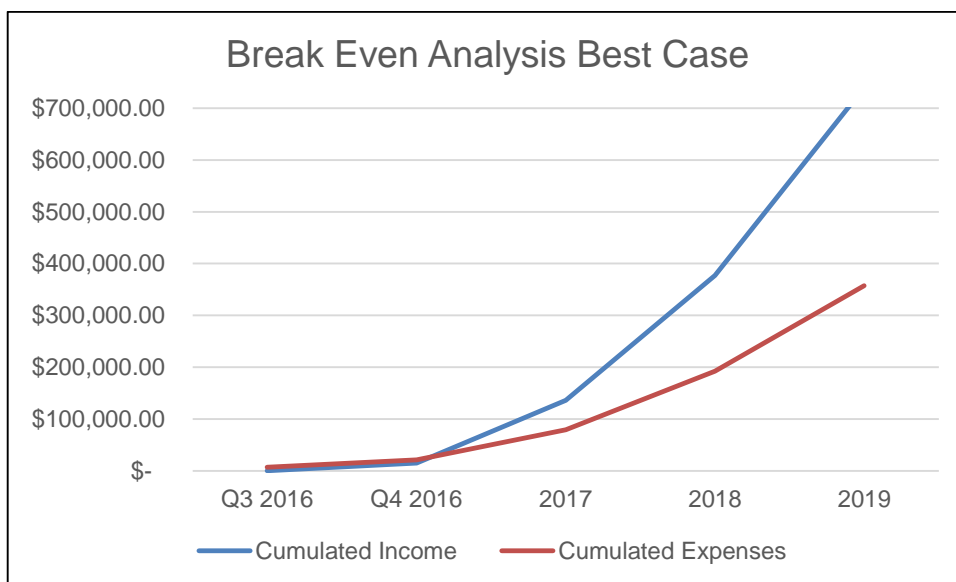


Figure 4-34: Break Even point in best case scenario⁹⁸

In this scenario the Break Even point would be reached already in the first months of 2017, which appears very optimistic from today’s perspective.

⁹⁷ Own figure

⁹⁸ Own figure

Scenario overview

The introduced scenarios are summarized in Table 4-20 to offer a better overview.

	Worst-Case scenario	Expected scenario	Best-Case scenario
Total revenue	-50%	Expected	add 50%
Total costs	add 20%	Expected	-10%
Required financing	\$ 18.862,10	\$ 9.847,75	\$ 7.144,37
Break-Even-Point	May 2019	June 17	February 2017

Table 4-20: Financial overview of different scenarios⁹⁹

While in the best case the project will break even already in early 2017, in the worst case scenario it will take much longer until beginning of 2019. The required financing is not very high in any of the cases, that is what makes the project financially attractive.

4.5 Handmade design pieces in the United States

Besides the in depth discussion of various related topics to the situation in Africa, the US market will be the one where the items shall be sold. To study such a large market as the US market, it is almost impossible to get reliable data through primary market research through the course of a Master's thesis. The data in this section almost exclusively comes from secondary sources and shall only roughly define the present market situation.

The market size of craft products in the United States is about \$30 billion. The Craft and Hobby Association (CHA) divides the market of crafting into the following craft types:

- General crafts like wood working and food crafts
- Fine arts
- Paper
- Needle
- Artistic
- Sewing
- Jewelry and beads
- Floral

Since the CHA does the most extensive studies in this sector, their method of dividing the market shall be applied.

The following Figure 4-35 shows an overview of the revenues of the sectors of crafting:

⁹⁹ Own table

Craft type	Includes	2010 sales, in billions	Share of total spending
General	Woodworking, food crafts, non-sewing décor	\$9.92	34%
Fine arts	Drawing, art painting, sculpture	\$3.70	12.70%
Paper, memory	Scrapbooking, card making, rubber stamping	\$3.35	11.50%
Needle	Crocheting, knitting, cross-stitch	\$2.86	9.80%
Artistic	Decorative painting, pottery making, glass crafting	\$2.61	8.90%
Sewing	Fashion sewing, quilting, home décor	\$2.46	8.40%
Jewelry, bead	Jewelry making, bead crafts	\$2.29	7.90%
Floral	Floral decorating, wreath making	\$1.99	6.80%
Total		\$29.18	100%

Figure 4-35: Money spent on crafting in the United States¹⁰⁰

The top crafts by revenue are Woodworking, drawing, and food-crafting, which experienced a boost in revenues due to the hype around TV cooking shows.¹⁰¹

The revenue numbers displayed do not differ by origin of the craft. There are many hobby crafters within the United States that make up for the larger portion of the national sales figures. Estimations based on the 2012 State of the craft industry study by CHA are, that around 63 million citizens in the United States participated in one or more crafting activities in the last year.¹⁰²

Data which describes who is actively involved in the US crafting market were also derived from studies. Therefore, US crafters are significantly more likely to be female, have larger households, and have children.

- About 72% of all crafters in the United States are female.
- The average household size is 2.94.
- 42% of all crafters have children.
- Ethnically, crafters are fairly representative of the total population, and
- Nearly half (47%) of crafters state that they have been crafters for more than ten years.¹⁰³

This data comes from the US market but from all the impressions in Africa and the interviews, the numbers should not be completely different on the African market. Particularly women still have the role of doing the less physical tasks in the family and crafting mostly isn't physically exhausting.

¹⁰⁰ CHA (2010)

¹⁰¹ Cf. Ibid.

¹⁰² Cf. CHA (2012), p. 4

¹⁰³ Cf. CHA (2012), p.3

Additionally, the steadiness of the crafting market is appealing. The market size slowly grew from \$28.6 billion in 2010 to \$29.2 billion in 2012, which is an annual growth rate of about 1%.¹⁰⁴

Jewelry making, be it using beads or metals, is also very appealing to use as a base craft to design products for the project ‘Love,b’. Especially in and around Cape Town there are plenty of jewelry makers and they are almost exclusively women. Going back to the numbers from Figure 4-35, the size of the crafted jewelry market is about \$2.3 billion per year.

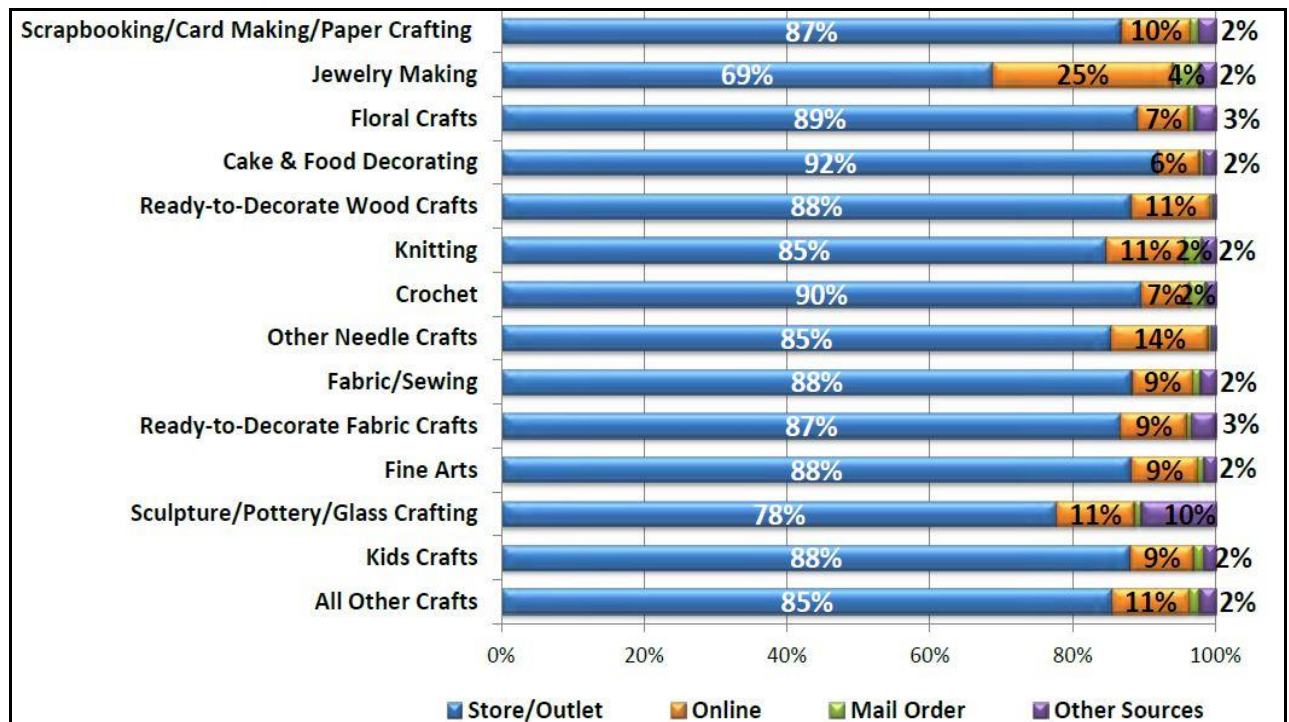


Figure 4-36: Through which channels are crafts bought¹⁰⁵

When looking at consumer behaviour in the US and where crafts are purchased, the following things became apparent:

- The average crafted piece is still bought through a physical store, the percentages are around 80 to 85% percent, depending on the type of craft.
- Jewelry is an exception, about 25% of revenue from crafted jewelry comes from online sources.
- The average percentage of revenue from online sales lies around 10%, again depending on the type of craft.

¹⁰⁴ Cf. CHA (2010) and CHA (2012), p.

¹⁰⁵ Cf. CHA (2012), p.19

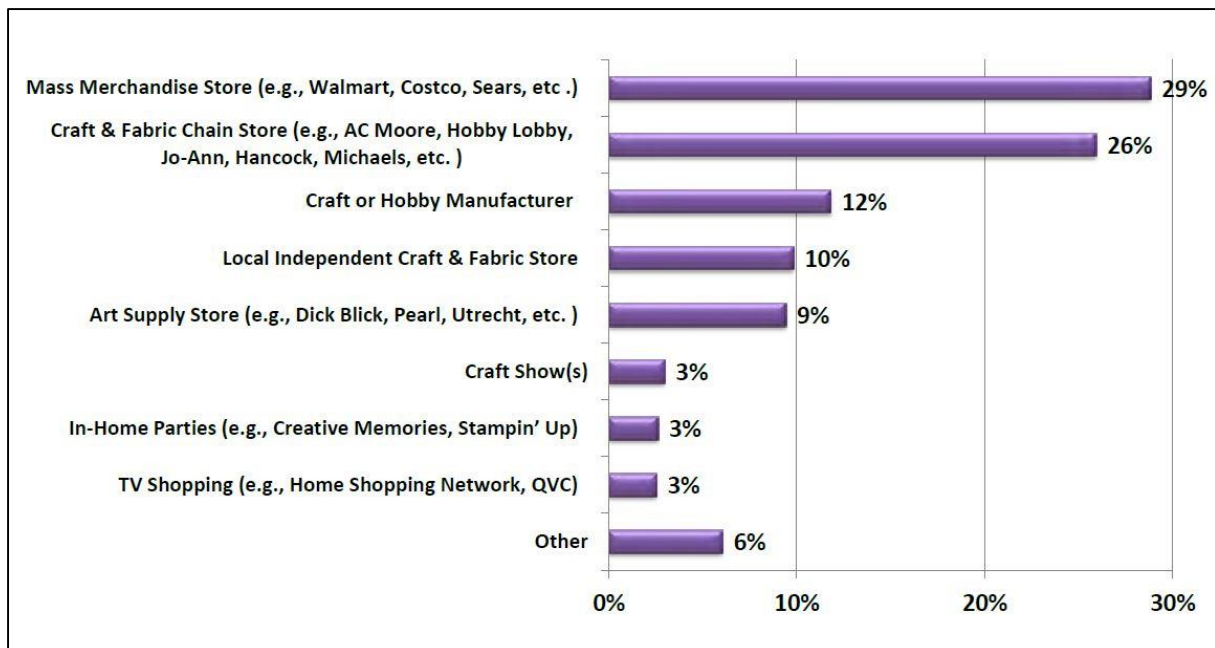


Figure 4-37: Crafting Sales Channel Leaders: Stores¹⁰⁶

Even nowadays, the largest portion of crafts is acquired in physical stores. The figure above shows what type of stores generates which revenue in percent of the whole revenues coming from stores. One thing that will be of interest to the 'Love,b' project are the boutique stores. Since the desired products will be high-end, exclusive boutiques are of greater interest as retail partners.

In summary, on a market that is as large as \$30 billion and steadily growing, there is definitely room for high-end craft pieces that are produced with a humanitarian intention. Especially in Los Angeles and New York City, the targeted locations to start retailing, there are many clients who potentially spend larger amounts on crafts and design pieces. The density of high-end boutiques is large than anywhere else in the country and according to Ms. Carlson, architect in New York City, the desire for unique, hand-crafted design pieces is greater than ever. The imperfections of hand-made items have become very desirable compared to their sleek, mass manufactured counterparts.

4.6 Business model

This chapter contains various aspects that altogether form the business model and how revenue shall be generated.

4.6.1 Pricing and profitability

Finding the right pricing before bringing products to market is crucial in order to sell effectively. In chapter 4.4.1 three products were reverse engineered in detail and in this chapter the retail and wholesale pricing of those products shall be discussed.

¹⁰⁶ Cf. CHA (2012), p. 49

Wholesale pricing

A large percentage of sales of many of the interviewed business people come from wholesale. Mostly because it is hard to establish an online platform that sells really well just from the own company.

The important thing about wholesale pricing is to cover all the costs and also include a profit margin. The size of the profit margin, or whether there will be one at all, depends on who the wholesale client is. In the scenario of being new on the market and wanting to make a name for the firm, the quickest way to achieve attention is to get a large retail chain to pick up the product in their spaces. For that scenario though, there is usually barely any room for margins. In most cases, this is seen as an investment and therefore the wholesale pricing becomes initially non-profitable.

For the reverse engineered products from chapter 4.4.1, the total cost structure is calculated in the following table:

Product	Quantity	Local product cost	Packing and Shipping	Duties	Total product cost USA	Margin	Wholesale price
Shell necklace	16 pieces	\$ 20,96	\$ 16,11	\$ 4,19	\$ 41,25	5%	\$ 43,32
Apparatus lighting		\$ 54,47	\$ 18,29	\$ 4,36	\$ 77,12	5%	\$ 80,98
Brass necklace		\$ 6,05	\$ 7,72	\$ 0,48	\$ 14,26	5%	\$ 14,97
Shell necklace	192 pieces	\$ 18,86	\$ 5,80	\$ 3,77	\$ 28,43	5%	\$ 29,85
Apparatus lighting		\$ 43,20	\$ 6,58	\$ 3,45	\$ 53,23	5%	\$ 55,89
Brass necklace		\$ 5,45	\$ 2,78	\$ 0,43	\$ 8,66	5%	\$ 9,09

Table 4-21: Calculation of a wholesale price¹⁰⁷

There are various details to consider in this table which have relevant influence on the calculated wholesale price:

- Product quantity
- Duties
- Desired Margin

The product quantities constitute the greatest influence on the final price point. The local product costs remain quite stable with varying quantities because all or most of the work is manual work, meaning there is no more efficient machinery in use for larger quantities. Only the material sourcing costs will vary,

Since the local product costs don't differ very much by quantity due to the hand-crafted products, the packing and shipping costs vary to a much great extent. The packing and shipping cost at a quantity of 16 pieces range from 34% to 127%, while at a quantity of 192 pieces, the range goes from 15% to 51%. The quantities of 16 and 192 pieces, respectively,

¹⁰⁷ Own table

were chosen because at that amounts the packaging fits standard sizes such as a palette or a norm sized box.¹⁰⁸

The shipping costs only make such a big portion of the total price because of the extraordinarily low cost of labour. At such small quantities, it is much cheaper and especially much faster to use air freight, which takes about eight days, compared to sea freight, which takes around two-and-a-half to three months from Cape Town to New York or Los Angeles.¹⁰⁹ On top of that, there has to be time calculated into the shipment for custom clearance.

The percentages of duty added to a product comes from the HTS system, where all sorts of products and materials are included in order to add the right percentage of duty. For the three products used here, the percentages are:

- Shell necklace: 20%
- Apparatus lighting: 8%
- Brass necklace: 8%¹¹⁰

Generally, percentages range from Zero to 20% of duty on imported products. Zero percent only applies to items that are part of AGOA, a trade-promoting agreement between the United States and various countries in Sub-Saharan Africa.

Finally, the desired profit margin has to be picked carefully for wholesale clients in order to offer a competitive price point.

Retail pricing

A whole different price point will result from calculating retail pricing. The whole cost structure will remain identical to the one in Table 4-22, except that the margin needs to be at a whole different level.

The competitive strategy followed determines in what range the retail mark-up will be. Generally, when a differentiation strategy is followed, like in the case of bStudio, higher mark-ups are realizable since the selling point of the products is not or only marginally driven by the product price.

There is no general rule of what a typical mark-up for retail pricing is, but a good indication usually is that when a store has their maximum percentages of sale, the product costs are still covered. Ms. Carlson from bStudio, who also is a Professor at the FIT, the Fashion Institute of Technology in New York City, stated that a typical mark-up in jewelry design is 330% on the production cost.

¹⁰⁸ Own calculations based on shipment offers from Fedex and DHL

¹⁰⁹ Information based on shipment offers from Fedex and DHL

¹¹⁰ Harmonized Tariff System (2016)

So for this example, exemplary retail prices for the reverse engineering products would be the following:

Product	Quantity	Total product cost USA	Margin	Calculated retail price	Actual retail price
Shell necklace	16 pieces	\$ 41,25	330%	\$ 177,39	\$ 169,00
Apparatus lighting		\$ 77,12	330%	\$ 331,62	\$ 2.300,00
Brass necklace		\$ 14,26	330%	\$ 61,30	\$ 89,00
Shell necklace	192 pieces	\$ 28,43	330%	\$ 122,26	\$ 169,00
Apparatus lighting		\$ 53,24	330%	\$ 228,94	\$ 2.300,00
Brass necklace		\$ 8,66	330%	\$ 37,24	\$ 89,00

Table 4-22: Calculated and actual retail prices¹¹¹

The calculated prices clearly differ from the actual retail prices that were found in actual stores and there are several reason that can be used for explanation:

- For the shell necklaces, the actual retail price was found to be slightly lower. The actual retail location was in Cape Town, where all the packing costs, shipping costs, and duties don't apply.
- For the Apparatus lighting, the actual retail price is almost 700% above the calculated retail price, which is great when viewed from the position of bStudio. The reason can firstly be found in the standing of Apparatus. Apparatus is very well established and renowned for their extraordinary lighting and furniture. Secondly, Apparatus lighting is manufactured in the United States, except for the wooden bowl sconce. In the US the machine and labour costs are multiple times higher than in South Africa.
- For the brass necklace, the actual retail price is about 45% higher than the calculated retail price. There is no obvious reason for the discrepancy except for that the necklace was sold in a very touristy area of Cape Town and therefore pricing was adapted.

Generally, the deviation of calculated and actual retail prices can be well explained in the analyzed scenarios. Since the calculations are based on conservative numbers in each step of the calculation, the actual product costs are likely to be more or lower than the ones presented in the various tables and therefore the margins are likely to be even higher. Additionally, higher margins allow the project of bStudio to focus more on the humanitarian aspect of the business, which is intended to be the focus of the whole project anyways.

¹¹¹ Own table

4.6.2 Competitive strategy

As introduced in chapter 2.3, there are three main different competitive strategies that firms usually follow:

- Cost leadership
- Differentiation strategy
- Focus strategy

So for the case of bStudio, the intention is to sell high-end unique design items. There is a need for handmade design items according to the experience of Ms. Carlson, head of bStudio who works with private clients on a daily basis. The imperfections of hand-made design pieces is what makes them so desirable. All of the mass produced items are sleek and often don't have their own identity. So what she sees throughout her clientel as a niche for high-end design pieces. This would suggest to aim for a differentiation strategy but on a closer look, the targeted segment is probably not wide enough to tackle the whole US market. It is more of a niche that shall be served which leads to a focus strategy.

Focus strategy can again be splitted into:

- Focus – Cost leadership and
- Focus – Differentiation strategy

So the result will clearly be differentiation within the focused segment. The targeted clients live in the biggest cities around the United States and are well funded to spend above average amounts on functional or non-functional table top items and design pieces.

4.6.3 Five Forces Analysis

An easy to use but very powerful tool for analyzing the industry competition and the market situation is the Five Forces analysis by Michael Porter. The tool was introduced in chapter 2.3.2 and the analysis shall be conducted in this chapter.

Existing competition

What is called "rivalry amongst existing competitors" falls into this category. Existing competition to bStudio is definitely the market of mass produced goods. The focus of 'Love,b' must be on high quality material and craft that was hand-manufactured. This selling point definitely has to be emphasized.

Additionally, there are many tiny organizations which sell through large online platforms like "etsy". There they have their own webpage to sell the items and etsy offers them access to a very large crowd. This is definitely a competition to keep an eye on.

Bargaining power of buyers

The situation here is not evaluated as being very crucial, clients seek the uniqueness of hand-crafted design pieces compared to mass manufactured pieces from Asia.

Additionally, the humanitarian aspect of the project and its products will be prevalent and offer another selling point.

There is plenty of supply of handicrafts, but not in the high-end section that bStudio is targeting and therefore the buyer power is evaluated as rather low.

Bargaining power of suppliers

Contrary to the bargaining power of the buyers, the suppliers are in a stronger position. There aren't many suppliers for high-end items and therefore bStudio is in a good position.

The limits of course lie in the upcharges on mass produced pieces. Customers are willing to pay a premium price on something special but there are limits in price acceptance.

Threat of new entrants

The market of hand-crafts is not very hard to break into if you live in the market where you want to sell a product. In the scenario of the project 'Love,b', most of the African artisans do not have the knowledge or the means to sell on an international platform. So from the African side there is only little threat.

From the United States on the other hand, there is more threat to be expected. Especially in the premium segment, margins become larger and that gives room for artisans in high wage countries to make a living from crafting.

Product substitutes

The market of mass produced items is doing well but direct substitutes are not to be expected. The uniqueness of the hand crafted is the main selling point. Since the items are most not functional or only with limited and simple functionality, the threat of a different technical solution is not existent.

This analysis is the base of how to move forward in a business situation. Based on the information in this chapter the business strategies can be developed.

As mentioned before, the targeted sector is quite narrow and the clientel mainly lives in large cities. The situation for looks like bStudio detected a niche in their own surroundings where the project bLove can fit in really well. The resulting competitive strategy will be a differentiation – focus strategy.

4.6.4 Logistics

This chapter is an addition to all the financial calculations since the logistic costs make up for a major portion of the total product cost.

Various different countries of origin as well as different destinations make this a wide spread topic. Often is it also not easy to determine exact values for different methods of shipping, therefore the results from this section will only be an indicator of how large the part of logistic costs will be in the whole product cost.

The following logistic costs, which were calculated for a couple of model examples, consisted of the following sub-groups of costs:

- Packaging
- Shipment
- Duty and Tariffs

In addition to the categories, different scenarios were analyzed. Starting with a small scale approach, which means sending packages via air freight with only small amounts of pieces to larger scale which means using containers in partial or in full.

Packaging

Packaging costs were calculated adding up estimated times used to package the goods. Additionally, the packaging material used for each of the model examples to come up with total packaging costs.

To make the approach simpler and less diversified, packaging labour cost are unified for different countries in Africa. This causes slight deviations from the actual packaging costs for each country, but since import duties and tariffs vary strongly depending on how the U.S. Customs and Border Protection evaluate a product or design piece, the deviations resulting from varying packaging costs are negligible compared to duty and tariff variation.

Shipment

Shipment is definitely a central topic of the project since all the goods are intended to be sold overseas. While on smaller quantities, air freight is definitely the way to go, on larger quantities partial or whole containers will be advisable. This highly depends on how time critical shipments are since shipments can take up to three months including customs clearance. Air freight on the other hand takes around 8-10 days with some additional days for customs clearance.

Another challenge for shipping might be the infrastructure of the various countries. While South Africa is well developed in that respect, other countries like Madagascar are not at all. The lack of proper infrastructure within the country makes any transportation difficult and unreliable and should be taken into account before confirming delivery dates.

Also, pricing of shipments varies quite drastically by country. Examples from interviews show that shipping from Kenya or Madagascar to the United States is 40%-65% more expensive than shipping from South Africa to the United States. Additionally, the expected shipping duration rises by multiple weeks.

Duties and Tariffs

Duties and tariff apply to most goods that come into the United States. The percentages of the duty rates are defined in the HTS groups, which is the Harmonized Tariff System of the United States. This is a very comprehensive system which makes is hard for non-experts to find the

right tariff rate. That is why most firms who import to the United States use a broker who deals with the authorities.

African Growth and Opportunity Act

The African Growth and Opportunity Act, or AGOA, has been approved by the United States Congress to assist sub-saharan countries in their economic development.¹¹² It aims to accelerate the improvement of economic relations between the USA and 39 sub-saharan countries. When a country is part of the AGOA agreement, certain products and products categories may enter the United States free of import duty.

In 2014, the USA imported US \$26 billion worth of goods through the AGOA distributed on the 39 countries which are part of this legislation. Only one country that has been part of this project, Madagascar, was excluded from the program in 2009, but membership was reinstated by June 2014 and is now fully valid.¹¹³

There are currently 7000 tariff-lines eligible for AGOA application. Tariff lines are categorized by the Harmonized Tariff System, which is a very comprehensive list of product categories. The eligible product categories can roughly be summarized into:

- Some clocks and watches
- Certain apparel and textiles
- Certain electronics
- Certain kinds of steel and other metals
- Certain semi-manufactured and manufactured glass products¹¹⁴

There are multiple other criteria for AGOA eligibility. Different rules of origin must be satisfied, the article must be grown, produced, or manufactured in the AGOA beneficiary country.¹¹⁵

To clarify eligibility of a product for the AGOA agreement, a licensed custom broker is highly recommended to hire, as this was the experience of most of the interviewees. Furthermore, when dealing with shipments to the United States worth over US \$1000, the customs in the United States will not deal with individuals handling their imported goods anyways. A licensed broker is not optional at that point in time, which makes hiring a broker up front not a large additional expense, since the broker then already knows what exactly the shipped goods will be and can then already prepare the customs declaration.

Summarized can be said that trying to declare products as an AGOA benefitted product is highly desirable.

¹¹² Cf. International Trade Association online (n.d.)

¹¹³ Cf. AGOA (n.d.)

¹¹⁴ Cf. U.S. Customs and Border Protection (2006), p. 68f.

¹¹⁵ Cf. Agoa (n.d.)

4.6.5 Marketing Strategy

Marketing describes any of the communication between the firm and its customers and potential customers. The goal is to increase sales, increase company value, and create a name for a brand.

The target markets for marketing measures have to be selected carefully to service the targeted customers and not a random audience.

BStudio has been using multiple actions the firm is already comfortable with due to their field of business in architecture and interior design. The intended activities of marketing for this project are the following:

- Provide free samples to be used in high-profile projects.
- Provide samples for high-end photo shoots.
- Have celebrity spokes people.
- Partner with somebody and use the products as an addition to a stand or showroom on the largest trade shows NY and Highpoint.
- Communicate the humanitarian importance on the product with a tag and on the website.
- Have a “One-for-One” policy with the role model of “Toms”.
- Donate a share of the profits to charity or re-investing back in the communities producing the products.

Through several of their own projects and through befriended architecture firms, bStudio has access to several high-profile projects and their associated clients. Placing decorative products within photo shoots of those spaces creates a lot of attention in magazines, which should then be linked back to bStudio.

Furthermore, bStudio’s presence in Los Angeles, CA, allows the firm to have access to multiple renowned artists and actors who have a wide range of exposure. Convincing someone of a humanitarian project is not as tough and costly as coming from a purely monetary motive.

Another great channel of marketing are the trade shows. The biggest ones in the United States are the:

- High Point market and
- New York now

High point is the world’s largest trade show for furniture and NY now is a wholesale products and innovative designs tradeshow. Both take place twice a year and offer a very large spectrum of potential clients. The goal is to have partnerships with firms that have stands or showrooms on those market and co-operate with them to put on ‘Love,b’ products for an additional decorative aspect.

One-for-One policies have experienced a big upswing especially through one company. The concept is simple, for every piece that is bought, another piece of the same product gets donated to people in need. Toms utilized this model very successfully simply by starting with

shoes. With every purchase of a pair of shoes, Toms gives another pair to a child in need. In the meanwhile, Toms has grown very large and expanded into different fields like glasses, coffee, and apparel.

The concept remains the same or similar. For glasses for example, the concept is shown below in Figure 4-38.

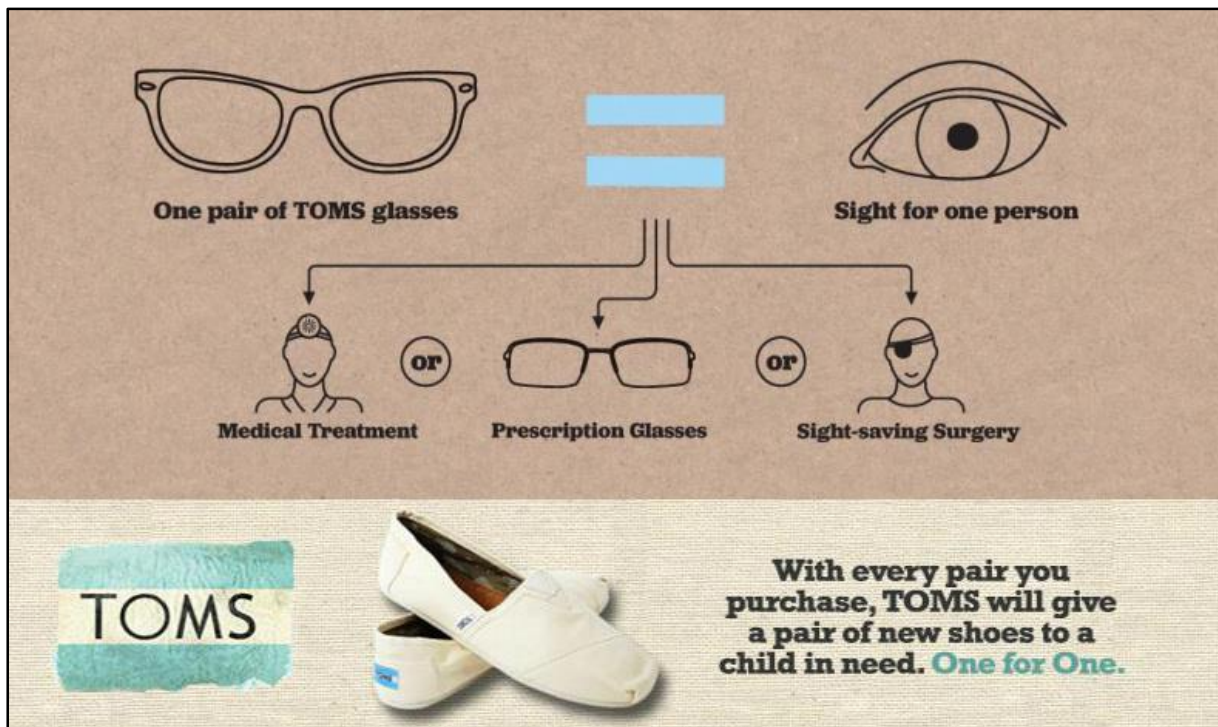


Figure 4-38: Toms campaigns with glasses and shoes¹¹⁶

The start of Toms also had to do with multiple celebrities, who were convinced to wear Toms shoes in the very early stage of the business. The idea worked extraordinarily well and helped Toms to jumpstart their business.

The marketing mix of 'Love,b' will likely contain all or at least most of the introduced measures, simply because they are all feasible and due to the good network of bStudio, campaign can be started more easily.

¹¹⁶ Toms (2016)

5 Summary and recommended course of actions

In this final chapter, the results of all the work that went into this thesis is prepared and summarized into a recommended course of a series of actions.

5.1 Summary of the presented content

Looking back, the selection of interview partners was very suited to ensure valuable outcome. The interview partners were able to give great input and proved to be very knowledgeable.

1 General African market information

- Cape Town and South Africa obtained a big push in the creative industries through being World Design Capital in 2014.
- African countries suffer from extraordinarily high **unemployment rates**, e.g. South Africa has roughly 25% unemployment. Most of the unemployment comes from uneducated citizens, which is exactly the target group of the project.
- **Unemployment rate for women** are significantly **higher** than men's rates. Youth unemployment for citizen between age 15 and 24 is the highest of all categories. South Africa has youth unemployment of over 50%. Both those categories fit right to the targeted group of artisans that shall be empowered.
- **Languages** are a central topic. Even though some of the Western business languages are spoken in larger urban areas, the majority of artisans do not speak those languages. In Africa over 1000 different languages are spoken, most of them are traditional to the country or region. The use of partners who know the language or have an active presence in a location is inevitable.
- Even within South Africa language is not an easy topic. South Africa has 11 official languages, most of them are traditional tribal languages. In the urban areas, even many uneducated people understand some English, but outside of the largest cities it becomes a lot more difficult.

2 Company structures of existing businesses

- Most regular companies are aiming for profit and job creation.
- Many **international business people** focus partially or fully on the **humanitarian** aspect.
- Many non-profit organizations which try to empower locals are present.
- Design is a central subject and crucial for sales. Sometimes designers are employed only for design, in some exceptions artisans come up with the designs themselves. Companies are open for contract work, but it is not an easy process to receive the desired product.

3 Organizational structures

- Different approaches are followed, depending on the product.
- More **machinery** and skill heavy organizations tend to be **centralized**.
- Others have artisans work from home and also let them do their own designs.
- Some are very **effective** by **not employing** the artisans. They buy their products only if they are in the right quality. Huge increases of product quality occurred, otherwise the artisans tend to only do the minimum of what is required, resulting in poor products. Permanent supervision is required in those cases to keep productivity and quality at an acceptable level.

4 Community Involvement

- Companies tend to add a share of their artisans' income to funds that profit them. One of the most popular is a **burial fund**, which helps artisans cover the costs of funerals within their families. Funerals have an enormous importance to many people due to their traditions and religions.
- Companies also tend to set up **bank accounts** for their employees.
- There are many organizations that actively re-invest into the local communities with initiatives like '**One-for-One**' campaigns or the 'Tough Stuff' project where solar panels were handed out in rural areas so that locals could have light at night and also charge their phones.

5 Cultural differences and issues

- **Work ethics** are clearly not the way a person in the Western world is used to and productivity expectations have to be adapted. Generally, people do want to work, but the feel of the whole working environment has to be very relaxed and warm-hearted. Measures to enhance the situation are:
 - Performance dependant wages.
 - Constantly supervise.
 - Not employ artisans but buy the ready products from them, this has also been found to be a quality boost.
- The vast majority of artisans is **uneducated**. This results in a lack of understanding of how businesses work.

Artisans often honestly do not have any clue what it means to:

 - Run a business in market surroundings.
 - Meet deadlines and quantities.
 - Deliver high quality.
 - Plan working hours and to be productive.
- Due to the poverty of many artisans, **theft** of raw materials is quite common.
- **Change in social standing** can be an issue, especially for women. When there is a group of artisans working together, they all see themselves as equals. As soon as one out of their group is promoted to be group leader, gain responsibility and a higher wage, there is a danger of not being accepted within their group any more. The person then isn't one of their own any longer and therefore this topic is a very delicate one.

6 Quality Control

- This is probably the most **crucial topic** of all. Quality is a must to be successful in business and the desire to produce quality products has not arrived yet in Africa.
- As a Western organization who plans to do business in Africa, it is almost impossible to not **have somebody on site** who overlooks operations to ensure things are done properly.
- A way to drastically **enhance quality** is to **not employ** artisans but to buy products from them. Some organizations reported to be very successful through that, others mentioned some restrictions. In Madagascar for instance, people really want a steady income instead of having the pressure to perform on themselves. This put every entrepreneur in front of big challenges.

7 Outstanding organizations

- Especially for early stages of business, contacts and building network are crucial. Two organizations that were interviewed absolutely stood out in that regard: **Tribal Trends** and the **CCDI**.
- The first organization worth mentioning is the CCDI. That is the Cape Craft and Design Institute, a publically funded non-profit which is purely there to promote the industry and to connect organizations. They have a great network of organizations working with artisans as well as investors. It is definitely one of the prime contacts to stay in touch with, as initial meetings have already been conducted with a very positive outcome and interests from both sides.
- The other outstanding organization is Tribal Trends, run by Eugene Kramer. The store sells craft and design pieces as well as artefacts from all over Africa in his store in Cape Town. Many extraordinary items were found in his store and Mr. Kramer knows the details behind every single one of them. He is an absolute expert in the field and he offered his assistance for the project, which is a great prospect for initial start-up of the project.

8 Where do artisans make which products

- The different geographical areas have been elaborated in detail in chapter **Error! Reference source not found.**
- In summary can be said, that in all of the introduced countries, there are **specialties** that are **sourced best in that country**. For example, in Benin and Togo there are very skilled, high-end brass and bronze artists, in case those metals shall be included in products.



Figure 5-1: Countries of interest¹¹⁷

- For information about specific products, the detailed elaboration in chapter **Error! Reference source not found.** should be utilized.

9 Financials

Based on the elaborated financial projections, a decision about whether the project makes sense from a monetary perspective can be made.

The elements of the financial elaboration in this thesis are:

- Reverse Engineering
- Investment calculation
- Pricing model

Reverse Engineering

- Three **dummy products** which are very representative of actual products were chosen for the **reverse engineering** process, a shell necklace, an Apparatus lighting, and a brass necklace.
- For each of the products, a detailed **cost structure** was elaborated and bottom line, cost of labour and cost of materials were added up to the product cost. On top of the product costs came 20% overhead, resulting in the total product cost.
- On top of the total product costs, packing, shipping, and duties were added on top of all the items because the whole quantities will be sold on the US market.
- For further calculation, a 10% wholesale and a 330% retail margin was added. The resulting prices were still far below the retail prices of those products seen in stores.

¹¹⁷ Own figure

Investment calculation

- Based on the results from reverse engineering, different scenarios were applied. The only **income** comes **from sales** therefore the figures completely depend on sales volumes.
- Based on the results from reverse engineering, different scenarios were applied. The only income comes from selling products, therefore the figures completely depend on sales volume. All calculations were in the timeframe from Q3 2016 until 2021.
- The first calculations involved **income and expenses** based on the figures calculated in the reverse engineering process. Sales scenarios were applied for the upcoming years.
- The resulting **profits and losses** for each of the years were then added into a dynamic investment calculation, the **net present value** method. For the estimated scenario, the profit which was calculated to the present was roughly USD 320000. The annual interest rate plays a major role in that, two scenarios with 6% and 8% were calculated in chapter 0.
- Calculation of **liquidity** resulting in a requirement of funds which will not exceed USD 19000. The amount will be laid out by bStudio.
- A **Break-Even** analysis followed, the project will break even around mid-2017 with the estimated scenario.
- To finish the calculations off, **three sales scenarios** summarize the projections. A worst case scenario with 50% less sales and a best case scenario with 50% more sales were calculated.

	Worst-Case scenario	Expected scenario	Best-Case scenario
Total revenue	-50%	Expected	add 50%
Total costs	add 20%	Expected	-10%
Required financing	\$ 18.862,10	\$ 9.847,75	\$ 7.144,37
Break-Even-Point	May 2019	June 17	February 2017

Table 5-1: Financial overview of different scenarios¹¹⁸

Pricing model

- Derived from all the investment calculation and based on the reverse engineering, a pricing structure was elaborated.
- For wholesale, a margin of 10% was applied, which would be the wholesale price for a large customer or retail chain. For smaller quantities, the targeted margin will be set higher to up to 100%.
- For retail pricing, a margin of 330% was applied. This is roughly what is often aimed at, especially in creative industries and jewelry design.

¹¹⁸ Own table

10 US market of handmade design pieces

- The US craft **market** has a **size** of roughly **USD 30 billion**. One of the leading associations in the field divides the market into eight different craft types. Roughly a third of the total market size is represented by the **segments** that bStudio wants to sell in, which is still a market size of **USD 10 billion**.
- Most of craft are still bought in physical stores, but especially in jewelry the **online** portion is much higher with around **25%**. Generally, there is a big movement towards online shops, which is additional potential to fill a niche.

11 Competitive strategy

- The goal of a competitive strategy is to **gain a competitive advantage**.
- The vast majority of targeted clients are located in the largest cities of the US, namely New York City, New York, Chicago, Illinois, and Los Angeles, California.
- The products will be high-end craft and design pieces and an average client will have above average income to be interested in the products.
- The resulting competitive strategy can be classified as a **differentiation strategy** in a **focused market**.

12 Five Forces Analysis

- The industry competition and market situation was analyzed using the Five Forces analysis by Michael Porter.
- The five forces are categorized in:
 - Industry competition
 - Bargaining power of buyers
 - Bargaining power of suppliers
 - Threats of new market entrants
 - Product substitutes
- Industry **competition** is mainly the market of **mass produced goods**. The focus of bStudio must be on top quality materials and products in order to stand out.
- The power of buyers is not evaluated as very high because clients seek the uniqueness of hand-crafted design pieces.
- Contrary to the power of buyers, the **suppliers** are in a much **stronger position**. There is not much supply for high-end items. The limit is the upcharge in prices due to the competition in mass manufactured items.
- Threats of new entrants is divided in two aspects. On the one hand there are plenty of African manufacturers of craft. However, most of them do not have the means and knowledge to enter the international markets with their products.
- On the other hand, there are artisans from the United States, who are definitely more of a threat. Especially in the premium segment, margins become larger and that gives room for artisans in high wage countries to make a living from crafting.
- The market of mass produced items is doing well but direct substitutes are not to be expected. The uniqueness of the hand crafted is the main selling point. Since the items are most not functional or only with limited and simple functionality, the threat of a different technical solution is not existent.

13 Marketing Strategy

The goal through several marketing activities is to increase sales volumes, increase company value, and create a name for the brand.

bStudio has been using multiple actions the firm is already comfortable with due to their field of business in architecture and interior design. The intended activities of marketing for this project are the following:

- Provide free samples to be used in high-profile projects.
- Provide samples for high-end photo shoots.
- Have celebrity spokes people.
- Partner with somebody and use the products as an addition to a stand or showroom on the largest trade shows in NY and Highpoint.
- Communicate the humanitarian importance on the product with a tag on each product and on the website.
- Have a “One-for-One” policy with the role model of “Toms”.
- Donate a share of the profits to charity or re-investing back in the communities producing the products.

5.2 Final decisions on the research questions

All of the content in the results chapter serves to answer the four research questions:

1. ***Should bStudio start the project ‘Love, b’?***
2. ***How should the firm be set up?***
3. ***How can top quality be achieved?***
4. ***What is the expected Return on Investment?***

The decisions for each of the questions are the following:

1. ***Should bStudio start the project ‘Love, b’?***

- Based on all the content of this thesis, the answer is YES.
- This is the question that summarizes the whole thesis, the other three questions are details of this main question.

Reasons for the positive investment decision are:

- Promising initial sales perspective.
- Great contacts to start off in Africa.
- Good financial prospects with little financial risks.

2. ***How should the firm be set up?***

- Ideally the firm should operate **decentralized**.
- Artisans should **not be employed**. This is not always possible but when it is feasible, it should be implemented.
- **Cooperation** with local organizations makes the initial phase of the project much easier.

3. *How can top quality be achieved?*

- Through **organizational structure**, quality can be drastically enhanced. When artisans are not employed and have to produce proper quality in order to get paid, quality rises instantly.
- Nevertheless, whenever not employing artisans isn't feasible, **quality control** is the **most important** and usually also the highest paid job on site in Africa.
- **Permanent supervision** is required to achieve good quality.

4. *What is the expected Return on Investment?*

- For the estimated sales scenario, the Return on Investment is above **3000%** for **5 years**.
- The reason for that are the **very low initial investment costs** since bStudio already operates successfully in another sector and this project is only an extension of what is already in place.
- **ROI is highly volatile** to different sales figures since the margins in this sector are extraordinarily high.
- In a calculated **Worst-Case** scenario, with -50% sales and +20%, the expected ROI would drop to **88%**, which is still highly attractive.

In summary, the project is highly promising from a financial perspective and therefore the humanitarian aspect of the business can be as prevalent as desired by bStudio.

5.3 Implementation steps

After all the presented points and the recommendation to get this project start, a series of steps is advised to best get the project to run.

The following steps were elaborated and are advised:

1. Get the desired products ready from a design point of view and think the through thoroughly.
2. Analyze and reverse engineer the designed item to get an exact picture of what will be required to manufacture the product. An approach like through the presented calculations in chapter 4.4 is advised.
3. Collaborate with the already established network on how and where the product can be manufactured. Contact both, CCDI and Tribal Trends for advise, both of these firms are absolute experts in that field.
4. Get in touch with the potential manufacturers, clearly present what is desired.
5. Let them produce a sample and ship it to the United States.
6. Evaluate the sample and refine the production or design if necessary.
7. Give feedback to the producers, let them manufacture a real piece. This is where it is advisable to be present on the manufacturing site in order to get the desired quality and product.

8. Then let them produce the first batch of products and have projects ready in the United States to present them in.
9. In the longer run, somebody needs to handle the organizational tasks within Africa. Somebody needs to be employed full or part time to communicate with the partners.
10. Additionally, somebody within bStudio needs to be the contact person for clients within the United States.

Following this course of actions, the presented financial scenarios should be possible to reach and a Break-Even within the first half of 2017 should be within reach.

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List of abbreviations

Ibid.	Ibidem, "in the same place"
USD	United States Dollar
EUR	Euro
ZAR	South African Rand
AGOA	African Growth and Opportunity Act
n.d.	No date
npc	Non-profit company
CEO	Chief executive officer
NC	Numerically controlled
GDP	Gross domestic product
HTS	Harmonized Tariff System
UN	United Nations
CHA	Craft and Hobby Association
B2B	Business-to-business
US	United States
NPV	Net Present Value
IRR	Internal Rate of Return
CCM	Cost Comparison Method
PCM	Profit Comparison Method
SPP	Static Payback Period
ARR	Average Rate of Return
ROI	Return on Investment
Q3	3 rd quarter