

Knowledge networks

Adding value to the East African apparel industry

WORKING PAPER NO 2



IIED Sustainable Markets Linking Worlds Series

The Linking Worlds paper series looks at innovations in linkages between small scale/low income producers and service providers and modern formalised markets. The case studies highlight the importance of networks, intermediaries and/or facilitators in supporting market linkages that work for broader livelihood benefits and sustainable use of natural resources in textiles, energy and payment for environmental services. Case studies continue to be collected and will include a study looking at the small scale mining sector and the agricultural sector. Each paper highlights key characteristics or design features of these innovative linkages and advises on how the models might be replicated.

For further information see: www.iied.org/linking-worlds-linking-small-scale-producers-large-formal-markets

Linking Worlds Series Editor Abbi Buxton, IIED.
Email: abbi.buxton@iied.org

For more information about this publication, please contact Abbi Buxton

ISBN 978-1-84369-866-1

Order no 16039IIED

©International Institute of Environment and Development 2013

All rights reserved

Front cover image copyright: Joanna Maiden, SOKO
SOKO worker making fabric

Knowledge networks: adding value to the East African apparel industry

Anoushka Boodhna and Abbi Buxton

About the authors

Anoushka Boodhna began her career in fashion sales, marketing and retail with Topshop International where she managed franchise partners in the Middle East, Turkey, Israel and Cyprus. She began working in development in 2008 when she completed an MSc in Development Finance at the University of Manchester, worked with women-owned microenterprises in El Salvador, and undertook research on social enterprises. Anoushka is currently working with an agriculture social enterprise, KickStart International, in East Africa. In her current role she manages projects in sales and marketing outreach to rural farmers, develops strategic institutional partnerships and builds business capacity for growth and scale.
Email: aboodhna@gmail.com

Abbi Buxton is a Researcher in the Sustainable Markets Group at IIED. Her research expertise is on small-scale producers in markets, new value chain development, trading relationship improvement and business model and strategy design. Prior to working at IIED Abbi was a research analyst for OTF Group in Rwanda and a business and market analyst for a global law firm. Abbi has coordinated and edited the Linking Worlds paper series, which includes papers on a range of sectors. Her particular expertise is on agriculture and mining. Email: abbi.buxton@iied.org

Acknowledgements

We would like to give thanks to Joanna Maiden, the owner and managing director of the Kenyan business SOKO, who was open and honest and kind enough to invest precious time and energy for this research; Stephanie Barrientos at the University of Manchester, for providing the foundation for the work on global production networks; Claire Hamer, managing director at Ei8ht, who triggered the creative thinking process and made early stage connections; and to Anoushka's former colleagues at Topshop and friends at KPMG who provided support and information. Finally, many thanks to colleagues at IIED for providing feedback and the intellectual environment in which this paper developed.

Contents

Executive summary	5
1. Introduction	6
2. Beyond supply chains: the global production network	7
2.1 Understanding networks	8
2.2 Networks, knowledge and value	9
2.3 How to build knowledge competence? Agents and intermediaries	10
2.4 The role of the network flagship	11
3. The clothing and textiles industry	12
3.1 The global picture	12
3.2 What are the sourcing opportunities for East Africa?	13
3.3 Adding value to African clothing and textiles	13
What opportunities are there for capturing value?	15
African styles and niche markets	15
New ways of selling	16
New technology	17
New market linkages	17
4. Case study: SOKO, Kenya	18
4.1 SOKO's networks	18
Professional networks	19
Community networks	19
Personal networks	19
4.2 SOKO's value creation	19
Commercial	19
Technical competence	20
4.3 The importance of the ethical agent	20
4.4 Impacts and future plans	21
4.5 Challenges	22
5. Conclusions	23
References	25

Tables and Figures

Figure 1. Stylised supply chain mapping highlighting horizontal and vertical elements	7
Figure 2. Mock-up of the network of SOKO-ASOS.com described in this paper	8
Table 1. Formal and informal institutions	9
Table 2. Sourcing portfolio of some of the top European retailers	12
Table 3. Capturing value in textile manufacturing	14
Table 4. Summary of SOKO impacts (September 2009 to November 2010)	22

Executive summary

The textile and clothing sector is a knowledge-intensive industry; producers do not just need the technical knowledge for improving production processes and logistics, but also the commercial knowledge to understand and translate consumer behaviour and market trends into design, production and marketing processes. Suppliers in developing countries, in particular small and medium enterprises, often lack access to the inputs, services and knowledge necessary to take their product or service to market – especially more formalised and developed export markets.

Between 2000 and 2010, six of the world's ten fastest growing economies were in Africa. Our paper asks how this economic growth potential can translate into opportunities for small and medium fashion, clothing and textiles suppliers in East Africa. We argue that rather than seeing product suppliers only as part of linear supply 'chains', they should be understood as part of more complex global networks of actors. The paper draws on global production network (GPN) theory to explore how knowledge and information can be employed through networks in a way that adds value to the product.

The case study takes a GPN approach to describe a production network linking two worlds – a small clothing and textiles workshop (called SOKO) based in Ukunda village in Kenya and a large online fashion retailer based in England (ASOS.com). The links are facilitated by an ethical agent, who plays a vital role in coordinating relationships and translating complex information into knowledge that is useful and relevant for the supplier in meeting the demands of the buyer. The important role of the ethical agent is highlighted in this paper along with a series of recommendations for their responsibilities. These include, for example, developing a product with a strong value proposition for the retailer as well as the appropriate risk/ reward profile for the supplier; taking on some of the operational aspects of project managing the supply chain to build professional trust and deep understanding of the actors and network; and helping to collect and monitor data on both the commercial and development impacts of the supply chain and network.

The success of the GPN approach demonstrated in the case study also depends on the fact that the ASOS.com (the so-called 'network flagship') is willing to adapt its business models to the abilities and needs of poorer suppliers, and recognises the importance of an ethical agent in facilitating the links between its business and that of developing SMEs.

The experience of the Asian 'tigers' teaches us that knowledge is the engine of growth. These countries have improved their development status by moving from primary-based assets to knowledge-based assets. It confirms how GPN can be a useful tool to understand how to overcome the systematic market constraints seen in many developing countries by identifying ways in which knowledge and information can be translated into value for small and medium enterprises and through the network to the consumer. Recognising the complexity and value of social, informal networks in this respect sounds a cautionary note to development interventions that approach supply chains formalistically and do not allow for the flexibility and actor networks that have the potential to add value beyond the chain.

1. Introduction

Manufacturers in developing countries, in particular small and medium enterprises, often lack access to the inputs, services and knowledge necessary to take their product or service to market – especially the more formalised and developed export markets. While supplier upgrading in developing countries has often revolved around improving technical competences to add value to their products, such as improved production processes, new technology or equipment, to be truly effective the upgrading process must be able to translate market demand into processes that add value at the production and supply end. This is where knowledge and information play a key role.

This paper argues that rather than seeing product suppliers as part of linear supply 'chains', they should be understood as part of more complex global networks of actors. These link together key business inputs and provide access to production factors, including finance, inputs, skilled people, market information and access. Global production network (GPN) theory explores the importance of transmitting this knowledge and information through networks in a way that adds value to the product along the chain.

Using the case of a small-scale textile exporter in Kenya, the paper explores how GPN theory can help to understand the way in which knowledge is captured and created, and how it is relevant both to the technical and commercial upgrading of suppliers in developing countries. The textile sector is a knowledge-intensive industry; producers do not just need the technical knowledge for improving production processes and logistics, but also the commercial knowledge to understand and translate consumer behaviour and market trends into the design, production and marketing processes.

The paper begins by outlining the theory behind GPNs and analysing the important roles of different elements in the network, including 'ethical agents' and 'network flagships'. It then moves on to describe the challenges and opportunities faced by the East African textiles and clothing industry, followed by a detailed case study of SOKO, Kenya.

'Linking Worlds' Series

This paper is part of a broader body of work under the theme of linking worlds. The series looks at innovations in the linkages between small-scale (producers or low-income consumers) and large scale – whether via networks, intermediaries or facilitators – that reduce poverty, offer broader livelihood benefits and/or ensure sustainable natural resource use. Papers on payment for environmental services, energy delivery models, small-scale mining and agricultural trading relationships identify the key characteristics or design features of those innovative linkages and advise on how these models might be replicated.

See <http://www.iied.org/linking-worlds-linking-small-scale-producers-large-formal-markets> to access this broader body of work.

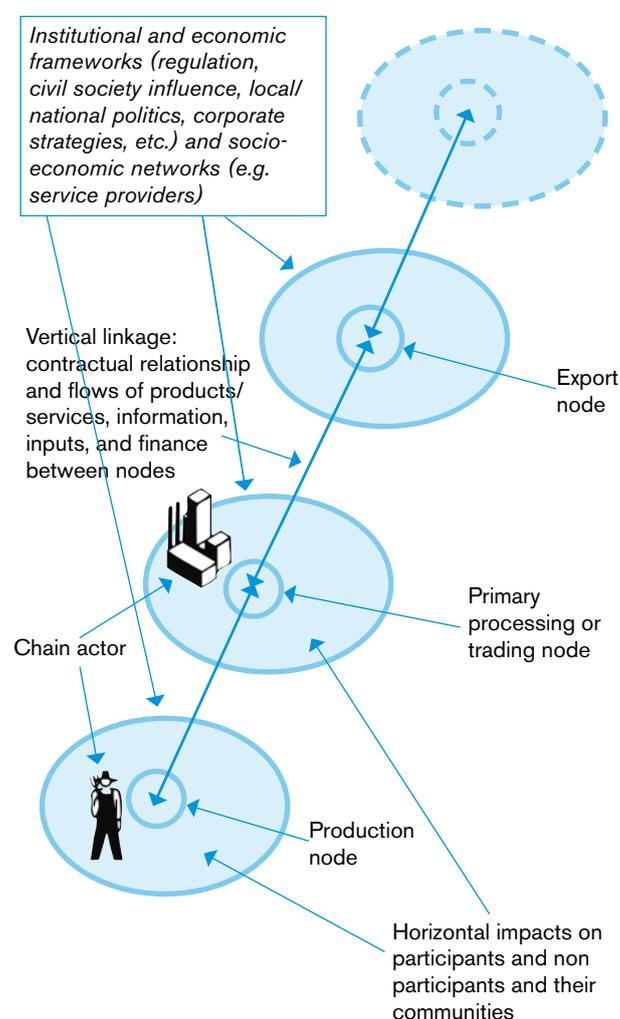
2. Beyond supply chains: the global production network

Supply chain interventions and analysis often neglect broader, 'horizontal' issues at the supply and production level in focusing on linear or 'vertical' processes needed to bring a product to market (see Bolwig *et al.*, 2008; Humphries, 2010. See Figure 1 below). When thinking about sustainable development, it is necessary to understand how multiple actors and institutions contribute to improvements in the social, economic and environmental aspects of the supply base – the broader 'well-being' of the supply base.

As illustrated in Figure 1 below, 'horizontal' considerations include the institutional and economic frameworks and the socio-economic networks that surround a supply chain. These are particularly important in a developing country context where the social and environmental value of a product can be as important as the economic value when discussing the use and management of natural resources or the impacts on gender, poverty and livelihoods, for example¹. The 'vertical' interventions in a supply chain tend to focus on the type of upgrading of suppliers needed to access and meet the needs of new markets such as achieving greater efficiency in production processes, taking on new 'value-adding' functions, delivering larger volumes or meeting certain standards and certification requirements (Bolwig *et al.*, 2008). However, these investments are often poorly connected to an understanding of the poverty-driven risks and vulnerabilities of a developing country supply base. Few supply chain interventions by development actors have been able to demonstrate their positive impacts on the poor (Humphrey and Navas-Aleman, 2009) and may risk creating an 'accountability deficit' in who should be responsible for the wellbeing of the poor in situations where the government is weak and there is a strong private sector or NGO presence (MacDonald, 2007).

Global production network (GPN) analysis is a tool to understand how to overcome systematic market constraints seen in many developing countries and looks at ways to draw on the horizontal linkages in a supply network to ensure

Figure 1. Stylised supply chain mapping highlighting horizontal and vertical elements



Source: Bolwig *et al.*, 2008: 38

¹ The energy paper within the Linking Worlds series, Wilson *et al* 2012 'Sustainable energy for all? Linking poor communities to modern energy services' outlines a framework for analysing energy delivery models for the poor within the regulatory environment and socio-cultural context that is crucial to ensuring positive development impacts. The paper is available at <http://pubs.iied.org/16038IIED.html>

positive commercial and development impacts. It offers an alternative to value-chain approaches and is particularly useful for knowledge-based industries.

One of the primary functions of the GPN concept is to overcome the visual simplicity and linearity associated with the term 'supply chain'. The other is to outline more clearly the way in which knowledge and information flows add value to the product. The theory incorporates insights from economic geography and actor network theory, as well as the literature on strategic management and organisational systems. While supply chain analysis focuses simply on the governance of relationships and transactions within the chain, GPNs attempt to encompass all relevant sets of actors and relationships – internal and external, formal and informal. GPN analysis therefore looks at how businesses and suppliers interact within their social and institutional contexts.

2.1 Understanding networks

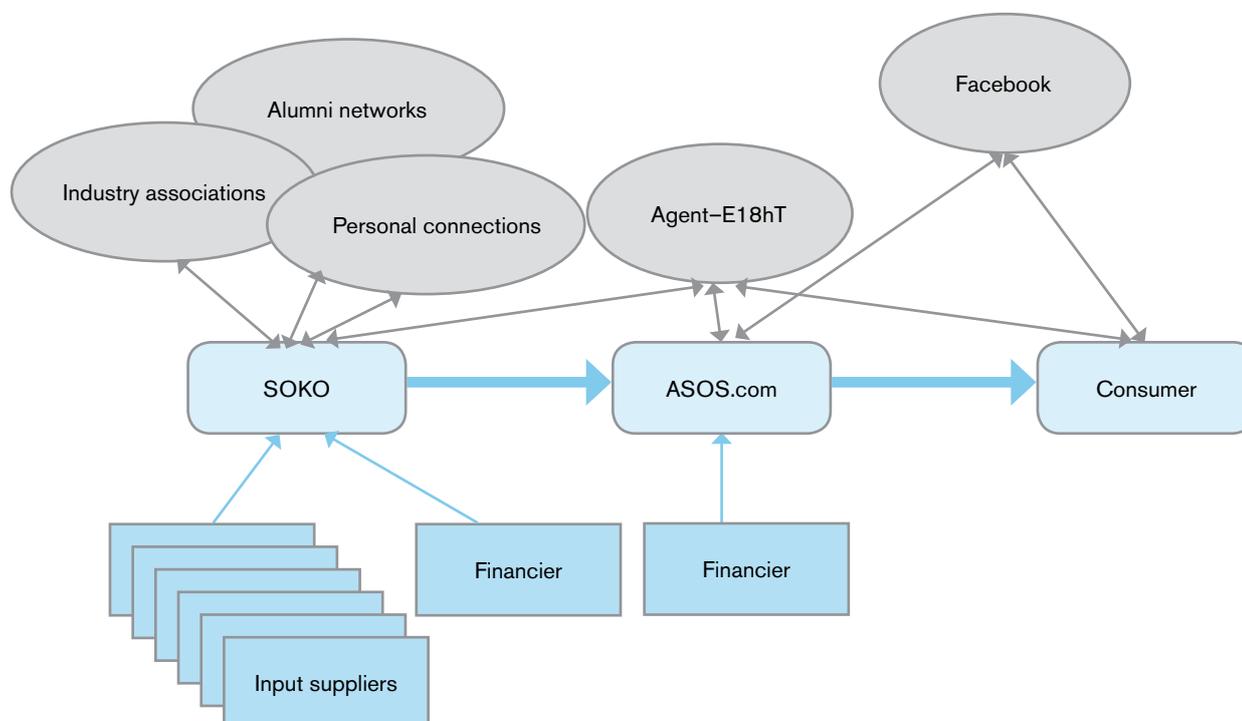
GPN analysis aims to reflect a complex 'social geography' in which actors in various locations and positions collectively influence the production process (Henderson *et al.*, 2002). It recognises a dynamic flow of design, production, financial and marketing resources, knowledge and social interaction. The metaphor of a network illustrates the structural and relational nature of how production, distribution and consumption of goods and services are organised (Coe *et al.*, 2008).

Information flows in multiple directions and is shared across all network actors (rather than just unilaterally) from buyer to supplier.

The relationships within GPNs can be horizontal or vertical, formal or informal, transitory or long-standing. GPN analysis embraces actor network theory, which describes knowledge as “a social product [...] embodied in a variety of material forms” (Law, 1992) and implies that the more diverse the actors' profiles, the wider the knowledge pool and the stronger the network.

In GPNs, networks link together key business inputs and provide access to production factors, such as finance, skilled people, market information and market access. This is particularly important to suppliers upgrading within a context where there are social, economic, institutional or political constraints, where there is limited financial support available, where machinery and equipment is costly, where there is no support for business start-ups, where shadow prices² dominate, and there is a scarcity of qualified or skilled managers. In other words, where the 'horizontal' institutional and economic frameworks are weak. These are often normal business conditions in developing countries. In these contexts, sharing of personal and practical experience between industry experts and new business start-ups, for example, can help overcome physical limitations and information asymmetries to enter new markets.

Figure 2. Part mock-up of the network of SOKO-ASOS.com described in this paper



² In a business application, a shadow price is the maximum price that management is willing to pay for an extra unit of a given limited resource. For example, if a production line is already operating at its maximum 40-hour limit, the shadow price would be the maximum price the manager would be willing to pay for operating it for an additional hour, based on the benefits he would get from this change.

Definition box: Institutions, formal or informal, create systems of rights and obligations that allow individuals to cooperate to meet their needs.

Networks help to reinforce institutions, and vice versa. For example, public sector institutions – chambers of commerce, competitiveness councils or even export processing zones – can offer information sharing and meeting platforms to help create networks of actors. Certifying bodies, such as the Fairtrade Labelling Organisation, can help define common standards across a network of actors – defining the way business is done as well as allowing new actors (such as poor smallholder farmers) to participate.

Networks and relationships similarly help to define institutions and increase their utility (Owen-Smith and Powell, 2008). Institutions can be used to harness and disseminate the value from interactions between companies and other actors. Informal networks can be powerful tools for regulating behaviour and facilitating information flows in contexts where formal institutions are weak and business practices are non-standardised and unregulated. Private sector industry associations, for example, can lobby governments for changes in the legal and regulatory institutions that affect their sector. This social context can establish the foundations for the eventual development of formal institutions. In this way, the development of institutions is embedded within their social context. These ‘embedded’ institutions are more effective at encouraging desired behaviour.

This analysis highlights the importance of horizontal networks in impacting the vertical supply of goods.

2.2 Networks, knowledge and value

Knowledge has been characterised by economists from Marx to Schumpeter as the engine of growth. Global production networks can allow value to be captured and created through knowledge. The literature documenting how countries have improved their development status emphasises the importance of moving from primary-based assets to knowledge-based assets (Box 1). This is seen clearly in case studies of countries such as South Korea, Taiwan and China (for example, Amsden 2003).

What type of knowledge is needed for this transition?

- Technical knowledge is required to undertake sophisticated production processes, logistics and sourcing of inputs. It is often tangible and can be taught in the traditional sense.
- Commercial knowledge is the understanding and ability to interpret consumer behaviour and market trends into the design, production and marketing processes. It is based on relationships, behaviours and emotions and is closely linked to individuals’ experience, skills and personality. This type of knowledge is more difficult to obtain as it involves a combination of factors that interact in intangible ways.

Table 1. Formal and informal institutions

	Institution	Functions
Formal	International trade institutions	e.g. funding, research and technical assistance
	Government bodies	e.g. regulatory environment, funding, research and information (business support)
	Other businesses	e.g. for common/share resources: information, technology, people, land and finance
	Civil society organisations	e.g. information on local laws, product standards, financial support
	Business support institutions	e.g. lobby groups, information/advice (business administration and strategy), business-to-business markets
Informal	Family and friends	e.g. funding, emotional support, administrative support (backstopping)
	School networks	e.g. information (socio-cultural movements e.g. music, film, theatre, fashion, etc.)
	Community networks	e.g. funding, emotional support, administrative support, information on local culture/people/products/places, lobby support
	Professional networks	e.g. funding, information (business information and strategy), lobby support, technical assistance

Technological upgrading requires both technical and commercial competences. Although some aspects of technology can be documented and thereby taught, many aspects of innovation, optimisation and design remain more of an art. The commercial competences required to translate information into knowledge are tacit rather than explicit (Box 1). Building commercial competence and knowledge will allow suppliers to 'skip generations of development'³. Key to this is harnessing and improving the knowledge transmitted through networks. In this way suppliers can acquire technical and commercial competence without having to invest heavily in physical inputs or capital items.

Knowledge obtained through informal relationships, such as networking, peer advice, work shadowing and local community support tends to be more flexible and based on trust and relationships.

Box 1: Information versus knowledge

Information is not the same as knowledge. Knowledge-based assets are skills that allow actors to produce and distribute a product at above prevailing market prices or below market costs (Amsden, 2003). Unlike information, which is factual, knowledge is intangible – based on a complex interaction of factors – and therefore more difficult to acquire. Actors may strive for perfect information, but knowledge is largely dependent on the specific characteristics of the organisation, personalities and skills of key players and relationships between actors. It tends to be specific to a certain organisation and/or industry.

Networks can bridge the knowledge gap between suppliers in poor countries and their consumers in the West. Acting in this way, they can be used to ensure consumers have a better understanding of where their purchases are originating from and that suppliers have a better understanding of the market forces and consumer behaviour. Networks are important for development practitioners engaged in building new supply chain types between the network flagship and supplier that simultaneously deliver commercial returns and help reduce poverty through sustainable development (the important mix between 'horizontal' and 'vertical' interventions outlined earlier).

2.3 How to build knowledge competence? Agents and intermediaries

Increasing the soft value created and captured through networks and knowledge flows requires an understanding of and respect for existing informal institutions and relationships. It may also require facilitating partnerships, strategic alliances, networking, peer advice, work shadowing and training and local community support, amongst others. This process can be helped through the intervention of two key roles: (1) an 'intermediary', who acts as a conduit for goods or services between a seller and a buyer; and (2) an 'agent', who does not handle the product but nevertheless plays a key role in bridging gaps or 'linking worlds' within a global network of actors.

Small supplier intermediaries often don't have the capacity to invest in extensive information gathering. Research, interpreting findings and communicating results (i.e. translating information into knowledge) all require time and money. As such, many small businesses in Africa are dependent on 'information intermediaries' or 'agents' for their success (see Box 2). Although agents do not necessarily handle the product they are likely to add value and assume some of the risk. These actors play a mediation or brokerage role facilitating the process of collaboration to get a product or service to market. These agents are usually industry experts who understand the particular market idiosyncrasies of the sector they are operating in. Agents utilise their networks within the sector to garner information and build new links between actors in the industry – strong relationships with key contacts is crucial. *Ethical* agents – who bridge the gap between major retailers and developing world producers – have particularly strong motivation to ensure a positive development impact within these new market relationships.

Research into a number of ethical agents has revealed the crucial role they play in translating sometimes complex information into knowledge (see Buxton and Vorley 2012). Indeed, ethical agents tend to operate where information asymmetries occur. They can help poor or developing country suppliers gain access to the latest market research, both across the industry and within their buyer's organisation (Box 2).

Ethical agents thus offer value in the form of knowledge, translating complex information and relationship building. They rely largely on their networks, relationships and knowledge to add value to a product or process. These actors have the commercial competence necessary to translate information into knowledge that can adapt a product or process for market competitiveness. This role is explored further in Section 4, which looks at a case study from Kenya.

³ Quote taken from a conversation on GPNs in October 2010 with Stephanie Barrientos, Senior Lecturer in Global Development at the Institute for Development Policy Management (IDPM), Manchester, and key researcher of global value chains (GVCs) and GPNs.

Box 2: How can agents help small businesses acquire information?

Small businesses in Africa need services in knowledge creation, storage and dissemination. For example, small clothing and textile businesses need the supply chain mapped in detail. This detailed mapping can produce a central database of information for anyone operating within the clothing and textiles supply chain. For example, I have produced a listing of Tanzania's textile and apparel producers that covers spinners, weavers, thread suppliers, clothing suppliers, and other supply chain actors. As Tanzania is also Africa's leading producer of organic textiles and apparel, I also developed a listing of the country's organic cotton organisations. Such listings would help small businesses know where to turn in answering key questions such as: which local companies produce the right fabrics, the right trims, swing tags⁴ that comply to EU standards? And which local companies are reliable? Who to use to forward my cargo to the UK? How do I benefit from preferential duty agreements between countries? Other businesses, government institutions or supply chain actors may have this bank of experiential knowledge from having worked in the industry for a long time.

At the same time, small companies do not have the money or time to invest in extensive research. For example, travel expenses to meet new supply chain partners, purchase samples and attend shows can be high. For example, it is only cost-effective for fashion buyers if they can fly out from the UK and can see multiple suppliers across a region, say across Tanzania, Kenya, Lesotho and Mauritius. So, to some extent there is interdependence between the competitors across these countries. Competitor collaboration like this often does not happen organically; collaboration can require a mediator or intermediary.

Source: Interview with Mark Bennett, Trade Specialist for the Tanzania Cotton Board, Tanzania.

2.4 The role of the network flagship

In GPN analysis, 'network flagships' are firms or groups that define the strategy and organisational policy of the network and therefore set the terms for the division of functions, risks and rewards. Network flagships arch over multiple products of multiple product-specific supply chains and can play an important role in facilitating network creation and adding value within them. Although adapting the sourcing practices of lead firms is often necessary to include poorer suppliers into formalised markets, few large companies and flagship firms are willing and/or able to adapt their business models to incorporate suppliers that may require greater investment.

IIED's work on New Business Models looks in detail at some of the principles that lead firms may adopt to adapt their sourcing practices in a way that respects both development and commercial goals⁵. Lead firms, or 'network flagships' may be required to co-invest in livelihoods and upgrading, adapt their sourcing practices through certification, new trading terms or working with an ethical agent, for example

(see further Seville *et al.*, 2011). A flagship can contract or work with an agent to facilitate new sourcing opportunities and upgrade new suppliers. In sourcing from developing countries, improved co-ordination between actors across the network can help poor or small suppliers upgrade and develop collaborative relationships to support this. It may be necessary for a flagship to contract an agent to assist this coordination. In cases where the agent is appointed by an actor external to the product chain, such as by an NGO or development actor, it is crucial to have buy-in from the flagship who remains in control of allocating functions, risks, rewards and responsibilities.

The case study in Section 4 describes how the flagship retailer ASOS.com governs and adopts their sourcing for African suppliers. But first we describe the clothing and textiles industry in general and the challenges facing East African suppliers in particular, to highlight the unique market characteristics and importance of knowledge in adding value in this sector.

⁴ A 'swing tag' is the industry term for a price tag that contains additional information such as the barcode and product details.

⁵ See further the New Business Models project page at www.iied.org/new-business-models-for-sustainable-trade.

3. The clothing and textiles industry

3.1 The global picture

The clothing and textiles industry is a particularly attractive sector for a start-up supplier. Clothing and textile products are globally traded consumer goods. In 2010 clothing and textiles exports grossed \$602 billion – nearly 4 per cent of total exports (WTO 2010). Before the global recession hit in 2009, the industry was growing at a rate of 6 per cent per year. After 2009, clothing and textiles exports only dropped by 15 per cent whilst all other exports dropped heavily – in some cases, by nearly 30 per cent⁶.

In 2011, the top five clothing retailers across the EU, in order of revenue, were Grupo Inditex (Spain), H&M (Sweden), Marks and Spencer (UK), C&A (Germany) and Next (UK).⁷

Most of these big players have an extensive network of suppliers from all over the world (Table 2). M&S has a vertically integrated supply chain – a tight network that allows it to specialise in high-quality products. H&M has more network-like relationships with its suppliers – this more flexible arrangement allows it to shift production to different locations in order to maintain flexibility in reaction to changing fashion and production needs.

2005 saw the termination of the Multi-Fibre Arrangement (MFA), which had imposed quotas on the amount developing countries could export to developed countries. The lifting of these export restrictions allowed for a few big clothing and textiles suppliers to emerge from developing or middle income countries. The post-MFA period has seen the rise of China and a push towards low-cost mass production. Between 2000 and 2009, the proportion of EU imports of clothing and textiles from China rose from 9.6 per cent to 24 per cent (Gereffi, and Frederick, 2010).

Although sourcing from China can offer low unit costs, the shipment times are long and the product quality is mass produced and thus basic. European buyers may also go to India, Turkey or Italy to source different types of product. India has comparative strengths in producing textiles that are detailed and embellished, embroidered, sequined or beaded. Turkey's strengths are in producing casual products, such as denim and knitwear. From Turkey, lead times are shorter so buyers tend to also look to them to satisfy restock and replenishment needs of fast-selling products like underwear. Finally, for exquisitely crafted and tailored high-end product, buyers tend to source from Italy⁸.

Table 2. Sourcing portfolio of some of the top European retailers

Retailer	Level of vertical integration	Business model	Description
Marks and Spencer (UK)	High	Quality and design	70% sourced from 15 UK-based manufacturers 30% sourced from 120 international suppliers
Inditex (Spain)	Medium	Quality and design; and high volumes for fast fashion	50% sourced from owned Spain-based manufacturing 50% sourced from suppliers in China, Bangladesh, Northern Europe, Morocco and others
H&M (Sweden)	Low	Design; high volumes for fast fashion	60% sourced from Asia e.g. Bangladesh, China and Pakistan 40% sourced from Europe

Source: Gereffi, and Frederick, 2010.

⁶ See 'Statistics, merchandise trade by product', 2010, available at www.wto.org.

⁷ See *Retail Index, 2011*, available at www.retail-index.com/HomeSearch/RetailersinEuropedatabasebysectorEnglish/FashionClothingRetailersinEurope.aspx

⁸ An overview of the comparative sourcing advantages of different countries was gained from conversations with buyers and retailers in the fashion retail industry.

3.2 What are the sourcing opportunities for East Africa?

Africa's main trading partner for clothing and textiles is the USA, which imports over 70 per cent of Africa's clothing and textiles output under the African Growth and Opportunity Act (AGOA)⁹. Despite its abundant local manufacturing capacity, European buyers and retailers do not source from East Africa in large volumes. This is because they cannot compete with the unit costs offered by countries such as China and Turkey (Morris and Barnes, 2009). As in Western Europe, labour costs in East Africa are relatively high because of unionisation, protected minimum wages and social security benefits. Logistics costs and speed are affected by poor physical infrastructure and unreliable supplies of electrical power. Locally produced cotton is also expensive. Overall, Africa produces 12 per cent of the world's cotton but 90 per cent of it is sold to other countries for processing. In Kenya approximately 400,000 hectares of land (about 10 per cent of all of Kenya's arable land) are dedicated to growing cotton, but currently most of this is exported and then re-imported as finished fabrics from Turkey and India.

East Africa has a limited local supply of skilled managers and supervisors, machine operators, designers and engineers. According to the report *Missing the GO in AGOA? Growth and Constraints of Foreign Direct Investment in the Kenyan Clothing Industry*, 'the clothing industry [in Kenya] lacks qualified staff in more technical and skilled positions, such as for supervisory and managerial roles, or machine operators, designers and engineers' (Phelps *et al.*, 2008).

Nevertheless, Kenya is the largest exporter of textiles in East Africa. In 2007, Kenya exported \$248.2 million worth of product to the USA and \$1.1 million worth of product to the EU. African clothing and textile production mostly takes place in export processing zones (EPZs). Over the last 20 years, Kenya has pursued EPZ development to further integrate Kenya into the global supply chain and attract export-oriented investment. There are now over 40 zones in Kenya, employing close to 40,000 workers and contributing nearly 11 per cent of national exports. Exports from EPZs are mainly of basic items such as cotton trousers, basic shirts, T-shirts and jumpers. These products typically have long production life cycles and require few design changes. The EPZ system has been designed to produce high volumes of output. Machinery and equipment, for example, are generally not programmed to meet the idiosyncratic fashion or trend demands of buyers and retailers in fashion and design.

3.3 Adding value to African clothing and textiles

Between 2000 and 2010, six of the world's ten fastest growing economies were in Africa (The Economist, 2011). How can this economic growth potential translate into opportunities for fashion, clothing and textiles suppliers in East Africa?

The clothing and textiles industry is made up of two broad value-adding activities (Table 3):

- Manufacturing comprises sourcing inputs (fabric, thread, and embellishments, etc.), the cut-make-trim process, quality control and packaging.
- Retailing comprises marketing (design, buying and merchandising, press and public relations) and sales (store management and store operations).

In non-vertically integrated supply chains, retailing is carried out by a separate company to manufacturing. Manufacturing consists largely of technical processes such as production scheduling, cut-make-trim (CMT), and packaging. Retailing, on the other hand, is dominated by commercial processes involving skilled people who gather and rely on information on consumer demands and trends to make strategic decisions. This involves, for example, understanding what items are selling and why, in what quantity, colour and size, in all shops around a given region.

Value in the fashion and design sectors is thus created both by sophisticated production processes and by an understanding and ability to interpret consumer behaviour, contemporary fashion trends, and the design and marketing process.

Supplier upgrading to increase value addition in the textiles industry means moving from basic cut-make-trim production processes to full-package supply (otherwise known under the acronym FOB, which stands for freight-on-board and refers to the full cost of shipping an item to the destined buyer). FOB requires being able to manage all aspects of the finished garment and not just assembling the product. This includes working with designs and patterns, making samples in house, purchasing own fabrics, own trims, finishings, tags and labels as well as guaranteeing product quality and on-time delivery¹⁰.

Supplier upgrading in developing countries has often revolved around improving technical competences in production processes or introducing high-tech machinery and equipment.

⁹ AGOA offers duty-free export between the USA and Africa.

¹⁰ See United Nations Industrial Development Organisation (UNIDO) at www.unido.org/index.php and the Global Value Chains Initiative at www.globalvaluechains.org/index.html

However, for suppliers to upgrade effectively to FOB, the upgrading process must be able to capture and translate the value created at the buyer and retailer end (Table 3). This requires 'commercial competence' – an understanding of the demands of buyers and the 'product offer' they require.

Suppliers need to be able to process information on consumer preferences and demand dynamics within the market, and understand fashion trends and idiosyncratic design features with ease and speed. Knowledge and networks are crucial to the development of such commercial competence.

Table 3. Capturing value in textile manufacturing

Function	Value added	How to add value?
Design	Ensuring that the product reflects customer need and wants, is unique and fashionable, of the right specifications and is well made and well presented	<p>Researching the media, visiting competitors' stores, meeting new suppliers, going to trade shows, etc.</p> <p>Understanding catwalk trends and socio-cultural movements; adapting them into commercially profitable products; gathering research to make predictions on future trends</p> <p>Producing patterns for designs; making samples and supervising the fitting; sourcing, selecting and buying fabrics, trims, fastenings and embellishments, etc</p>
Buying	Ensuring that the right product (either replenishment of fast-selling lines or new products) meets the customer's needs and wants and is in store at the right time	<p>Negotiating terms of contracts and prices, timescales and delivery dates; sourcing, selecting and buying fabrics, trims, fastenings and embellishments, etc</p> <p>Visiting competitors' stores, meeting new suppliers, developing relationships, going to trade shows, etc.</p> <p>Seeking merchandise feedback from customers; researching the media; staying up to date with product being featured; etc.</p>
Merchandising	Ensuring that the right product (replenishment and newness) is allocated and delivered to the right place, at the right time, at the right prices and in the right quantity	<p>Producing and analysing statistics and reports; using specialist computer software; putting together the budgets for new 'buys' with the buyers</p> <p>Liaising directly with logistical partners, i.e. distribution centre, store, freight forwarder, exports team, etc. and negotiating cost prices, ordering stock, agreeing timescales and delivery dates</p> <p>Visiting competitors' stores and manufacturing outfits</p>
PR/Press	Ensuring that the brand and the product are both visible and 'wanted'	<p>Promoting the brand and the brand's product (i.e. product placement) and monitoring coverage in magazines/blogs/sites/etc.</p> <p>Organising photo shoots, hiring, borrowing or purchasing garments and props, getting these garments to the studio or location, and dressing models, etc.</p> <p>Making contacts and attending the right parties and shows to raise the profile of the brand and keep up to date with social and cultural movements</p>
Store management / store operations	Ensuring that sales on the shop floor are maximised and loss minimised, and that an experiential shopping experience is provided for the customer	<p>Managing the in-store visual impact of a product range, organising promotions and displays, replenishing sizes, colours, styles, etc. on the shop floor and ensuring that new styles go out</p> <p>Using information technology to record sales figures; checking in deliveries and returns; revising working hours; managing health and safety issues, etc.</p> <p>Providing good customer service, responding to customer reviews or complaints</p>

Information asymmetries and lack of market co-ordination prevail in the fashion and design industry, and these are felt particularly strongly in developing country suppliers. This is largely because knowledge-based networks and social competences are central to how the industry functions. Without a strong network supporting the development of commercial competence, it is difficult for a supplier to meet the market demands of the industry.

What opportunities are there for capturing value?

FIAS (2007) looked at the cost of a T-shirt produced in Kenya. The costs of raw materials, labour, utilities, overheads and delivery within Kenya amounted to approximately \$3.60 (or £2.50) per shirt. A survey of the retail prices set by various branded retailers, such as Gap and Nike, for a T-shirt meeting the same product specifications revealed that such a T-shirt was being sold in retail outlets in the UK and USA for approximately \$10–15 (or £8–10). In this example, the ratio between unit cost and retail price is approximately 1:4.

This implies that aside from the value that is ploughed back into meeting the operating costs of retailing (e.g. building and utilities rental and employing skilled staff)¹¹, there is some surplus value that suppliers could capture themselves. The sections that follow outline some ways that African suppliers and their networks can add value to their products.

African styles and niche markets¹²

Over the last few years, the 'ethical sourcing' movement has grown massively¹³. Estimates show that the market for ethical clothing has more than quadrupled over the last five years to reach around £175 million in the UK alone¹⁴.

Ethical sourcing has partly grown out of the pressures faced by buyers and retailers to strengthen their supply chains and exert more oversight over their supplier networks. These actions have promoted improved working practices and labour standards in clothing and textiles production units, as well as more environmentally aware processes and products (Box 3). The International Trade Corporation (ITC) and the Ethical Fashion Forum (EFF) – a body dedicated to promoting ethical sourcing and sustainability in fashion and textiles – has set up a project called 'Africa Inspires' to bring together small African suppliers with large retailers in the UK (Box 4).

As well as improved labour standards and environmentally conscious manufacturing practices, ethical sourcing can offer commercial opportunities in the form of niche products. The

Box 3: Case study: Mantis World, Tanzania¹⁵

Mantis World was established in the 1960s in Tanzania. It uses locally grown cotton to manufacture clothing, producing a high-quality niche product, such as baby wear, as well as promotional merchandise for festivals, NGOs, private sector CSR initiatives, private designer labels and independent retailers. At the time of this research, Mantis World was selling over 1 million garments per year and working with around 2,000 people in Tanzania.

Mantis World is also increasing the levels of organic cotton used in production and this is now the majority of their inputs. The main factory in Tanzania collects condensed water and can produce 200,000 litres of recycled water per day. Mantis World also uses environmentally sensitive and Global Organic Textile Standard (GOTS) – approved dyes for their organic cotton products.¹⁶ The company has also achieved a higher than average success rate for 'right-first-time' dyeing (95 per cent compared with industry average of 50 per cent). This means that less water is used and less chemical pollution is produced, as fabrics do not have to be re-processed every time.

Mantis World is one of the largest private employers in the country. It buys over \$6m worth of Tanzanian cotton per year, thus supporting thousands of small-scale farmers and their families. In 2004 Mantis World set up a sewing training school, which has provided a means to earn a livelihood for over 1,000 unskilled and unemployed people. Mantis World also provides social security for its workers, such as subsidised meals, housing allowance, an onsite health clinic and travel allowance.

EFF has developed a list of potential products available in East Africa (Box 4). As well as organic cotton, there are prints and fabrics whose designs are indigenous to East Africa, as well as finishings, trims, embellishments and buttons made from bees wax, recycled brass, hand-woven artisanal crochet, ostrich shells, recycled vinyl and bead-and-bone work from the Maasai tribes. Importantly, some of these products are very different to those sourced elsewhere in the world and are generally difficult to source in Europe.

¹¹ Part of this value is also considered as company profits and is used to pay taxes, shareholder dividends or managerial bonuses. An amount can be 'retained' and be re-invested back into the business. According to accepted accounting and finance standards, this happens in a certain order: bonuses get paid first - this then reduces taxable profits, and therefore less tax needs to be paid; then the company pays tax on the net amount; finally, the company either pays a dividend or the money is retained by the business to be reinvested (or to pay dividends at a later stage).

¹² Information for this section was gathered after attending the SourceExpo, organised by the Ethical Fashion Forum (EFF) in October 2010, a trade exhibition that brought together approximately 60 suppliers around the world dedicated to ethical sourcing. Also, see information on the websites of the EFF, the Global Sourcing Marketplace, and the Centre for Sustainable Fashion.

¹³ Ethical sourcing' is the intentional purchase of products and services that the customer considers to be made ethically i.e. with minimal harm or positive impacts to society and the environment.

¹⁴ See www.Mintel.com

¹⁵ See further the Mantis World website at <http://mantisworld.com>.

¹⁶ For more information on the Global Organic Textile Standard see www.global-standard.org/certification.html

Some examples of how buyers and designers have used these commercial opportunities include:

- Max&Co, an Italian designer brand, has designed a collection of bags, shoes, purses and accessories naturally dyed with local tea leaves and printed with animal prints using hand-made screen prints.
- Wildlife Works, based in Tsavo national park, Kenya, sells clothing made from organic cotton, hemp and other environmentally conscious fabrics. The clothing is made by women villagers in Kenya and a portion of the profit made from the sales go to support the wildlife reserve in Kenya.
- MADE jewellery, launched in 2005, is a fashion business built on fair trade principles, producing unique handmade clothing and fashion accessories and supplying the British high street and beyond. MADE has even recently been featured in the prestigious fashion magazine, *Vogue*¹⁷.
- SUNO, a designer brand based in New York, was formed in 2008 as a reaction to chronic unemployment following the 2008 post-election violence in Kenya. The brand produces highly-complex specialist product. It produces 70 per cent of its garments in Kenya and provides workers training with SUNO's tailoring experts. A 100 per cent silk halter dress with waist tie detail retails on the SUNO website for approximately £435.

New ways of selling

Clothing and textiles have traditionally been sold in bricks-and-mortar shops and department stores. However, over the last few years, internet selling has started to take off (Chibber, 2010). In 2007, online clothing sales totalled £1.7bn in the UK alone; it is predicted to grow by £6bn by 2016. In 2000, ASOS.com was established and is now the UK's largest independent online fashion and beauty retailer. Sales at ASOS increased by 31 per cent to £107.5 million during the three months to August 2012, buoyed in particular by strong international sales (Cooper 2012). Multiples (chain stores selling products from multiple categories such as food, clothing, toys, etc.) and supermarkets have also seized on this opportunity. Tesco, one of the largest supermarket chains in the world, has launched a new online fashion store devoted to selling its own labels (Taylor 2011) with innovative internet-based applications such as new 3D virtual imaging software for customers so they can 'try on' clothes online (Owen 2012).

Online retailing offers customers a large choice of colours, styles and labels. This expansion in product offer gives African suppliers a greater number of entry points for their product. For example, on the ASOS website there is a choice of about 600 different dresses, while in a standard Topshop bricks-and-mortar store (one of the top ten fashion brands in Europe) there may be about 60 options.

Box 4: Making the connections: Linking African products with European retailers

The EFF is encouraging high-end fashion designers to look at Africa as a sourcing destination. East Africa's comparative advantage is the 'Africa brand'. Research carried out as part of the Africa Inspires programmes showed that it is the increased availability of product that is driving demand, not the other way around. There is also a trend in fashion towards greater environmental awareness.

EFF's role in the Africa Inspires project was to link African producers and suppliers with retailers in the UK. During the project the EFF identified many unique products: prints, horn, fish leather, bees wax, ostrich shells, Maasai bead work, etc. It also identified 13 businesses who were committed to long-term product development and manufacturing in Africa.

Interest from the retailers and demand for African products was never a problem. The main challenge faced by EFF was turning this interest into meaningful trade partnerships. EFF's role was to establish the contact. However, limited resources, time and a lack of experienced industry practitioners at the International Trade Center (ITC) headquarters in Geneva meant that most of the interest was not acted upon or followed up in line with the expectations of the businesses involved. This led to disappointment in the project on the part of some of the African businesses. However, many of the companies have since found other routes to source from Africa. With the support of the EFF and other partners many are now engaging with units like SOKO (see case study in Section 4) in Kenya. For long-term project success, intermediary partners should be contracted to facilitate these relationships.

The EFF has issued a detailed report including recommendations to the ITC project team in Geneva after the end of the project in 2010, which set out suggestions on how to address the challenges faced.

Source: Interview with Tamsin LeJeune, Founder and Managing Director of Ethical Fashion Forum, 9 November 2010 ; see also www.ethicalfashionforum.com/what-we-do/africa-inspires and www.intracen.org/ethicalfashion/welcome.htm

¹⁷ See the blog published by model and photographer Laura Bailey at www.vogue.co.uk/blogs/the-green-style-blog/100831-laura-bailey-made-in-kenya.aspx

There are also new ways of engaging with consumers that do not have the heavy cost burdens of mass media campaigns – reducing the barriers to entry for new suppliers or product lines. Social networking sites offer a cheap, global marketing platform. LinkedIn, an online database, allows connections to be made between like-minded industry professionals. Facebook and Twitter can work across both professional and social circles, but also allow for the creation of large mailing lists. For example, Zara, part of the Grupo Inditex conglomerate, is one of the largest fashion brands in the world, with a presence in over 75 countries. It uses a Facebook group of 9.9 million people to release information on new product launches, store openings, marketing campaigns and upcoming music/ socio-cultural events.

In this way, consumer networks are invaluable marketing communications and targeting channels that can also feedback information to the retailer and network on trends, fashions and demographics.

New technology

New technologies can help small suppliers overcome the limitations of poor infrastructure. The M-PESA application has had great success all over Kenya. Set up by the international mobile network provider, Vodafone, and a local Kenyan network provider, Safaricom, M-PESA is used to as a 'mobile wallet' facility, revolutionising cash flow. This is especially useful in rural areas where access to banking facilities can be difficult. Since its introduction in 2007, 50 per cent of Kenyan households have adopted M-PESA. By contrast, only 22 per cent of adults have bank accounts. Over KSH 18 billion (approximately £150 million) has gone through the system via person-to-person transfers (Graham, 2010).

A more liquid cash flow means that many business owners can use M-PESA to buy and sell goods with ease. Small suppliers, such as entrepreneurs, traders, farmers, producers and artisans (for example, weavers, embroiderers and bead makers) will find it easier to make financial transactions despite being located far away from a bank. Also, small suppliers can avoid losing their money through theft as they will not have to carry as much cash on them or keep it in their houses.

New market linkages

There are many ways in which buyers and retailers in mature retail markets such as Western Europe can connect with small African suppliers. Often suppliers have difficulty understanding the idiosyncratic design features of the fashion and design sector. This is where the ethical agent comes in. They are sensitive to the challenges and limitations of working with suppliers who do not have a background in fashion and design and who are located far from the high streets of Western Europe (Box 5).

A scarcity of local managers can be resolved by bringing in internationally educated managers and consultants from organisations like Technoserve, which offers business and

Box 5: Ethical agents: The case of EI8HT

EI8HT is an ethical sourcing consultancy based in London. It was co-founded in 2009 by Claire Hamer and Janine Passley, both of whom have a long history of fashion buying and retail. EI8HT have been contracted as buying consultants and project managers by ASOS.com, now the UK's largest online fashion and beauty retailer, to manage the development of an ASOS Africa online sub-brand.

EI8HT's role is essentially a product management one. All elements of the production within the ASOS Africa brand range are overseen by Claire and Janine. They bring important skills in managing the day-to-day communication with suppliers in Africa, whom they visit regularly. They also participate in trade shows, exhibitions and conferences all over the world. EI8HT developed the space on the website and sourced suppliers from Africa. ASOS Africa launched clothes and textiles made in Africa in early 2010.

Their expertise in fashion means they are able to communicate ASOS design needs and specifications to the supplier in a clear way – adding evident value to ASOS. In turn, their expertise in working with suppliers across the world means that they are able to negotiate flexibility with ASOS and thereby effect necessary changes in the sourcing practices of this company.

At the start of the process, Claire and Janine sit with the designers and garment technologists at ASOS to talk about all the ideas behind the product being sourced. For example, fashion trends and inspirations, brand message, competitor ranges, new 'shapes', new fabric patterns/ colours/effects, beading and trims and importantly, timings. Claire and Janine have a close relationship with ASOS' management team and so immediately understand the implications of everything being discussed.

Claire and Janine are able to communicate ASOS needs to the suppliers in Africa. For example, they are the first point of contact on issues regarding delivery dates, fabrics and fashion design features, as well as which fabric samples or swatches best match the original colours, or what to do when a shipment is delayed.

industry expertise in market development projects.

Internationally educated skilled people can help build business processes. They can help build local capacity by implementing training.

In the next section we present a case study from Kenya, which draws together all the various threads described above to show how ethical agents can tap into global knowledge networks to link clothing manufacturers to global markets.

4. Case study: SOKO, Kenya

As we have seen, there are many export opportunities for the East African clothing industry created by preferential trade agreements as well as abundant local manufacturing capacity in countries such as Kenya. However, several systemic factors are affecting suppliers. These include high unit costs and a scarcity of local skilled managers. High input costs can be mitigated by securing inputs from network partners. Inputs can be donated or financed through fundraising efforts. Partners can help start-up businesses with economies of scale by sharing the costs of production, marketing, procurement or accessing finance.

This case study takes a GPN approach to describe a production network linking two worlds – a small clothing and textiles workshop based in Ukunda village in Kenya (called SOKO) and a large online fashion retailer based in the UK (ASOS.com). The network involves several key hubs, each of which is explored in more detail in the case study:

- SOKO: the supplier based in Kenya
- Joanna Maiden: social entrepreneur
- ASOS: the 'flagship' retailer based in the UK
- EI8HT: the ethical agent

SOKO means 'marketplace' in Swahili and was chosen to signify a hub where people come together to make trading links¹⁸. The company produces competitively priced, fashion-driven, good quality garments for the international fashion industry, including the European and US market. It is a 'social enterprise': a business entity with the dual mission of social welfare and commercial returns¹⁹. It is active in local community development. When it was established, SOKO was based in the grounds of Ukunda Polytechnic. SOKO supported the polytechnic by donating equipment, providing advice and guidance on the development of their training programmes, and 'opening doors' for potential financial assistance by offering scholarship apprenticeship programmes for student tailors from the local polytechnic²⁰.

SOKO was set up in December 2009 by Joanna Maiden, a 'social entrepreneur'. It began by supplying ASOS, an online retailer based in the UK.

The first order was to supply 3,000 units of spring and summer items, such as shorts, skirts, summery tops and accessories. A repeat order of 1,500 units was placed not long after to meet the demand for the bestselling items and the most recent order for Spring/Summer 2013 is 6,000 units.

SOKO has links with 20 suppliers in the local area from whom it sources original components and trimmings including beading or buttons made from coconut, horn, wood, brass, crochet; shoes made from recycled tyres and leather; and some hand-woven fabric. It also currently employs 25 local people, with 60 per cent of the workforce being women. Although in general the skills men and women have in this field are very similar, Joanna made it a personal objective to provide employment opportunities to young and vibrant women like her. Women were also more comfortable working with Joanna and tended to take responsibility for important functions within the business, such as washing fabrics prior to sewing.

4.1 SOKO's networks

In an area such as fashion and design, and for a sector that aims at producing products for Western markets, having a resource that understands the Western fashion market well and that can train local people to carry out managerial and supervisory roles is a valuable asset.

With Joanna's help SOKO works closely with several professional, community and personal networks to overcome systematic constraints within its operating environment. These different types of networks represent the diversity of relationships (i.e. professional, community and personal; see Table 1 above).

¹⁸ For more information see www.soko-kenya.com/about.

¹⁹ The debate around what legally classifies a social enterprise is ambiguous. In the literature, social enterprises have generally been defined by their dual mission – commercial returns and social (or welfare) returns. Social enterprises generate funding from their own business activities. They also tap into public funding. This can be to protect the core social mission and prevent a 'commercial drift' that can be caused by financial sustainability pressures. Alter (2007) categorises social enterprises along a spectrum spanning from traditional non-profit/charitable to traditional for-profit organisations.

²⁰ SOKO have since moved out of the polytechnic and to Voi, where they share physical space with another 'ethical supplier' called Wildlife Works – a social enterprise that donates profits to the safeguarding and conservation of animals and nature in Tsavo National Park, Kenya.

Professional networks

SOKO has developed several strong relationships with other fashion businesses in Kenya. For example, Lalesso, a fashion brand based in Kenya²¹, helped in setting up SOKO by providing Joanna with her first four tailors and some machinery. Lalesso also provided advice on regulatory issues such as import and export regulations, social security payments and company structure. Wildlife Works trained SOKO's tailors in the use of industrial sewing machines²².

Joanna has strong links with the Ethical Fashion Forum. Her initial role with them was as a consultant on the Africa Inspires project (Box 4). The EFF provides access to a large network of like-minded ethical and sustainable development practitioners and organises trade shows for ethical suppliers. For example, in October 2010 the EFF held a sourcing exhibition in London, bringing together 63 ethical brands from all over the world. SOKO exhibited and presented items from the spring/summer 2010 range commissioned by ASOS.

Joanna has also developed important relationships with high-level industry experts in Kenya. Jas Bedi, Chairman of the African Cotton & Textile Industries Federation (ACTIF) and managing director of Bedi Investments, a Kenya-based clothing and garment manufacturing company, is also Chairman of the Kenyan Manufacturers Association (KAM), a network of industry professionals that promotes trade and investment with the government. To help SOKO's integration into KAM, Jas accompanied Joanna to the first KAM meeting and introduced her to key people. This support meant the Joanna could overcome the initial barriers to integration quickly. KAM is also the main focal point for SOKO in terms of understanding what is offered for small businesses and development. A meeting with Tobias Alando, a KAM business advisor, recently helped Joanna identify a parallel network of industry specialists that specifically help small business development.

Community networks

SOKO has also developed some important relationships with the local community. Joanna's relationship with Thomas Kii, Managing Director of the Ukunda Polytechnic and a local community leader, has helped her to understand more about the local norms and customs. This allowed her to uncover important details to help the business run more smoothly, such as differences in work ethics and male and female socio-cultural roles between Kenya and the UK. Thomas has also helped Joanna resolve certain business issues. During the early start-up phase, there was an instance of theft at the workshop. Thomas helped resolve this issue by talking to the workers and working through the problems.

Personal networks

Joanna's personal contacts have provided some key marketing and PR inputs at a very low cost. Former work colleagues Max Fielden and Lucy Baker have produced a SOKO film, currently on YouTube²³. Scott Hamilton designed the website, and the SOKO logo and branding was originally designed by Olivia Kennaway of Lalesso and friend, Debbie Jackson-Hill.

Joanna's personal contacts also helped put together start-up funding for SOKO. Family and friends organised fundraisers, raffles and photographic exhibitions. All money raised was donated to SOKO. Joanna's father, Paul Cox, a business advisor, helped her prepare a business proposal (this included a SWOT analysis, a feasibility study, financial projections, and a marketing strategy, amongst other things). The business proposal won Joanna a £10,000 grant from the Joffe Charitable Foundation. Overall, the amount raised over the six-month period of fundraising activity came to nearly £30,000.

4.2 SOKO's value creation

These networks have been crucial for creating value. Joanna's experience and knowledge of working in supplier development and textiles puts her in a strong position to be able to garner value from her networks and translate the information and knowledge they contain into commercial and technical value for SOKO.

Commercial

Joanna's core competencies are in fashion, public relations and marketing. She also uses networks to keep in tune with the ethical sourcing, including fashion magazines and fashion blogs. When she is back in the UK, she conducts research at different retail outlets to keep up to date with high street trends (called 'competitor shopping'). SOKO also has its own website (<http://www.soko-kenya.com/>) and social networking group on which Joanna announces new product launches and publishes SOKO life stories through a Facebook group (currently, about 136 members), a SOKO blog, an email mailing list and a Twitter account (currently, about 262 members).

The commercial presence has also spawned its own network. Through marketing itself, SOKO has become visible to many potential partnerships. One recent partnership was with Nicola Thornley, a former product development manager, who has worked with designers such as Nicole Farhi and Burberry. Nicola was on a career break and joined SOKO for a three-month internship placement. Nicole has been designing a training manual for complex garment construction and rolling out some preliminary training. This is essential for SOKO to produce more commercial product and stay competitive as complex fashion designs and construction help create and capture more value.

²¹ Formed by designers Olivia Kennaway and Alice Heusser, and focused on using local products. For more information, see www.lalesso.com/about

²² For more information see www.wildlifeworks.com/mission

²³ <http://www.youtube.com/sokokenya>.

EI8HT, the ethical agent (see further Box 5 and Section 4.3 below), also plays a key role here in translating commercial knowledge into value for SOKO.

Technical competence

SOKO has developed its workers' skills in the multiple aspects of garment construction. We conducted interviews with three of SOKO's high-skilled workers, Philip, Rosie and Josephine. This revealed that SOKO offers workers a rounded package of tailoring skills – cut-make-trim, ironing and quality control. SOKO also gives workers an opportunity to discuss patterns and samples, including seam allowances, stitching styles, hem lengths and other details. This process brings the workers closer to the dynamics of the fashion industry.

As well as developing the competences of SOKO workers, Joanna has made some key investments to develop the capacity of several lower tier suppliers of certain inputs and components – individuals within her network (Box 6).

Box 6: Building capacity of suppliers: shoemaking and weaving

SOKO's suppliers include Charles, a shoemaker who has a tiny store outlet hidden in the depths of Ukunda marketplace; and Moses, a weaver who has a very small workshop on the main Ukunda road. This has been important in order to be able to meet supply specifications. Joanna must ensure that SOKO can source the right inputs and components to produce an exact specification of product within an exact period of time at an exact unit cost. Charles makes beaded sandals using recycled tyres as soles. First, for Charles, Joanna bought a 'shoe last' – a resin block in the shape of a foot used to determine the 'fit'. Charles then spread his repayments of KSH 100 (or 85p) from the ten pairs of shoes supplied to SOKO. Charles has been able to produce a colour picture catalogue of all the shoes he is able to make. He now takes only two days to make a shoe according to specifications. In November 2010, Joanna was able to place a 'bespoke' order for 24 pairs of shoes in which she specified bead colour and bead pattern.

Moses weaves many different types of products from dried herbs and grass. Joanna has sourced several test-samples from Moses, such as a lamp stand, to understand better the level at which he can produce woven goods. Moses also takes approximately two days to produce a sample for Joanna. Moses explains that he 'likes to use [his] brain to make more complicated shapes'. According to Moses, working with foreign customers is 'good'. Foreign customers have high expectations from his work and this develops his capacity to excel.

4.3 The importance of the ethical agent

ASOS is the 'network flagship' (see Section 3.4) in this relationship. The company is an industry leader in investing in developing country suppliers as well as making changes to its buying practices to incorporate developing country suppliers into its business (see Box 7).

ASOS contracted an ethical agent, EI8HT (Box 5), to help manage the relationship with SOKO and to help SOKO meet ASOS's specifications. It is important to ASOS that SOKO can meet their specifications on aspects such as design, quality, and speed-to-market. The cost is invested by the flagship but in the long run both the flagship and the supplier benefit. In this arrangement, ASOS also benefits from the experience EI8HT have working with suppliers in places like Africa.

EI8HT's main role as an intermediary and project manager is to absorb some of the time that needs to be invested in developing relationships with new suppliers. To develop a relationship with new suppliers, EI8HT must be a conduit and a mediator for information between ASOS and SOKO – able to translate complex information into knowledge that is relevant and useful for SOKO's business. For example, EI8HT is often the conduit for difficult bits of information. EI8HT also bridges gaps and between the two worlds and helps both parties understand the other's limitations. For example:

- EI8HT mediates between ASOS and SOKO during times of potential conflict. EI8HT absorbs some of the pressure by being the one to deliver bad news. For example, when ASOS product specifications change at the last minute, EI8HT will pass this information on to SOKO. EI8HT will then field problems, questions and comments. On the other hand, when SOKO has issues with finding the right fabrics and trims or with meeting production deadlines or delivery dates, EI8HT will feed this back to ASOS.
- EI8HT manages the trading agreement between ASOS and SOKO. EI8HT sources fabrics and other inputs and sends this to Kenya. ASOS can be confident that outsourcing this activity to EI8HT will be successful because Claire and Janine have a wide range of experience in carrying out these functions at other fashion brands. Claire has also been a consultant on other parts of the ASOS range. This means that Claire and Janine have been deeply involved in multiple aspects of the ASOS brand for a long time and so understand both the explicit and the tacit motivations of the ASOS management.
- EI8HT helps SOKO with the analysis of consumer behaviour. Joanna can keep herself updated on fashion trend movements – based on her own competences in fashion and design – but EI8HT supports this by providing an analysis on how this has been translated into sales. EI8HT has sales information on the ASOS Africa collection and can package and present this information to Joanna. This adds another dimension – a more explicit and codified dimension – to what Joanna understands is happening on the UK high street. This is important for Joanna as this information enables her to

Box 7: Adapting the practices of the network flagship

To help share some risk as well as rewards, ASOS has adapted some of its buying practices to accommodate its work with SOKO. For example:

- ASOS pays for many of the fabrics upfront. Usually, suppliers search for and pay for their own fabrics. In this case, ASOS and EI8HT source some fabric from Turkey and send it to SOKO in Kenya. It is more cost effective for ASOS to source fabrics this way within its current procurement structure.
- ASOS pays for supplier samples. Usually, buyers and retailers demand that their suppliers have in-house sample-making processes. Here, ASOS contracts a 'sampling house' to produce the sample on SOKO's behalf. These samples are then sent to SOKO. This is because SOKO does not yet have the capacity to produce samples in-house. As part of the knowledge-transfer process and to help build SOKO, ASOS sent Joanna to visit the pattern and sample specialists to learn more about the processes involved in producing in-house samples.
- ASOS pays 25 per cent of the order in advance and the balance immediately after delivery. This helps SOKO manage cash flow. Normally, retailers will pay their suppliers between 30 and 90 days after delivery. ASOS is aware that without adequate liquidity SOKO cannot contract the workers to complete orders and pay them fair and decent wages.
- ASOS has sent press reporters to SOKO. SOKO has been featured in UK national newspapers, such as the *Daily Mail* and *Metro*. This raises the profile of the ASOS Africa brand that SOKO contributes product to as well as raises SOKO's profile amongst ASOS Africa customers.
- ASOS visited SOKO on a local capacity-building business trip. In summer 2010, the ASOS garment technologist and designer visited the workshop. ASOS spent time with SOKO management talking about various ASOS specifications and how to meet them. During this time, advice was given by ASOS on what a supplier 'audit' would involve and how best to approach meeting the criteria. This information was also incorporated into the training manual that was being developed by Nicola Thornley. This is a clear example of one of the knowledge-transfer mechanisms used by the flagship (face-to-face meetings and international travel) to impart explicit and tacit knowledge to meet specifications.

Other businesses that make similar investments in sourcing from Africa include Unilever (which co-invests with Oxfam GB in developing its sourcing from smallholder farmers) and Wal-Mart (which has introduced targeted marketing to educate consumers on new products from Africa).

understand ASOS decisions better and helps her prepare the workshop for changes to supply specifications from season to season.

- EI8HT helps build the relationship between ASOS and SOKO. EI8HT led the ASOS trip to Ukunda in September 2010. During this time, ASOS visited the SOKO workshop and understood a bit more about the SOKO business model. EI8HT, ASOS and Joanna also travelled to Dar es Salaam in Tanzania to look at different fabric mills and investigate more localised fabric sourcing opportunities.
- EI8HT also represents SOKO at trade shows. Joanna is based full time in Kenya and is limited in how much she can travel to meet other suppliers and new buyers and retailers. However, this limitation can be overcome through EI8HT. EI8HT managed the SOKO stand at the sourcing exhibition organised by the EFF held in London in October, 2010. Through this channel, SOKO were able to raise their profile; and win new orders from new buyers.

4.4 Impacts and future plans

SOKO is seeing huge demand for its products, but its current capacity cannot keep up. Thus it hopes to grow the business over the next 12 months; building the capacity to meet increased demand will also increase the number of buyers SOKO can work with, thus spreading risk (and supplier dependency) across a more diversified portfolio. To realise this project, SOKO hopes to secure additional funding. ASOS has pledged that for every item sold under the ASOS Africa brand (the 'parent' brand of which SOKO is a part), £5 will go towards the SOKO fund, matched by £5 from ASOS's own philanthropic foundation. In this way SOKO plans to raise £20,000. This will allow SOKO to build on new land, increase worker numbers, increase output, expand the training offered, support more students from the polytechnic and support the polytechnic's income-generating activities.

Table 4 further summarises SOKO's policies at the business level, which have positive developmental and gender impacts.

Table 4. Summary of SOKO impacts (September 2009 to November 2010)

Impact	Details
Number of jobs created	Since inception SOKO has grown from 4 to 25 workers, 50% of whom were unemployed before SOKO arrived
Income-related benefits	21 full-time workers work 5.5 days per week, earning £65–£99/month or KSH 7,800–12,000 4 part-time workers work 2.5 days per week, earning £20–£49/month or KSH 2,400–6,000 For a skilled worker (i.e. machinist) national minimum wage = approx KSH 6600 + 15 % housing allowance
Non Income-related benefits	Mon to Fri 8am–5pm; Sat 8am–12noon Midmorning break at 10.30am; lunch 1am–2pm
Overtime	Used only twice over the last 6 months 2 days at 8 hours per day, paid at time-and-a-half
Social security	Approx. 5% of salaries goes to National Hospital Insurance Fund and National Social Security Fund A statutory 15% housing allowance is paid to all workers
Maternity leave	SOKO offers 3 months of leave
Childcare	SOKO offers free crèche facilities
Education profile of workers	50% of workers didn't finish primary school 50% of workers completed part of secondary school SOKO sponsors students at the local Ukunda Polytechnic – students who default on their course fees. They are chosen based on their level of chronic poverty
Skill level	13 fully-qualified tailors (52%) 12 machinists (48%) 3 general assistants 2 quality controllers
Gender	15 of the 25 workers are women (60%) 4 of the 5 senior staff are women (80%)

4.5 Challenges

There are several limitations to GPNs as a concept that may undermine the development of replicable and scalable business models. First, this case has highlighted the crucial role in the relationship played by E18HT. The relationship amongst the parties could suffer heavily if this agent role were removed. For the system to become more sustainable, E18HT's operational activities would need to become a normal and integrated part of ASOS's business. This would mean that ASOS would have to develop an in-house buying and merchandising team to deal with special suppliers such as SOKO. In this scenario, ASOS would have to therefore capture more value in order to finance this. The alternative is that over time SOKO could develop capacity to manage their relationship with key accounts such as ASOS. This would negate the need for an agent and keep more value with the supplier.

In the future, SOKO expects to move towards more full-package (FOB). To do so will require, for example, SOKO to produce its own patterns and source its own fabrics. To produce samples in-house, SOKO would need more investment to acquire the right equipment and in-house skills. One way to finance some of the cost would be to achieve higher output quantities and more internally driven profits. External sources of finance could also be identified. To source fabrics itself, SOKO would lose the economies of scale achieved by ASOS. This would not be at all cost effective for the business. Another way would be to join with a development institution that has an industrial development mandate. These institutions can help build Kenya textile manufacturing capacity and competitiveness.

5. Conclusions

This paper has explored the contribution of global production networks (GPNs) to supplier upgrading, particularly within knowledge-intensive sectors such as clothing and textiles. Supplier upgrading needs to include processes to upgrade skills in both technical, manufacturing processes and qualitative analysis of consumer behaviour. The specific challenges facing East Africa, where export opportunities are plentiful, include high input costs, a shortage of skilled people, information asymmetry and poor market co-ordination. In these conditions networks can help suppliers overcome the heavy investment burden required with upgrading. Drawing on GPNs can allow suppliers to skip generations of development and upgrade more quickly and efficiently. Recognising the complexity and value of social networks in this respect sounds a cautionary note to development interventions that seek to formalise and regulate trade in an inflexible way and prioritise 'vertical' interventions' in a supply chain alone. Commercial knowledge, the ability to interpret consumer behaviour and market trends into design, production and marketing, which based more on relationships, emotions, skills and personality, is an important complement to the technical knowledge required to undertake sophisticated production processes, logistics and sourcing of inputs.

The SOKO case illustrates how the company's network has been vital for providing key inputs. In this network, information has moved in multiple directions: it has passed from the network flagship via an intermediary to SOKO; and from actors in the social and institutional environment to SOKO; and from competitors in the fashion and design sector in Kenya to SOKO. The main limitation that practitioners may experience is that such valuable networks are not common. Replicating such networks takes time and the right opportunity. However, activating networks that span geographical distances with ease and speed, through modern technology, is becoming more and more common. Comfort with modern technology is needed; energy needs to be invested in developing relationships over the phone or email via voice-over-internet-protocol (for example, Skype) or video conferencing.

Finally, although the flagship retailer contributed to the development of SOKO, Joanna herself has been the ultimate driver of the development of the business. Joanna is a 'social entrepreneur' and has the personality traits required to keep the business model developing: she is personable, hardworking and relentless. She is also prepared to invest financially, physically and emotionally in new ideas and risks. On one hand, this is resource that is not easily replicable – personality tends to be a product of a multitude of factors. On the other hand, as this paper reveals, there are plenty of market-orientated but socially-conscious individuals who innovators in new ways of working.

From this and related research, we offer ten tips to help other ethical agents maximise the impact of their work²⁴:

1. Focus on developing a competitive product with a unique selling point. This will make the 'business case' clear for the buyer or retailer. When a supplier has a strong value proposition and when the information they hold about their product is complex, buyers and retailers will have difficulties in replacing them²⁵. The exchange of complex tacit information is most often accomplished by frequent face-to-face interaction, an intensive activity not easily replicated. This also makes the costs of switching to new partners high.²⁶ Suppliers with competence in handling this complexity can win new business. Ability to manage complexity can provide a strong motivation for lead firms to use them.
2. Get to know the business model and network of the supplier and don't underestimate the support and upgrading that may be needed to supply a more demanding and formalised buyer. It is really important to identify, early on in an engagement, the skills and capacity of the SME. Undertaking a gap analysis will allow all actors identify what the supplier is currently able to supply and the investments that would be needed to allow them to supply a more demanding or specific market. Underestimating this can lead to serve delays and setbacks.

²⁴ See further Buxton and Vorley 2012.

²⁵ Based on Penrose's work on the 'theory of the firm' in 1959, which has spawned literature on the 'resource-based view of the firm'. See Penrose, E. 1959. *The theory of the growth of the firm*, Oxford, Oxford University Press.

²⁶ See Gary Gereffi's work on concepts and tools for GVCs at www.globalvaluechains.org/concepts.html

3. Take on some operational aspects of the project management role: resolve day-to-day issues, talk to actors regularly, meet them face-to-face, establish critical paths (ways of doing things), tools and methodologies, etc. This will help build both trust (in the professional capacity and knowledge of the ethical agent) and the agent's knowledge of the workings of the supplier and supply chain.
4. Take time to ensure that buyers' supply specifications have been fully understood by the supplier. Often it can be discovered too late if specifications were misunderstood and this can cause delays and undermine confidence in the trading relationship.
5. Engage in trust-building and relationship-building activities between buyer and supplier. For example, act as the broker for difficult bits of information and mediate between the two (or more) parties; suggest solutions for day-to-day operations that will ensure the buyer and seller better meet each other's needs; and broker face-to-face meetings that help develop the buyer's and seller's understanding of each other's business.
6. Take time to meet face to face and reflect cultural sensitivities in communicating in different contexts. Failing to do so can risk alienating new business partners.
7. Be creative in finding solutions to problems; problems can be exceptional and require bespoke problem-solving. Doing this will help strengthen the trading relationship as well as the capacity of both buyer and seller to adopt solutions to problems that may be particular to this relationship.
8. Provide small suppliers and producers with access to expensive information and difficult-to-meet 'thought-leaders'. Also, help organise business-to-business trade shows and exhibitions. This will help overcome some of the information asymmetries inherent to operating in less developed contexts with fewer resources.
9. Don't forget to produce evidence and evaluate impacts for publications on corporate social responsibility. This supports the 'business case' and also goes some way towards monitoring and evaluation the impacts of investments, what is working and what is not. This knowledge should be fed back into the supply chain activities and ensure the terms of the trading relationship are flexible enough to respond to new challenges and opportunities.
10. Plan an exit strategy. Institute the necessary systems, processes, skills and relationships to ensure long term sustainability of the supply – both commercially and developmentally. This is particularly important for ethical agents funded by development activities that often operate with a limited time frame and funding.

In conclusion, making use of networks – of informal/ formal, vertical/ horizontal, transitory/long-standing links – is a way to capture and translate knowledge/ information into value. Ethical agents can play a key role in facilitating these links, particularly in contexts where there are systematic market constraints – information asymmetries, lack of skills and capacity.

References

- Alter, K. 2007. *Social enterprise typology* (revised edition), Virtue Ventures, Washington, DC.
- Bolwig, S., Ponte, S., du Toit, A., Riisgard, L., and Halberg, N. 2008. *Integrating poverty, gender and environmental concerns into value chain analysis: A conceptual framework and lessons for action research*, DIIS Working Paper no 2008/16
- Buxton, A. and Vorley, B. 2012. The ethical agent. Fresh flowers in Kenya. New Business Models for Sustainable Trading Relationships. Case Study Series.
- Chibber K. 2010. *High fashion learns to love selling online*, 31 October, available at: <http://www.bbc.co.uk/news/business-11645439>
- Coe, N., Dicken, P., and Hess, M. 2008. Global production networks: realizing the potential, *Journal of Economic Geography* 8(3), 271–295
- Cooper, R. 2011. International news sales spur ASOS fashion site. *The Telegraph*, 19 September. Available at www.telegraph.co.uk/finance/newsbysector/retailandconsumer/9552258/International-sales-spur-ASOS-fashion-site.html
- FIAS 2007. *Moving towards competitiveness: a value chain approach.*, World Bank, Washington DC.
- Gereffi, G., and Frederick, S. 2010. *The global apparel supply chain, trade and the crisis: challenges and opportunities for developing countries*, World Bank Policy Research working paper no. WPS 5281
- Graham, F. 2010. *M-Pesa: Kenya's mobile wallet revolution*, 22 November, available at: <http://www.bbc.co.uk/news/business-11793290>
- Henderson, J., Dicken, P., Hess, M., Coe, N. and Wai-Chung Yeung, H. 2002. Global production networks and the analysis of economic development, *Review of International Political Economy* 9(3), 436–464
- Humphrey, J. and Navas-Aleman, L. 2009. *Multinational value chains, small and medium enterprises and 'pro-poor' policies: a review of donor practice*, Report to the Ford Foundation Affinity Group on Development Finance
- Law, J. 1992. Notes on the theory of the actor network: ordering, strategy and heterogeneity, *Systemic Practice and Action Research*, 5, 379–93
- MacDonald, K. 2007. Globalising justice within coffee supply chains? Fair Trade, Starbucks and the transformation of supply chain governance, *Third World Quarterly* 28(4): 793–812
- Morris, M. and Barnes, J. 2009. *Globalization, the changed global dynamics of the clothing and textile supply chains and the impact on sub-Saharan Africa*, UNIDO, Research and Statistics Branch Working Paper 10/2008
- Owen, E. 2012. Tesco launches virtual 3D fitting room. *Marketing*, 29 February. Available at www.marketingmagazine.co.uk/news/1119577/Tesco-launches-virtual-3D-fitting-room/
- Owen-Smith, J and Powell W.W. 2008. Networks and institutions' in Greenwood, R. et al. (eds.) *The Handbook of Organizational Institutionalism*, Sage, New York
- Phelps, N.A., Stillwell, J.C.H. and Wanjiru, W. 2008. Missing the GO in AGOA? Growth and constraints of foreign direct investment in the Kenyan clothing industry, *Transnational Corporations*, 17(2), 68–106
- Porter, M. E. 1998. Clusters and the new economics of competition, *Harvard Business Review* Reprint 98609
- Schmitz, H. 1991. Collective efficiency and increasing returns, IDS Working Paper 50, IDS, Sussex
- Seville, D. and Paschall, M. 2012. Certified cocoa: scaling up farmer participation in West Africa. New Business Models for Sustainable Trading Relationships, Case Study Series.
- Taylor, G. 2011. Tesco to launch online clothing range internationally, *Retail Gazette*, 4 October. Available at www.retailgazette.co.uk/articles/12430-tesco-to-launch-online-clothing-range-internationally
- The Economist 2011. *The lion kings?* 6 January WTO 2010. World Merchandise Exports. Available at www.wto.org/english/res_e/status_e/its2011_e/its11_merch_trade_product_e.htm



Knowledge networks: adding value to the East African apparel industry

This paper explores how value is created through networks in the fashion clothing sector. Networks can be horizontal, vertical, formal or informal. Networks allow for complex value propositions to be created. In fashion clothing supply chains, value to the consumer requires not only commercial and technical competence, but also intangible, emotional and creative inputs. This paper explores how networks can be used to upgrade developing country suppliers, in this case a SME in Kenya, to ensure they have access to the knowledge, information and relationships that are necessary to add value to products in this sector. The paper looks at the role 'ethical agents' in facilitating these networks and helping link SMEs in developing countries to retailers in developed country markets.

The International Institute for Environment and Development (IIED) is a policy and action research organisation working to promote sustainable development—development that improves livelihoods in ways that protect the environments on which these are built. Based in London and working on five continents, we specialise in linking local priorities to global challenges. In Africa, Asia, Latin America, the Middle East and the Pacific, we work with some of the world's most vulnerable people to ensure they have a say in the decision-making arenas that most directly affect them — from village councils to international conventions.

This paper was produced by IIED's Sustainable Markets Group. The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The group brings together IIED's work on market governance, business models, market failure, consumption, investment and the economics of climate change.

ISBN 978-1-84369-866-1

 International Institute
for Environment
and Development

80-86 Gray's Inn Road, London WC1X 8NH, UK

Tel: +44 (0)20 3463 7399

Fax: +44 (0)20 3514 9055

email: info@iied.org

www.iied.org