

UDYOGINI

Studies in Women's Enterprise Promotion



**Skill, Entrepreneurship and Market Development
For Handicrafts in W. Rajasthan:
Learning from the Life-Cycle**

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1. Overview

A key issue confronting social businesses today is scale potential and developing models that are replicable. Artisan crafts, particularly, face this problem due to the volatile nature of the market, its differentiation, the skill and supply constraints, complex logistics, long and mostly unorganized supply chains. Due to these complexities, margins in product sales are low for artisans and upstream entrepreneurs. Yet it is an important sector for social businesses in India as handicrafts is the second largest employer after agriculture. A study by Udyogini in 2002 revealed that within handicrafts, textiles accounted for almost half of the sector; other craft segments following in order of significance were: cane and bamboo, wood, metal, straw/grass/fibre, clay/ ceramics, leather and stone.¹ The markets channels include wholesalers, retailers, exhibitions.

For products promoted by NGOs, there are alternate sales channels such as small shops (including of cooperative societies) and exhibitions organized by craft organizations. The study estimated that these alternate channels, though they have carved a niche in upmarket consumer circles, had not built an adequate sales volume to be counted as prominent market players. NGOs working with artisans have preferred to develop their own alternate value chains for high returns to producers. Cases of success in this approach are few. The mobilization to market agenda is long and complex with most organizations taking more than ten years to reach a certain scale of returns. In most cases, increasing the supplier base is a challenge given the need to have reliable quality and skill for the returns to sustain. Input and management costs as well as human capacity requirements are high, making craft-promoting interventions generally non-replicable, especially for smaller organizations. There are location-specific social and community constraints as well, especially for home-based working women. These issues plus the inherent, often rapid, consumer demand shifts in such markets increases the costs and risks for NGOs.

For Udyogini, the supply and market constraints in the sector, the costs of intervention, the amount of grant funds required and the long gestation for developing a producer-owned fair trade value chain, suggested that for scale and replicability, it had to devise a different model. Also, as part of its service provision role, Udyogini is required to provide strategic inputs to other organizations on interventions in the crafts arena so it was incumbent on Udyogini to develop a model which could, in whole or in part, be replicated and scaled in other locations and be sustained without continuous and high-level support by the intervening NGO. Last, and most importantly, it is Udyogini's vision of building management capacity and entrepreneurship among local people, especially women, that guided its operations. Consistent with this vision, it set for itself

¹ Shanhbag, Vinod, *Feasibility of a Marketing Mechanism for Crafts*, Udyogini, 2002

a 5-7 year schedule in prototyping a business model driven by local entrepreneurship. This study describes Udyogini's intervention in textile crafts in Pugal block of Bikaner district in Rajasthan from inception in 2003 until it moved from direct implementation to a facilitating role in December 2009.

2. Location and Social Background

Pugal block is 30 kilometres from the Pakistan border. The area is in the great Indian Thar desert, extremely arid, with summer temperatures rising upto 50 degrees C. The summer months bring strong, hot, desert winds that cause the sand to cover roads and pathways that makes access to villages very difficult. The villages are dispersed and poorly connected by public transportation. The nearest town, two hours away, is Bikaner. Most of those settled in the area are refugees from Pakistan who came across to India after the 1965 and 1971 wars between India and Pakistan. The area has both refugee settlements and indigenous habitations. Many settlers were given land by the government when they came across the border. However, with paucity of rainfall and under-developed irrigational facilities, agriculture is seasonal and subject to drought conditions every few years. The women settlers came with traditional high-quality embroidery skills and are mostly from the Meghwal community. Others such as Rajputs, Suthars and Jats came from other parts of India and acquired limited skills for products of low value for the mass market. Restrictions on mobility of women have limited the opportunities for them to earn a decent living. The patriarchal structure of the Rajput community constrains Rajput women more than those from other communities.

Apart from limited rain-fed agriculture providing income and employment for one or two seasons (3-5 months), families can obtain income from women's work on handicrafts for 6-8 months in the year. More importantly, women control the income from handicrafts. There had been a thriving market for embroidery products in Pugal since the settlements were established. Women undertook job work, supplying products on a piece-rate basis, through local traders, to wholesalers and exporters located in the district of Barmer, on the Gujarat border. Fabric, thread and design were provided and women did the embroidery. Barmer is the handicrafts 'hub' in Rajasthan. In 2004, the annual turnover was estimated to be approximately ₹ 130-150 crores (\$ 28-33 million), providing livelihood opportunities to roughly 60,000 women in rural western Rajasthan.² The analysis done by Udyogini in 2005-2006 of the same market, which was experiencing a slump, showed that turnover does not go below ₹ 80-100 crores even during a slowdown. However, this market provides only intermittent work in the form of job work for low margins per piece. Nearly 75% of their production was (and is) concentrated in home-based work in 3-4 clusters within Barmer district. Pugal's share in this market was only around 5%. This was partly because there were limited numbers of

² Choudhary, Vikas, *Value-Chain Analysis of Hand-Embroidery Sub-Sector in W. Rajasthan*, Udyogini, New Delhi, 2004

skilled and semi-skilled suppliers in Pugal (whereas Barmer itself had a highly-skilled producer base) and transportation costs were high given the distance between Bikaner and Barmer.

Women in Pugal wanted better margins and regular work (for 4 hours per day, 20 days a month and for 6-8 months in the year). Working for local traders, skills and bargaining capacity were compromised as there were no benchmarks for design, quality or price. Women were not being supported in the area in other ways either. When Udyogini began work in the area in 2003, women were not inclined towards Self-Help Groups (SHGs) formation and internal lending because of lack of mutual trust³ among the members. The area had not seen any good SHGs despite numbers of SHGs having been promoted. Most producers saw SHGs as a way to pull in government funds rather than build sustainable savings and credit associations. There was, and still is, a large default rate of such SHGs in the local banks. There seemed to be no great demand for consumption credit in any case so Udyogini, at the inception of the program, did not take the route of linking income generation work with SHG development.⁴

3. Program Objective and Perspective

The objective of the program was to develop local enterprises and a supply chain in a region that would normally be considered inhospitable for such enterprises given that the women of Pugal were excluded, socially secluded and with poor access, infrastructure and low socio-economic potential. Udyogini estimated the total number of potential women who could earn a livelihood from craft to be around 2500-3000 in Pugal and surrounding villages. In 2003, only the women from the Meghwal caste, superiorly skilled in traditional embroidery were targeted for support. Within a year, Udyogini realized that the development of the enterprise around highly skilled producers was unlikely to lead it in the desired direction.

First, the artisans' income expectations would have required high-end and perhaps export-oriented market linkages that demand considerable seasonal adaptation among the artisans in terms of colors, fabric and products. This was self-limiting in terms of the number of artisans who could meet these requirements so scalability within a reasonable time was clearly going to be a challenge. And, as we now know, in a worldwide slump, niche markets dry up first posing fresh livelihood challenges for highly skilled but poor artisans. Second, the cost of developing such a business was likely to be high with large investments in design, product development and brand building for many years without assurance of regularly widening supplier base that can meet the requirements of

³ As mentioned earlier, the families are new settlers in settlements that are only 25 to 30 years old. Till about ten years ago they were relying mostly on government grants and there were few inter personal dealings within the newly settled villages. Cohesion was virtually absent and caste based politics was (and is) pervasive.

⁴ The community used to get relief materials till ten years ago. As part of the rehabilitation package they also received assets, such as land, free of cost from the government.

upmarket consumers. Third, the sustainability of the model in the absence of the promoting institution was in question. There was a high probability of the continuing need of long-term, more expensive, professional human resources requirement, for creating and maintaining a value chain for an upmarket segment.

Instead, Udyogini decided to bring some systematization, manufacturing capacity, quality and price benchmarks to supply and expand the market for mid-range⁵ products. This would enable larger number of artisans to be skilled and employed and also, possibly, attract the bigger and more organized retailers at a later stage.

4. Strategy and Operations

4.1 Handicraft Genre and Skill Development

To reduce the barriers at entry that upmarket focus would have imposed for the organization and the artisans, Udyogini took a high volume, low margins per piece approach that could target a large number of low to medium-skilled women or women with no skills. This group of women in Pugal was working for very low rates and those with no skills were not earning a livelihood from craft. These were from Rajputs and other castes, than Meghwals. Rather than product development and related marketing investments, the focus of the intervention was on improving the efficiencies for the existing market through improved quality, productivity, benchmarking and systems for the existing range of products and designs to enable greater standardization. Two existing low-end craft genres, appliqué and silk-thread embroidery, were developed for the purpose. This process, Udyogini believed and hoped, would lead to a self-sustainable cluster model within 5 years that could become largely independent of the promoting institution within 6-8 years.

Market research on appliqué showed that it had demand in a range of market segments depending on the quality, design and fabric used. On the supply side, quality standardization was possible because of its minimalist forms (white on white color palate and simple designs) and if the quality of workmanship is high, the margins would also be high depending on where it is sold. For silk thread with mirror-work embroidery, the returns could go up only marginally with improvement in workmanship and care for the product because of the market positioning of this type of craft. Nevertheless, for low-skilled women and newly skilled, this was still income generating when agriculture was not productive, as in drought years. Thus, Udyogini started supporting increasingly larger numbers of women in Pugal with skill development in appliqué. The strategy change resulted in rapid coverage within one year with more than 500 women developing or upgrading their skills whereas, prior to

⁵ Though a clear-cut categorization of this market is not really possible due to the variability in products, designs, positioning, and consumer preferences, broadly, mirror work silk-thread embroidery cushion covers in this market would retail for ₹ 50-80 in a Delhi bazaar.

this, Udyogini had managed to support only 75-100 women with skills required for an upmarket segment. Within six years, Udyogini had trained nearly 1000 women in basic and high quality appliqué and upgraded their skills in silk thread embroidery making them all eligible for employment in a mid-market segment. About 250 women were highly skilled and could make upmarket appliqué products. The differential earnings were, over time, a result not just of skill but also of market fluctuations, irregular orders and quality inconsistencies.⁶ Some women earned more because of quality consistency and schedule discipline. Apart from Rajputs, Jats, Suthars, Muslim women who had never been employed were also skilled. By the end of 2009, there were 70 Muslim women working on orders brought by Udyogini.

The choice of market segment and corresponding skill development also facilitated cluster development fairly rapidly, covering 80% of eligible women in contiguous villages in a single craft genre. Three such clusters, Pugal, Shivnagar and Adoori, were developed in this way and became 'trademarked' appliqué clusters. The latter two are Rajput-dominated and were recognized by the Government of Rajasthan under its Cluster Development Program and funds were earmarked for this from the Industries department. This was the first of its kind recognition for a group of villages in Pugal block.

4.2 Business Process and Supply Chain

Upgrading the quality of 'lower-grade' craft helped the existing traders supplying to Barmer to obtain better quality from Pugal than what they got earlier. In 2004, in terms of size, micro firms in Barmer (annual turnover less than ₹ 10 lakh) dominated the production landscape with 53 percent of firms belonging to this category. However they contributed only 8 percent of the volume of the sector. On the other hand, 7-10 large firms, which accounted for only 4 percent of the total firms, captured 51 percent market share.⁷ They remained important linkages for the mid-market segment of Pugal. There are low barriers to entry and exit for local traders supplying to these firms so there are always opportunities for new entrepreneurs from Pugal to take advantage of this market.⁸

By not changing the market, Udyogini reduced costs of product development and instead, used the existing job work mechanism to build incremental quality and skill improvements. Local people were developed to oversee production and quality; hence, there was no need for professional

⁶ Average earnings per month were: newly skilled around ₹ 200; medium skilled around ₹ 400 and highly-skilled around ₹ 600.

⁷ Choudhary, Vikas, *Value-Chain Analysis of Hand-Embroidery Sub-Sector in W. Rajasthan*, Udyogini, New Delhi, 2004

⁸ Entry and exit barriers are probably the lowest at the level of the local trader. Since the investment is not large, exiting the sector is relatively easy if things don't go as planned. On the other hand, a referral from a relative and small capital to pay a month's wages to the artisans is all that is required to enter the sector. A mid-sized trader blocks ₹ 5000 to 10,000 for wages at a given time and he pays the women on time (Source: Vikas Choudhary, *Value Chain Analysis of Hand-Embroidery Sub-Sector in W. Rajasthan*, Udyogini, 2004).

designers. Traders themselves trained women to improve skill, their incentive being better quality and higher returns for themselves. This was a significant contribution of the existing market, since for niche markets product development and related skill development is a key investment.

Along with the skill training, Udyogini organized Grassroots Management Trainings (GMTs) that enabled artisans to understand the product manufacturing process as well as costing and pricing. The improvement in the knowledge enabled artisans to bargain for better rates since the quality had improved. Traders already working in the area who were able to match the new benchmarks were able to continue to do business and those that did not, stopped working. Out of 25 traders that previously worked in the area, only 4 remained five years after Udyogini began working there.

Udyogini began work in 10 villages initially but expanded to 30 villages by 2009. The two appliqué clusters of Adoori and Shivnagar are 15 and 45 kms respectively from Pugal town. The furthest cluster of villages where BDS is provided is 60 kms from Pugal. In order to enable efficient operations across such distances (characterized also by poor connectivity by public transport), it was important to link these villages to a central production and distribution center in Pugal. Each village or cluster of villages also needed a distribution and collection center from where women could take the raw material and return the finished goods. These served as production centers only for women of the village in which the center was located as seclusion limited the others to home-based production. These centers also served as training centers for the women, for management and technical skills.

Udyogini identified local persons to work as production supervisors (called business development service providers or BDSPs) and carefully nurtured a few to take on more entrepreneurial roles, i.e., visit Barmer regularly to get more links and orders, get exposure to the market by participating in exhibitions, and managing BDSPs working in their cluster. In order to infuse business principles into operations as early as possible, Udyogini ensured that there was a gradual reduction in salary-based work of BDSPs so that within a year or two of a woman being employed as BDSP, she would shift to a salary plus commission-based system. The Udyogini-trained entrepreneurs were given villages to develop as clusters to ensure that at least 80% of eligible women in the selected villages are skilled, graded and involved in production. These entrepreneurs themselves became proficient in reaching out to non-Barmer-based wholesalers and bringing a variety of orders for employment of a range of skilled women. They also managed the production of such market-differentiated goods in their clusters as well as the distribution and collection through the Pugal hub and their assigned village centers.

By far the single biggest cost in this distribution and collection chain was transportation (15%). Udyogini subsidized this cost during the skill development and business process establishment and consolidation phase that lasted 5 years. Udyogini considered this a necessary concession because the market had already contributed the major cost of skill

development, women artisans had stayed with the program despite the average earnings, and BDSPs accepted the shift to salary plus commission-based remuneration (although they did not prefer it). Transportation costs were incorporated in product pricing from the 6th year onwards without impact on viability because of a shift to a cheaper mode of transportation, switch to an entirely commission-based compensation system for BDSPs as well as changes in the raw material supply and finishing services procurement arrangements.

4.3 Entrepreneurship and Producer Institution

Udyogini-created entrepreneurs began working under the overall supervision of an institution called UJAS, a registered Society of artisans that was established in 2004. The idea was to bring all producers under the umbrella of UJAS which would also help to establish a brand identity for the products. With the initiation of branding, UJAS manufactured products were separated from those made for other buyers dealing with low to mid range products. Producers were differentiated according to skill and market in the same way i.e., those who were better skilled would make the branded products. With increasing visibility of the better quality products and orders from more upmarket buyers, UJAS-branded appliqué cushion covers, bed covers, dress and running material were made for inventory and mainly sold in exhibitions. The same good quality products were also supplied against orders to retailers and wholesalers dealing in this market segment. UJAS continued to supervise the job-work for silk-thread embroidery cushion covers and some appliqué products which provided employment to lower-skilled and newly skilled women.

Whereas in the early stage of the life-cycle, job-work constituted 80% of employment-generation for women skilled by Udyogini, it came down to 40% of UJAS' portfolio by 2009. The UJAS identity grew stronger with the trained entrepreneurs working under its umbrella and UJAS became better known in Rajasthan, particularly in government circles, than Udyogini! The entrepreneurs also gained in knowledge and linkages from the training and marketing support. Each entrepreneur was made in charge of her/his own production cluster and this gave them confidence in management. Three entrepreneurs qualified for social venture capital from a South India based institution, making Udyogini their first partner in Rajasthan.

Although UJAS was conceived as an institution that would be owned and operated by artisans, the mix of castes that Udyogini-skilled artisans represented and the low market-awareness of the women challenged UJAS' strengthening within the schedule of 5 years that Udyogini had set for such consolidation. The growth of business operations was primarily the result of entrepreneur efforts. Hence, some contradictions of individual entrepreneur growth and producer-institution ownership inevitably came to the fore in the later phase of the life-cycle. One entrepreneur left UJAS after a three-year tenure (that began with her appointment as a BDSP) and consolidated her position in the

cluster she had been given by UJAS. While she had left UJAS to grow on her own, another left because her capacity and risk-appetite did not match the requirements of growth. Nevertheless, UJAS continued to train more women (and men) BDSPs to increase its own management capabilities. It also began to incorporate social security measures for women, particular child care. In 10 villages, crèches for young children were established. The teachers and helpers in the crèches were also trained and called BDSPs to signify the essential link between improved artisan capability and effective social security. The crèche program is a government-funded program and is the first grant that UJAS society has directly received.

Udyogini's three-pronged market development strategy comprised: encouraging better-paying and, hence, surviving traders; Udyogini-trained entrepreneurs working on their own; and entrepreneurs and BDSPs working with UJAS. This produced a [conservatively estimated] combined turnover of around ₹ 50 lacs in 2008-2009 for 900-1000 women.⁹ Since UJAS' share of this turnover was a little over one-third, Udyogini was clearly more successful in market and local entrepreneur development than strengthening UJAS as a business organization. From all sources, the women are estimated to have increased their income from between 25-40 percent.

The resilience of UJAS in the face of better business performance by those outside UJAS, even as Udyogini moved into a facilitating role, is encouraging for sustainability of the institution. Indeed, it has developed leadership resolve in a way not seen before. UJAS has been able to raise small funds from government, and attract the attention of two leading socially-inclined private firms from the state who supply to upscale and high-end export markets. One of them has expressly stated that she wishes to strengthen UJAS by buying from the institution rather than from one of the entrepreneurs in the area. UJAS member artisans are filling these new orders (that reaches Fabindia, the prominent crafts retailer) and they are receiving better margins than from the earlier buyers. There has already been one repeat order from this market, suggesting a better grip of UJAS than before on servicing this segment. More significantly, UJAS is introducing value-added skills for its members that were earlier outsourced, such as cutting, pasting and tailoring (to take place mainly in the Pugal hub). It has also been allotted a retail outlet in Bikaner by the district government. UJAS has begun to pay modest fees for Udyogini for its BDS, demonstrating thereby its continued commitment to business principles that were introduced early in the life-cycle. Cluster development seems to have triggered an interest and motivation among artisans for forming SHGs which are now strengthened with NABARD funds and are moving closer to qualifying for bank linkages.

⁹ Job work and manufacturing orders are about equally divided in this turnover figure. The wage component in manufacturing would be 20% for mid-market order and 25-35% for up- market order. Ujas margins are 5-10% from mid-market orders and 20-25% from up- market orders. In a job work order in which material is supplied, wage component is 60-70% and the rest is margins and overheads.

5. Conclusion

Udyogini built its intervention on harnessing the strengths of the existing market operating in Pugal. It focused on widening the opportunities for market and artisans, thereby increasing the earning for the women not only through UJAS, the producer institution, but also through the entrepreneurs from the area and outside who are interested in taking advantage of the skills created. By the end of 2009, 1100 women in 30 villages were filling a variety of orders and supplying to a diversity of markets.

Although the challenge posed by trained BDSPs and entrepreneurs leaving UJAS and wanting to work on their own remains, Udyogini views this as sustainable market development that can strengthen employment opportunities for local women artisans. As of this writing, there are 5-6 local entrepreneurs based and working in the area giving appliqué and silk-thread embroidery work to women skilled by Udyogini of which Sunita, the first entrepreneur to be developed under UJAS (and also the first one to leave it), alone has a turnover of ₹ 12 lacs per annum. If the competition from Sunita and others continues to catalyze UJAS to improve its governance and capabilities, the overall benefits from all players, across a range of market and skill segments, to the economic wealth, capability and social empowerment of the women in the area will continue to widen and deepen.

The modest investment high returns strategy all along the chain starting from Udyogini itself, has largely paid off in the time-frame for socio-economic and capacity returns on a scale that it had set for itself. Admittedly, some aspects could have been strengthened much faster, such as UJAS business, although this would have required higher quality and better paid professionals willing to live in the area. This remained a serious challenge given the location, as well as Udyogini's cost considerations and approach to inculcate entrepreneurship principles in the field office professional managers as well.

Local conditions will largely determine what aspects of this model are replicable in other locations. All the same, the message in the Pugal model is that creating conditions for developing competitive local markets can be positive and merits an enlightened view of the value of such competition for sustainable artisan employment.