



Kellogg Corps - Kham Aid Report

Handicraft Production & Commercialization in Tagong

July 27, 2005

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1. Executive Summary

The Kellogg Corps team was engaged by Kham Aid to conduct a market analysis and analyze the feasibility of producing and selling traditional Tibetan artisanal products in Tagong.

To evaluate this opportunity, the Kellogg volunteers:

- Visited stores in Beijing, Shanghai, Lhasa, Chengdu, Kangding and Tagong to determine potential product categories, learn about customer demand and determine product sourcing and pricing
- Visited local artisans to explore startup costs and training requirements for their craft
- Interviewed leading Tibetan handicraft producers to explore alternative organizational options
- Interviewed Kham Aid/Winrock staff and local villagers to assess what resources and capabilities existed in Tagong
- Conducted consumer market research in Tagong to determine the size of the tourist market and determine what customer needs were not being met by current handicraft offerings

Based on the stores we visited, we grouped available handicraft products into twelve basic categories: woven products, sewn products, metalworking, jewelry, furniture, carpets, painting, leather goods, stone carving, paper products, pottery and wood carving.

Armed with this information, we then evaluated these products based on the following criteria to determine products that had the best commercial potential that would be feasible to execute in a short time frame.

- Revenue potential
- Margin potential
- Relative competitive strength
- Existing skills and resources
- Ease of transition

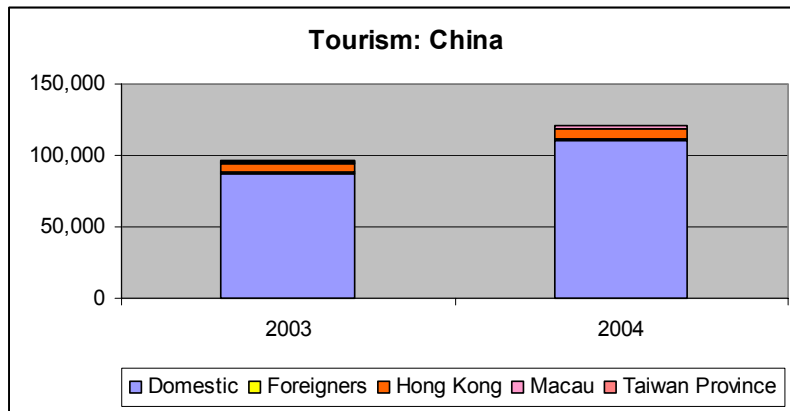
Using this criteria, we are recommending that Kham Aid support an initiative in Tagong to support and train local artisans to create handicrafts in woven products, sewn goods and leather items for the first phase of development. These products scored highly on most of the evaluation criteria and local people already possess some of the skills and resources required to make these products. For a second phase of industry development, we recommend exploring opportunities for distribution and product expansion. More specifically, Kham Aid should explore mani-stone carving and hybrid products.

Given the limited business experience, rudimentary handicraft skills, and basic merchandising practices currently present in Tagong, the team recommends a hands-on strategy to develop the handicraft market in Tagong. We recommend investing in a multi-use building in the town to house artisan training programs organized by Kham Aid, business training programs instituted by Winrock International, a handicraft production demonstration center, and retail space. Winrock and Kham Aid should investigate partners to help setup and operate this workshop/retail shop. This document includes a detailed timeline which covers training and implementation.

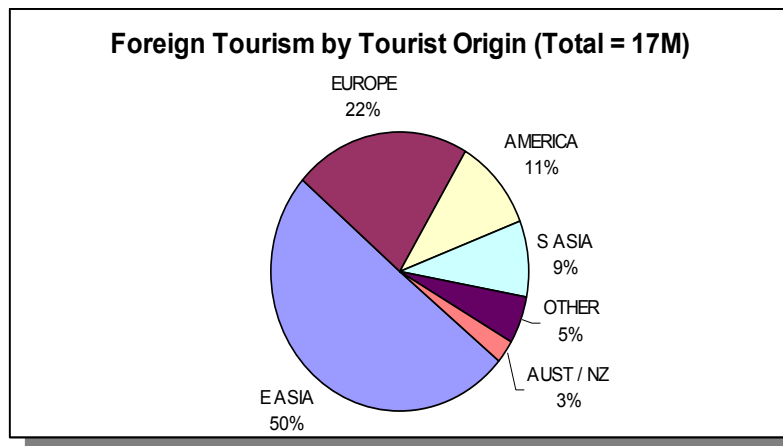
2. Tourism in Tibet

A. Tourism in China

In recent years, China's tourism market has continued to flourish and has maintained steady growth due to a strong global economy and steady growth. In 2004, the total number of tourists in China was approximately 1.2 billion people, up 26% from last year.

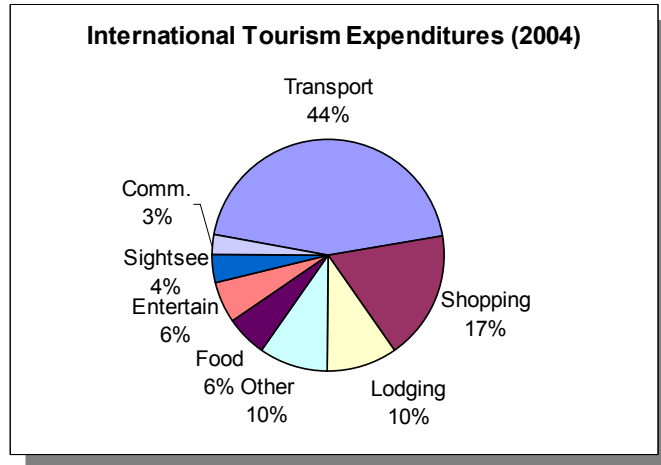


Of these, foreign tourists (109 million) represent only 9% of all tourists (7% from Hong Kong, Macau, and Taiwan Province and 2% are from everywhere else). Tourists from Japan, Singapore and Thailand represent the largest constituent of foreign tourists, comprising almost 50%. An additional one-third is accounted for by western tourists from Europe and America.¹



According to the Ministry of Public Security, approximately 40% of all tourists report that the purpose of the visit is for “sightseeing and leisure”.

¹ EXIT-ENTRY ADMINISTRATION BUREAU, MINISTRY OF PUBLIC SECURITY



While domestic tourists make up 91% of the volume, they contribute 69% of the tourism market which currently stands at \$82.7 billion.² According to the China National Tourist Office, domestic tourists spend an average of 732RMB per person, significantly less than the average 1,952RMB spent by foreigners.

Tourism in China is extremely seasonal. Based on data acquired from hoteliers and the Ministry of Public Security, most tourists plan travel and vacation during the summer months (May-Sept) and on holidays.

B. Tourism in Kham (Tagong and Kangding)

The team attempted to gain access to statistics regarding tourism in the Kham region, and more specifically Kangding and Tagong, through a variety of channels. Despite these efforts, much of this information is either not collected or unavailable. In order to estimate a baseline level of tourism and other tourist information, the team obtained information from the following sources:

- 1) interviews with local hotels
- 2) interviews with employees / monks / volunteers at tourist attractions
- 3) ad hoc tally of visitors to the Tagong Monastery over a 3-day period

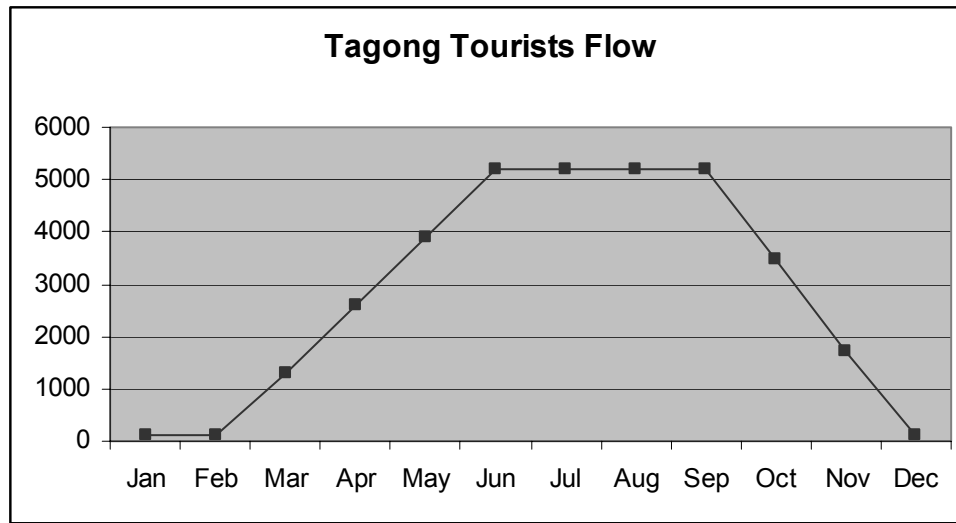
Number of Tourists:

Tagong has very deep roots in Tibetan history and culture. For this reason, Tagong is frequently allocated a spot on tour loops through the region. Since the Tagong Monastery is the most popular attraction, we began to gather information on tourism in Tagong there. First, our group asked monks to estimate ticket sales, but since they are not rigorous about demanding that all entrants purchase tickets, we decided that a more accurate representation could be achieved by counting entrants ourselves over a three day period. Using these data points, we were able to estimate that approximately 5,200 tourists visit Tagong during July.

As with many other tourist destinations, tourist flow is extremely seasonal. The mass of tourists arrives during the summer months (May-Sept), for specific festivals and other national holidays.

² Ministry of Public Security / China National Tourist Office: <http://www.cnto.org>

According to the monks we met with as well as interviews with tourists, we constructed a curve (below) to track the flow of approximately 30,000 tourists over a given year.



Tourist Origin:

The ratio of domestic and foreign tourists reflects that of the overall tourism market in China. According to our survey, 86% of tourists in Tagong and Kangding were domestic tourists. Almost half of the tourists interviewed came from Chengdu or elsewhere in Sichuan Province. Tourists also originated from Yunnan, Chongqing, and Shanghai.

Purpose of Visit:

People visit for a variety of reasons. Many of the people interviewed had friends or family recommend Tagong and the Tibetan grasslands as a beautiful, scenic place to visit to get out of the city. In addition, Tagong holds a mystique that is associated with Tibetan culture and history. For this reason, many also come to Tagong seeking an understanding of Tibetan culture (including Buddhism, horse trekking, etc). There are several tour companies that run tour buses on a loop of Tibetan villages that include Tagong.

Length of Stay:

Almost all (96%) of the tourists questioned reported that they intended to stay in Tagong for less than three hours.

3. Assessment of Tagong and Kham region

We assessed the capabilities and resources of the local population through reading the PRA report, talking with Winrock and Kham Aid staff (Ethan Goldings, Pema and Pam Logan) and interviewing selected villagers.

A. Local Demographics

Tagong is made up of 18 administrative villages with 7,155 people in 1,605 households. It is a grasslands area whose habitants are primarily Tibetan (some immigrant Han Chinese households do business in the town). The main sources of income for the local population include herding and breeding, medicinal materials collecting and tourism services.³

Employment is very seasonal in Tagong. Those who participate in Yak herding, tend to be busy tending their yak in the spring and fall, with some time to spare in the winter. The availability of people who do yak herding may also depend on the overall size of their herd.

Many people in town are also part of the caterpillar fungus trade. This is a product that is used in Tibetan and Chinese medicine and is extremely valuable. It is found in the local area, and many people in town harvest the fungus from April to May.

Given the seasonality of labor, it will be important to structure training programs or production forecasts around the availability and willingness of people to work in a given time.

B. Basic Skills and Resources for Handicrafts

There is not currently a vibrant artisan community in Tagong to produce handicrafts. However, interviews with local people show that there are three main skills that can be leveraged to produce items that can be commercialized.

First, most people (mostly women) have the ability to weave and sew. We found a few villagers who are currently weaving basic products for their own (blankets, small bags and horse collars) use using basic handheld looms, and wool appears relatively easy to purchase. Items made from yak, including hair (which can be spun into yak wool or made into yak felt) and yak hides, are also relatively available. However, the leather made from yak hide cannot currently be tanned in Tagong, and must be sourced from Kangding.

Second, many villagers in Tagong also have the ability to carve stone. Most of them are employed in carving slated mani sculptures for use in the monastery or religious decorations. Currently, these carvers are not organized, and contract independently for projects. Usually carvers are self-trained or have learned the skill through their family. There is a different skill required for carving stones for tourists (relief carving), but it seems to be relatively easily learned.

Third, there are a number of painters in Tagong who paint decorative items (doors and windows) and thangkas. These painters go door to door in Tagong and neighboring villages and may also be employed to paint at the monastery.

4. Product Category Assessment

A. Product Categories

³ See PRA report 3/05 for more details on employment and demographics

To determine the universe of potential products to analyze, we categorized handicrafts into twelve categories. This list was created largely through store visits in Beijing, Shanghai, Lhasa, Chengdu, Kangding and Tagong. These categories are not definitively exhaustive but serve as a reliable framework for understanding the vast majority of potential products. All photos were taken by the project team, except where noted otherwise.

Metal Working: Consists generally of small, metal sculptures. Examples include bowls, statues (often of Buddhas or other deities), knives, horns, incense holders and prayer wheels. Some of the items (particularly Buddha statues) have religious significance. Typical customers of this product are tourists, locals, and monasteries.



Jewelry: Consists of rings, bracelets, necklaces and earrings made out of a variety of materials including silver, beads/stones, yak bones and leather. Some items (including prayer beads and stones) have religious significance. Jewelry was by far the most common item in most stores and the most popular seller in nearly every store. Product variety is tremendous.



Painting: Consists of a variety of paintings on various materials including wood and canvas. “Thangkas” (first photo) are a very specific style of painting of Buddhist deities on canvas and mounted on silk backing. They’re often used in monasteries and bought by private individuals for display in their homes. The second most common type of painting was on small wood items, typically boxes (second photo).



Weaving: Consists of small woven items including bags, clothes, table runners, placemats, belts, and blankets, among others. These items are generally not religious in nature, and the typical customers are tourists and locals. A wide variety of patterns exist. The second photo below shows the “Nambu” style of weaving, which is a traditional flatweave used primarily for aprons and details on costumers. The third photo shows the “Sherma” style of weaving, a very high quality flatweave used primarily for belts.

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Sewing: Consists of a wide variety of products (including tents, door hangings, tapestries, etc.) sewn from several materials, including wool, felt and cotton. Many of the blue and white tapestries (pictured below) are religious in nature and used in both monasteries and in homes.



⁴ Photo Copyright by Miranda Mimi Kuo/Chris Buckley, Torana Publications, Hong Kong 2005

⁵ Photo Copyright by Miranda Mimi Kuo/Chris Buckley, Torana Publications, Hong Kong 2005

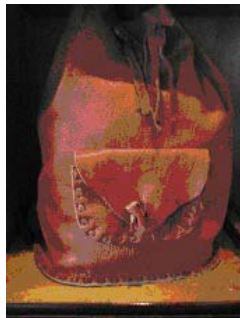
Carpets: Consists of woven rugs in three different styles. “Western” rugs (first photo) consist of fine pile with a highly finished look, but often contain traditional Tibetan patterns. *Tsukdruk* rugs (second photo) are of a thicker pile and use a simpler weaving technique. They are used for general seating and the technique is the same one used in the making of linings for Tibetan *Chubas* (coats). *Wangden* rugs (third photo) are traditionally woven for monasteries and meant for seating during meditation and ceremonies. All rug types are commonly sold to tourists and locals.

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Leather goods: Consists of products made of tanned leather, generally bags, belts and horse tools (e.g. saddles, saddle bags, etc). Currently few products exist in the market designed for tourists.



Wood carving: Consists of products carved from wood, including trays, sculptures, incense holders, and print-making blocks, among others. Currently, the available product is limited.

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⁶ Photo Copyright by Miranda Mimi Kuo/Chris Buckley, Torana Publications, Hong Kong 2005

⁷ Photo Copyright by Miranda Mimi Kuo/Chris Buckley, Torana Publications, Hong Kong 2005

⁸ Photo from www.garudawoodcarving.com

Furniture: Consists of a wide variety of items, generally painted and made primarily out of wood. Much of the furniture sold to tourists is antiques, with little “new” furniture apparent.

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Stone carving: Consists of text and image carvings on various types of stone. The most common product is “Mani” stone, a flat, grey slate, with Tibetan text carved in. Occasionally, religious images are carved on flat stones or Buddha images are carved out of larger rocks.



Paper Products: Consists of paper based products including paper lanterns, journals and photo albums. Few products are produced locally.

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Pottery: Consists of a wide variety of products made in the Tagong region of black clay. The most common items are teapots and jugs.

⁹ Photo Copyright by Miranda Mimi Kuo/Chris Buckley, Torana Publications, Hong Kong 2005

¹⁰ Photo Copyright www.tibetanhandicraftpaper.com 2005



B. Definition of Evaluation Criteria

In order to determine which product(s) to pursue, the group developed a set of evaluation criteria. These criteria are based on basic frameworks for business-building, and are supplemented by the learnings from related NGO projects. Each product category was evaluated across all the criteria. Product(s) that scored highly in all or most categories were then highlighted as most promising. While the criteria are not exhaustive, they represent a sound methodology for sorting through an ocean of potential products.

Revenue Potential: This is a measure of the product's market potential. Ultimately, the goal would be to reach an estimate for revenue potential by identifying (1) price and (2) quantity sold of a particular product. At this stage, however, we focused on customer and store interviews to get a basic understanding of customer interest. We subdivided customers into three distinct groups: foreigners, Chinese (from outside of Tagong), and local. Attractive products have a HIGH Revenue Potential.

Margin Potential: This criterion is a measure of how much profit can be made per item sold. This is a function of the Revenue Potential (above) and the costs (fixed and variable). Fixed costs refer to start-up and one-time costs (e.g. machinery, building a center, and training). Variable costs refer to costs incurred for each item produced (e.g., raw materials and labor time). While our group was able to gather the pricing information for some raw materials, significant further work should be done in this area. Attractive products have a HIGH Margin Potential.

Relative Competitive Strength: For each product, we evaluated the strength of similar products in the market. This was an evaluation of product quality, availability and pricing determined through store visits and customer interviews. In addition, we evaluated the ability to brand our products or at least prevent future competition. Relative Competitive Strength also depends on choosing the appropriate market. Since the retail location for our product(s) was uncertain at first, we evaluated multiple markets: Western, Beijing/Shanghai, Kangding and Tagong. Attractive products have a HIGH Relative Competitive Strength.

Existing Skills and Resources: Attractive product(s) are those for which skills and resources already exist in Tagong. Examples include existing handicraft skills (e.g. stone carving, weaving etc) and local materials (e.g. wood, stone, wool, etc). We discovered these skills and resources

through interviewing Winrock personnel, shop keepers, local villagers and reviewing the PRA report. Attractive products have HIGH Existing Skills and Resources.

Ease of Transition: This criterion is a measure of how much difficulty there will be in beginning to produce these products. Subcomponents include (1) ease of training, (2) ease of procuring resources, and (3) ease of cultural transition (i.e. general willingness to pursue the chosen craft, community acceptance of product, etc). We evaluated this criterion through interviews with artisans, local villagers, and Winrock personnel.

5. Product Recommendation

A. Product Assessment

The group assessed each of the product categories on each of the five main criteria listed above. For details on the evaluation of each product category, see the appendix.

Handicraft Product Assessment						
	Revenue Potential	Margin Potential	Relative Competitive Strength	Existing Skills and Resources	Ease of Transition	Overall Assessment
Weaving	●	◐	●	●	●	●
Sewing	●	●	◐	●	●	●
Leather	●	◐	●	◐	●	●
Stone-carving	◐	◐	◐	●	◐	◐
Painting	◐	◐	◐	◐	◐	◐
Jewelry	●	●	○	◐	●	◐
Carpets	◐	◐	○	○	◐	◐
Wood Carving	○	●	◐	○	N/A	○
Metalworking	◐	○	○	○	◐	○
Furniture	○	●	○	○	N/A	○
Pottery	○	N/A	◐	○	N/A	○
Paper Products	◐	○	○	N/A	N/A	○

B. Product Recommendation

Overall, our recommendation is to produce the products we believe to be the most likely to succeed: 1) woven products, 2) sewn products, and 3) leather goods. Two other products, Mani

stones and hybrid products (using traditional techniques for modern items), deserve secondary consideration or a review for inclusion in a second phase.

Woven Products: Woven products scored highly on almost every evaluation criteria. Foreigners and Han Chinese tourists both found the idea of bags, belts, and clothes among other things to be portable, useful and fairly inexpensive. Few stores in Tagong currently sell more than a bare minimum of these products, and none have designs that were as appealing as even the basic ones our team was able to display in our few days in Tagong. The resources to pursue this handicraft are readily available: most townspeople know some sort of knitting and wools and cotton yarns are easily acquired. The additional training to achieve higher quality production appears relatively easy, local villagers expressed interest in advancing their skills, and margins appear sufficiently attractive to pique everyone's interest.

Sewn Products: Similar to woven products, sewn products also scored highly on almost every evaluation criteria. The products themselves (bags, belts, clothes etc) are almost identical in concept to the woven products. On the revenue potential side, the reaction was even more enthusiastic both due to the portable, useful and inexpensive nature of the products and due to the high quality designs our group showed (the highest tested product, showing 45% purchase intent, was a red sewn bag with an endless knot image). More competition exists in sewn products than woven ones, but almost none of the existing products show designs targeted toward tourists. Again, there is immediate access to those sewing skills as well as materials (felt and cotton are highly available). Finally, ease of training and a cultural willingness to pursue this handicraft make sewn products one of the highest potential products for Tagong.

Leather Goods: Leather goods show strong potential on many evaluation criteria. Customer reaction was positive given their uniqueness compared to the existing market, but not quite as strong as some of the sewn or woven bags (this may simply be because we had only one design to display). Still, relative competitive advantage is strong given that almost no other stores in Tagong offer leather products targeted to tourists. Additionally, some have expressed that the expense to enter that business would prevent them from doing so in the future. The sewing skills required for making leather goods exists in Tagong, but tanned hides do not, and would have to be brought in from Kangding. Much like sewn and woven products, the ease of training and the appetite for it also support the development of leather goods.

2nd tier products:

Mani stones: Mani stones deserve some consideration because they're cheap, the raw materials (slate or other stones) are available for free around Tagong, and many craftsmen already exist with the skills to carve them (especially in the nunnery area of Gerima). Still, while customer reaction was not negative, it was not as enthusiastic as it was for the sewn, woven, and leather products. These products are also easy to copy, due to a large supplier base. These products may be better served to "fill out" the selection at a retail store or as a second phase product development effort. However, they don't currently satisfy the evaluation criteria for recommendation as well as the (above) recommended products.

Hybrid products: This category refers to taking traditional techniques, like stone carving or painting, and using them to create new “modern” products, like stone candle sticks or painted picture frames, respectively. The idea combines traditional techniques that exist to some extent in Tagong with the customers’ expressed desire to create portable, useable, cheap items. We recommend this as a second phase product because developing reliable producers and retailers will be more difficult without proven products. Nevertheless, it is worth considering asking a hired product designer (discussed in the “key success factors” section) to prototype some hybrid ideas while creating samples for our three recommended products.

Products not recommended:

The categories that are less attractive include metal working, paper products, carpets, furniture, wood carving, jewelry, painting, and pottery. Metal working and paper products were eliminated largely because high quality and low cost products are already sourced in quantity from Nepal. Carpets and furniture were popular with only a small subset of visitors and they face stiff competition from high-quality, renowned international producers. Wood carving demonstrated some high margin potential, but low customer interest and limited existing skills and resources make this product unattractive. Jewelry was eliminated despite high customer interest because there is intense competition from local and international jewelry producers. Painting canvas, i.e. thangkas, found limited customer interest and few local experts. However, using painting skills to develop hybrid products (as discussed above) has some potential. Finally, pottery appears to be a challenging product given the high cost of finished goods and low existing skills, but further research is needed to confirm this.

6. Sales organization and production organization

In this section, we first outline four alternative organizational structures for artisan production and the pros and cons of each. Next, we evaluate four retail approaches. Finally, we propose a combined production/retail environment where tourists will be able to see and interact with local producers creating high quality handicrafts using traditional methods and designs.

A. Production Organization

Kham Aid will support individual producers or producer groups with training and or grants. Depending on the level of fundraising and the limits of the USAID grant, this support could take different forms. On an increasing level of Kham Aid involvement, four basic approaches to organize artisans to produce handicrafts in Tagong are:

1. Training Individual Entrepreneurs

Under this alternative, Kham Aid will solicit applications from potential local entrepreneurs. This application will ask for information on the applicant’s ability to read and write, age, economic status, education level, interest in starting a business, handicraft skills, and family obligations. Selected applicants will be trained on one or more

handicraft skills, quality control issues, and basic business concepts. Individuals would have the ability to sell to retail outlets or distributors of their choice.

Pros

- Develops regional handicraft expertise
- Empowers local entrepreneurs
- Minimizes upfront investment
- Potential trickle down economic impact in Tagong

Cons

- Limited support structure for artisans
- Lack of business expertise among artisans
- Limited capital available for production expansion
- Inability to oversee production
- May generate overcapacity and price competition
- Limited ability to control flow of funds back into Tagong

2. *Providing Microfinance Loans to Individual Entrepreneurs*

According to Lhakdon at Drogenling, microfinance loans have been extremely successful in other regions in Tibet. Microfinance loans would provide an incentive to participate in initial training sessions and would allow Kham Aid to identify capable entrepreneurs in Tagong. Producers would use the small loans to invest in capital equipment, purchase raw material, or hire additional producers. By tying future loans to repayment of the initial seed capital, proper bookkeeping, and participation in business or handicraft training, Kham Aid could effectively manage its local producers, while encouraging individual entrepreneurship and P&L ownership. Kham Aid could also create community ownership by not allowing a second round of loans until all initial loans have been paid off.

Pros

- Selects the best entrepreneurs through performance
- Provides seed capital for business expansion
- Successful history of microfinance in region

Cons

- May fund duplicate, competing businesses
- May be hard to restrict use of funds to handicrafts
- Requires more hands-on administration of funds
- Requires more rigorous up front screening of entrepreneurs

3. *NGO support of local producers*

This alternative is not dependent on utilizing microfinance loans, though it does require significant training of producers. In essence, Kham Aid will act as a distributor of locally produced products to retail channels. In this scenario, a Kham Aid agent is responsible for coordinating nearly all facets of production. The agent will centrally order materials to achieve bulk discounts and ensure material quality, manage production of products to

guarantee reliable supply, and inspect the quality of produced products. In all likelihood, the agent would also control payment to the producer.

Pros

- Centralizes business decisions in the hands of better trained and educated NGO or partner staff
- Lower cost basis and higher margin potential
- Enables flexible production and more reliable supply
- Yields higher prices by controlling supply and quality

Cons

- May require significant NGO resources on-site
- If NGO run, limits business experience of Tagong locals initially, though high performers can be groomed for management positions
- If managed by locals, may result in political infighting and lack of clear leadership

4. *Organizing artisans into a workshop*

By organizing artisans into a workshop, Kham Aid is able to achieve the benefits of the previous scenario (centralized buying, ordering, and quality control) while also controlling the work environment.

Pros

- Ability of production space to double as a demonstration and retail center
- Greatest ability to control quality and process through oversight
- Ability to leverage capital equipment investment across all producers
- Exposes co-op members to western business practices
- Faster time to market for new products

Cons

- May encounter more cultural resistance due to more regimented work days and hours
- Requires significant up front investment
- May have minimal Tagong management at onset

B. Retail Organization

There are four basic approaches to bring products made by Tagong artisans to market:

1. *Source to existing Tibetan owned retail channels*

Currently, there are three Tibetan owned handicrafts shops in Tagong. The monastery currently owns a store that carries handicrafts along with religious and general use merchandise. Across the monastery square, two other Tibetan owned stores sell a variety of handicrafts. There are a number of other Tibetan owned shops that carry a small selection of handicrafts in addition to general merchandise sold for local use. Handicrafts may be sourced to just the handicraft shops or to all shops who demonstrate interest.

Pros

- **Limited start up costs:** Leveraging existing channels, rather than investing in a new retail store, reduces start up costs and time.
- **Test marketing:** By including Tibetan shop owners in the development of new products, Kham Aid can test market products with limited financial risk.
- **Support of Tibetan entrepreneurs:** By providing differentiated, high-end products to Tibetan retailers, Kham Aid will deliver on the USAID goal of income generation for the community.

Cons

- **Inability to control merchandising:** Since Kham Aid would be partnering with existing businesses, it would not have the ability to control placement within the store, the retail experience connected to the products, or the display of handicrafts. The team believes that these are key aspects of differentiating local products to ensure demand and relatively high prices.
- **Inability to control pricing:** Given the retail environment in Tagong, where prices vary by season and by customer, maintaining consistent margins or price points may be difficult or impossible. Offering products on consignment or at relatively a high cost basis may alleviate some of these issues.
- **Potential for future channel conflict:** If the long term goal of Kham Aid is to open a retail store, using existing shops as a channel in the near term may be disingenuous.

2. *Create an association of Tibetan owned retailers*

In this scenario, Tibetan owned retailers would be brought together to increase the local share of the tourist market by improving the competitiveness of Tibetan retailers while also encouraging the sale of locally made products. Creating an association realizes all of the benefits listed above, while providing coordination and a structure that could minimize some potential drawbacks the project could encounter if it simply supplied handicrafts to existing retailers.

Pros

- **Greater coordination:** Membership in the association might require certain actions, such as allocating a certain amount of space for handicrafts produced locally, price floors, or merchandising in a particular way. This coordination would make the success of the handicraft project more likely.
- **Ability to apply for USAID grants:** As an association, a group of retailers could apply for grants or loans from USAID through Winrock or Kham Aid. This capital could be used to source higher price/higher margin products (ideally manufactured by local producers), store expansion, in-store craft demonstrations, or improved merchandising. The ability to apply for grants or loans would serve as incentive to join the association and ensure compliance with pricing and merchandising requirements outlined above.
- **Potential for increased competitiveness:** If Tibetans were able to create an association, the long term benefits could include: aggregated purchasing to reduce per

piece costs, combined transportation costs, more effective promotions, and reduced price competition on unique products.

Cons

- **Inability to ensure compliance:** Since the association is envisioned to be independent of Kham Aid or its funding partners, it will be extremely difficult to ensure that the association's members follow regulations. The two levers Kham Aid possesses, the ability to provide grants/loans and access to locally made products, may not be appealing enough to enforce compliance.
- **Inability to control merchandising.** While an association would provide more control over merchandising than distribution through independent retailers, existing shops may not be able to devote the shelf space and product focus that new local products might require to ensure customer visibility.
- **Future channel conflict potential**

3. *Create an NGO owned retail store*

By owning and controlling retail operations, Kham Aid would be able to manage the marketing, merchandising, sourcing, and profit distribution of handicrafts produced. A retail store could include a demonstration center to effectively display the background of the products and producers. The retail store could be NGO owned and operated initially, with the goal of transitioning management and ownership to local Tibetans over a specified timeline.

Pros

- **Control over retail experience:** By managing the retail store, Kham Aid can ensure optimal display, merchandising, and pricing. It can focus marketing efforts on targeted customers, and tell the story of its producers and products most effectively. This should provide the best opportunity to build customer demand.
- **Alignment with vision:** Managing the retail store and employing local Tibetans allows Kham Aid to focus on two of the USAID goals: cultural preservation and income generation for local Tibetans. Using Kham Aid staff ensures the greatest degree of conformity to these goals.
- **Commitment to local products:** Because an NGO run retail store would exist solely to benefit local producers, it would have the greatest incentive to make local products profitable. Other retailers, even Tibetan run ones, will not have the patience to build a market for local produced goods which do not have a proven market viability.
- **Greater risk tolerance:** As early stage products, many of the goods may not be marketable in their first iterations. NGOs are more able to carry this loss than Tibetan entrepreneurs, and can fund the initial market building phases of product introduction.

Cons

- **No Tibetan ownership at onset:** Less desirable since it implies less business experience for local Tibetans.
- **Limited selection:** The team believes that sourcing additional products made outside of Tagong is an unnecessary distraction for the retail staff. While production is

ramping up, the store may suffer production shortages and a limited range of product lines.

- **Profitability:** If the retail store only stocks the items made by local producers, it may be difficult to turn a profit in the short term.

4. *Source to existing Tibetan focused retail channels*

An additional channel to investigate is Tibetan focused retailers, such as Drogenling in Lhasa. This would provide another high margin channel for Tagong produced goods.

Pros

- **Ability to leverage retail experience:** Drogenling has two years of customer and production knowledge that will be invaluable for the Kham Aid team. By supplying product to this channel, Tagong handicraft producers would be taught quality control, western designs, and production scheduling.
- **High margins:** Drogenling pays high prices to Tibetan producers and effectively markets these items to well heeled western buyers. Items could likely fetch a higher price at Drogenling than they could in Tagong.

Cons

- **Production limits:** Depending on the success of the production plan, Kham Aid may not be able to initially guarantee supply to meet demand from both Tagong and Lhasa.
- **Logistics challenges:** It may be difficult to ship products to Lhasa in a cost and time efficient manner in the short run.

C. **Production and Retail Organization Recommendation**

Given the limited business experience, rudimentary handicraft skills, and basic merchandising practices currently present in Tagong, the team recommends a hands-on strategy to develop the handicraft market in Tagong. We recommend investing in a multi-use building in the town to house artisan training programs organized by Kham Aid, business training programs instituted by Winrock International, a handicraft production demonstration center, and retail space.

Staffing: We recommend that Winrock and Kham Aid employees (or a local partner, such as the Tonwa Tsewang Conservation Center) manage the center. We envision on-going operations to be the job of one person who coordinates production of the first product line(s) and manages the retail shop. This manager will be responsible for sourcing raw materials, quality control, and managing production to match demand from the captive retail store as well as the demand from other Tibetan owned retail channels. He/She will be supported by a product designer and local expert, who can help recruit and select local Tibetans to become employees. In addition to artisans, Kham Aid will need to hire retail staff to manage and operate the retail store. As operations grow, high performing employees should be promoted to management positions to enhance continuity and community ownership.

Partner selection: Ideally, the center would be set up and run by a local partner organization and / or individual. The “Entrepreneurial Selection Criteria” described in the Appendix should be

used to evaluate potential partner organizations and / or individuals. While there are a few candidates as a local partner, the team feels that the go-to-market deadline might force Kham Aid to do much of the preliminary work before the selection of a local partner.

Employee selection: Kham Aid should make hiring decisions based on two criteria. The first criterion is: a basic proficiency in the handicraft selected. This will minimize the amount of training required to mobilize the workshop. These individuals may also take on production management or “master artisan” roles as well if they can quickly develop. To fill up the rest of the artisan staff, Kham Aid should have locals apply to participate in the training program. The criteria for application should include ability to read and write, age, education level, current occupation, handicraft skills, and family obligations. Kham Aid must also plan for the business’ transition to community ownership. It should follow the “Entrepreneurial Selection Criteria” to hire locals who can fill retail or management roles within the organization.

Training: Training will be provided on different aspects of production, including design, production, quality control, and basic business concepts. Since the artisans will also play a critical role in the sales process, classes in Chinese and English should be provided to allow artisans to interact with potential customers. Successful participation in initial and on-going training should be a requirement of employment. Handicraft training should be organized by Kham Aid through its contacts in Dege and Lhasa. Business training should be provided by Winrock International.

Compensation: Previous handicraft development projects, such as Aid to Artisan’s Sharan Craft Center in Armenia, highlight the need for transparent compensation plans. The most efficient compensation plan seems to be one which pays on a piece-rate basis. Each producer would be monitored for quality and process compliance. Artisans would be free to utilize the skills taught in the workshop to start small businesses from their home, but they would not be allowed to use Kham Aid equipment for their own ventures. This encourages self-determination of income, but guarantees quality control.

Retail channels: The primary retail channel for the production center will be the on-site store. This store is intended to represent higher quality and therefore will need to be well-merchandised, effectively communicating the history of Tagong, Tibetans, and the products for sale. However, given the amount of time required to develop this channel and to broaden demand from tourists, merchandise will also be supplied to other Tibetan stores brought together as part of an association. These outlets will also serve to test market potential products prior to the workshop being developed. If possible, contracts should be developed to control pricing and merchandising in these channels and to avoid channel conflict.

5. Key Success Factors

A. Product designer

Targeting foreign customers, who are also willing to spend more on higher quality items, will require a product designer. One of the key differentiating variables of handicraft products is

design. Right now, most Tibetan handicrafts are “too Tibetan” for Western or Chinese tastes.¹¹ The sales potential of a product made of high quality material that has customer driven styling is much higher than something that is produced for local use. For example, Drogenling hired a full time Western product designer, Amy Frey, who works with their suppliers to specify product designs that are appealing to their western customer base.

We recommend that Winrock/Kham Aid identify a product designer that can develop product prototypes in various handicraft categories. They should continuously refine these products based on customer feedback. Since the majority of potential customers in Tagong are Chinese, the product designer should either be Chinese, or have a good understanding of the Chinese consumer. A high potential source of capable designers might come from art programs in universities in Chengdu or Kangding.

B. Quality Control

A related issue to product design is quality control. Quality levels will need to be high in order to charge premium prices and match the quality of other available Chinese and Western products. Amy Frey at Drogenling works with suppliers to ensure that their products consistently match the design and quality levels demanded. She claims this is the most difficult obstacle they have faced and the aspect of her job that takes the most time.

As discussed above, paying piece rate when the product produced reaches the quality level demanded is one way to control quality. This may be a longer term goal, but quality level expectations should be set up front.

C. Community Buy-in

For any development project, it is important that the local people support the mission, methods and intended outcome. In this case, it will be important to test whether the local population wants to produce handicrafts and/or whether they have the interest in generating income for their communities through that means versus other employment opportunities. In addition, the organizational structure implemented (NGO owned or Tibetan owned) needs to also be understood and accepted by the community

D. Local Entrepreneurial Champion

Many organizations we have talked with stated the importance of having a local leader or champion for any development initiative. A local leader has the advantage of understanding the local culture, garnering respect and support from the local population, and being less expensive than foreign management. The owner of the Khawachen Carpet Company, Kensang Tashi, cites this as the key success factor in any income generation project.

Western organization and management practices will be helpful in the short term to startup a successful organization, but ultimately a local person or organization will need to take over

¹¹ See interviews with Yak N’ Nomads, Drogenling and Khawachen

management and/or ownership to ensure the long run sustainability of this project. Part of the goal of any workshop-based training program should not only be to train artisans, but to also encourage the development of managers and leaders who want to take ownership of this venture themselves.

E. Flexible production and labor availability

To successfully develop a handicrafts industry, there must be surplus labor among the local population and/or the opportunity cost of other employment options must be lower than what they can make through producing handicrafts. In Tagong, the prevalence of seasonal employment makes surplus labor concentrated in certain times during the year, particularly winter. This works out nicely to be able to supply the summer tourist season, but it also means that quantities need to be forecast fairly accurately, as there may not be much capacity to produce more items in the middle of the summer. Therefore, it will be important to have a flexible production and training schedule that can accommodate this. The production center should identify possible sources of labor (perhaps day laborers or housewives) that might be able to work on a more flexible schedule.

F. Artisan selection

Selecting artisans who have existing skills will reduce time-to-market and costs. Artisans must also be evaluated on their ability to work within a business environment, their ability to devote time to the project a consistent basis throughout the year, and their educational level.

G. Setting production expectations

It is important to set transparent expectations to provide the right incentives for workers and to ensure supply levels. The Aid to Artisans Armenia project found that publicizing information about quality levels, pay scales for different products, and individual producer efficiency drastically improved the overall profitability of its handicraft initiative. Drogenling has had problems ensuring supply of merchandise, in large part because it has been unable to guarantee minimum orders to its producers. Stockouts of popular items are common, but artisans are unwilling to commit to produce items in the small batches that Drogenling would like to order. This could pose a significant problem in Tagong if management cannot approximate the demand and timing for locally produced items. Training and hiring large numbers of artisans without being able to ensure revenue after the training will disillusion the community. On the other hand, if the workshop is unable to keep up with demand, potential sales will be lost and tour group leaders may not bring future groups to the handicraft demonstration center.

H. Marketing & Promotion

Superior marketing will be key to ensuring the success of the handicraft initiative. Kham Aid and its partners must not only market handicrafts, but also market Tagong as a tourist destination.

Tagong: While tourist traffic has grown quickly in Tagong, it still faces competition from other nearby towns and other Tibetan destinations. The vast majority of visitors (96%, according to our research) do not spend the night in Tagong. Creating an association of retailers to improve the shopping experience and selection of merchandise is one approach to better meet the needs of the market. A second, low-cost, approach is to create a website that extols the cultural, retail, and outdoor activities in Tagong. After the launch of the handicraft initiative, this could also serve as a platform for promoting these local products.

Tagong Handicrafts: To ensure traffic, the retail store should attract Chinese tourists by partnering with tour guides to provide a commission on purchases. To attract Western tourists, samples and brochures should be displayed at Sally's and any future Western gathering places in Tagong, Kangding, and Chengdu. In addition, write ups in the Lonely Planet and other mainstream guidebooks will attract tourists to the center. In Lhasa, handicraft centers were located in popular hotels (such as the Yak N' Nomads store in the Snowlands Hotel). Locating the demonstration center on the main square (possibly in the new hotel under construction) may require a higher monthly rent but would attract the greatest amount of foot traffic.

Once tourists are in the store, our store visits have shown that effective product merchandising can result in significantly higher price points. Displaying fewer items, and eschewing the trinkets that dominate most Tibetan shops, will yield a more pleasant retail experience. Tourists come to Tagong for the experience, and creating a very Tibetan experience through product histories, decoration, and local retail staff will contribute to higher sales levels. Adding cultural information to the tag attached to each item can also help to brand the item and certify its Tibetan-ness.

6. Implementation & Timelines

Month 1 (August 2005):

- Refine cost information – piece rate salaries, rent, machines, training, materials
- Refine market understanding through continued customer interviews – use rough prototypes (i.e. drawings, photos, products from other stores)
- Find product designer
- Begin discussion of Shopkeepers Association to display prototypes
- Begin partnership discussions with Tonghua Tsewang Cultural Institute (Tsering Gyurme) to manage process

Month 2 (September 2005):

- Produce samples and test with customers – Refine designs and product idea with designer.
- Locate training space
- Research possible workshop/retail space, ideally on the square
- Locate trainers

- Build rough Profit & Loss estimate (P&L) and continuously refine

Month 3 (October 2005):

- Hold town meeting – explain purpose of project, gauge interest in participation, distribute application for artisan training.
- Prepare training space
- Purchase resources for training (i.e. supplies, machinery, etc)

Months 4-8 (November 2005 – March 2006):

- Begin training artisans – if possible, commence sooner as training will likely take 4-6 months.
 - Continuously monitor quality and re-train
 - Continuously evaluate artisans for interest, dedication, and ability
 - Recruit new artisans as needed
- Create SMALL amount of highest quality inventory
- Begin marketing for retail location
 - Build website advertising Tagong
 - Contact tour companies and offer commissions
 - Contact local (Chengdu/ Kangding) hotels, hostels and guesthouses to post flyers
 - Billboards and signage in Tagong
 - Contact foreign guide books (i.e. Lonely Planet)

Month 9 (April 2006):

- Build out workshop/retail space

Months 10-14 (May 2006 – September 2006)

- First selling season
 - Track sales and inventory levels
 - Track customer types and volumes
 - Survey customers
 - Produce new inventory as needed

YEAR 2

- Design, prototype and produce new products
- Hire and train additional artisans as needed
- Explore expanding distribution outlets

APPENDIX

I. Complete Product Evaluations

Product Category Information

Metalworking	
<i>Description of typical products</i>	Consists generally of small, metal sculptures. Examples include bowls, statues (often of Buddhas or other deities), knives, horns, incense holders and prayer wheels. Some of the items (particularly Buddha statues) have religious significance. Typical customers of this product are tourists, locals, and monasteries.
<i>Revenue Potential</i>	Med
Foreigner interest	Med -- Some interest in incense holders, bowls and small statues
Chinese interest	Med -- Some interest in Buddha statues
Local interest	Med -- Some interest in Buddha statues
<i>Margin Potential</i>	Low -- based on Dropenling data
<i>Relative Competitive Strength</i>	Low -- In metal store, most products were from Nepal, which Monasteries thought were better quality and cheaper than Lhasa made items. Also, a lot of the high end metalworking producers have long standing relationships with retailers
<i>Existing skills and resources</i>	Low
Existing resources	High -- Metal is easily acquired in markets nearby Tagong
Existing skills	Low -- One local blacksmith only. Interest in passing along his trade, but no local interest
<i>Ease of Transition</i>	Med
Ease of training	Med -- In metal workshop in the Dropenling center, new children will train for a few years side by side with more experienced artisans
Ease of procuring resources	High -- Metals are easily procured locally
Ease of cultural transition	Low -- Metal working is considered to be a very low status profession because it comes "from the earth." Families may not want their children to participate
Overall Assessment	Low

Jewelry		
<i>Description of typical products</i>		Consists of rings, bracelets, necklaces and earrings made out of a variety of materials including silver, beads/stones, yak bones and leather. Some items (including prayer beads and stones) have religious significance. Jewelry was by far the most common item in most stores and the most popular seller in nearly every store. Product variety is tremendous.
<i>Revenue Potential</i>		High
	Foreigner interest	High – most commonly cited item that they’re looking for. Shop keepers indicate that there’s demand for even more jewelry than they currently have.
	Chinese interest	High – most commonly cited item that they’re looking for. Shop keepers indicate that there’s demand for even more jewelry than they currently have.
	Local interest	High
<i>Margin Potential</i>		High – based on Drogenling data
<i>Relative Competitive Strength</i>		Low -- Many competitors. All shops and most street vendors sell some sort of jewelry. Quality from Nepal and other parts of China is very high.
<i>Existing skills and resources</i>		Med
	Existing resources	High – <ul style="list-style-type: none"> • Metals can be bought in markets near Tagong. • Coral and ivory can be bought in Chengdu
	Existing skills	Med – <ul style="list-style-type: none"> • Local people used to make bead necklaces, but stopped 10 years ago • Some locals make jewelry for their own use, but more often, they procure stones and bring them to a silversmith to set
<i>Ease of Transition</i>		High
	Ease of training	High – Relatively ease to teach
	Ease of procuring resources	High -- Easy to procure basic materials and metals, but expensive to procure stones, ivory and jade
	Ease of cultural transition	Med -- Little interest among locals to train in jewelry – think it is low status and low profit potential
<i>Overall Assessment</i>		Med

Painting – Decorative and Thangka Paintings		
<i>Description of typical products</i>		Consists of a variety of paintings on various materials including wood and canvas. “Thangkas” are a very specific style of painting of Buddhist deities on canvas and mounted on silk backing. Often used in monasteries and bought by private individuals for display in their homes.
<i>Revenue Potential</i>		Med
	Foreigner interest	Med – only small amount of interest in purchasing Thangkas. (considered hard to transport).
	Chinese interest	Med – some Han Chinese interest but not large amount
	Local interest	High – frequently found in Tibetan homes
<i>Margin Potential</i>		Med – Droptailing data shows Thangkas low margins, painted wood items medium margins.
<i>Relative Competitive Strength</i>		Med -- Many Thangka painters in Lhasa. Many workshops given (including by NGOs) around Lhasa to learn the art of Thangka paintings. However, little competition for painted product (especially wood) in Tagong.
<i>Existing skills and resources</i>		Med
	Existing resources	Low -- <ul style="list-style-type: none"> • Mineral paints are hard to buy in town. Uncertain how difficult it is to buy other types of paints • Canvas and white chalk for Thangkas available in Tagong • Wood boxes and other ready made items for painting are not yet available for purchase
	Existing skills	Med -- <ul style="list-style-type: none"> • According to PRA report, Tagong has 5 decorative painters • It also seems like there are a few people that can paint Thangkas (unclear if they are some of those 5 people or not)
<i>Ease of Transition</i>		Med
	Ease of training	Med -- <ul style="list-style-type: none"> • Thangka painting is a systematized process and can be taught. Thangka painting workshops/training does exist in many cities. • It takes at least 3 years for a Thangka painter to become proficient enough to have his own project, <u>and much longer for him to be considered a master</u> • Most Thangka painters train through doing decorative painting on houses and monasteries
	Ease of procuring resources	Med -- <ul style="list-style-type: none"> • In Thangka workshop painters made their own mineral paints made from stones procured from the region. Yellow and orange stones were procured from the Kham area. • Unclear how difficult it would be to procure mineral paints
	Ease of cultural transition	High -- <ul style="list-style-type: none"> • Thangka painting is considered to be a high status profession • Decorative painting is also relatively desirable
<i>Overall Assessment</i>		Med

Weaving – Knit products		
<i>Description of typical products</i>		Consists of small woven items including bags, clothes, table runners, placemats, belts, and blankets, among others. Generally not religious in nature, the typical customers are tourists and locals. A wide variety of patterns exist.
<i>Revenue Potential</i>		High
	Foreigner interest	High – portable, useful and relatively inexpensive. Positive reaction to our test products in this category
	Chinese interest	High – same as foreigner interest
	Local interest	Med – already use similar products in daily life but less likely to purchase from us
<i>Margin Potential</i>		Med – based on Dropenling data
<i>Relative Competitive Strength</i>		High – not much differentiated product on the market. Unique designs could have a significant competitive strength vs. existing products.
<i>Existing skills and resources</i>		High
	Existing resources	High -- <ul style="list-style-type: none"> • It is easy to buy cotton and acrylic wool yarn in Tagong • Yak hair is also easy to purchase, but unclear how much of it is being made into wool • Yarn dye is expensive to buy • People weave using small handheld tools • Some villagers have spinning wheels that are shared by neighbors
	Existing skills	High -- <ul style="list-style-type: none"> • Most village women have some basic knitting skills • We met a few villagers who had been making their own knit bags and blankets • There is a village where an American teacher, Angela has been buying horse bags from
<i>Ease of Transition</i>		High
	Ease of training	High -- Easy to train since likely some existing skills. Higher quality products may take some time to train
	Ease of procuring resources	Med -- May need to procure larger looms for larger production levels. Need to find a good source of yak wool
	Ease of cultural transition	Med -- Product mix might determine whether men or women participate
<i>Overall Assessment</i>		High

Sewing	
<i>Description of typical products</i>	Consists of a wide variety of products (including tents, door hangings, tapestries, etc.) sewn from several materials, including wool, felt and cotton, among others. Many of the blue and white tapestries are religious in nature and used in both monasteries and in homes.
<i>Revenue Potential</i>	High
Foreigner interest	High – portably, useful and relatively inexpensive. Positive reaction to our test products in this category, especially for unique designs (45% of surveyed respondents liked these bags)
Chinese interest	High – same as foreigner interest
Local interest	Med – Seems to be used often for everyday items, but unclear if they'll purchase from us.
<i>Margin Potential</i>	High – highest margin items at Drogenling
<i>Relative Competitive Strength</i>	Med – <ul style="list-style-type: none"> • Depends on quality – many competitors for low quality/nylon products, but few in higher end • Unlikely to compete internationally since labor costs lower in India and other parts of China. Lack of quality materials also inhibits Tagong competitiveness
<i>Existing skills and resources</i>	High
Existing resources	High -- Most villagers have existing sewing skills. Will need to train for higher quality items
Existing skills	High -- Cotton and felt fabric seem relatively available from local cloth stores
<i>Ease of Transition</i>	High
Ease of training	High -- Not hard to train people as most have existing sewing skills. In tailor's workshop in Lhasa, new women were trained in 6 months as unpaid seamstresses, are fully trained after 3-4 years.
Ease of procuring resources	Med -- May need to purchase specialized fabrics as designs suggest. Will need to purchase sewing machines to ramp up production
Ease of cultural transition	High -- Depending on product, both men or women may participate
<i>Overall Assessment</i>	High

Leather Goods	
<i>Description of typical products</i>	Consists of any products made of tanned leather, generally bags, belts and horse tools (e.g. saddles, saddle bags, etc).
<i>Revenue Potential</i>	High
Foreigner interest	High – generally good reaction to test products (32% of survey respondents expressed some interest)
Chinese interest	High – same as foreigner interest
Local interest	? – Used for horse products but saw little used for casual use (i.e. bags)
<i>Margin Potential</i>	Med – based on Dropenling data
<i>Relative Competitive Strength</i>	High – Little competitive product exists designed for tourists in Tagong
<i>Existing skills and resources</i>	Med
Existing resources	Med – Yak hides relatively available in Tagong and some products made out of rougher hides. However, no local ability to tan
Existing skills	High – Most villagers have some ability to sew. Locals used to use leather to make shoes and some make rough leather bags
<i>Ease of Transition</i>	High
Ease of training	High -- Need to train people who might be used to sewing cloth items to sewing leather
Ease of procuring resources	High -- Finished leather can be bought in Kangding. Unknown how expensive it is. Need to purchase leather sewing machines
Ease of cultural transition	Med -- Working with unfinished leather is considered a lower status profession, however working with finished leather should not have the same taboo
<i>Overall Assessment</i>	High

Stone carving	
<i>Description of typical products</i>	Consists of text and image carvings on various types of stone. The most common product is “Mani” stone, a flat, grey slate, with Tibetan text carved in. Occasionally, religious images are carved on flat stones or Buddha images are carved out of larger rocks.
<i>Revenue Potential</i>	Med
Foreigner interest	Med – small and portable, but not tremendous interest
Chinese interest	Med – same as foreigner interest
Local interest	Low – used for monasteries but little mroe
<i>Margin Potential</i>	Med -- The stone carver we interviewed could make a small carving in 1 hour using a free stone, and sell it for 10 RMB. Drogenling data reveals medium margins
<i>Relative Competitive Strength</i>	Med – Some mani stone product exists but little of it is differentiated
<i>Existing skills and resources</i>	High
Existing resources	High -- Stones for carving are readily available and can be gathered for free
Existing skills	High -- According to one village source, there are 70-80 stone carvers near the nunnery. According to the PRA report, stone carving is one of the most widely practiced skills
<i>Ease of Transition</i>	Med
Ease of training	High -- Not difficult. Stone carvers may need to learn the specific skill for making tourist stones (relief carving), but it does not seem to be difficult
Ease of procuring resources	High -- Stones are readily available
Ease of cultural transition	Med -- Widely practiced skill but some Buddhists feel it’s inappropriate to sell these inscriptions to tourists
<i>Overall Assessment</i>	Med

Carpets	
<i>Description of typical products</i>	Consists of woven rugs in three different styles. "Western" rugs consist of fine pile with a highly finished look, but often contain traditional Tibetan patterns. <i>Tsukdruk</i> rugs are of a thicker pile and use a simpler weaving technique. They are used for general seating and the technique is the same one used in the making of linings for Tibetan <i>Chubas</i> (coats). <i>Wangden</i> rugs are traditionally woven for monasteries and meant for seating during meditation and ceremonies.
<i>Revenue Potential</i>	Med
Foreigner interest	Med – Well liked by Americans with certain income but most travelers to Tagong are backpackers. Product very difficult to transport
Chinese interest	Med -- Although rising among high income Chinese in Beijing and Shanghai. Still, an unlikely purchase from a Tagong producer which has no reputation in this area.
Local interest	Med – Buy for home use and monasteries
<i>Margin Potential</i>	Med – Very high end producers like Khawachen can produce 1sq ft of product in 1.5 days, and sell for \$20 and \$88 at retail. Dropenling data reveals medium or low margins
<i>Relative Competitive Strength</i>	Low – many carpet shops of varying degrees of quality. Designs need to be tailored for customer base (western vs. local). At the high end, few players currently exporting from Tibet but the quality requirements are extremely high. At the lower end, much cheaply made carpets come from outside Tibet.
<i>Existing Skills and Resources</i>	Low
Existing skills	Low -- None that we are aware of. Existing rugs seem to be machine made and imported
Existing resources	Low -- Wool yarn is relatively prevalent. No indication of looms
<i>Ease of Transition</i>	Med
Ease of training	Med – NGO trained individuals often need to be retrained when brought into production oriented workshop like Khawachen. 1 to 1.5 years of training required to be functional under tutoring of master artisans.
Ease of procuring resources	Unknown
Ease of cultural transition	High -- Carpet making appears to be a relatively high status profession given it is considered to be one of Tibet's most known handicrafts
<i>Overall Assessment</i>	Med

Wood Carving	
<i>Description of typical products</i>	Consists of products carved from wood, including trays, sculptures, incense holders, and print-making blocks, among others.
<i>Revenue Potential</i>	Low
Foreigner interest	Low – rarely cited as something they're looking for
Chinese interest	Low – same as foreigner interest
Local interest	Low – few wood carvings used
<i>Margin Potential</i>	High – based on Drogenling data
<i>Relative Competitive Strength</i>	Med – Some competitors of varying quality, but there isn't currently tremendous selection. Quality is determined by the way the wood is cured and the box is constructed.
<i>Existing Skills and Resources</i>	Low
Existing skills	Low – <ul style="list-style-type: none"> • Houses will use pre-fabricated carvings for doors and windows, so little wood carving skills exhibited • Sering, one of the Tibetan shop owners, carved an inscription like a mani-stone carving out of wood • No tradition of print-making, so likely no print-making blocks
Existing resources	Med – Wood can be bought nearby Tagong, but does not appear to be relatively available
<i>Ease of Transition</i>	Unknown
Ease of training	• Unknown
Ease of procuring resources	• Unknown
Ease of cultural transition	• Unknown
<i>Overall Assessment</i>	Low

Furniture	
<i>Description of typical products</i>	Consists of a wide variety of items, generally painted and made primarily out of wood. Much of the furniture sold to tourists is antiques, with little “new” furniture visible in the stores we visited.
<i>Revenue Potential</i>	Low
Foreigner interest	Low – Much like carpets, popular with high income travelers but very unpopular with backpackers on the move.
Chinese interest	Low – Similar reaction to foreigners
Local interest	Low – Some purchased for home use but rarely high end
<i>Margin Potential</i>	High – based on Dropenling data
<i>Relative Competitive Strength</i>	Low -- High end producers/buyers of antique furniture for export. In Lhasa, furniture businesses strip and refurbish pieces—make them look “antique”—and sometimes sell them in bulk to Chinese retailers. Hard to deal with shipping, antique authenticity, and credit card capabilities for large purchases. Need to manufacture furniture at a high enough quality level to prevent warping in other climates
<i>Existing skills and resources</i>	Low
Existing skills	Low -- Likely low, we did not see any produced for sale in Tagong
Existing resources	Low -- Wood can be bought in towns near Tagong, but it is unclear how expensive it is. Unknown if there is any antique furniture
<i>Ease of Transition</i>	Unknown
Ease of training	Unknown
Ease of procuring resources	Unknown
Ease of cultural transition	Unknown
<i>Overall Assessment</i>	Low

Pottery	
<i>Description of typical products</i>	Consists of a wide variety of products made in the Tagong region of black clay. The most common items are teapots and jugs.
<i>Revenue Potential</i>	?Low?
Foreigner interest	?Low? – Likely low or medium due to cost (in town, black clay wine jug sold for 1000 RMB)
Chinese interest	?Low? – Same as foreigner interest
Local interest	Unknown
<i>Margin Potential</i>	Unknown
<i>Relative Competitive Strength</i>	Med – Some being sold in Tagong but not very much quantity
<i>Existing Skills and Resources</i>	Low
Existing skills	Unknown -- but likely none
Existing resources	High -- Clay available in nearby towns
<i>Ease of Transition</i>	Unknown
Ease of training	Unknown
Ease of procuring resources	Unknown
Ease of cultural transition	Unknown
<i>Overall Assessment</i>	Low (but needs further research)

Paper Products	
<i>Description of typical products</i>	Consists of paper based products including paper lanterns, journals and photo albums. Few products are produced locally
<i>Revenue Potential</i>	Med
Foreigner interest	Med – paper products are generally cheap, useful and portable. Lamp shades seem to be popular among tourists. Still few customers site them as something they're looking for
Chinese interest	Med – same as foreigner interest
Local interest	Low – little visible interest by locals
<i>Margin Potential</i>	Low – based on Dropenling data.
<i>Relative Competitive Strength</i>	Low – Margins much better if made in Nepal, so it would be tough to compete here.
<i>Existing Skills and Resources</i>	Unknown
Existing skills	Unknown
Existing resources	Unknwon
<i>Ease of Transition</i>	Unknown
Ease of training	Unknown
Ease of procuring resources	Unknown
Ease of cultural transition	Unknown
<i>Overall Assessment</i>	Low (but needs further research)

II. Detailed Skill and Resource Assessment

Weaving

Most local people (women especially) have the ability to weave. We found a few villagers who are currently making some basic products for their own use (blankets, small bags, raincoats, tents). These products were made using wool bought locally or recycled from sweaters or other items and made using small wooden hand tools. A few local people are also weaving colorful horse collars made of cotton yarn for sale in local shops.

A volunteer for the Kangding minority school, Angela, has contracted with a few local women in one of the villages to make horse bags that she brings back to the United States. These women have the capability to weave commercially viable products.

Wool appears to be readily available in Tagong. Most of the local cloth shops sell acrylic and cotton yarn. Sheep's wool is not available in Tagong, but can be bought from nearby towns. Yak hair is cheap and easy to find in town, although it was unclear if it was currently being made into yarn on a large scale. It apparently is hard to buy dye for wool, so most people purchase pre-dyed yarn. There are a few spinning wheels owned by local people, and these few wheels are shared between neighbors.

Sewing

According to the PRA report, there are 8 Tibetan costume tailors in Tagong, as well as some additional tailors in the villages who make clothing for the local people. There are a number of cloth shops in Tagong village which sell many types of fabric, and high quality cotton fabric is readily available.

In addition, from interviews with villagers, it seems like a few of them make their own curtains and sew together woven bags, so there likely is some basic sewing skill level among local villagers.

Leather production

There is a market in Tagong where local people will sell yak hides to factories who tan it and make it into finished products. There is not the capability locally to tan leather into a high quality finished product. Some people will soften the yak hides and make the softened hide into products, but this is rare. Many families used to make their own shoes out of leather, but this skill has mostly died out as people typically now buy machine made shoes.

Finished leather is not currently available for sale in Tagong, but is available in nearby towns or Kangding. Local people most likely have the ability to sew finished leather (see sewing capabilities), but no one currently owns a leather sewing machine.

Painting

According to the PRA report, there are 5 painters in Tagong town. These painters typically go door to door to paint house decorations for the villagers. The market for this skill has been good recently, as there is a lot of new construction in town. These also are used in the monastery. Painters are traditionally male.

A few of these painters have also reached a level where they can paint Thangkas. However, it is unclear whether they sell these Thangka paintings commercially. There is one Chinese owned Thangka shop in town, and it sells Thangka paintings made in Chengdu. There is a lot of interest among locals to train for Thangka painting. The training for Thangka painting often involves a first step of decorative painting, so the training and skill can be applied more broadly.

It is difficult to procure mineral paints in Tagong, and it is unclear what type of paint most decorative painters use on houses.

Metalworking and Jewelry

There are over 10 local silversmiths in Tagong town, but they are all run by Chinese from the Yunnan province. The Yunnan silversmiths produce high quality silver jewelry items that are typically of higher quality than what was produced locally. It was unclear whether these producers made religious statues as well. They are likely machine made by factories in Chengdu and Lhasa and imported to Tagong. Metals are relatively easy to buy in the markets around Tagong.

Most of the local people will buy their silver jewelry and metal statues from these producers. In addition, they may purchase stones (coral and turquoise) or other decorative items like ivory, from outside markets in Chengdu or elsewhere, and then bring these to the silversmiths to set in jewelry. No local people are currently making jewelry for sale. Villagers used to make beaded jewelry, but they stopped producing these 10 years ago, likely in response to cheaper imports from Chengdu or Lhasa.

It is also unclear whether they have an interest in making jewelry. Windrock proposed hosting a jewelry making training workshop, and there was not enough local interest. Jewelry making tends to be a lower status trade and people were skeptical of the financial opportunity of jewelry making.

Luo Changming is the only local blacksmith. He produces industrial items such as sickles, hoes and saddles, and does not currently produce any decorative items or jewelry.

Stonecarving

Many villagers in Tagong have the ability to carve stone. Most of them are employed in carving slated mani sculptures for use in the monastery or religious decorations. A stone carver we met in the village surrounding the nunnery claimed that there were 70-80 people trained in stone carving. These carvers are not organized, and independently contract for projects. They learn the skill themselves or through their family.

There are two different style of stone carving. One, that is the small printed rows of writing on larger mani stone slates, and the other is larger more intricate carving. The second type requires a higher skill level. In addition, some of the carvers make smaller carvings that are sold to tourists. Carving the smaller stones requires a different skill as the inscription is carved in relief (vs. carved into the stone). The stonecarver we met claimed that only he and his father know how to make those small carvings for tourists, but it seems like there are additional people with this skill in Tagong town or other villages.

The stones used for these small carvings are found locally by the producers, not purchased.

III. Entrepreneur Selection Criteria

When selecting entrepreneurs or entrepreneurial organizations to partner with, Kham Aid and Winrock should consider four main criteria: a partner's interests, fit with the mission, sustainability, and experience.

Interest

The interest category is comprised of two variables: a potential entrepreneur's interest in running or expanding a business, and his or her interest in aiding the broader Tibetan community in the Tagong region.

1. Business interest

Potential entrepreneurs must have a strong business bent. This may include previous entrepreneurial ventures, or a desire to expand an ongoing enterprise. While artistic skill is required to produce marketable products, a strong business sense is needed to ensure that the venture is economically viable. If funding an existing business, Kham must evaluate the entrepreneur's desire to expand the business to provide additional local employment.

2. Community involvement

Potential entrepreneurs must have deep ties to the broader community of Tagong. This may be measured in civic involvement, efforts on charitable causes, and hiring record (if an existing business). Individuals or groups that have a track record of helping others in the community will be more apt to have a greater impact on the community.

Fit

The fit category evaluates how well the entrepreneur and his or her interests align with those of Kham Aid, Winrock International, and USAID.

1. Meets USAID criteria

The grant from USAID stipulates that funds should be allocated to organizations within Tagong. To meet these criteria, Kham Aid should give preference to organizations as opposed to individuals. While individual entrepreneurs may be given small grants from the USAID funds or individually sponsored through independent Kham Aid fundraising, leveraging existing organizations that have roots in Tagong will not only maximize use of the USAID funds but also provide structure and continuity to investments made in the community.

2. Aligned vision

The goals, implementation timeline, and project stakeholders must be agreed upon by both Kham Aid and the entrepreneur or entrepreneurial organization. In addition, the degree of oversight and input that Kham Aid will have over day to day decision making and the use of funds must be agreed upon before entering into any agreement.

Sustainability

The sustainability category measures the ability of the entrepreneur to maintain the positive economic impact of the project over time.

1. Size of organization

While individual entrepreneurs may have a higher potential to create wealth for the community, they are also riskier. Individuals are less tied to a particular location than an organization is. In addition, without an existing organizational structure, it is more difficult for Kham Aid to control its partner's profit distribution or local material sourcing.

2. Willingness to grow the business

This project aims to grow the total volume of products sold in Tagong by adding merchandise produced locally. As tourism grows in the region, so should the market for locally produced goods. Kham Aid should find partners who are willing to reinvest in the community to both attract additional tourist dollars and create additional jobs for local producers.

3. Family / Community obligations

This category measures the amount of surplus labor that an individual or organization can devote to developing a handicrafts business in Tagong. Individuals may have primary responsibilities to the family or community, such as child rearing, herding, or religious duties. These responsibilities may limit the entrepreneur's success. In addition, existing organizations may have initiatives that take away the manpower and focus needed to make a handicrafts business a success.

Experience

1. Education

Educated individuals will be more successful running an entrepreneurial venture. An ideal candidate would have at least a high school education, comprising math skills and basic knowledge of accounting.

2. Business Experience

While basic business skills can be taught, candidates who have started their own business or worked in a market environment will be much more successful. Ideally, an individual or member of an organization would be able to write (or be quickly trained to write) a thorough business plan.

3. Local status

Local leaders have a large amount of sway in a small town like Tagong. Through lineage, government connections, and personal drive, these individuals will be able to organize local producers more quickly and more effectively than an outsider.

IV. Store Surveys

Retail Survey – (Beijing, Shanghai, Lhasa, Chengdu, Kangding)

Objective: To understand what Tibetan products are currently being commercialized, why, how, and to whom.

Methodology: One-on-one qualitative interviews with storekeepers, salespeople, and store owners of shops in Beijing, Shanghai, Lhasa, Chengdu, and Kangding.

Survey:

1. Market
 - a. Who are the customers? What is the breakdown of customer types (e.g., are they tourists? domestic v foreign? locals? religious?)
 - b. What are the most popular items amongst the different customer types? Why? Are customers interested in Tibetan / Tibet-made items?
 - c. How much do customers usually spend?
 - d. What products does the store carry?
 - e. In general, what level of quality products does the store carry
2. Production
 - a. Does the store produce items itself or source from elsewhere
 - b. Where do the items come from?
 - c. How are the items selected?
 - d. Are products placed in the store on a commission model?
3. Pricing
 - a. How does the store determine pricing? Is pricing fixed or negotiable? What are the margins on different product categories
4. Promotion
 - a. How does the store promote itself?
 - b. Does the store provide commissions for tour guides in exchange for bringing tourists?
5. Store Management & Operations
 - a. How is the store staffed?
 - b. How many full time / part-time employees do you have?
 - c. Are the employees Tibetan / Chinese / Western?
6. Other
 - a. Do you provide shipping?
 - b. Do you accept credit cards?
7. Tagong ONLY
 - a. Feedback on potential products
 - b. Feedback regarding the establishment of an association of storekeepers
 - c. How do you compete and / or differentiate your products in the local market?

Results:

1. Beijing

a. **Tibet Bar Store (Hou Hai area)**

Cherie, Kameron and Rachael

Interviewed Store owner (Longbao Tzashing)

Small store in the huton area. Categories of items sold:

- Thanka paintings
- Saris (Indian)
- Rugs (Tibetan)
- Clothes (Nepalese)
- Jewelry
- Bronze statues

Market:

- 1) Sells mostly to Chinese tourists because most foreign tourists don't know as much about Tibet art and handicrafts
- 2) Most customers prefer jewelry and clothing, but are looking for something that appears to be "unique"

Production:

- 1) Buy from established artisans, who he gets recommendations for from Tibetan friends and artisans who he currently buys from
- 2) Tibetan rugs are purchased from large, organized manufacturer

Pricing:

- 1) Marks up items 100% from wholesale price from artisans

b. **Tibetan shops (2) in Hou Hai area**

See above

c. **Tibetan shops (2) near Yong He Gong Temple / Lamasery**

See above

2. Shanghai

a. **Passapartout – 106 Chengshu Lu**

Liz, Cherie, Rachael

Interviewed store owner

Relatively high end shop selling ornaments, decorations, jewelry (silver rings, turquoise, amulets), clothes (linen mostly), and tapestries

Customers –

- ½ locals, ½ tourists. Young and old, ½ Chinese, ½ foreign
- Come because they are interested in Tibetan goods

Popular items -- everything, especially the jewelry

Sourcing

- Store owner goes to Tibet and picks out items based on her own tastes.
- She has relationships with artists to go buy stuff
- The artisans design and make it. She does not special order stuff
- She brings it back herself, and ships some of it back
- Some of the clothes are Nepali, other items are Tibetan
- She looks for more unique items. Lots of variation in tastes.

Pricing

- She has a sense of appropriate pricing because she's done it for so long.
- Not clear on markup level she uses
- Generally, high (western) prices reflecting high quality products

Her advice – sell in the US because US tourists find the prices more reasonable

b. **Tibet Treasure - No. 96, Xiang Yang South Rd. +86-21-64313150, www.tibettreasure.com**

c. **Made In Heaven**

No Longer in Business

The special name for this lovely little store refers to Tibet. Paper lampshades with folk pictures are the stores biggest seller. One lampshade: Y50. Address: No 1, Lane 116 Changshu Lu. Tel: 6249-5882 Open: 10 am - 10 pm

d. **The Arabian Nights Gallery**

No Longer in Business

Islamic Brass Handicrafts and silver ornaments from Tibet. Islamic brass trays cost Y88-700 depending on style and size. Tibetan earrings start at a mere Y10, with real silver earring costing Y30-50. They also sell waistcoats from Xinjiang, priced at Y45-155. Address: 110 Changshu Lu Tel: 6248-1487 Open: 9:30 am - 9:30 pm

e. **Min Zu Feng**

No Longer in Business

Tibetan earrings, Indian bangles, minority caps, silver ornaments, jade; brushes and combs. This store's fashions come from Tibet, Indian and China's minority areas. The name translates into "minority trends". Address: 221 Renmin Da Dao 136 D'Mall Shopping Center Tel: 1350-190-4695

3. Lhasa

a. **Dropenling**

Brandon, Liz, Cherie, Kameron and Rachael

Interviewed Dolma (salesperson at Dropenling)

Retail outlet for non-profit NGO that organizes and sells work from local Tibetan artisans

Products:

- 1) Carry a wide variety of handicrafts
- 2) The most popular items are: Bookmarks, Blankets, Curtains, Sherma wool cape, Bags, Masks, Mt. Everest paintings, Carpets
- 3) Amy has control over product design and tends to adapt traditional Tibetan iconography to new products (e.g., key symbol earrings)

Customers:

- 1) Tibetan-ness of goods
 - a. Most tourists do not ask about Tibetan culture
 - b. Tourists do ask who makes the goods, where they are made, and what type of material goes into each product
 - c. Tourists do ask if the product is a Tibetan design and made in Tibet
- 2) Tour groups
 - a. Guide will show tourists around shop, with on-site staff's help
 - b. Dropenling staff guides to thangka painters – Dropenling doesn't sell them directly, but gets a commission when they refer clients to them
- 3) Chinese tourists
 - a. Chinese tourists come as individuals (not as groups) and buy things that are more familiar with their culture (such as masks)
 - b. Chinese guides do not get enough commission compared to other local shops
- 4) US tourists
 - a. Most US come in groups
 - b. Only see a few repeat tour guides
- 5) Average spend
 - a. Dropenling can expect 20-30,000 Y from one group
 - b. Individuals spend between 800 and Y3000

Pricing:

- 1) Prices are generally high (western) and are considered too high for students/backpackers
- 2) Prices are fixed (not negotiable)
- 3) NGO employees in town do receive a 10% discount
- 4) They pay 10% commission to tour guides who bring in customers
- 5) Pricing is designed to be 50-100% mark-up

Promotion:

- 1) Drogenling has placed flyers in most of the major hotels and restaurants, particularly ones catering to western tourists – list the restaurant/hotel on their map in the brochure if they agree to carry the brochures. We saw them all over town, and even in Sam's Guesthouse in Chengdu
- 2) Listed in the Lonely Planet, which has been very successful

Staff:

- 1) 3 salespeople, 1 manager
- 2) Responsible for working sales floor, re-stocking brochures at restaurants and hotels

b. Tibet Tashideleck Store – near Potola Palace

Cherie, Liz and Brandon

Interviewed General Manager – Liu Hong Wei (Han Chinese)

Huge store – two stories, every category of handicrafts sold. Big tour buses of people in there. They had sitting areas where sales staff could give a “presentation”. Also, had artists working on various handicrafts – ball painting, carpet weaving

Market

- 1) Categories of items sold:
 - a. Thanka paintings
 - b. Silver jewelry
 - c. Bronze Buddha statues
 - d. Oil paintings
 - e. Hand made yak wool, sheep wool and silk carpets
 - f. Embroideries, incense sticks, scripture woodcuts
- 2) Popular Products
 - a. Americans like to buy carpets
 - b. Chinese like to buy prayer beads and jewelry
 - c. Jewelry is the most popular item, and item he would want to source. Material doesn't matter – yak bones, yarn, silver -- as long as it will sell
- 3) Customers:
 - a. Both Chinese and International/Western buyers (more Chinese)
 - b. Tour groups come – established for a long time. They pay 20% commission to tour group leaders

Production

- 1) Some products from Nepal, but most is hand-made from Tibet.
- 2) Buy products through reps.
 - a. Usually reps are by product category, and they have relationships with specific artisans
 - b. Bring in product samples in Feb/March, and the store decides what to purchase. Bring in 20-30 items of one design

- c. Customer preference and their experience with what sells determines what they buy. Price and quality are also considerations
- d. Design items that they want sometimes and sometimes suppliers design items on their own. (i.e. Thangkas are more set, vs. jewelry there is more variation)
- e. Buys all on consignment – if it doesn't sell, they return it to the supplier and get most of the money back.
- f. He suggests making jewelry. He would most likely buy that from us. He buys jewelry made from anything (yak bones, silver) as long as it sells.

Pricing:

- 1) Pricing is a joint decision between them and the rep -- markup varies
- 2) Prices are generally VERY high (10x Barkor prices) reflecting foreign ability to pay

c. Yak N' Nomads – Below the Pentoc Hotel

Cherie, Kameron and Rachael

Interview with salesman and artisan upstairs

Market:

- 1) Customers almost 100% foreigners, few Chinese and no locals
- 2) Like small items like toys and postcards
- 3) Rugs harder to sell to foreigners because of size
- 4) Figurines – liked by tourists
- 5) 50% of business is retail store below. Rest is custom order.

Production:

- 1) Most knit and sewn goods made above the store. Sewers are employees of Pentoc and produce what's demanded by store and other channel sales
- 2) Designs by two French guys and Chinese mainland owner
- 3) Production example: a sweater – 2 people over 1 whole day
- 4) All artisans had sewing skills before
- 5) Rugs – made in countryside near lhasa
- 6) Most sourcing is local and nepal

Marketing:

- 1) Owned by Pentoc hotel group. Thus huge tourists from that hotel and restaurant which are co-located
- 2) Some tour groups come, mostly in August and September
- 3) Lonely Planet is a HUGE source of traffic

Pricing:

- 1) Most items are small and priced under 100 Yuan
- 2) For the few larger items, such as rugs and jackets prices go up to ~500 Yuan

d. Norlha – Barkor Area

Cherie, Kameron and Rachael

Interviewed Store owner and customers (including a lama)

Market:

- 1) Sell entirely metal crafted Buddha statues.
- 2) Sell mostly to local Tibetans, monks (for home decoration) and some Chinese
- 3) Many Tibetans view Nepalese Buddhas as more genuine, higher quality, and generally, cheaper

Production:

- 1) Buy entirely from Nepal – much higher quality and existing long-term relationships makes the price low as well.
- 2) Work with one production company there who take skilled laborers and trains unskilled ones

Pricing:

- 1) Prices for smaller statues start at 150-300 Yuan

4. Chengdu

a. **Store A – Wu Hou Tsu Area**

Rachael, Kameron, translator

Interviewed Store Owner

Market:

- 1) Customers are mostly Han Chinese (1/2 from Chengdu) and some foreigners
- 2) Most popular items, he describes as “usable”. This includes most jewelry
- 3) People buy “Tibetan” items because of the “mysterious” reputation and because it’s usually cheap.

Production:

- 1) Buys through wholesaler who brings things to / from Lhasa.
- 2) High quality items generally are from Nepal and India. Tibetan goods are generally low quality
- 3) He buys silver items from Thailand or Yunnan

b. **Store B – Wu Hou Tsu Area**

Rachael, Kameron, translator

See Above

5. **Kangding**

a. **Store A (Dorje Store)**

Rachael, translator

Interviewed Storekeeper

Appears to be a higher-end store than others in Kangding. Products are merchandised well.

Market:

- 1) Customers are mostly Han Chinese tourists, that travel individually (not on a tour) and on budget
- 2) They carry a full range of products such as thangkas, knives, clothes, jewelry, bags, statues / metal items, herbal medicine, lanterns as well as music CDs
- 3) Most popular items are traditional herbal medicine, which is also the most expensive high because the cost is high and it is locally produced

Production:

- 1) Buys through wholesaler who brings things to / from Lhasa.
- 2) High quality items generally are from Nepal and India. Tibetan goods are generally low quality
- 3) He buys silver items from Thailand

Promotion:

- 1) Did not advertise to tour groups or give tour guide commissions
- 2) Did some TV advertising in Chengdu

b. **Store B**

Rachael, Kameron translator

Interviewed Storekeeper / Owner

As with most stores in Kangding, this is owned by Han Chinese man from Yunnan. They all have a large degree of experience selling (jewelry) to tourists there.

Market:

- 1) As with many other storeowners from Yunnan, the store focuses on jewelry sales
- 2) Customers are 50% foreign, 50% local depending on the season. In the Fall, locals have sold crops so they have money to buy things with. During the Spring festival, the Nomads come in. Tourists come over travel holidays.
- 3) Customers like more classic jewelry (stuff that is not so “Tibetan”), such as rings and earrings

Production:

- 1) Materials are generally from Yunnan, especially for jewelry which he molds himself
- 2) Other suppliers are Yunnan-based and send materials when needed

Pricing

- 3) He sells for 10-35 Yuan
- 4) Rent is high

c. Store C

Rachael, Kameron translator
Interviewed Storekeeper / Owner

This is a general Tibetan-esque store

Market:

- 1) Customers tend to be Han Chinese tourists (not Buddhist)
- 2) Customers are looking for something that seems “Tibetan”
- 3) The most popular products are jewelry (especially rings and bracelets) and combs
- 4) Carvings and Paintings tend to sell slowly; generally customers only buy this if they have a particular interest.

Production:

- 1) Most items are bought from a wholesaler in Chengdu
- 2) Prayer wheels are purchased in Lhasa
- 3) Knives come from Kangding

Pricing

- 1) Simple prayer bead bracelet sells for 10 Yuan

d. Store D

Rachael, Kameron translator
Interviewed Tibetan Storekeeper / Owner

This is a general Tibetan-esque store with items that seem to be of slightly higher quality.

Market:

- 1) Customers tend to be Han Chinese tourists
- 2) The most popular products are jewelry and accessories (e.g., metal medallion necklaces) and knives
- 3) Some also buy paintings from Lhasa

Production:

- 1) All items are purchased in Lhasa by the owner’s sister who purchases whenever she is shopping there.
- 2) Knives definitely come from Tibet.

Pricing

- 1) Prices tend to be 10% higher here, coinciding with slightly higher quality items
- 2) He claims that the Han copies are matching pricing of authentic items and just making higher margin.

6. Tagong

a. **Nun-Run Shop**

Brandon, Liz translator

Interviewed Nun Storekeepers

This is a store run by nuns from the local nunnery. Nuns are sent to work at the shop for a certain amount of time as a rotation. Profits from the store are used to construct the golden temple.

Market:

- 1) Currently, store caters to locals, but wants to sell to tourists in the future

Production:

- 1) All three nun employees have agreed on product sourcing
- 2) They have difficulty knowing which products to source since they do not know the market well
- 3) Want to carry handicrafts made by locals

b. **Tibetan-owned Store (across from monastery)**

Brandon, Liz translator

Interviewed with Tsering (store owner)

Market:

- 1) Customers Flow:

- a. May-Oct: 50/day; Oct-May: 0/day; Holidays: up to 400/day (Primarily Chinese tourists on holidays)
- b. 40% of customers are foreign (higher than most competitors)
- c. He has about 100 repeat customers, year to year

- 2) Purchasing Behavior

- a. The most popular products are turquoise bracelets, antique products (stone carvings, tea bowls).
- b. Foreigners purchase mostly high-quality items, but generally do not like religious items. Tsering is proud of Tibetan culture but does not feel that customers understand it – won't purchase authentic items
- c. Few customers from Chengdu purchase high quality items
- d. Given the number of knock-offs, customers often do not believe products are authentic. He tries to establish trust with customers by guaranteeing a 2x refund and providing stories around Tibetan culture and use of products.
- e. Chinese customers have reputation of caring only about price
- f. 10% of customers purchase something. 200-300¥ average purchase size. Items in 500-600¥ range are too expensive

Production:

- 1) Most high quality items are sourced from Nepal and produced by highly skilled Tibetan craftsmen. Tsering travels to Nepal once a year to purchase inventory. Purchases products based on:
 - a. Tourist interest
 - b. “Tibetan-ness” of products
- 2) Cheap necklaces are purchased in Chengdu. These are often copies of Tibetan designs
- 3) Tagong artisans make: Rough carved logs, Enscribed with Buddhist mantra, Mani stones

Feedback on potential products

Tsering is interested in carrying items on consignment. However, he can carve stone and would prefer to try with his own products. Believes that individual shop owners do not have enough power/\$ to start a handicraft organization on their own. Thinks that idea could work if many store owners work together. Thinks it will be effective to tell the story of each one of the handicrafts

- 1) Mani stones: Currently stocks mani stones with Buddha images. Tsering would consider buying 20 stones to test market (not 1000).
 - a. Thinks it would cost 25¥/day for food and labor for a carver .
 - b. Slate is more difficult to find than the sandstone used in the sample we showed him.
 - c. Cheaper stone manis could be painted (lower inventory costs). Painted stones could be more popular - more beautiful in his opinion. C
 - d. Altered mani stones: While tourists might like stones with “Tagong” inscribed on it, there is no meaning. Instead, may want to add a Tagong tag line to the mantra.
- 2) Weaving:
 - a. Doesn’t see a Chinese market for woven items. He claims they prefer ornamental items (household & jewelry).
 - b. Foreign market could be attractive because Westerners like woven items and clothing
- 3) Leather bags
 - a. Likes the idea and believes that Tibetans can make high quality items
 - b. Concerned that if they are high priced, tourists will believe his shop is too expensive
 - c. Envisions a retail price of around 120¥
 - d. Sourcing: Locals have the skills to produce bags, but a factory will be needed to tan the products. No tanning skills in Tagong. Locals can make better leather, but not as soft. The Chinese can make the leather softer and can dye different colors. There is a tailor who can produce locally.
- 4) Tibetan style woven bags: Cheap ones only will sell for about 6¥, however better ones with real wool and a better design will sell well
- 5) Wooden designs (ie, picture frames): New paintings look beautiful, so tourists might like these products

OTHER

1) Business Experience

- a. Growth: Wants to grow his business. Has approached friends about investing in his store and is actively seeking additional capital. Ideally, would like to own the shop alone but have others work for him. Wants to earn enough to live abroad
- b. Growth plan:
 - i. Will group similar products together
 - ii. Would like to staff who spoke English
 - iii. Costs: Tsering spent 200,000 for this store. It will cost 40,000¥ to enlarge existing store, including additional retail staff, artisans, more merchandise, Additional Tibetan decoration.
 - iv. Authenticity: Would like to add additional items from Tagong and create a Tagong section stocked with local crafts. Will add photos of the items and their producers with a description of the products' history. Would re-decorate store to give it more of a Tibetan motif. Wants to hire artisans to do demonstrations in his store to show the products are authentic. Envisions these artisans sharing a portion of the profits
 - v. Would also serve local yogurt, butter tea, etc.

2) Competition

- a. Competition has increased and has hurt his business.
- c. Differentiation: Goods he once could only get from Nepal and Lhasa are now copied by Chengdu factories. Tsering has been unable to sell much of the Chengdu items he has bought because the Chinese shopkeepers convince tourists that the items were made there. Tourists cannot recognize which stores/products are authentically Tibetan. Only way is to look for lama pictures.
 - i. Chinese from Yunnan and Sichuan say they are Tibetan
 - ii. Many Tibetan style goods from China are not Tibetan, but sold under that guise
 - iii. May be able to certify Tibetan shops or post them on an Association website. Website would list Tibetan artisans and Tibetan owned shops and restaurants
- b. Prices have fallen as a result of competition. Others are able to sell more fake things at a lower price
- d. Tibetan: Only three handicraft shops are owned by Tibetans: His, his neighbors', and the monastery shop. Monastery shop has 20 years of experience, so it knows what consumers want. Believes that there are not more Tibetan shopkeepers because most do not understand the market potential

c. Tibetan Shop (with green awning)

Brandon, Liz, translator

Interviewed storekeeper

Market

- 1) Estimates 100 tourists per day (20-30% foreigners, 50% local)
- 2) Popular products
 - a. Locals: Religious Items, Clothes, General Use (textiles)
 - b. Foreigners: Antique Items
 - c. Chinese: Cheap Jewelry

Production

- 1) Many Tibetan items sourced from Lhasa
- 2) Knives come from Dege
- 3) Rugs, blankets, buddhas are purchased in Nepal
- 4) Textiles and trinkets come from Chengdu
- 5) Feels that locals could sell their items on the market, but currently only produce for their own use.

Feedback on Potential Products

- 1) Leather, weaving, and horse collars will sell well
- 2) Mani Stones might sell well, but some may consider it disrespectful to sell items with prayers on them. Feels better about stones with Tashi Delee on them.
- 3) Hybrid Products such as T-shirts with “Tashi Delee” are already sold in Chengdu

Feedback on Association of Tibetan Shopkeepers

- 1) Feels that it is a good idea
- 2) He'd appreciate any outside help
- 3) Locals have ideas, but have no capital to develop their business ideas

V. Customer Surveys

We conducted surveys of customers in Kangding and Tagong. See survey methodology and results below.

Customer Survey -- Kangding

Objective: To ascertain and understand the motivations of tourists in Kangding for visiting the Kham region (e.g., Tagong) and to understand their purchase intentions for while they were there.

Sources: Local hotels (e.g., Black Tent, Lovesong Hotel), restaurants, and shops

Methodology: One-on-one qualitative interviews with tourists, tour operators, hotel workers, and shop keepers were conducted by Kameron and Rachael with the aid of translators. Approximately 15 people were interviewed.

Survey and Results:

Survey:

1. Tourist Profile:
 - a. Origin: Where are you from?
 - b. Gender: Male or Female?
 - c. Are you Tibetan or Chinese?
2. Reason for Visiting:
 - a. Why did you come to Kangding?
 - b. How did you hear about it?
 - c. Are you here with a tour?
 - d. What have your activities been?
 - e. What is your impression?
3. Length of Visit:
 - a. How long are you planning on spending in the Kham Region?
 - b. Are you planning on going to other parts of the Kham region (e.g., Tagong)
4. Existing Purchase Intentions:
 - a. What will you / did you buy?
 - b. What are you looking for & why?
 - c. Who is it for?
 - d. How much would you like to spend?

Results:

1. By and large, it seems like the bulk of tourists in the area are Chinese domestic tourists (although one couple interviewed was from France). These tourists often come from Guanzhi or Chengdu. Visitors to many of the hotels visited (except the Love Song Hotel) were individually organized tourists, although they often traveled as self-organized groups.
2. While a few were in the region specifically to visit friends, for most of the people interviewed, Kangding is often 1-2 day stop while they are traveling the “loop” around the

Kham region. The purpose of these visits is to enjoy the natural beauty of the region and / or to glimpse Tibetan culture.

3. Are you planning on going to Tagong (or further west)? Did you just return?
It seems as if Kangding is the starting out point for the “loop” as most people expressed that they were planning on visiting Tagong and other westward towns, but no one was returning from the west.
4. When questioned on what people bought or were looking to buy, most people expressed an interest in jewelry, medicinal herbs, and knives. Knives are interesting as one can not bring back knives on planes from Lhasa. People expressed mixed opinions of interest in religious Buddhist items. On the whole, tourists seem to be disappointed by the local selection and don’t know what they are looking for except for that they want it to be “unique”.

Customer Survey -- Tagong:

Objective: To ascertain and understand the motivations of tourists in Tagong for visiting and to understand their purchase intentions for while they were there.

Sources: Interviews with tourists and potential customers that were visiting the Tagong Monastery

Methodology: One-on-one qualitative interviews with tourists were conducted by Kameron and Rachael with the aid of translators. Approximately 28 people were interviewed.

Survey:

1. Tourist Profile:
 - e. Origin: Where are you from?
 - f. Gender: Male or Female?
 - g. Are you Tibetan or Chinese?
 - h. Are you Buddhist?
2. Length of Visit:
 - i. How long are you planning on spending in Tagong?
3. Reason for Visiting:
 - j. Why did you come to Tagong?
 - k. How did you hear about it?
 - l. Are you here with a tour?
 - m. What have your activities been?
 - n. What is your impression?
4. Existing Purchase Intentions:
 - o. What will you / did you buy?
 - p. What are you looking for & why?
 - q. Who is it for?
 - r. How much would you like to spend?

5. Reaction to Test Products: We showed tourists several photos of potential products (including Felt bags, Wool bags, Leather bags, Mani stone carvings) and probed regarding whether they would consider purchasing and why or why not?

Results:

I. DOMESTIC V FOREIGN		
Domestic		86%
Foreign		14%
II. ORIGIN		
ORIGIN	NUMBER	PERCENT
Chengdu	6	21%
Local (Kangding/Ya'an/Tagong)	4	14%
Yunnan	3	11%
Chongqing	3	11%
Shanghai	2	7%
Sichuan	2	7%
III. LENGTH OF STAY		
(1) Less than 1 day		96%
(2) Overnight (1-2 days)		0%
(3) Greater than 2 days		4%
IV. PURPOSE OF VISIT		
(1) Natural Beauty / Countryside		15%
(2) Interest in Tibet		30%
(3) Buddhist		15%
(4) Combination / Loop		37%
V. PURCHASE INTENTIONS		
(0) Nothing		58%
(1) Tibetan Looking		15%
(2) Tibetan / Local Made		0%
(3) Useful		12%
(4) Unique		15%
VI. INTEREST IN POTENTIAL PRODUCTS		
(0) None		32%
(1) Felt bags		45%
(2) Wool bags		14%
(3) Leather bags		32%
(4) Mani stone carvings		18%
VII. SWITCHING POTENTIAL		
0 to Something		40%
1		0%
2		0%
3		100% People wanted useful items, interested in the bags
4		100% People wanting unique did not favor mani stones

Test product codes: (1) Felt bags, (2) Wool bags, (3) Leather bags, (4) Mani stone carvings

- Things you like best about your job?
- Things you like least about your job?
- What would you do if you could no longer do this?
- If you have a son or daughter, would you want them to do this profession or a different one? (different answers for each son or daughter)
- How much do you make?

C. Networks & Social Structure

What other members of the community do you interact with? Under what circumstances? How often?

Who do you view as a community leader?

Who do you ask for business advice?

Do you belong to any groups, clubs, associations?

III. Priorities & Interests

What is most important to you (family, religion)? Biggest worries/hopes for your family/goals?

How much \$ do you make a year? Seasonal?

What are your thoughts about making extra money? (probe to understand interest level, willingness to work) What would you do with extra money if you had it?

What would you do if you had extra money?

Would you be interested in applying for a small loan, repayable in 1-2 years, of between 1000-5000 RMB to start some sort of business ? What would you do with it?

Are you/ any one in your family interested in starting or participating in making handicrafts to generate extra income? If so, why or why not? What would be your concerns around this?

Would you be willing to participate in 1-2 months of training which may take you away from your other work?

How do you feel about the Chinese tourists coming to Tagong? Foreign tourists?