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MONGOLIA

SDC Green Gold Project Marketing Component

Demand Study on domestic and foreign markets

Presented to

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Implemented by:



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SDC Green Gold Project
Marketing Component
Mongolia

Demand Study on domestic
and foreign markets

Report

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1 BACKGROUND

1.1 Survey

During the inception period between November 2013 and February 2014, the marketing component for the Green Gold project of the Swiss Agency for Development and Cooperation conducted an evidence-based diagnosis on the express **needs** of the domestic processors in their quest to produce “marketable-products” whilst simultaneously investigating the **demand** potential of the international market for knitted and woven products using yak and camel fibre and/or in blend form.

The study team intend to **offer a strategy** to promote Mongolian yak and camel products on the international market.

1.2 Methodology

The project team conducted the survey using quantitative methodology to identify the capacity of the processing factories, utilisation of the stated capacity, need for raw material for this year and the volume of goods exported to the developed markets.

In addition we used qualitative methods to assess their capability in producing exportable products and their needs in obtaining assistance from our project to produce the **right** products for the **right** market.

The information was gathered through site visits to related parties, desk research and observations on the findings.

We aimed to define the market structure, location and market barriers, assess competition and export perspective and do a sector analysis.

The team also met related stakeholders such as the MWCA, MTI, Oyu Tolgoi LLC and plan to meet the Chamber of Commerce, Wool Producers’ Association, Wool Association and the Camel and Yak Societies to solicit more information and seek further cooperation.

Internet research was initially carried out on the foreign market to identify those international companies that actively promote yak and camel fibre and their tools for promotion as well as the current demand on the foreign market for yak and camel wool products.

The International Key Expert from the project met western designers and brand owners to **investigate** international market trends and the potential for marketing and selling yak and camel products.

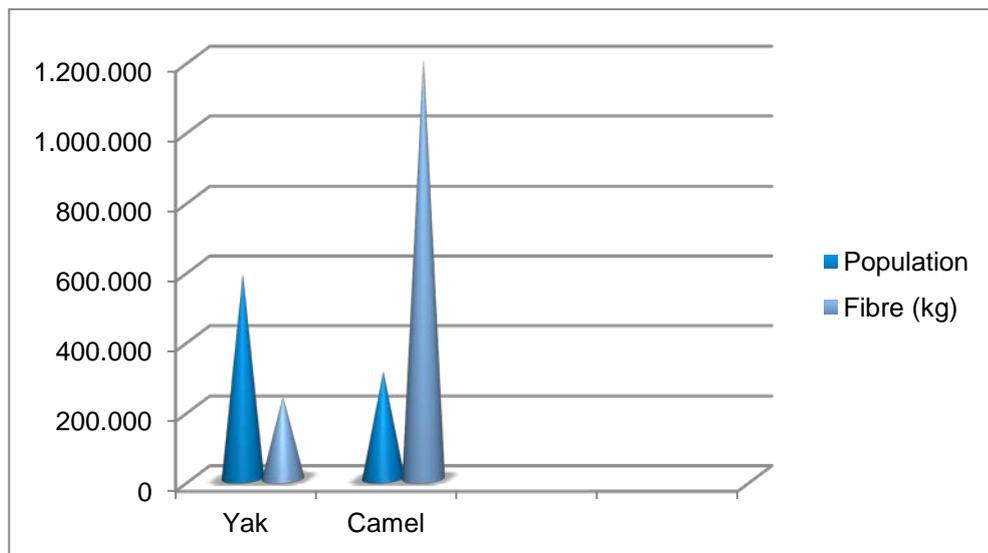
26 companies were identified for yak and camel wool production.

1.3 Current situation

According to the official statistics for 2013, there are over 305,800 camels and 585,000 yaks and available resources of 1,200 tons of camel wool and 234 tons of yak wool (please see the charts 1 and 2)¹.

These charts illustrate the significant difference in raw fibre obtained from the Camel and the Yak.

Chart 1 Yak and Camel population (2013)



In recent years circa 40% of yak wool was processed each year whilst only 25% of camel wool was used by domestic processors.

1.3.1 The effect of Raw material price and processing increases and inflation

Due to the rising price of cashmere and the effects of inflation, the demand and price of yak wool is likely to rise.

Cashmere has begun this season at the highest price levels ever experienced in Mongolia, the impact of which will be significant to the small processors who generally operate at marginal levels.

Inflation is running at over 30%, which also affects the smaller processors more so than the big factories that export and therefore have potential for hard currency exchange rate gains.

Recent increases in processing charges imposed by the big factories will mitigate against the SME's as there is no choice for them but to accept these increases.

The only possible alternative is to revert to other natural fibres and yak has become the most popular choice in this category.

¹ National Statistics Office

1.3.2 Camel wool its status and problems

Regarding camel wool the processors are more interested in buying baby camel wool for knitted and woven garments because of its colour and fineness. There is a general reluctance by companies to process camel wool in large amounts as there are huge costs in production associated with the removal of vegetable matter and dust from the fibre. Added to this is the detrimental effect on the working area from airborne dust.

1.3.3 Oyu Tolgoi and Galbyn Gobi red camels

Due to social problems inflicted on Oyu Tolgoi by the local soums and those juxtaposed to Khan Bogd, OT is trying to increase the demand for the fibre from the Galbyn Gobi red camel located in the soums surrounding their mine.

They want to use Geographical Indication to promote the provenance and uniqueness of these camels.²

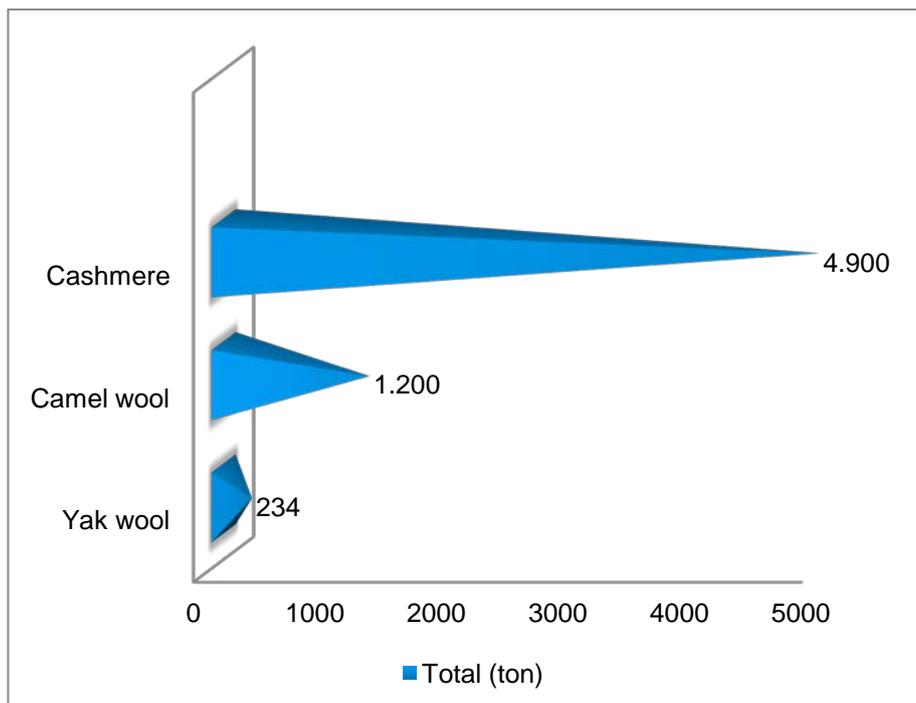
They have also been experimenting with making work clothes using camel fibres for internal consumption and for general sale

1.3.4 Domestic processors survey

Our study team canvassed 26 domestic companies (see annexes 1 and 2) that were known to produce yak and camel products in the survey.

Most of the companies that were included in our survey expressed their interest in getting assistance from our project.

Chart 2 Resources of livestock raw fibre in Mongolia (tons)



² See 6. Green Labelling

1.4 Capacity of and number of companies that make yak/ camel wool garments/ needs of raw material

There are around 250 companies that are involved in the wool and cashmere sector in Mongolia.

From our study we have identified 26 companies that are producing yak and camel wool products.

Generally speaking virtually all yak processors produce a certain proportion of camel and cashmere products. (See chart 3).

See the production capacity and capacity utilisation rate from charts 4 and 5.

Capacity is the total number of goods that can be produced from the installed equipment at the factories.

Utilisation is the average number of goods actually produced on the installed equipment by the factories over the last few years.

Weaving factories

Erdenet Cashmere, Ashid Nekhmel, Gobi LLC, Blue Sky and Eermel are the only companies that produce woven products. Others do knitted products.

Chart 3 Yak and camel wool processors

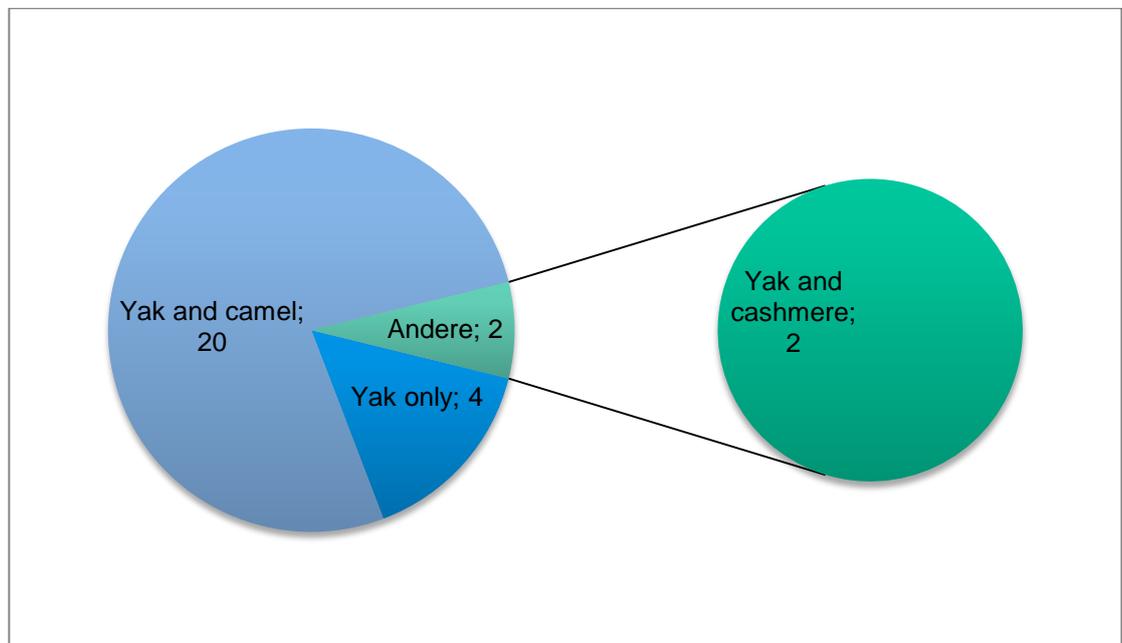


Chart 4 Capacity and utilization of capacity of yak and camel producers

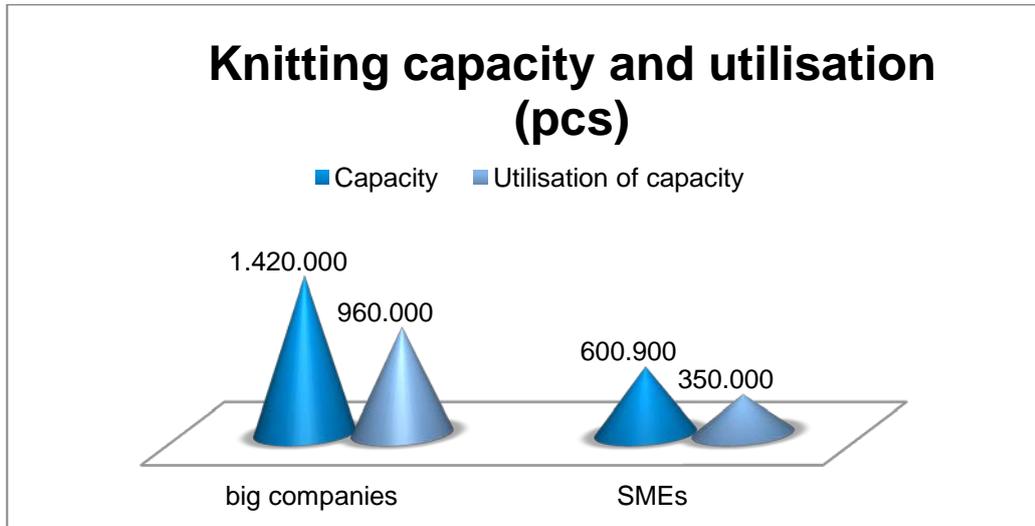
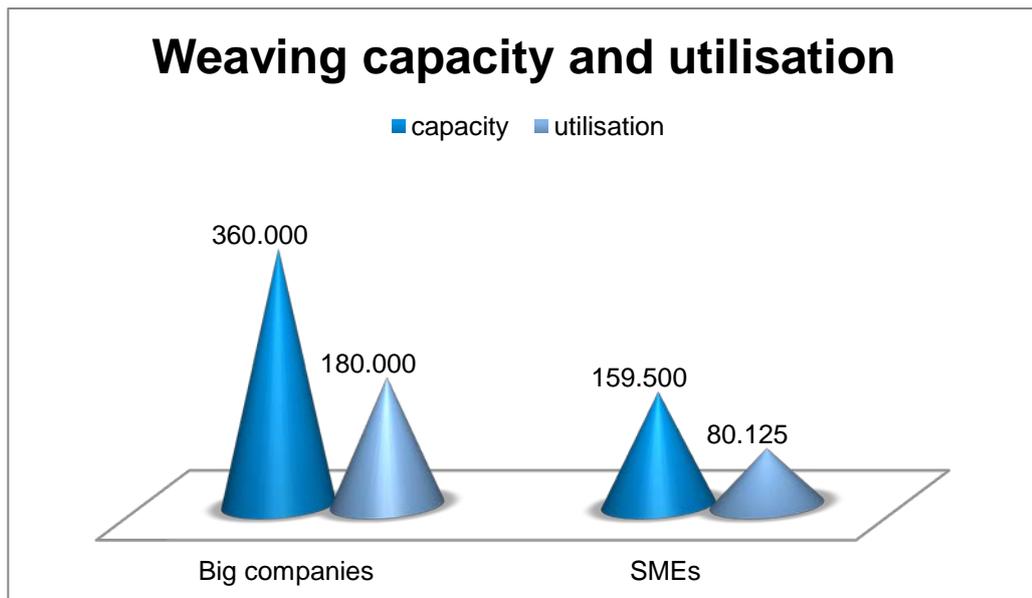


Chart 5 Capacity and utilization of capacity of yak and camel producers



1.4.1 Raw material demand

Yak

The answers to our questionnaire on raw material needs (see chart 6) indicate that the processors plan to buy 245.8 tons of yak wool this season.

This exceeds the available resources of raw yak wool.

Not buying

Erdenet Cashmere has yet to do their planning but have expressed their interest in buying yak wool extensively from this year. They have not used yak wool for their own production previously.

Altai Cashmere informed us that they have sufficient stocks of yak and camel yarn for this year)

Camel

The requirement of the processors for raw camel wool is 315.5 tons of camel wool, according to our survey, which is almost 4 times less than the total resource.

However it should be noted that almost all of the companies are planning to buy only baby camel wool this season.

Project designated aimags and soums

The chart also shows the resource of yak wool in the 26 soums of the 7 aimags and of camel wool in the 22 soums of the 6 aimags, which are the target areas of our project (please refer to the Supply Study report).

Our target areas can provide 50% of the required yak wool and 100% of the required camel wool.

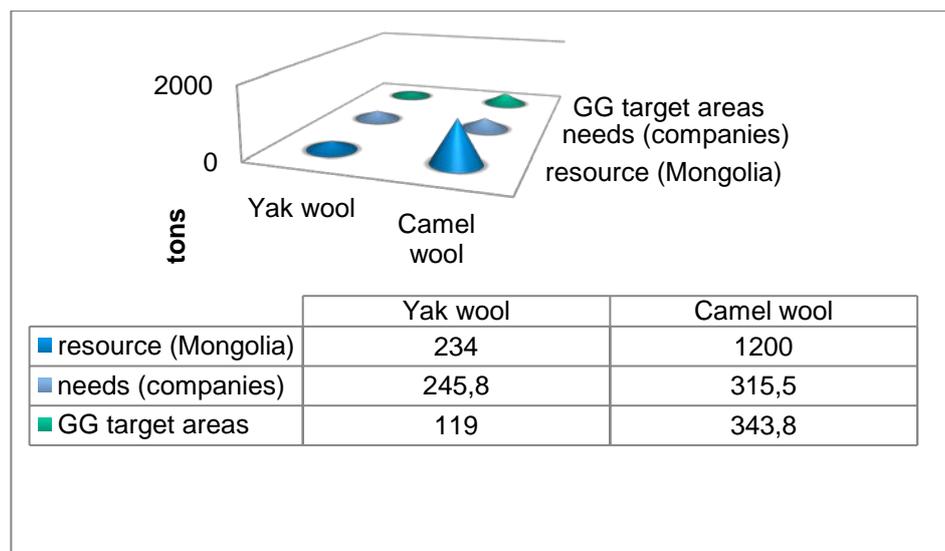
Camel processing problems

Some companies have stopped buying camel wool in large amounts for this year due to the lack of demand and a lack of technology in manufacturing.

The Factories are reluctant to process camel wool due to the high presence of sand, dust and vegetable matter in the raw fibre.

This has a damaging impact on the machinery parts reducing their life cycle and in addition badly pollutes the atmosphere during processing affecting the operators health

Chart 6 Needs for raw material³



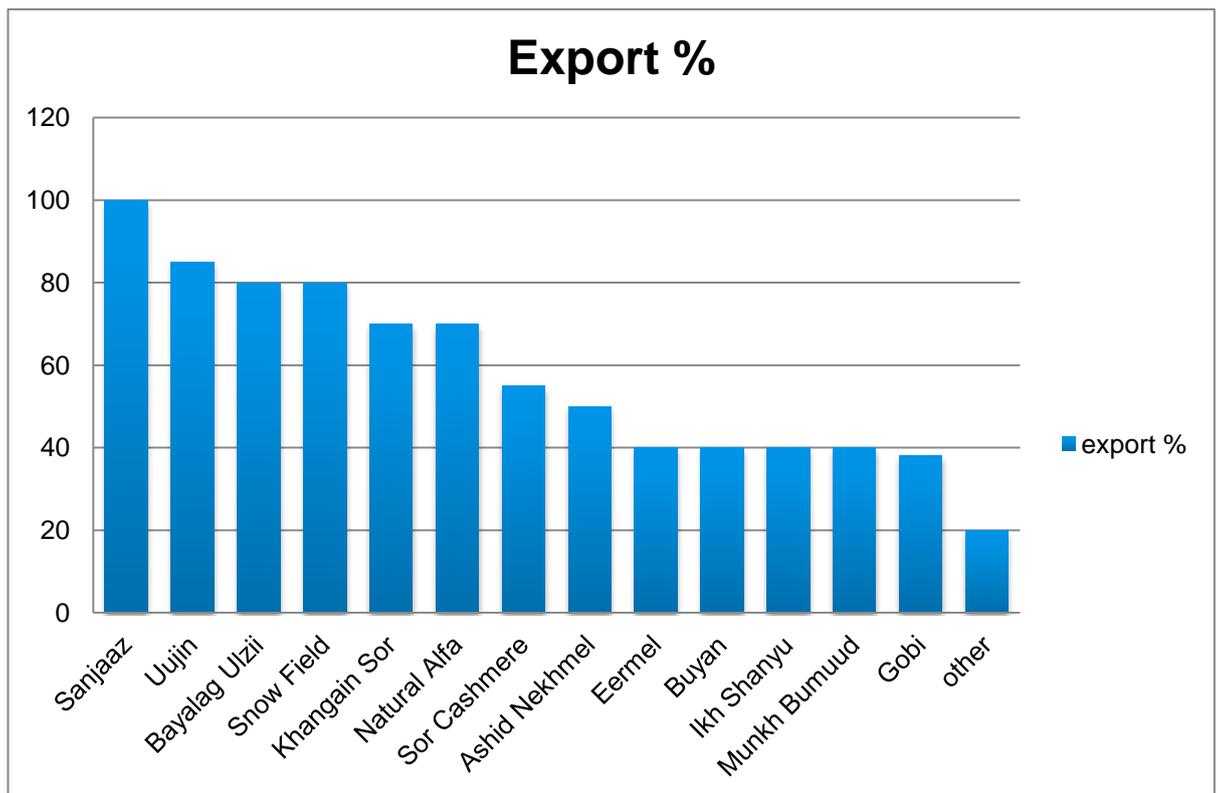
³ 400 grams of wool from each yak and 5 kilos of wool from each camel

⁴ needs of raw fibre of 16 companies (excluding Erdenet and Altai Cashmere for yak wool and Altai Cashmere for camel wool)

The figures, given in Chart 6, were provided by the following:

1. Resource (Mongolia) -National Statistics Office (2013)
2. Needs (Companies) - GFA/GFAK demand study questionnaire of 26 yak processing companies
3. GG target areas – GFA/GFAK supply study team

Chart 7 Export figures expressed as percentages of total sales



This gives a clear indication that the SMEs that are more directly involved in yak processing have by far the greater export share (refer to database for a complete breakdown of all companies surveyed).

Main export markets

Russia is the main export market for yak and camel wool products from Mongolia whereas Germany is the main market for yak wool products (see chart 9).

Other importers of yak and camel wool products from Mongolia are Kazakhstan, Ukraine, Japan, South Korea, France, Italy, Turkey, and Nepal.

The main exporters produce garments based on the design and technical specifications of the foreign buyers.

These companies already have secure partnerships with the brands having gained their trust in terms of quality and other criteria.

Chart 8 Market sales of companies, domestic and foreign

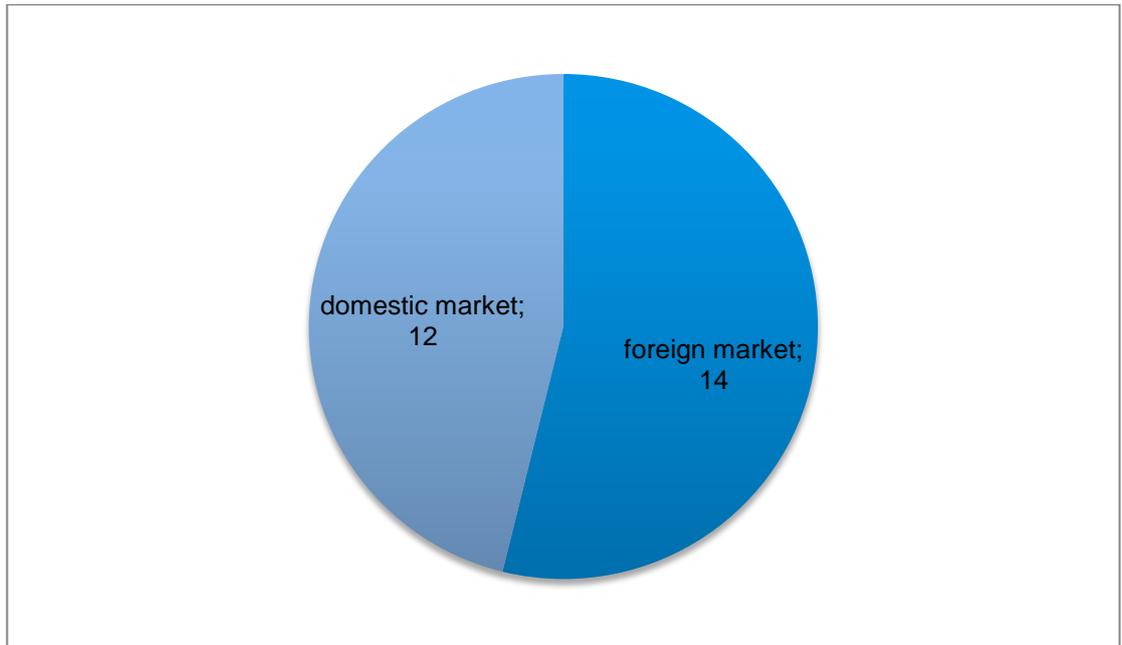
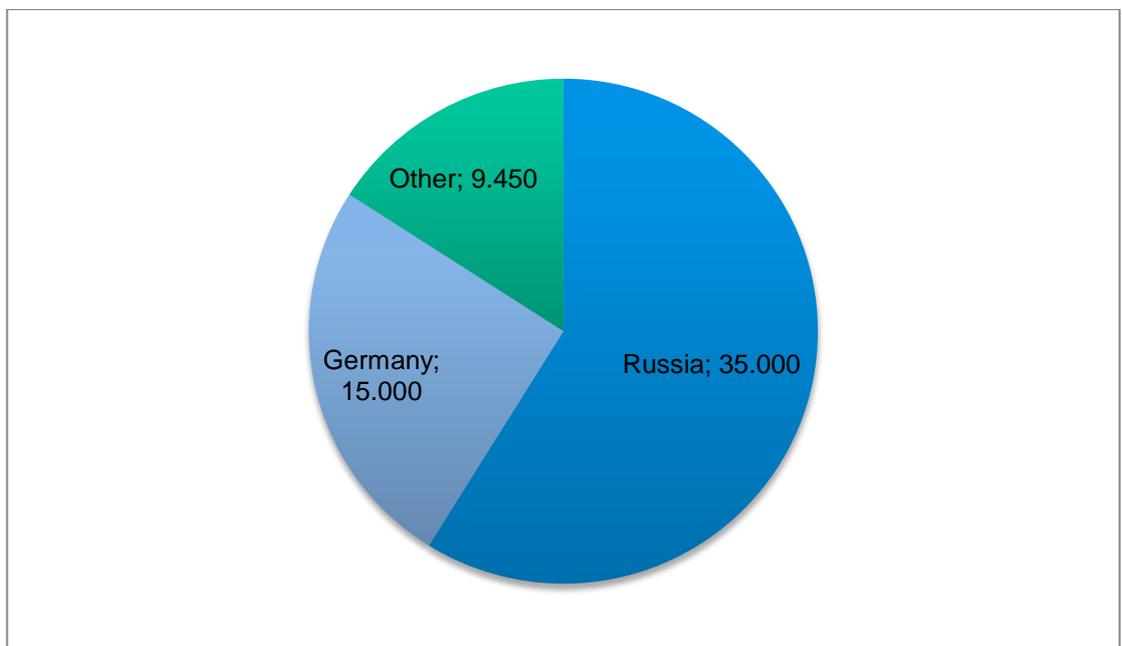


Chart 9 Main markets for yak wool products (pcs)



2 STATED NEEDS OF MONGOLIAN PROCESSORS

2.1 Raw material sourcing and primary processing

From the 26 companies included in the survey, 18 buy their own raw material. These 18 companies include the 'big 4'⁵ (Gobi, Eermel, Goyo and Altai Cashmere).

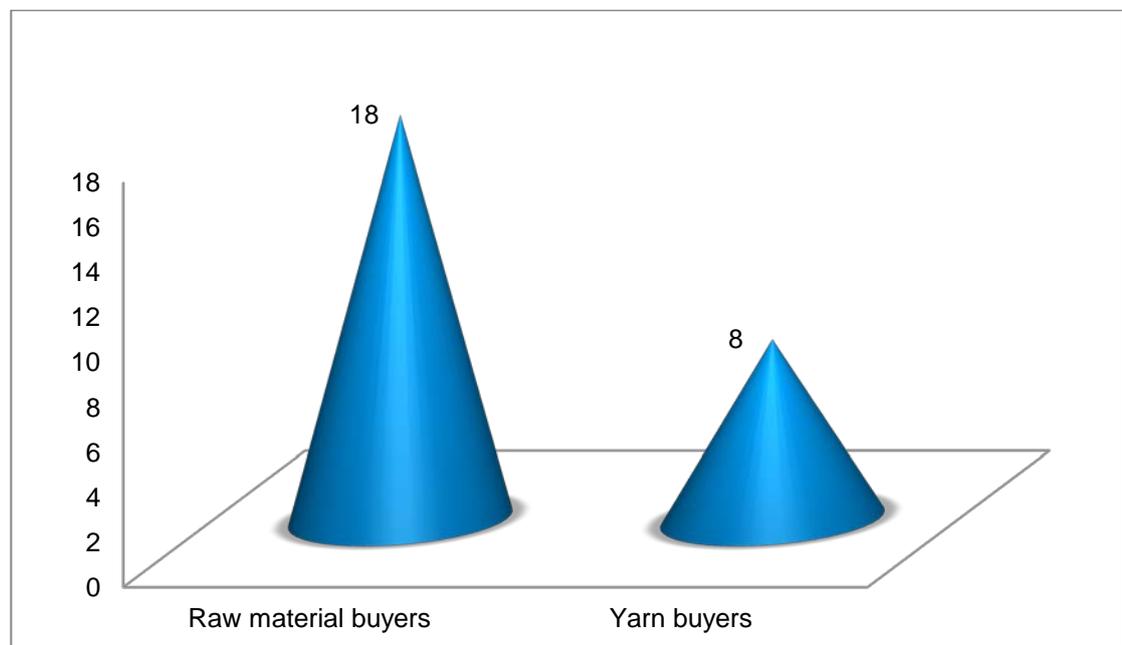
The other fourteen SMEs who buy their own raw materials are dedicated to yak processing and are mainly oriented towards best quality and cost efficiency or maximizing their export sales (see annex 1).

Some small factories such as Khatan Suljee and Saran Ekh who do not currently buy their own raw material expressed their interest in working along with other small factories in buying raw material collectively for primary processing at the best factories to improve the quality of the yarn at fairer prices.

These SME's feel that if they combine their efforts to procure raw material collectively then they will have greater volumes of raw material to offer for processing thereby reducing the processing charges by economies of scale.

They will then be free to give their fibre to the factories of their choice as opposed to being hostage to the big factories who can self determine price and quality.

Chart 10 Numbers of companies that buy raw material or yarns



⁵ *The definition of 'big' in this context refers to the number of employees which in these cases exceed 250

2.2 Proposed strategies of SME's to compete with large factories

These factories seek to attract their customers on the domestic market through their designs and quality. They are reliant on their competitive pricing, creative designs, product development and quality to gain market share

2.2.1 Aspirations

The majority of the yak and camel wool processing companies would like to increase their export sales, attend international exhibitions and trade fairs and adapt to the export quality standards.

To achieve their objectives they requested the project's assistance on improving their design and marketing (see chart 11) and in addition they asked to be familiarized with the European sizing systems.

2.2.2 Stated reasons for not seeking project support

Four of the companies that are very small in size prefer to continue producing with Chinese yarns for the low-end consumers in the local areas and on the black market (Naran Tuul) as they are well aware of their own limitations.

The larger companies with the exception of Altai Cashmere and Eermel did not show any great interest in working with our project.

2.2.3 Perceived hurdles and obstacles for processors

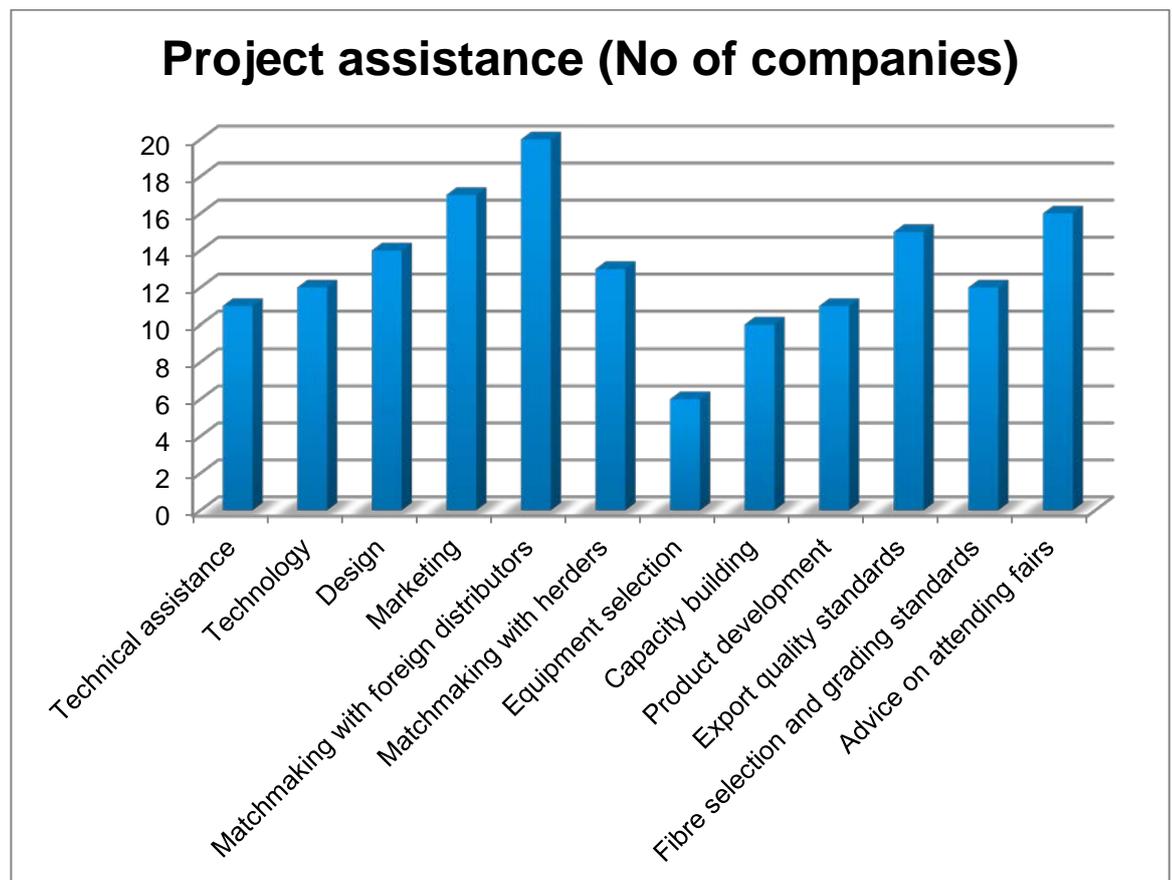
- The companies that buy raw material expressed interest in getting assistance from our project in improving the quality of raw material preparation and in gaining direct access to herders' cooperatives.
- Companies expressed their difficulties in selling their products due to the rising price of raw material whilst the underlying quality problems still prevail.
- Rising price of yak wool is mainly caused by a perceived shortage of raw material and competition between the domestic factories.
- Many herders do not comb their yaks because it requires more than 4-5 strong young people to comb an untamed yak. Many herders are also unaware of the market price for good quality yak wool.
- The low yield of yak wool after dehairing and spinning makes production very costly.
- End users are extremely reluctant to pay high prices for products of low quality and badly designed.
- Several factories expressed their inability to access finance to purchase the amount of raw material that they would like.
- Sheep wool yarn is mainly bought from China and several companies that are very small in size use Chinese yak and camel wool yarns.
- Most of the factories that buy directly from herders' cooperatives are not aware of the Green Gold cooperatives. Only Bayalag Ulzii LLC, Ashid Nekhmel LLC and Sor Cashmere LLC bought raw material from the cooperatives in Arkhangai and Bayankhongor. Thus there is a need to improve the links between herders and processors.

2.2.4 Conclusions

In general, the factories would like to cooperate with our project in facilitating international market access by producing good quality consistently and creating appealing designs of products to attract end users.

As a result of our survey work and findings our project proposed strategy will be oriented towards improving the raw material preparation at herders' level, ensuring quality control at each process at factory level and producing design-led garments with good quality.

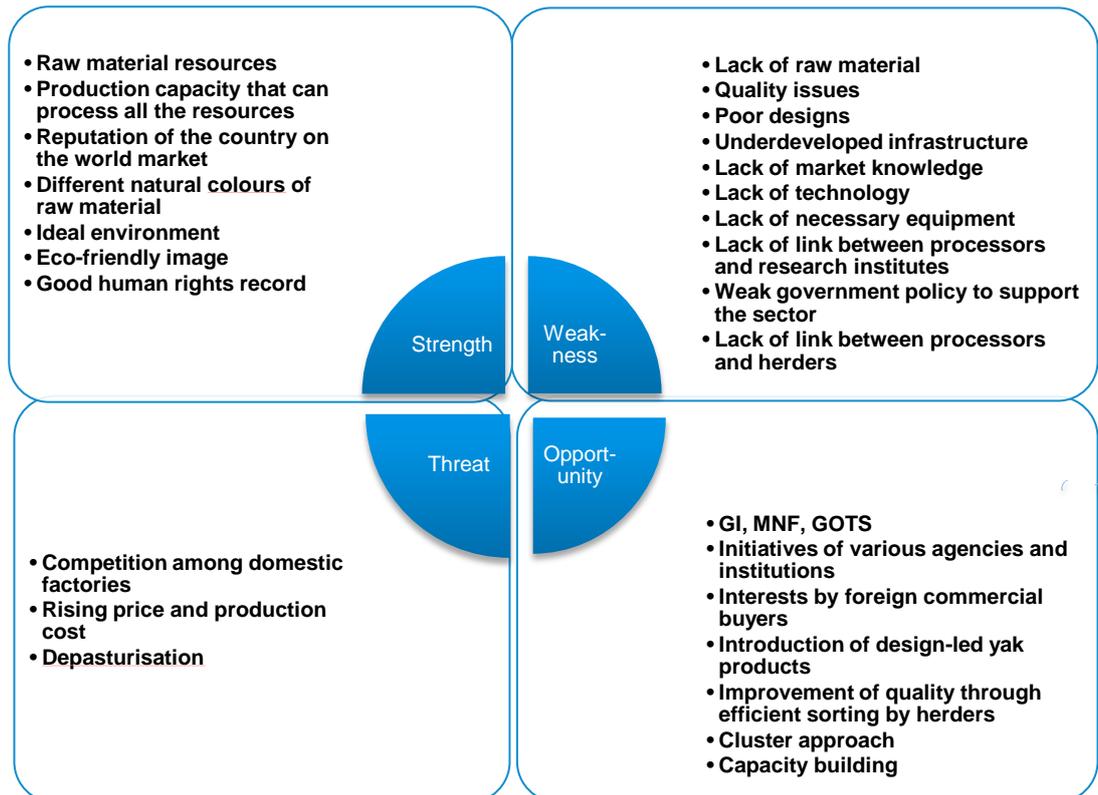
Chart 11 Project assistance



2.3 SWOT analysis of Mongolian companies and the industry sector

Based on the findings, the project team seeks to outline the weaknesses of and threats to Mongolian processors and display the strengths of and opportunities for them in order to offer the best solutions to the existing problems and maximise on the advantages.

Chart 12 SWOT Analysis



3 CO-OPERATION POTENTIAL WITH NGO'S, GOVERNMENT AGENCIES, PRIVATE SECTOR AND INSTITUTES

3.1 Mongolian Cashmere and Wool Association

Preliminary discussions have been held with the Mongolian Cashmere and Wool association about possible areas of co-operation.

A tentative agreement and draft action plan has been prepared for implementation.

A meeting between the MCWA, the Ministry of Light Industry and Agriculture, the Ministry for Economic Development and project personnel is planned to discuss the current status and future prospects for Mongolian Noble Fibre accreditation and certification⁶.

3.2 Mongolian National Chamber of Commerce and Industry

A Meeting is planned with the Mongolian Chamber of Commerce to pursue the objective of securing GI (Geographical Indication).

This will assist with the issue of traceability required by some of the major commercial buyers.

Traceability and environmental footprint are the governing principles of brands who indulge in ethical sourcing amongst whom are Patagonia in the United States and Hess Natur in Germany.

It is also a strong marketing tool as consumers want to know more about the products that they invest in.

3.3 Mongolian Textile Institute

A recent meeting with some of the research scientists at the Mongolian Textile Institute who specialize in yak fibres may lead to a co-operation combining our efforts into providing a better project outcome.

3.4 Oyu Tolgoi

A visit to the mine site in Khan Bogd soum, South Gobi was made along with a Green Gold representative at the request of the Oyu Tolgoi Social Responsibility department.

The main purpose of the visit was to find possible ways of helping the herding community with environmental issues and also any value added potential that could be realized from the fibre of the Galbyn Gobi Ulan camels.

An MOU will be prepared by OT for consideration by GG.

⁶ Please see 6 "Green Labelling"

4 CURRENT STATUS OF YAK PRODUCTS ON THE WORLD MARKET

4.1 Image

Yak has a very limited presence on the export markets and the image that is portrayed is more based on economic sustainability, the environment and the life of the herders than on fashion.

Whilst this image is an important feature of the 'Yak story' we propose to build on this by introducing a design led approach to the manufacturing, marketing and selling of Mongolian made yak products.

4.2 The Markets

Germany

The major market for yak at present is Germany, through 'Manufactum' and 'Hess Natur' both of whom buy knitted yak garments from Mongolia but do not identify their suppliers and Hess Natur only has 'Made in Mongolia' on their care labels.

Italy

Italy is also a market for woven products mostly from 'mYak' who sell mainly woven products such as scarves, shawls and blankets and a small collection of knitted accessories.

They source their yak fibres from the Tibetan plateau and do the final production in Italy.

Hand knitting yarns for sale to the general public has become extremely popular over the last few years and where yak and yak blends with Silk/Cashmere and Wool feature prominently.

Russia

Russia is also another market but it is largely informal. Traders visit the factories buying up significant volumes of ready-made products packing them into large suitcases and boxes and taking them across the border, illegally.

Even in the cases where the products are declared at customs their values are understated to reduce the huge customs and import duties, in excess of 50%, on the Russian side.

France

France and in particular Paris has an outlet in a prime location for yak and yak blend products made by 'Norlha' who manufacture at a co-operative in the Himalayas.

'Norlha's' highly creative use of yak fibres blended with silk, cashmere and fine sheep wool combined with trend setting designs make them the fashion leaders in yak products.

United Kingdom

The United Kingdom – 'Barbour' featured a collection of yak knitted garments in men's and ladies wear several years ago but have since discontinued this line.

Also 'Chucs' in London was a stockist for Khunu but no longer carry their products.

Japan

Yak products are relatively new to the market in Japan.

The market is mainly for scarves, shawls, hats, gloves and in common with many of the European countries the fast growing, strong recent trend towards hand knitting

Switzerland

Mainly sports or outdoor shops and catalogue business.

China/Tibet/Nepal

China is the largest exporter of yak fibres in the world but predominantly in either dehaired or combed top form and mainly to Italy followed by the United Kingdom and Germany.

The total figure of both types exported is in excess of 200 metric tons.

4.3 Sales Vehicles

Most of the brands that sell yak made products are either featured in catalogues or on-line business and sell in Germany, Switzerland, Austria and the United Kingdom.

Yak products are almost non-existent on the high streets and shopping malls and rarely feature in boutiques or fashion houses.

4.4 Public relations and advertising

The editorials and PR work lean very heavily towards articles on economic sustainability, environmental protection and social responsibility.

All of these are of course important in supporting the herder communities but it is almost verging on emotional blackmail or moral conscious buying with yak as a virtual by product.

4.5 Major dedicated brands featuring yak items in their product range

The most prominent brands that feature products made from yak are:

Kora

- The founder Michael Kleinwort, is a photographer, traveller and endurance athlete.
- Whilst trekking around the Himalayas he witnessed how Yak fibres were being used for insulation and considered the use of these fibres for their suitability as base layers.
- He conducted extensive research and testing into the physical properties of yak fibre and its possible applications, before developing fabric to be used as base layers for the outdoor adventurer.
- He then conducted wear trials until he was satisfied that the product was ready for use.

- Kora is an Online company selling (performance wear)
- One product - Base layers for the outdoor adventurer.
- They work directly with the herding communities in the Himalayas, collecting the fibres at source.
- The brand **Kora** is named after a sacred mountain or a place where pilgrims pay homage to the mountain gods and to nature in Tibet.

Khunu

- Co founders from USA and New Zealand but are currently based in Beijing.
- Online company and distributors.
- Shops in the USA, Switzerland and China.
- Knitwear - natural and dyed, garments and accessories.
- Woven products include shawls and blankets, some of which are woven in Mongolia.
- Actively promote the use of yak fibres from the Himalayas and in particular Qinghai and Sichuan.
- In addition they do celebrity marketing featuring well known mountaineers, hill walkers and photographers.
- They have attracted a lot of media attention and are very adept at promoting the benefits of yak clothing.
- **Khunnu** is named after the first collective of Mongolian tribes dating back to 200 AD

mYak

- Is an Italian based brand linked to herders in the Tibetan plateau through 'Terra Normadiche' a social cooperative engaging local nomads as equal partners in the production process.
- Woven products are made in Italy and include, scarves, shawls, blankets and throws all from 100 % baby yak.
- Promotional material heavily emphasizes collaboration with local communities whilst deeply respecting their culture.

Norlha

- Founded in 2007 by an American mother and daughter team in conjunction with a local association serving as a link between the local community and the Norlha workshop.
- The Norlha workshop is located in Khanlo Tibetan Autonomous Prefecture in Gansu province.
- They began with hand spinning and hand-loom weaving after having sent some of the villagers to Cambodia and Nepal for training.
- However following their success they have installed automatic weaving looms in their workshop to meet their customer demands.
- They produce a highly credible 10,000 woven scarves and shawls per year, along with 2,000 metres of woven fabric.
- Online company that also sells through their own outlets in Beijing, Shanghai and Paris.
- In addition they distribute to various high fashion houses in Paris.
- Highly innovative and creative use of yak fibres including blends with cashmere, silk and wool.

- Products include woven scarves and shawls and knitted accessories.
- They have been featured in several popular French fashion magazines, such as Le Monde, Marie Claire and Madame.
- The Norlha brand links sustainability and luxury.

Manufactum

- Established in 1988 with 9 department stores throughout Germany.
- They also have an online store that services Germany, Austria, Switzerland and the UK.
- The Manufactum catalogue is highly regarded with a distinctive clientele. Their products are highly priced and considered by some to be elitist. This also brings criticism because many of the products are manufactured in Asia.
- Knitted yak wool garments feature in their online store at prices around 300 Euros. However they do not mention provenance only a general reference to Central Asia.
- Interestingly they refer to the manufacturing source as Italy but many of their garments are actually made in Mongolia.
- This highlights the lure that the 'Made in Italy' label has for the consumer and how 'Made in Mongolia' obviously has no apparent attraction in the eyes of their marketing department.
- All references in their PR are made to the yak, its habitat and the properties of the fibre.
- Designs are provided by their development team and are dedicated to the European consumer.

Hess Natur

- Is a German brand that is wholly dedicated to the use of environmentally responsible materials.
- The whole ethos of the Hess Natur brand is their dedication in pursuing their aim of social fairness and controlled garment manufacturing.
- They are predominantly a mail order company but also have four shops throughout Germany the latest of which was recently opened in Frankfurt. The design and décor of each shop firmly underlines their principles and image.
- They have a totally holistic approach from ethical raw material sourcing, through organic processing (no chlorine bleaching, no optical brighteners, no chemical treatments, no heavy metal or allergic dyestuffs) and the strict adherence to social compliances.
- They feature provenance on their labels and in the case of their yak garments it states 'Made in Mongolia'
- Their garments are reasonably priced at around 99 Euros, which would place them in the low to middle end of the market.

Natural Fantasy

- Italian owned yarn supply company involved in all natural and exotic fibres.
- Procures dehaired fibres and converts them into yarns of all counts at spinning factories in Italy.
- The owner is a highly innovative person who is the market leader in the creative use of fibres, blending different qualities together to capitalize on their respective properties.

- Natural Fantasy sells circa 50 tons of yarn per year that contains an element of yak.
- A significant proportion of this is sold for hand knitting, now a fast growing business in Western Europe.

Shokay

- A Japanese online brand established in 2006, selling mainly woven scarves, shawls and knitted accessories.
- They source their yak fibres from Qinghai province in Western China and work closely with the yak community there.
- They advertise themselves as ‘the world’s first socially responsible brand that focuses on developing premium products made from yak down’.
- A large part of their business is related to their yarns, which are made in 100% yak and blends with wool, pima cotton and bamboo.
- They make a wide range of yarn counts for weaving, machine knitting and hand knitting.

Ecotricotag

- Russian owned company selling mainly in Siberia but also in Moscow.
- They use only products made in Mongolia from natural fibres and promote the ‘eco-image’
- They design their own collections and visit Mongolia regularly to oversee their samples and production.
- They started selling camel garments 10 years ago but in recent years have moved over to yak, which they buy from several processors in UB and Erdenet.
- The brand name in the Russian language means ‘Eco Knitwear’

4.6 New comers

Daniel Andresen

- A new emerging premium class brand owned by a German born designer now working in Belgium.
- His garments are sold in the fashion districts in Tokyo and Milan.
- Although highly design driven Andresen also wants to produce quality garments that are ethically sourced.

As an example of this Andresen no longer works with cashmere from Mongolia because of the damage done to the pasture by the goats and, which he believes reduces the quality.

Katya Zol

- A Mongolian born designer who has recently hit the headlines as the first Mongolian designer to exhibit at the highly prestigious New York fashion show.
- Katya began as a jewellery designer and attended exhibitions in Malaysia but in recent years she has turned her attention to knitted and woven garments.
- The collection was very well received by the fashion critics attending the show.
- Katya had her collection made at small specially selected local processors from Cashmere and Yak fibre.

Tengri

- The owner, Nancy Johnson visited Mongolia last year and saw the opportunity of developing her own brand focusing mainly on yak products.
- Following several meetings I had with her in London she has since sent some technical specifications that we will oversee for her prior to her arrival in UB in mid March.

Designs are done by Carlo Volpi an award winning Italian designer based in London. Her target market is consistent with the aims of the project.

5 'GREEN LABELLING'

5.1 Consumer Awareness

The pattern of consumer buying has been gradually altering over the last few years.

Several factors have contributed to this new phenomenon:

- Adverse publicity on working conditions in Bangladesh, China, Pakistan and India.
- Adverse publicity on the cruel treatment of animals when obtaining their fibres
- Tightening of regulations and social compliances issues by International ruling bodies.
- Enforcement of independent certification and accreditation by commercial buyer.
- A new discerning and educated consumer base requiring ethical production, including provenance.
- A trend towards using natural fibres
- Fiscal constraints leading to prudent purchasing (value for money)

5.2 Environmental footprint

Yaks and camels leave less of an environmental footprint than the cashmere goats and can be genuinely referred to as 'environmentally friendly'

These fibres lend themselves towards earning the 'green label' title.

5.3 Eco, quality, origin and organic certification

Consumers must be made aware of these eco benefits and applying for the following certificates MNF*, GI** and GOTS*** which once tested and awarded can be attached to the products featuring the yak or camel fibres.

(MNF* - Mongolian Noble Fibres)

(GI** - Geographic Indicator)

(GOTS*** - Global Organic Testing Standards)

5.4 Mongolian Noble Fibre

The criteria for MNF has been established and registered with the IPO, furthermore the quality criteria has been set and approved by Mongolian Agency for Standardization and Metrology and is in accordance with internationally accepted standards.

An attractive logo was prepared along with publicity material on the hang-tags explaining the meaning of MNF.

5.5 Geographical Indicator

GI is essential for the new breed of consumer who is expressly interested not only in the general provenance of the raw material but to the actual source.

The Tool of Traceability can be used for evaluation purposes and for PR.

5.6 Global Organic Textile Standard

The Global Organic Textile Standard (GOTS) was developed through collaboration by leading standard setters with the aim of defining requirements that are recognised world-wide and that ensure the organic status of textiles from harvesting of the raw materials through environmentally and socially responsible manufacturing all the way to labelling in order to provide credible assurance to the consumer.

The majority of soaps, detergents, chemicals, lubricants and agents used by the Mongolian processors are produced by Stephenson's Chemicals in England. I met with them shortly before arriving in Mongolia and reviewed the composition of their products to see if they would meet the criteria for being approved and accredited by the Soil Association for GOTS certification.

Brands that promote themselves as being, environmentally protective and manufacturing organic and socially sustainable products apply the relevant label such as Fair Wear and GOTS.

6 PROJECT PROPOSED STRATEGY FOR MARKET DEVELOPMENT

6.1 Brand placement

As previously stated products made from yak, with the exception of Norlha, are not represented on the market as a fashion item.

With the exception of Hermes none of the super luxury brands such as Louis Vuitton, Prada or Gucci feature yak products, nor do well known exotic natural fibre brands like Loro Piana, Bruno Cucinelli or Ermenegildo Zegna.

Yak products have been relegated to the ranks of outdoor wear, sportswear or functional wear, devoid of creative design work and targeted mainly at the low to medium end of the market.

6.2 Market sector and the competition

This sector of the market is always a soft target in general because of the price vulnerability and even more so if the Chinese processors took the decision to concentrate on this area.

Fortunately the Chinese processors are currently pre-occupied with manufacturing cashmere garments due to the demand and also to the export tariff rebates of up to 13% that they enjoy from their Government.

This partial immunity may not last forever as in everything else the Chinese have an avaricious need to continue to satisfy the demands of their indigenous workforce.

Chinese yak fibre costs between 6-7,000 tgs at the herder door and after processing the dehaired yak sells at between \$35-40 per kilo.

Contrast this with the cost of Mongolian yak that is inferior in terms of micron at 12 - 13,000 tgs raw and \$ 50-55 dehaired.

There would only be one reason to entice the Chinese traders into buying Mongolian yak and that would be if they were intending to blend it with cashmere.

However the relative coarseness of the Mongolian yak fibre makes it more difficult to blend because it requires more cashmere fibres to compensate for the lack of fineness from the yak. This is noticeable in knitted products but far less detectable in woven products due to the finishing processes and the use of chemicals and softeners.

Most of the international brands that are selling woven or knitted products from yak fibres are buying from Chinese processors using fibre sourced from the Tibetan plateau and the Himalayas.

The Chinese processors do little more than dehair the yak and also comb them into tops.

They also do some woven fabric for domestic consumption but little or no knitted products.

6.3 The Yak story so far...

The organic, social enterprise, eco friendly and environmental stories have been well documented and promoted by all the brands currently selling on to the market.

We can also retell this story with the Mongolian twist but we need to do much more to distinguish ourselves from the others.

Mongolian processors have not yet established their brands on the international market and only in the case of Hess Natur in Germany do the words 'Made in Mongolia' appear on the care label, which is sewn into the garment in a very discrete location.

There is no PR associated with the product or its actual source.

6.4 Mongolia's Unique Selling Proposition and recommended project Plan of Action

6.4.1 Unique Selling Proposition

The USP for Mongolian yak products has to be in the **DESIGN** of the garments.

The products should benefit from the social and environmental aspects but most importantly should stand alone as a product of desire.

6.4.2 Recommended project Plan of Action

Short Term

- A multi-prong approach will be required by the project team to achieve the overall objectives.
- The work of former and existing Green Gold initiatives must be consolidated and improved.

Short -term objectives are as follows:

- Educate herders and improve combing and fibre sorting to the standard requirements, which should be openly discussed and agreed with the processors.
- Link the herding co-operatives to the processors in a formal manner and help to build the essential element of trust between the parties.
- Legally binding contracts detailing the responsibilities and obligations of each party should be gradually introduced.
- Work with the processors on the weaknesses identified by the needs/demand study.
- Assemble the processors under the banner of the 'United Yak Brands of Mongolia' to be selected from the best of the processors and those whose, working practices, equipment and technology are complimentary and therefore capable of representing the entire process from raw material to finished product.
- This 'club' will be open to any processors that wish to join provided that they meet the criteria required by the international buyers.

The criteria for membership are as follows:

- A willingness to participate as an active member and work with the others in promoting high quality Mongolian made yak products,
- Companies that are dedicated to manufacturing yak products and can meet the design and technical requirements of the international market.
- Companies who use Mongolian yak fibre 'only' for their products and not Chinese/Tibetan yak fibre.
- Companies that can meet the compliance issues (employment, welfare, social, environmental) demanded by the reputable brands on the international market.
- Companies that can meet the quality and technical criteria set by the project experts in accordance with internationally accepted standards.
- Companies those are financially stable and therefore capable of accepting and producing bulk orders.
- A desire to export their products to the international markets

The 'United Yak Brands' would operate as a cohesive unit and combine with the herding co-operatives in converting the best of the raw materials into 'export ready' items.

Medium Term

- Assist the processors with recommendations on technical issues for improving finishing methods, garment construction and equipment selection.
- The unification of the processors, if we can make it happen, and the linking of the herding co-operatives to the processors with improved quality of raw materials
- Recruit the services of an international designer to produce a co-ordinated collection of woven and knitted products representing the capabilities of the members of the elite group.
- The products will be distributed amongst the members of the group and the products will be matched to their individual technical capabilities.
- The collection would then be taken to the major exhibitions and showcased under our SDC/GFA banner.

The logistics for this are as follows:

- Mid April begin with designs.
- Mid June start making prototypes
- Mid August review prototypes (this usually leads to some adjustments)
- Mid September review and approve of final prototypes
- End November full sample programme completed and ready.

(Depending on, which exhibition we elect to attend we may have to alter the logistics and timing).

The major exhibitions that we should consider are:

- The Green Showroom in Berlin
- Pitti Uomo in Florence, Moda Unica in Milan

- Premier Vision in Paris,
- Munich Fabric Start in Munich,
- MrKet, Cotterie and Magic in the States,
- Pure in London and BETA in Birmingham.

Budget constraints will determine what we can do but we should also adopt a conservative approach to evaluate successes or otherwise.

One strategically selected exhibition designed to maximize exposure and selling potential is likely all that we can do this year.

The SDC/GFA banner can offer the commercial buyers confidence and the assurance that we will do our utmost to ensure that the processors make to specification and deliver on time, which ultimately are the main considerations for them before placing any orders

The booth would be represented by SDC/GFA staff but processors would be welcome to attend, however any cost would have to be absorbed by them.

The booth would be promoting the collective interest of the processors and we would display the companies PR material, which the buyers would be free to choose from.

We would then facilitate the contact between the preferred processor and the buyer.

Long Term

Product Development - Work alongside the processors on experimentation with complimentary fibres to enhance quality and appeal and extend the use of yak fibres.

Look at longer natural fibres that can be used in conjunction with yak to blend to achieve finer yarn counts.

Bleaching or de-pigmenting of yak fibres to produce pure white, which can be used on its own or as a base for dyeing.

Major brands may require dyeing yak fibres into the trend colours that they feature in their seasons collections.

Study the market for the products made by Mongolian artisans in felt and leather particularly at soum and aimag level.

Match Making - The traditional Western European markets of Italy, France, Germany, Switzerland, Austria, Belgium and the United Kingdom will be the initial target for match making between brands from these countries and Mongolian processors.

The second target would be the United States and Canada then followed by the Scandinavian countries of Denmark, Sweden, Finland and Norway.

Brand Building - As the processors gain experience in manufacturing and in dealing with the demands of foreign customers satisfactorily they can then begin to look at the prospect of promoting and selling under their own respective brands.

Exhibitions - Attending more exhibitions with new collections and repeating the concept of collective representation.

Web Sites - Developing and improving the web sites for the processors, making them accessible and understandable.

Marketing and PR activities - Launch a website for the 'United Brands' describing the ethos of the project work and the linkages between the herding co-operatives, processors and the international market.

Create links into each of the processors websites

Digital advertising to accelerate awareness

Viral marketing – documentary films on the life of the herders and the splendour of the Mongolian countryside

Social networking - Facebook, Twitter, LinkedIn, etc