

# CHAPTER – ONE

## INTRODUCTION

### 1.1 Background of the Study

The art of weaving is an old tradition in kingdom of Nepal, especially in the mountainous region of the country. Radhi, Pakhi, Bakkhu, Darhi (with pile) are well known Nepalese products produced using indigenous wool in this region. A very few people in northern hilly region such as Jumla, Darchula, Jomsom, Chailsa were engaged in producing carpet for their domestic use.

Hand-Knotted Woolen carpet knitting profession was converted in Industrial form under Swiss government cooperation to the refugees in Nepal, after entering the Tibetan refugees in early 1960. Credit goes to the Swiss Association for Technical Association (SATA) for their contribution in the development of an exportable quality carpet industry in Nepal through financial and technical support to the Tibetan refugee's resettlement program (History of Carpets in Nepal, Carpet Bulletin 2062, Yr. 15, Vol. 1, Published by CCIA)

During the four decade, carpet industries in Nepal could establish the solid foundation of export in international market. Thus the development of carpet industry has been a gift contribution to the country as being the biggest National export item, playing the vital role to the development of national economic growth, contributing highest foreign currency earning sources and providing employment opportunity. Nepalese carpets have been able to win the international recognition due to their unique qualities.

The International market of Nepalese carpet industry has been declined considerably. Many carpet units have now been closed down. Seen in this light, the study of marketing of Nepalese carpet industry in international market assumed special importance.

## 1.2 Statement of the Problem

Nepalese carpet industry is of prime economic importance considering the employment opportunity it provides especially in terms of feminine employment. This is only industry where the value add is two times more than the cost of raw materials. Since, it is a export based industry, the country benefits a great deal through earning of foreign exchange equivalent to the fun of 10 Billion Nepalese Rupees (Shrestha, 2006). The industry took momentum during 1980 to 1995 and has also played a significant role of recognizing Nepal in the globe as one of the quality carpet exporter country as well as contributing to National economy as sources of foreign income.

However, Nepalese carpet export, culminated to the highest peak in 1993/94 with 33.25 thousand square meter export and has since been falling several problems related like child labour AZO-dyes, unhealthy competition on price culturing. Apart from the above, the production of Indo-Nepali carpets by India has displaced Nepalese carpets from the market particularly from Germany. These factors spoil the images of Nepalese carpet in German market, which still has a share of more than 50 percent of export from Nepal. The industry faced the decreasing trend for last one decade and reached to the minimum level of 15.67 thousand square meters during 2002/03. The last two years have shown some upward trends. The following table summarizes the export figures of carpet from Nepal in different fiscal years (Sherpa, 2006).

<b>Fiscal Years</b>	<b>Total Export in Sq. meter</b>
1991/92	2371000
1992/93	3126290
1993/94	3325129
1994/95	2896090
1995/96	2617645
1996/97	2891225
1997/98	2447050
1998/99	2604476
1999/00	2509425
2000/01	2242693

2001/02	1693196
2002/03	1566950
2003/04	1617766
2004/05	1664117
2005/06	1484484
2006/07	1341757

*Source: A Glimpse of Nepal's Foreign Trade (Statistical Presentation by Trade and Export Promotion Center - 2006/07).*

Besides, above those stated problems, proper international market research has not been conducted. So, exporters have extremely no proper knowledge about market trends which is most important factor of the product in perfect competitive market. Available research has not been able reveal the correct trends of demand, strength, weakness and market strategies of other competitors. Furthermore these are various reasons that the export of carpet is being up and down. So, it is necessary to assess how these issues affect the market of Nepalese carpet.

The problem toward which this study is directed is to identify the marketing position of Nepalese woolen carpet in international market. What are the problems faced by Nepalese woolen carpet industry? What are the promotional strategies of Nepalese woolen carpet industries? What are the causes of declining the market of Nepalese industries in global market?

### **1.3 Objectives of the Study**

The main objectives of this study is to identify the existing marketing of Nepalese woolen carpet in international market, status and gap in promotional needs, explore areas for improvement in promoting the product in new markets and to recommend strategies to improve export diversification through publicity and competition.

The specific objectives are:

1. To examine the problems of carpet industries in Nepal.
2. To find out the promotional strategies adopted by Nepalese carpet industry.

3. To find out the causes of declining the market of Nepalese woolen carpet in the global market.
4. To find out the solution of problems in carpet export.

#### **1.4 Focus of the Study**

Nepal stands in a very good position in the global hand-knotted carpet export trade. Nepal has also achieved success and occupied good place in the top ten exporters list. But in present so many problems and challenges are existed in front of the carpet industry and its export. This study tries to focus mainly on real existing marketing status of woolen carpet and also on the problems of carpet export expansion and promotional strategies which are adopted by Nepalese carpet industries and exporters. In this context, it is necessary to solve the problems and looking for new opportunities of Nepalese woolen carpet in international market.

#### **1.5 Significance of the Study**

Hand-knotted woolen carpet is one of the most important exportable items of Nepal for earning foreign currency, which is necessary to accelerate the pace of economic development carpet industries, a part from earning foreign currency helps to create a healthy economy of the country by employing more than 300000 people directly or indirectly. So the country has to expand its export but now a days Nepalese carpet industries focus so many challenges. This report has shown most valuable information regarding present condition of Nepalese carpet industries and problem faced by Nepalese carpet industries exporters. In this condition, this study assumes special importance for regular practitioners and for Government agencies relating to this field. Therefore, suggestions about the solution of carpet export problems are the main purpose of this study. This study has given more information about the problem of promotional strategies of carpet export and international market. That is why this study will be beneficial for all the persons, who are directly or indirectly related to carpet industry. In this context, to find out the market potentiality and measure to solve the problems of export is the significance of the study.

## **1.6 Limitation of the Study**

Due to various constraints this study is focused to analyze the only certain aspects of carpet industries in Nepal. In the context of the objectives, statement of problem and methodology of the study, brief note of its principal limitations are as follows:

1. Marketing of Nepalese woolen carpet in the international market is based on pure aspect of Nepalese carpet market. That is, this study do not concern about the promotion of other industries relating raw materials, capital investment, technology and work force resources.
2. This study is based on both primary and secondary data. Secondary data has its own limitation (i.e. reporting error) and in case of primary data the respondent, sometimes may not be willing to give exact opinion.
3. In the context of Nepal, data problem is acute in corporate and government level. Related sector still feel burden to provide necessary and required data. There is not systematic database, which makes it difficult to carry out on any research in Nepal. This problem is also incorporated with the study.
4. This study has based upon the available data of FY 1991/92 to FY 2006/07 which may not exact to predict the findings for other periods of years.

## **1.7 Organization of the Study**

The study has organized into five different chapters stated as below:

1. Introduction
2. The Review of Literature
3. The Research Methodology
4. The Analysis and Interpretation of Data
5. Summary, Conclusion and Recommendations.

The contents of each chapters of the study are briefly mentioned below.

**Chapter one** contains the 'Introduction' of the study, which deals with the subject matter consisting background of the study, statement of problem, objectives of the study, significance of the study and limitation of the study.

**Chapter two** consists of 'Review of Literature' which includes the conceptual framework of carpet export and promotion, review of books, journals, thesis, reports, newspapers, magazines and related websites.

**Chapter three** explains the 'Research Methodology' used in this research to find the result for meeting the objectives set in the chapter one.

**Chapter four** focuses on the 'Data Presentation and Analysis.' This is the main key chapter of the research study.

**Chapter five** reflects the 'Summary, Conclusion and Recommendations' of the Study.

# CHAPTER – TWO

## REVIEW OF LITERATURE

### 2.1 History of Carpet Weaving

Carpets are one of the earliest companions of men. The art of carpet weaving has a rich history stretching back to ancient countries. Almost, the art of carpet weaving is as old as civilization. The history of carpet dates back to more than 2000 years from its beginning in southern Siberia via the golden age of the Safavid Dynasty in the 16<sup>th</sup> and 17<sup>th</sup> centuries to the carpet of today.

The oriental carpets are said to have developed from the tents, and were the invention of nomadic tribes. There are many theories on the origin of oriental carpets. Some attribute the invention of carpet making to Egyptians. While others argue that the first carpet makers were the Chinese. Even others said that the earliest carpets were made by the Mayas. There is a foundation of truth in all these sayings. It seems probable that the many people, none of whom were in contact with others, began to make carpets at the same time.

The carpet production in Iran is reputed to be several thousand years old and the beauty of Persian carpets have been praised by historians and poets and depicted on paintings throughout the centuries. In fact, to many carpet lovers, an oriental carpet is synonymous with a Persian carpet. The fate of Persian carpet industry has varied widely on the light of political and cultural development. With peak periods in particular during the Sassanian Dynasty (third to seventh century) and later during the sixteenth to eighteenth century when there was a great demand for highly refined carpets not only in Persia but also of the royal courts of many European countries.

The hand-knotted carpet industry in Afghanistan has passed from generation to generation as a purely household industry, originally, it was practiced by the Gurkoman tribes especially by the women and young girls at home, who knotted carpets from their own daily use as utility household article and also as part of the dowry item that new

married women took their new homes. The industry soon gained commercial value when it spread from the villages to the towns and Afghanistan carpet began to enter western market especially Hamburg and London and there after other countries in Europe, North America and more recently, the middle east.

The Mughal emperors Akbar and Shahjahn introduced the production of hand knotted carpet into India in the sixteenth century. The early Indian carpets made of silk and fine wool, with Persian designs were of very high quality. The technology soon spread to Indian sub-continent including Pakistan. The rebirth of Indian carpet industry dates back to the first half of the twentieth century, when carpet production for export was launched as a commercial scale. After Iranian carpets hand-knotted carpets from the Indian subcontinent have traditionally been among the best valued on western markets.

Similarly, the ancient Chinese documents confirm that carpets were being made in China two thousand years ago under the Han Dynasty at the time of the birth of Christ. (Gurung, 1998).

## **2.2 The rugs of Tibet**

The oriental carpet is also known as pile carpet. The pile carpets have been in use in Tibet for at least the last nine hundred years. Chinese-style mediation design and phoenix designs were commonly woven in Tibetan carpets. These carpets were usually small and used not only as floor coverings, but also as a saddle blankets, earth mats, seat covers and beddings.

Tibetans learned the use of vertical loom and the basic techniques of carpet weaving from the central Asia and Mongolia around the 17<sup>th</sup> century. Antique Tibetan carpets are coarsely woven on a woolen foundation. Wool was solely used for the warp and weft threads first appeared. In the early 1950s cotton began to replace wool for the weft threads.

One of the most features of carpet woven in Tibet is the ridged appearance of their pile. This is a result of the unique Tibetan method of weaving with the use of a metal or wooden rod. Instead of cutting the yarn after each knot, the yarn is fooled around



consecutive pairs of warp threads the then around the round. A knife is run along the rod, cutting the pile after the entire rains of knots have been completed Tibetan carpets are also woven by Tibetans how now living in India and Nepal. The total output of new carpets from Tibet is small when compared with that of China. The majority of carpet from Tibet goes to the wholesale market in London. Small quantities of the carpets are available for the American markets (Decta, 1993)

### **2.3 Development of Carpet Industry in Nepal**

The people of hills and mountains of Nepal have been weaving radi (flooring materials), pakhi (covering materials) and lukmi (clothing materials) for centuries using wool from local sheep, goats and natural fibers from nettle plants. They have been practiced carpet weaving for hundred of years back. But, the production techniques was quite primitise and the quality of the carpet was not satisfactory. So the marketing of the products was confound to the domestic markets. Actually the carpet weaving in Nepal was not for commercial purpose at that time.

The carpet industry as of today is only a few decades old. Realising the importance of carpet industry for the rural people, government of Nepal (GoN) conducted, for the first time, a training program in carpet weaving (Persain and Tibetan) through the then cottage skill training Bureau (Gharelu Elam Talim Kendra) in 1950. But due to lack of quality wool and financial support the program could not run for more than a year. A training program of the same was launched by the government in 1957, but it was also not successful for various reasons.

After the Chinese takeover of Tibet 1959, many of the refugees come to Nepal during 1959-61 years. Most of them from the broader areas of western Tibet. The early refugees in Nepal numbering about 10000 were settled in refugee camps in different parts of the country. Most of the refugees taking asylum in Nepal were already exposed to craftsmanship of carpet weaving. This carpet weaving techniques was exploited by the international red cross and Swiss Association for Technical Assistance (SATA), by establishing the Jawalakhel Handicraft centre in 1960. This organization, which initially started as a carpet weaving centre for Tibetan refugees, mostly women, laid the

foundation for carpet industry of Nepal. Even today, "Nepalese carpets" are referred to as "Tibetan Carpet."

Carpet weaving was made commercially viable and industrially feasible with the financial and marketing support of the Swiss Red Cross. Today because of the export of the unique carpets, the Tibetan settlements in Jawalakhel, Pokhara, Chailsa, Dhorpatan, etc. have been well known not only in Nepal but also in many countries of the west.

Carpet production in quality as well as in quantity increased intensively with the establishment of the carpet trading company of Jawalakhel, also by the Swiss Technical cooperation in Nepal. At that time carpets were sold in local shops for tourism. The first meager export of Nepalese carpet was made in 1962 to Switzerland and since then the western market for Nepalese carpet has grown at steady rate.

In 1963 the department of cottage and village industries established a pilot prefect named Nepalese carpet industries limited in Patan industry district to promote and develop the growing carpet industry. This prefect, although not successful by itself did make a big contribution for the development of carpet industry in Nepal. The private entrepreneurs gradually set up carpet weaving units and the project was also sold off to a private industrialist. Thus private sector carpet production began in full sewing and many retail shops began to emerge in the Kathmandu valley during 1972-75. Major European importers established contacts with the manufacturers and the number of importing countries also began to grow.

Nepalese carpets have been able to win the international recognition due to their unique quality like texture, color, resilience, property, strength and durability. Similarly, Nepalese carpets are always prized for being a real to handicraft product. Not only in the weaving but in every step of production, right from washing of raw wool to trimming of the finished carpet is carried by hand.

### **2.3.1 Technological Development**

The Nepalese carpets were produced by utilizing the ancient technology used for centuries in Tibet. But in the production process and more marked change has taken place

in the production process and technology used. The introduction of modern technology in the area of combing, dyeing, designing and washing has made the industry more efficient. However the weaving technique is maintained to give the Nepalese carpet the handicraft look, for which it has become popular.

#### **A. Raw Wool**

Since the organized carpet industry came to Nepal from Tibet, originally 100 percent Tibetan wool was used for carpet making. "Tibetan wool especially the high plateau wool, Changphel, is highly prized in the carpet industry for its great elasticity, high lustre, and outstanding tensile strength. The wool fibers from Tibetan sheep also have smoother surface and therefore, reflect more light, making them more lustrous than wool from other types of sheep.

As the carpet industry gathered momentum, the supply of wool from Tibet and high land region of Nepal could not fulfill the demand. But, the New Zealand with sufficient quantities of clean, sorted wool at suitable price. Hence, blending technique of Tibetan and New Zealand wool was practiced. Originally more Tibetan wool was blended with less New Zealand wool. This ratio slowly changed to 50:50 and today the ratio of New Zealand wool to Tibetan wool is generally 80:20. Nevertheless, some carpets are still produced with 100 percent Tibetan wool, whereas some manufacturers produce carpets with as low as 6 to 10 percent of Tibetan wool. Normally, the blending ratio is fixed according to the agreement between the buyer and the producer. Higher the blending of Tibetan wool, the higher is the price of the carpet.

#### **B. Wool Combing or Carding Technology**

Before, 1984 the raw wool was combed by hand using brushes or combs of metallic wire. But today it is wholly done mechanically with machine imported from India. With the introduction of the carding machines the blending of Tibetan and New Zealand wool has been better. It has also made the spinning easier and smoother. But the carding machine has made possible to recycle the cut piece wool (Jhinda) blend into the fresh wool, which causes the quality of carpet to deteriorate what created problems in marketing.

### **C. Wool dyeing Technology**

The primitive techniques of vegetable dyeing, has mostly changed to chemical dyeing. Vegetable dyed carpets were mostly in demand till early 1980's. Now, most of the metal dyes imported from Switzerland and Germany are used for quality carpet. Cheaper dyes imported from India are also used, but they are not preferred by the buyers.

Today, there is threat from the market on dyeing than Germany and Europe has started to restrict the carpets which contain the use of AZO dyestuffs. So steps are being taken to stop the use of dyes in Nepalese carpets which contains AZO dyestuffs.

### **D. Design and Size**

Nepalese carpet is made to suit European taste and décor. The design of Nepalese carpet is quite different from the design of Persian, Afghan, Bhokara design. The traditional design pattern of Nepalese carpets were influenced by Tibetan designs depicting Dragons, snow lines, phoenixes, flowers etc. But, with present day market taste, the Nepalese manufacturers introduced designs and color as line, in close collaboration with European importers. And the traditional Tibetan size of 3'×6' has been replaced by a wide range with the maximum size an larger as 15'×10.

New Era in 1990 also noticed that the preferences for traditional Tibetan design is decreasing. Importers generally dictate the design and patters. Similarly, the brightness of traditional, early Tibetan. Nepalese carpets are generally being replaced by softer colors, the preferred colors are light blue, dark blue, white (natural), light red, dark red, marron, dark brown, light brown, beige, orange, light golden, yellow and natural grey.

### **E. Weaving Technology**

The weaving technology such has not changed yet in the last three decades. Nepalese carpets are weaves in Tibetan double knotting system using thick iron rod. The use of the thick red increases the pile height of the carpet. The looms also have not changed a part from some improvements. In fact, this technology gives the uniqueness to the Nepalese carpet which has peculiarity share in market.

## **F. Washing Technology**

Before 1987, Nepalese carpets used to export in semifinished condition, that is unwashed, while importers were washing the product in their own washing plants. But, today carpet washing is introduced in Nepal by necessity. At present more than 90 percent of the carpet exported from Nepal are washed in the washing units of Nepal, which is widely accepted by foreign buyers.

## **2.4 Marketing of Nepalese Carpet**

An industrial development occurs with the availability of market for the product. The expansion of market area is guided by the high demand of the goods. Also, the expansion of market are depends upon the quality, price, demand and other several phenomena of the concerning output. Demand, on the other hand, is influenced by the taste and preference, level of income of the customer, price of competitors and promotional effectiveness.

In early growth years of Nepalese :- Tibetan carpet industry, most anything woven in Nepal would sell with little effort. The product was attractive and the majority of manufactures and traders did not have to trouble themselves with marketing strategies or long term objectives. Those carpets were of excellent quality and woven with Himalayan wool, their color were bright and designs were standard.

### **2.4.1 Foreign Trade of Nepalese Carpet**

The export trade of Nepalese Tibetan carpet has developed since, with the increasing inflows of tourist to Nepal. Nepalese manufacturers and traders have then slowly come into contact with foreign consumers, retailers, wholesalers and importing organizations. They have also come to formalize themselves with international market situation, export procedures and marketing problems.

Nepal's participation in international trade fairs and exhibitions since 1965 and the establishment of the trade promotion centre in Kathmandu in 1971 have given a strong imports to exports. The TPC has focused attention on the creation and development of the basic infrastructure necessary for developing exports. To strengthen the effort by

developing the quality of the Nepalese carpet and wool products' and to diversify the market of these goods overseas, Government of Nepal (GoN) established the carpet and wool development board in 1992.

The entrepreneurs responding to sport in international demand have brought the industry to the present level of achievement. N.C. Lamichhane (1991) stated, "In Europe and America, the carpet users feel that the use of the antique looking Nepalese carpets gives them a sense of confidence on what they had paid for. The reason of the success of the Nepalese carpet industry is the good quality of the carpet and good credibility of the Nepalese carpet manufacturers and exporters. The manufactures and exporters can respond to any change in market test or requirements of the buyers in size, color, or design making the importers capable to up date their products in line with demand prevailing in the market."

Thus, the Nepalese carpet did not enter the market as a competitor to their carpet but, rather as a unique product in its own right. But in the last few years, much has changed in the market place. Being the members of WTO, it also can get market access and free market facilities by different countries equal to other LDCS, which alternatively help in the carpet export. Carpet gets the GSP facilitates from many countries. Specially after 1960s because of Nepal's participation in international trade fairs and exhibitions, more demand for Nepalese woolen carpet in international market could be created. Such a growth in trade has better imports on Nepal's overall economic development's effort. Nepal can easily export of Nepalese hand knotted woolen, carpet more than sixty countries.

Foreign trade sector has emerged as a priority sector in Nepal. Volume of carpet's foreign trade (exports as well as import) has been increasing tremendously since 2003. In the recent research the trade of carpet is increasing in USA. Turkey, Belgium, U.K., Netherlands, Switzerland, Austria, Italy, Canada and other countries.

### **2.4.2 Carpet Market in EEC**

Nepalese Hand knotted woolen carpets market in the EEC had an estimated retail value of US \$ 11 billion in 1990. In 1991 carpet sells fell sharply in the most EEC markets, and growth of any significance was unlikely in 1992-93 owing to continuity of recession in the major countries. Within the EEC the whole carpet consumption is dominated. Northern European markets especially Germany and UK per capital consumption of carpet in these two markets were 5.26 square meters and 4.41 square meters in Mediterranean areas. Belgium who manufactured 400 million square meters of carpet in 1991, dominates EEC production and exports. Other sizable producers are Germany (177 million) and the UK (141 million) but their exports were small relative to the usage for domestic consumption (Carpet Annual Bulletin 2002). In 1991, Netherlands consumers spent Dm 1.8 billion on floor covering equivalent to just over 40 million square meters by 100 million square meters in the period of 1987 to 1991, but this decline in volume was partly compensated by the increasing demand for better quality, more expensive carpets. The Netherlands had a sizable carpet industry, which produced 85.2 million square meters in 1991, a very high proportion of which was exported, imports were growing and increased from 48.9 million square meters in 1989 to 62.6 million in 1991. Other EEC sources particularly Belgium and Germany, accounts for over 85 percent of all imports and completely dominate trade in tufted and needful carpet. Developing countries features mainly in supply of hand knotted carpet. Developing countries features mainly in supply of hand knotted carpets and woolen carpets, where they account for 70 percent or all imports (Sherpa, 2006).

Nepalese woolen carpets whole market is in EEC countries. EEC countries import about 600 million square meters of carpet per year and the penetration of imports had been increased in all markets. Germany, the UK and France were the largest importers accounting for 205, 117 and 83 million square meters in 1991. Other EEC source supply nearly 90 percent of all imports. Sources in developing countries are only significant in the supply of hand knotted and woven carpets. India accounts for nearly 30 percent of all EEC carpet imports from developing countries. Other significant sources include China, Iran, Turkey, Morocco, Pakistan, Nepal and Mexico. Free trade between EEC members

states after 1992 and the opening of trade with the EFTA countries and markets in Eastern Europe will make the follow of goods between markets easier and more efficient competition will be though not only within national boundaries, but also on a large scale between major retail groups and large international operating manufactures and traders. The Netherlands can perform an important role as a gate way market to the EEC from exporters from developing countries as many importers but for re-export to neighboring countries (Maskey,1966).

## **2.5 Carpet's Contribution to National Economy**

Woolen carpets was taken as a personal us at first. After some time it was taken as a complementary product of tourism industry. Before 1972/73 the export record are not available but in so some quantity it has exported to Germany. After 1972/73 the export data have been maintained by GoN. Since that period we can know that how much foreign exchange have been earned by the country through woolen carpet. In 1973, the foreign exchange equipment Rs. 170,300 was cashed and in 1980 Rs. 55370000 in 1990 Rs. 249869400 has earned. In his way the carpet industry have been able to earn large value of foreign exchange in the country, which is very important to country's development. Carpet industry of Nepal such a industry in where typical Nepali people and have protect to flow Nepali money to foreign. The export was in peak point in 1992/93 than offer it was decreased till 2002 then after we can see carpet export in increasing trend. After phased cut the quota system of textile carpet sector in the main product to get the foreign exchange (CIA, Carpet Bulletin, Vol. 3, Year 5, 1996: 8-10).

## **2.6 Government Policies on Exports of Woolen Carpet**

Government of Nepal had lunched different trade policies to develop export trade of country. Different types of acts have been enacted by government towards development of export trade of country. In the process of providing different facilities on export, government had developed tax, custom and foreign exchange policies on export, government had developed tax, custom and foreign exchange policies an export. But except common policies on export the special policy of woolen carpets exports have not been brought by government. In general government has bought following act for development of export trade, which is closely related to Woolen carpet export. Labor Act



1992 and child labor (Prohibition and Regulation) Act 2000 (enacted sin Nov. 2004) are the two laws that are applicable to Nepalese carpet industry and carpet workers.

**i. An Industrial Enterprise Act 2049**

Nepalese Hand knotted woolen carpet industry is listed under domestic industry under this Act. This out adjustment sales tax, local taxes, etc. are not charged on woolen carpet industry, and the income tax is not charged on income from carpet export.

Similarly, if some industry sold it's product on the condition of receiving foreign currency in country, the charged sales tax, local tax and tax charge on subsidizing industry will be returned by government.

**ii. Exports/Imports Control Act 2013**

According to this act the government able to control the export on import in all over the country by issuing the notice. By using the section 3 of this act the government has issued concern to import not less than directed quailed wool for carpet production which command was issued in 2051 Baisakh (GoN, Ministry of Industry, Industrial Act, 2049).

**iii. Carpet and Wool Development Board (CWDB)**

The CWDB is established for the promotion of Nepalese carpet by GoN. The board is the only legitimate government authority entrusted with the responsibility of ensuring quality in both the wool and the product itself. The board makes regular in separations of carpet industries and monitories the use of wool it's main objectives are :

- To promote the carpet in international market.
- To control the quality of wool being importers and the carpet produced.
- To participated in national as well as international trade fairs and exhibitions for carpet promotion.
- To train people for producing wool related items like carpet weaving, yarn dyeing, washing, pasmina shall and sweater also.
- To build infrastructure for the welfare of carpet employees.

## **2.7 Diversification of Market**

Realizing the potential danger to relying on exports to Germany alone, Nepali producers and exporters took initiatives to seek other markets, such on the USA. With technical support from the inter-American Management consulting corporation through USAIDS Economic liberalization project, the CCIA has worked to understand the American markets for Hand knotted carpets, designs and colors suitable for American consumers. Nepali carpet producers and exporters visited US importers and retailers, discussed and learned from them about quality, color and design that appeal to American buyers. The US carpet market is huge, but Nepali exporters must compete with Turkey, India and China for making exports. It was therefore proposed that Nepali carpets be marketed as distinctive design and finish and branded as the Himalayan collection.

CCIA has also initiated enquires about the Japanese markets which import 100 million square meters of carpets annually, mainly from China and Pakistan.

## **2.8 Anti Promotion Issues of Nepalese Carpet**

Besides the technology and government, promotion of a product depends on the socio-economic environment of the industry. The carpet industries, in domestic environment are getting unfavorable blames such as the ills of the capital water shortage, garbage heaps, river pollution and social ills such as drugs, prostitution and exploitation of child labor.

Several studies have been done one those issues.

### **i. Water and Air Pollution**

A proposed study on assessment of problem of carpet washing in Nepal (1991) done by the economic service centre Ltd. has concluded that the environmental problem of carpet washing and dying is mainly, the water pollution. The carpet washing units which are monthly located in the urban centers of Kathmandu do not have any waste water treatment facility. The waste water of carpet dyeing and washing have been directly discharged into the rivers like Bagmati and Bishnumati, Dhobikhola, Tukucha and Monohara, it's the metropolitant sewerage lines and open drainage.

Another study of NPEDC (1994) done on the location aspects of carpet industries in Kathmandu valley found that the waste generated in the carpet manufacturing process consists of solid wastes, liquid influents and exhaust from chimneys. The major producers of the wastes are cording, dying, and wasting units. But according to the study, it is seen that the carpet industry's share in air, land and water pollution of the Kathmandu valley with liquid effluents, chemicals and solid wastes is not significant as compared to other manufacturing activities and household discharge. Nevertheless, the locational concentration of the carpet weaving and related auxiliary activities in the Kathmandu valley has augmented the problem of congestion and pollution, unplanned and unhygienic settlements and pressure on water resource and infrastructure.

## **ii. Health Hazards**

In the carpet making process the workers are exposed to wool, fiber, dyes, and chemicals. Further the usual work place is not well ventilated. Many carpet industry workers complain about perpetual wrist pains, respiratory diseases (including tuberculosis) and the inability to work after the age of 35. The work is quite physically dominating, and after a first child, women say, they are unable to continue working the carpet industry.

## **iii. Social Problems and Child Labors**

Among the criticism, the prominent social problems reported with the carpet industry were exploitation of children, harassment of female workers and girl trafficking, children are paid minimally and forced to stay and work in unhygienic condition, medical facilities to the workers are not provided.

In recent years concerns have been growing in the west (USA and EEC) regarding exploitation of child labor in the carpet producing countries of south Asia. Influential media and lobby group in the west have been appealing customers to boycott carpets woven with the involvement of child labor. Blaming the carpet industry as an exploiter of the children, the on going campaign in the west has created a bad image of the carpet industry and damaged the goodwill of the industry.

The 1992 survey report of child workers in Nepal concerned center (CWIN) shows that children constitute about 50 percent of the total carpet work force. These children are 5-16 years of age, with 13 years being the average. Besides children, the labor force in the carpet industry consists mainly of women and young girls, with toddlers and younger children.

According to the survey of ministry of labor GoN, in 1993 among 419 carpet factories of Kathmandu valley, there are 178 (0.76%) children laborers below 14 years. The total number of workers in those units were 23418, male 12534 (53.53%) and female 10884 (46.47%). Another study conducted by New Era in 1994, found out of 1436 workers in 15 carpet factories of Kathmandu valley, the children of age group below 14 years are 73 (5.1%), 14-15 years 244 (17%), 16-18 years 419 (29.2%), 15-25 years 483 (33.6%) and 26 years and above 217 (15.1%). The number of male workers were 639 (44.5%) and female 797 (55.5%).

The consumers of Nepalese carpets in Germany have been occupied with negative impression after the panaroma channel of Norddeuecher Rundfunk television of Hamburg broadcasted a documentary picture on April 28, 1994 about the child labor involved in Nepalese carpet industries. Hence the order of Nepalese carpet reduced and most of the carpet producers faced a huge loss.

## **2.9 Potential Market Studies**

In 1984, a market study was done in selected European markets for Nepalese hand knotted carpets jointly by the trade promotion center and the Nepal carpet industries association. The study determined some problems like price competitiveness of Nepalese carpets with China need to improve quality by establishing washing plants in Nepal, identify designs colors and sizes most salable in Germany and other markets, overstocking of Nepalese carpet in Germany and discounting of Nepalese carpets. Local of customer feedback, need to plan distribution and participation in exhibitions. So, the study suggested to make price, stability and reduce freight costs, maintain quality, designs and colors according to the consumers taste, maintain good responsiveness of markets and control production by encouraging smaller size carpet runners.

DECTA (1993) published the UK market Notes on hand knotted carpets and hand woven rugs – Hand knotted pile carpets are by far the important area in handicraft floor covering sector with imports in 1992 valued at 60.1 million such and made items accounts for around 15 percent of total carpet import and just under 5 percent of the total in for domestic UK market. That is around two third of hand knotted pile carpets are re-exported. In this trade, the UK has a substantial number of well established international merchants which buy and sell extensively with counterparts elsewhere in Europe and other parts of the world. Hamburg in Germany is the center of the international trade in oriental carpets.

The recession brought about a limited set back in imports of hand knotted carpets in 1991 and again in 1992, when compared with 1990 imports were some 10 percent down overall. Though the decline at 15 percent was greater up to 500 knots per meter of warp. Imports of silk carpets. However increased price between 1990 and 1992 showed a substantial drop which made the more expensive items such as hand knotted silk carpets more affordable. The price weakness continues a promotional trend recent years, largely brought about by very competitive offering from China.

The report suggested that there is likely to be a growing long term interest by British consumers in traditional hand made floor coverings. However, it is essential that suppliers liaise closely with UK importers to adopt their designs and colors, where possible, to the taste preference of the UK market.

### **2.9.1 A Study on Carpet and Textile Floor Coverings**

A Study of the Netherlands and other major markets in the European community done by 'Center for the promotion of import from developing countries', Netherlands (1993) reported that within the EEC as a whole carpet consumption is dominated by northern European markets, especially Germany and the UK. EEC countries import about 600 million square meters of carpet per year, and the penetration of imports have been increasing in all markets. Germany, UK and France are the largest importers accounting for 83 million square meter in 1991. Sources in developing countries are only significant in the supply of hand knotted

carpets. India accounts for nearly 30 percent of all EEC carpets import from developing countries. Other significant sources include China, Iran, Turkey, Morocco, Nepal and Mexico.

Regarding the initiatives of CCIA/USAID to seek new markets of Nepali carpets in the USA, USAID's Economics/private sector published an ECON internal news (14<sup>th</sup> September, 1993) on "The carpet industry and export to America." The new recommended that the mass market in north America can be topped by producing Turkish design and colors. Since the Turkish are not able to meet market demand this is a relatively safe approach. It also appears that Nepal can produce this type of carpet cheaper than Turkish. A problem with this type and carpet is that it can be easily copied by machine and Nepali hand made carpets can not compete with machine carpets. Although, the Nepali carpets will be of much higher quality and can be sold at higher price.

It again suggested that an alternative route is to go for the higher and carpets according to the American designers. The carpet is the same as the program. Carpet currently being sold in Germany but the nature of the carpets must be changed. The American market emphasized in carpets with splashes of bright colors, north Americans prefer geometric designs and dislike open solid color fields. They are also interested indifferent textures.

The Study done by FNCCI on the export promotion of Nepalese carpets in the Japanese market (1994) reported that in many places of Japan, Nepalese carpet is not known to that extent, even in the places where Nepalese carpets to that extent, even in the place where Nepalese carpets are available, they were imported through German and Pakestani Agents with direct contact. The Japanese taste for designs, colors and sizes are different. The dark or strong color of Nepalese carpets are rarely preferred. Hence light color carpets are suggested and the dark colored carpets should be identified as a Nepali carpet. The designs should be made different, special emphasis of ethnic character of Nepal with quality improvement and with different thickness and size are suggested.

If Nepalese carpet has to enter Japanese market it has to compete with Chinese ones in pricing, color, design, as well as the marketers of Pakastani designers. The delivery time

should be reliable improved packaging, good communication response, and good and cheaper shipment are also demanded by the study. For the promotion of Nepalese carpet in Japan, arrangement of exhibitions in Japan and development of brochures are needed to let the people know about it the report suggested.

## **2.10 Review of Thesis**

Gurung (1996), in his study "A study of export of Nepalese carpet" recommended the following major aspects.

- i. Suggested to import raw wool by the private sector with international competitive price.
- ii. Research of new markets in northern American and Asian countries through quality control and improvement of technology.
- iii. Market diversification.
- iv. Carpet industry is most suitable for Nepal and earns foreign currency by export which reduce the trade deficit.
- v. Carpet industry is important sector for employment generation.
- vi. Local wool is not sufficient for the production quality carpets.

Gurung (1998) in his study entitled "A study of Nepalese hand made carpet export trade with foreign countries" recommended the following major aspects.

- i. Government of Nepal should pay special attention in this sector and make separate policy for improvement of present situation.
- ii. The carpet industry, since the beginning of its commercial production has faced many market related problems.
- iii. If there is not the problem of resources, Nepal have large export potential of woolen carpet to international market.
- iv. It can active its goals and become foreign exchange earner to support national economy.
- v. Carpet industry has covered the unemployment problem.
- vi. The export volume of woolen carpet was peak point in 1994/95.
- vii. Market share of carpet in German market was 40 percent in the fiscal year 1986/87 and then increased to 80 percent in 1996/97.

Shrestha (2000) in his study entitled "A study on problem and prospects of Nepali woolens carpet export" recommended the following major aspects.

- i. The export of carpet depends on demand.
- ii. The Germany has played vital role in promotion of Nepalese carpet.
- iii. The woolen carpet has played major role or GNP of nation.
- iv. There are different problems in carpet sector but market is the major problem.
- v. Nepalese entrepreneurs/exports have not able to undertake promotion activities in foreign market.
- vi. The diversification of market is not done successfully.
- vii. The export position to USA in past 5 years is found enthusiastic.
- viii. The import of raw material (raw wool) is only dependence on Newzealand and Tibet.

Pokhrel (2005), in his study entitled "A study on problem prospects of Nepali woolen carpet export" had concluded the following major findings.

- i. The comparative advantage of Nepalese carpet is its quality. So the exporters and government should maintain as agreed standard of Nepal carpet and make proper checking system.
- ii. The transportation is the main issue to export Nepali carpet.
- iii. The government with all its specialized agencies like carpet ad wool development board, trade promotion center (TPC) should look into the matter and needed to come forth with concert program.
- iv. To search of beneficial trade relation between the area like USA, Canada and Japan must be located to penetrate the market.
- v. Nepal has to practice well in export planning and strategy setting to accomplish the objectives of export promotion.
- vi. It is most necessary to participation in trade fairs because trade fair and exhibition are the main promotional tools.

Reviewing the literatures, there are many published and unpublished literatures are available. The review of available literatures gives common scenario of the situation. But,



study has no limitations and no one study may be applicable forever. Since the export of carpets occupies major remittance of the Nepal, it is a major issue for a Nepalese scholar. Plan, policy, strategy and methods are modifiable with a changed environment. Thus, further study on the topic is necessary to understand the progress on Nepalese woolen carpet in the international market.

# **CHAPTER – THREE**

## **RESEARCH METHODOLOGY**

Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain object in view. Research methodology describes the methods and processes applied in the entire aspects of the study. To find out the solution of problem, various statistical and financial tools and techniques are applied according to the nature of phenomena.

### **3.1 Research Design**

In order to achieve the objective of the study a descriptive analytical research design has been employed. The study is descriptive in that the study attempts to describe the export volume of woolen carpet on the basis of available data and the study is analytical in that the data have been analyzed in order to draws a true picture of export.

### **3.2 Sources of Data**

This study is based on both of primary and secondary data. The data have been collected through the following sources.

#### **3.2.1. Primary Sources of data:**

- i. Direct observation and conversation
- ii. Opinion through questionnaire

#### **3.2.2. Secondary Sources of data:**

- i. Trade Promotion Center (TPC)
- ii. Central Carpet Industries Association (CCIA)
- iii. Nepal Chamber of Commerce (NCC)
- iv. Federation of Nepalese Chambers of Commerce and Industry (FNCCI)
- v. Central Bureau of Statistics (CBS)
- vi. Nepal Carpet Exporters Association (NCEA)
- vii. Carpet and Wool Development Board (CWDB) etc.
- viii. Related Websites.

Besides the above mentioned sources data and information have been collected through news papers, magazines, books, carpet bulletins and various other economic publication are used as sources of data.

### **3.3 Method of Data Analysis**

To analyze and interpret the available data, various statistical tools and techniques are used in the study. Brief discussion of the tools incorporated in this study is done have under.

#### **3.3.1 Time Series Analysis**

The time series analysis is used primarily to analyze the data. For the propose the change on amount in Nepalese rupee and US dollar have been analyzed where the immediately previous year has been taken as the base year to compare the output.

#### **3.3.2 Tabulation**

It is the process of summarizing raw data in a compact form in such a way as to facilitate corporation and shows the involved relations. It is an orderly arrangement of data in columns and rows. It provides great help in the analysis and interpretation of data.

#### **3.3.3 Bar Diagrams**

The bar diagrams represents the data by bans or rectangles of equal width. Bar diagram may be simple, multiple, job divided and percentage bar diagram. It only presents the data presented in the table in the form of bar which helps to clear understanding.

#### **3.3.4 Graphs**

One of the important methods of representing statistical facts and information is a graphical representation. It is very commonly used procedure and may be applied to any situation. Where large masses of data are to be dealt with. When the data is presented in the graph, it is readable ever by the public. It only presents the data presented in the table in the form of graph which helps to clear understanding.

## **CHAPTER – FOUR**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Existing Market of Nepalese Carpet**

In Nepal, commercial production of carpet started in the late 1950s with the influx of Tibetan refugees into Nepal. Swiss technical assistance has also used by a few Nepalese carpet manufacturing units in the early 1960s. The influence of Tibetans and Swiss technical assistance on the weaving style, design, color, and texture of carpets resulted in stimulating a strong international demand for Nepalese carpets.

Carpet industry, being a cottage and small industry is one of the dynamic export growth industry in Nepal. In spite of being a traditional production, the carpet production is largely concentrated in Kathmandu valley and the surroundings. The major areas of production in the valley are Chabahil, Bauddha, Jorpati, Jawalakhel, Swayambhu, Dallu, Kirtipur and Bhaktapur, outside the valley these are at Pokhara, Hyangia, Chyalsa, Banepa and Dhulikhel.

##### **4.1.1 Domestic Market**

The domestic market of hand knotted Wollen carpet in Nepal is almost nill. The carpets are completely labor intensive product, it takes average 6 days at hours for Nepali people. However, the higher economic families use carpets in their home for floor covering and wall hanging as decorative item. Also, the carpet rejected by the buyers because of the defect in production and quality are also sold in domestic market at cheaper prices.

##### **4.1.2 Foreign Markets**

The decade of 1960s is taken as stage of commercial take-off of carpet production. Switzerland as assumed to be first importer of Nepalese carpet. In the beginning the export of Nepalese carpet was limited to few countries. After the diversification of export trade in overseas market many commodities including carpet being promoted. The export of Nepalese carpet being increasing in comparison to total export of Nepal since 1970s. Carpet export has grown

tremendously from 18.6 thousand sq.m. in 1974/75 to 3325.1 thousand sq.m. in 1993/94.

Till three and half decades before, the export of Nepalese carpet was insignificant. The export trade has developed with the increasing inflow of tourist in Nepal and it has acquired popularly in international markets. The establishment of trade promotion centre in 1972, participation of Nepal in international trade fairs and exhibitions and the TPC's cottage industry export development project (CIFD). Organized in 1982 had given great momentum to export. In addition, the Nepal wool trading company's import operation which had commenced in 1984 had assisted in supplies of raw wool to increase carpet production.

#### 4.1.3 Export Scenario of Major Commodities in FY 2006/07

**Table 4.1**

**Percentage Share of Major Commodities in the Overseas Exports of Nepal FY 2006/07**

*(Value in Rs. '000)*

S.N.	Commodities	Unit	Quantity	Value	Share in %
1.	Woolen Carpet	Sqm	1409406	5303238	31.43
2.	Readymade Garments	Pcs.	17151357	3947490	23.39
3.	Woolen & Pashmina Garment			1789507	10.60
4.	Others*			5834062	34.57
	<b>Total</b>			<b>16874297</b>	<b>100.00</b>

Source : Overseas Trade Statistics 2007.

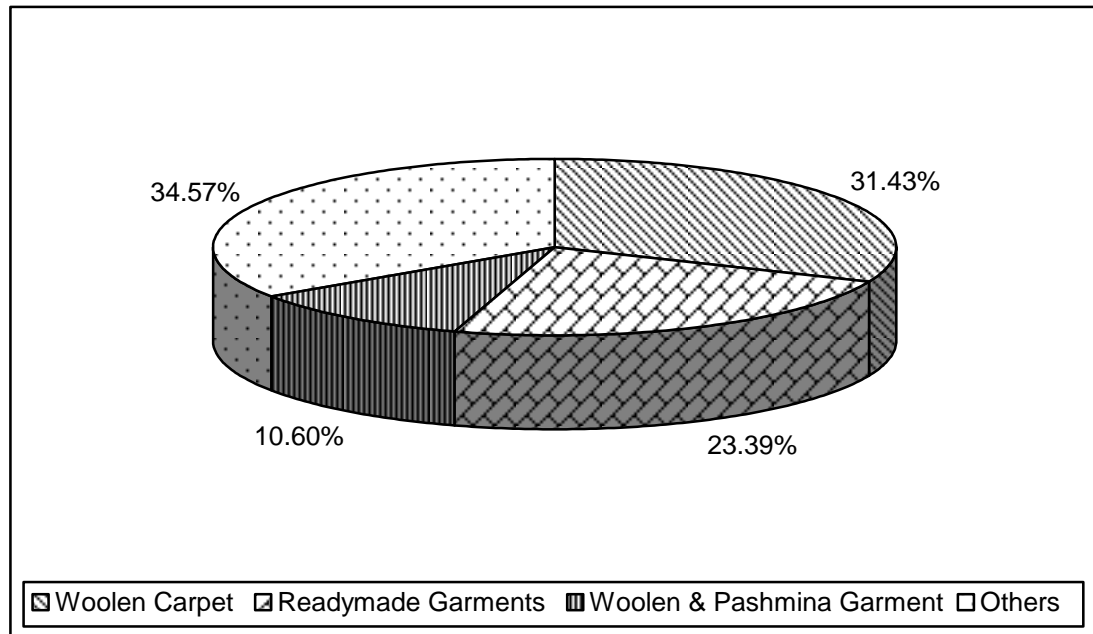
Note : \* Hides & Goatskin, Tea, Pulses, Cardamom (Large), Coffee, Handicrafts, Silverware, Jewellery, Towel, Nepalese Paper & Paper Products, Cotton Sacks and bags, micro transformer, vegetable ghee, noodles, medicinal herbs.

The above table shows that among the major commodities exports of Nepal to the foreign markets the carpet take highest position in export trend. In the FY 2006/07. Woolen carpet export to the different countries 1409406 sq. m. in value Rs. 5303238000. It takes 31.42 percent share of total export in FY 2006/07.

The graphic presentation of above table is as follows:

**Fig . No. 4.1**

**Major Commodities in the Overseas Exports of Nepal**



**4.1.4 Export Scenario of Nepalese Carpet**

The overall scenario of the carpet exports statistics shows a declining state for Nepalese carpet. The export of carpet in 1993/94 is the land mark of export in the graphical data shown in the chart below which accounted to above 3.3 million sq.m. of carpet exports. After going twist and turns, Nepal's export of land made carpet are more or less stable with just above 10 percent decline in terms of volume of exports and negligible amount of decline in value of exports.

**Table 4.2**  
**Exports Trends of Carpet for 10 Fiscal Years**

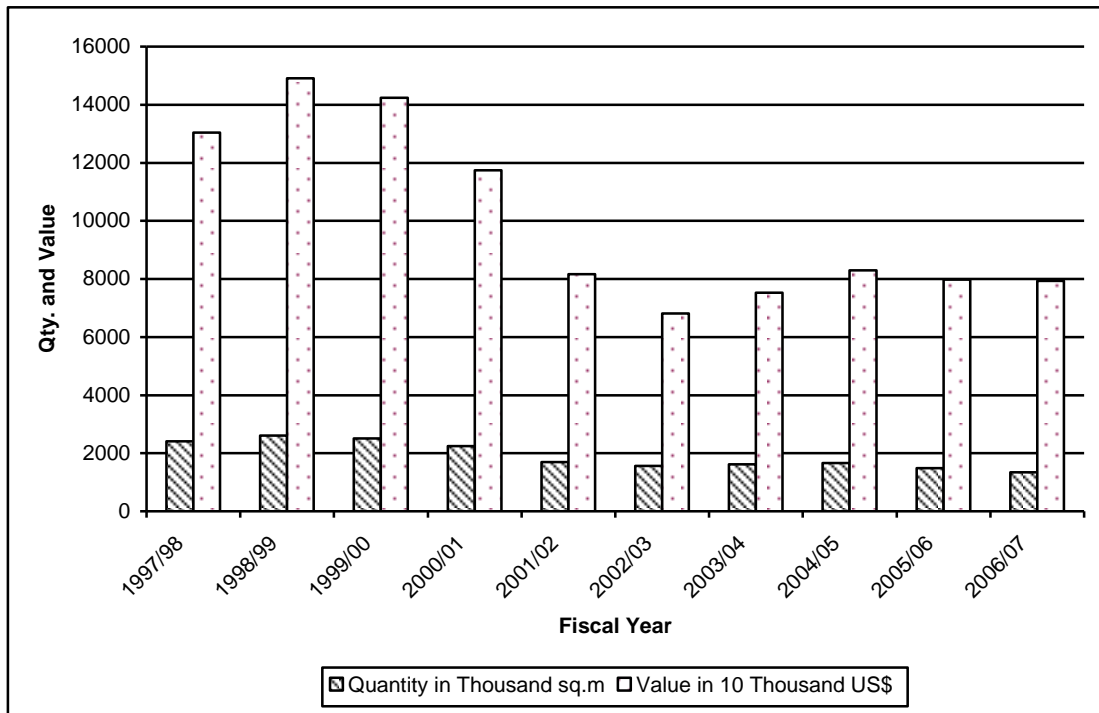
<b>Fiscal Year</b>	<b>Volume (sq.m)</b>	<b>Value (US\$)</b>	<b>% change in value</b>	<b>% change in value</b>
1997/98	2415000	130410000	-16.44	-16.44
1998/99	2604469	149097806	7.85	14.33
1999/00	2509452	142365152	-3.79	-4.73
2000/01	2242693	117466683	-10.63	-17.49
2001/02	1693197	81655133	-24.50	-30.49
2002/03	1566950	68089184	-7.46	-16.61
2003/04	1617767	75288842	3.24	10.57
2004/05	1664118	82929230	2.87	-10.15
2005/06	1484484	79745810	-10.79	-3.84
2006/07	1341757	79375420	-10.64	-0.47

Source: Trade and Export Promotion Centre, 2007.

It can be seen from the above table that the export scenario of carpet has its peak volume in the fiscal year 1998/99. For couple of years after attaining the peak volume of exports the exports scenario has been within and above 2.2 million square meter. After the fiscal year 1999/00 the value is in the downturn in four consecutive fiscal years up to the fiscal year 2002/03. In the fiscal year 2003/04 the value is again increasing with 10.57 percent rise in terms of export value. Now after the fiscal year 2005/06 and 2006/07 though the percentage of quantity of export shows decreasing by around 10 percent, the percentage of exports in terms of value is increasing keeping in mind the value of export earning. So we can see that the export profit yield per sq.m. of carpet exported has obtained high value. The above chart also shows that the carpet export from Nepal reveals that export is declining. The export of carpet after 14 years in Fiscal Year 2006/07 declined to 1341756.66 sq. m. with nearly 60 percent.

**Fig. No. 4.2**

**Export Trend in Quantity and Value**



Source: Economic Survey, 2063, Nepal and the World 2005.

The chart above indicates that the value of carpet export in terms of US dollars in the year 2006/07 is nearly half the volume which was exported in the fiscal year 1996/97. In the fiscal year 2006/07 has exported the quantity of 1566950 square meters and fiscal year 1988/89 has exported the quantity of 1566950 square meters.

**4.1.4.1 Carpet Exports to According to the Destination**

Nepalese carpets are exported to more than 60 countries. The principal buyers are Germany, Switzerland, U.K., Belgium, USA, Netherlands, France, Australia, Sweden, and other several European countries. Table 4.2 shows the export according to top 10 destination countries.



**Table 4.3**  
**Export According to Top 10 Destination Countries in 2007**

Country	Quantity in sq.m.	Percent	Value in US \$	Percent
Germany	556280	46.23	26408764	33.75
USA	358445	29.79	33173397	42.40
UK	55728	4.63	4444456	5.68
Switzerland	51301	4.26	3490025	4.46
Turkey	43644	3.62	1787472	2.28
Belgium	37245	3.09	2360633	3.01
Netherlands	31906	2.65	1710195	2.18
Austria	28076	2.33	1268011	1.62
Canada	23906	1.98	2285912	2.92
Italy	16676	1.38	1307462	1.67
Total	1203207	100.00	78236327	100.00

Source: Trade and Export Promotion Center, 2007.

Looking at export figures above, the export of carpet to Germany is the major carpet importing country which still remains as the highest volume of carpet importers with 556280 sq. m. of carpet importing in the year 2007. The USA is seen as the second top most importing country for handmade carpets, is increasing every year as shown in above figure. The export yield in the USA is the highest at US \$ 33173397 of imports. The UK at just above US 4 million stands at the third largest importing country. The traditional market of Switzerland remains the fourth position with above US \$ 3 million.

#### **4.1.4.2 Carpet Export in Selected Countries**

##### **i. Germany**

Germany is the top country from the very beginning of the history of carpet export among the carpet importing countries and the annual supply of carpet to Germany from Nepal is continuously growing. More than 80 percent of the total rugs produced in Nepal go to Germany. Besides being the biggest importer, Germany also acts as the centre point where Nepalese, Tibetan rugs

are marketed to various countries like Netherlands, France, Japan, USA and Belgium.

Germany has grown over the years into the largest importer and user of hand knotted woolen carpet. It has been importing from most of main carpet producing countries like. Iran, China, India, Pakistan, Turkey, Afghanistan and Nepal. Germany is the most carpet conscious nation in the world. Growth of income and better standard of living in Germany made hand knotted woolen carpet as one of the essential good in German society. Nepal's share of carpet in German market in year 1972/73 was Rs. 400119 which was only 16.1 percent share of total carpet from Nepal. The volume of exporting carpet in Germany was boost up after 1982/83 which was Rs. 70446846 and 51.1 percent.

**Table 4.4**  
**Carpet Export to Germany from 1986/87 to 2006/07**

*(Value in Rs. '000)*

<b>Fiscal Year</b>	<b>Qty. in sq.m.</b>	<b>Value Rs.</b>	<b>Total export value (Rs.)</b>	<b>% share of Germany</b>
1986/87	185375	251450	627535	40.1
1987/88	402098	610778	1211785	50.40
1988/89	488490	850728	1589193	53.53
1989/90	665145	1320865	2294694	57.56
1990/91	1171662	2671323	3701991	72.15
1991/92	1900612	5734890	8130927	80.42
1992/93	2615343	7997699	9525648	83.96
1993/94	2704007	7745408	9518054	81.37
1994/95	2299825	6246162	7703759	81.08
1995/96	2111886	6447309	8032232	80.26
1996/97	2321656	7254904	9104634	79.33
1997/98	1898104	6447482	8516344	75.70
1998/99	1970548	7399673	9885106	74.25
1999/00	1840060	6767256	10390538	65.12

2000/01	1461491	5376785	860372	62.49
2001/02	1036303	3461732	6108635	56.66
2002/03	1020652	2949319	5317656	55.46
2003/04	935761	2599369	5461301	47.59
2004/05	816233	2467567	5961116	41.39
2005/06	802952	1999977	5897627	33.91
2006/07	610181	1758200	5303238	33.15

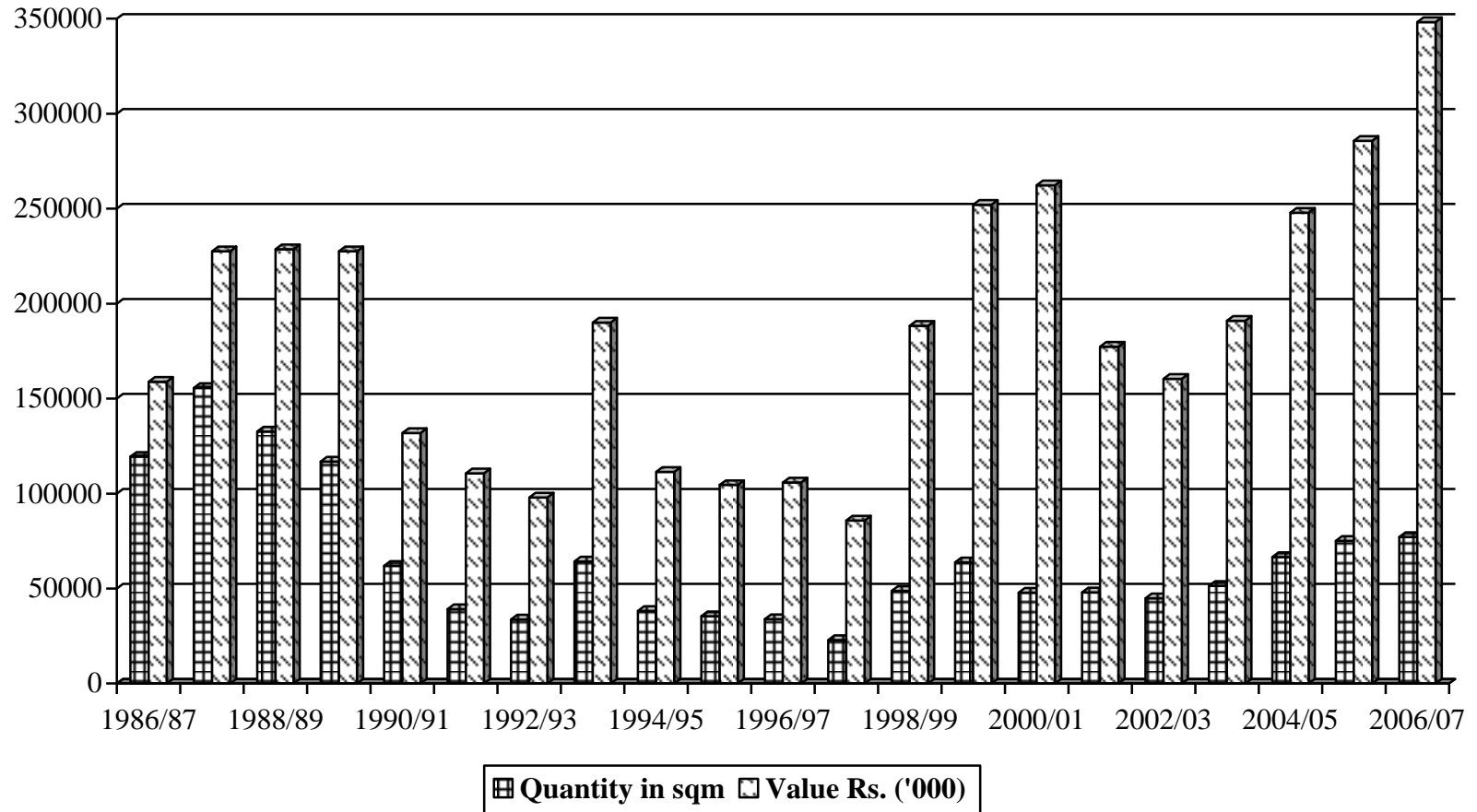
Source: Trade and Export Promotion Centre, 2007.

In the fiscal year 1986/87 the percentage of carpet export to Germany of total export was only 40 percent and the value was rupees 251450 thousand. Due to supplying in new market and the quality of the carpet the share percentage decreased than that of 1982/83 but increased to 143 percent in total quantity. In FY 1987/88 carpet export to Germany from Nepal was increased to Rupees 610778 thousand which covered to 50.40 percent. In this way the FY 1988/89, 1989/90, 1990/91 and 1991/92 the percentage share of carpet export were 53.53 percent, 57.56 percent, 72.15 percent and 80.42 percent respectively in terms of value.

In the fiscal year 1992/93 total carpet export to Germany was 2615343 sq. m. with value Rs. 7997699 thousand which is 83.96 percent of total export value. This increasing trend of carpet to Germany definitely encourage the Nepalese manufacturers. For Germany the trend has been decreasing after the year 1992/93 to till now i.e. 2006/07. Because of child labor, quality maintains, government policy, distributor's problem and many causes.

Hence the exporters considering the present situation, there is more possibility of further increase in the export of Nepalese carpet to Germany, if the quality and other requirements can be maintained. The German market can be taken as a good stable market for the Nepalese Woolen carpet in the future. Now, Germany has been the major consumer of Nepalese Woolen carpet that Nepalese exporters have succeeded in returning the German's market confidence is a contribute to the promotional skill but it must necessary to find out more value market to Germany and new promotional tools must be uses.

**Fig. No. 4.3**  
**Carpet Export to Germany**



## ii. United States of America (USA)

USA is one of the largest buyers of hand knotted woolen Nepalese carpet from the world. The US market is very important for carpet exporting countries. Due to higher purchasing power and standard living styles, the annual growth of carpet consumption faster in USA. The demand of Nepalese carpet has show in increasing trend in the US market North American market.

**Table 4.5**  
**Carpet Export to USA from 1986/87 to 2006/07**

(Rs. in '000)

<b>Fiscal Year</b>	<b>Qty. in sq.m.</b>	<b>Value Rs.</b>	<b>Total export value (Rs.)</b>	<b>Share % in total export value</b>
1986/87	11729	15028	627535	2.40
1987/88	17788	27122	1211785	2.24
1988/89	36792	61934	1589193	3.90
1989/90	36974	79355	2294694	3.46
1990/91	24455	53046	3701992	1.43
1991/92	21716	64119	7130928	0.90
1992/93	33648	106305	9525649	1.12
1993/94	37144	123844	9518055	1.30
1994/95	70337	231942	7703760	3.01
1995/96	72195	268119	8032233	3.34
1996/97	104471	430347	9144635	4.7
1997/98	182932	821100	8516344	9.64
1998/99	208836	968018	9885106	9.79
1999/00	300005	1473806	10390538	14.18
2000/01	320841	1507475	8603721	17.52
2001/02	283657	1336333	6108636	21.88
2002/03	261196	1237182	5317656	23.27
2003/04	287052	1360739	5461301	24.92
2004/05	376617	1825951	596116	30.63
2005/06	708565	2126884	5897627	36.06
2006/07	336601	1639832	5303238	30.92

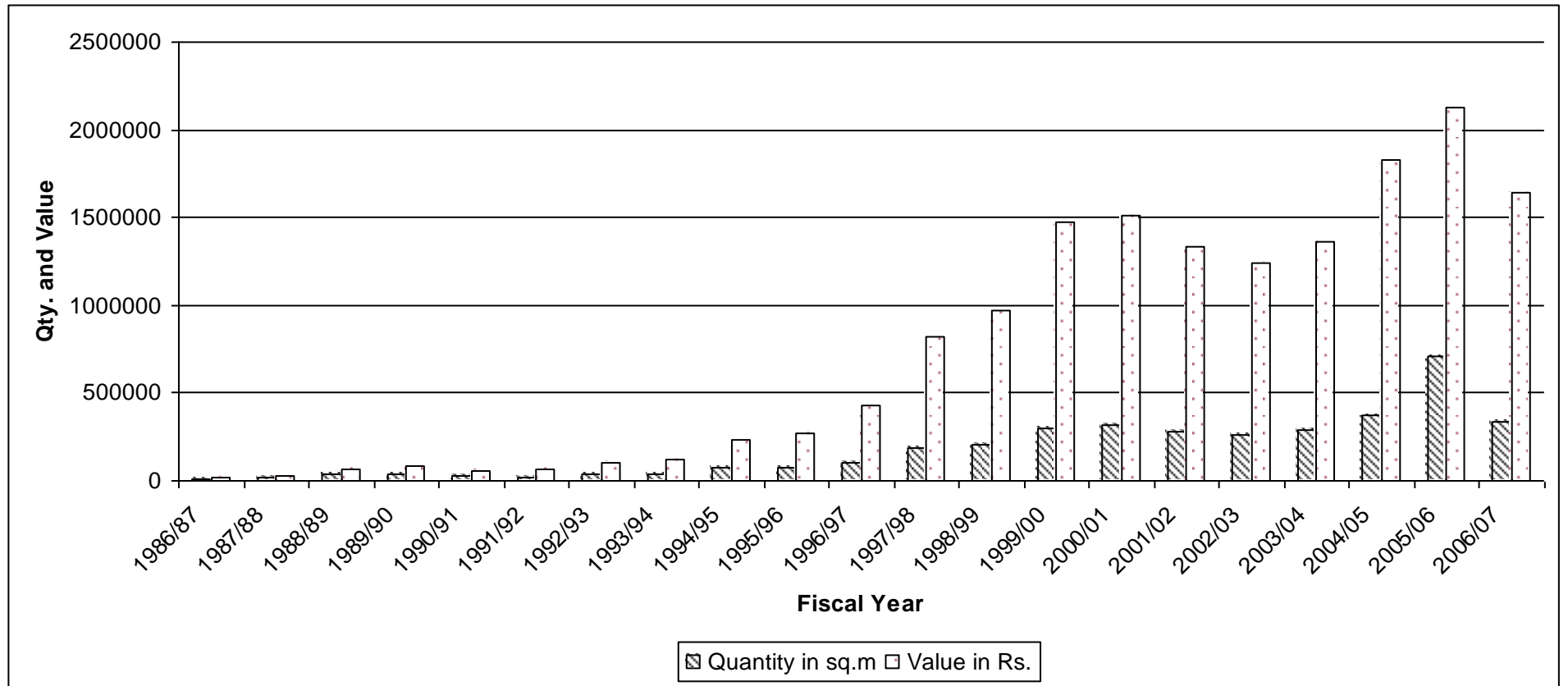
Source: Trade and Export Promotion Centre, 2007.

The above Table shows the export trend of carpet from Nepal to USA in terms of value, quantity and share composition of the total carpet export from Nepal. In fiscal year 1986/87 the carpet export to USA was only 11729 sq. m. with value Rs. 15028 thousand only which is 2.4 percent of total export from Nepal. The percentage share of carpet export to USA was slightly increased up to fiscal year 1989/90. But it was decreased to 1.43 percent in the year 1990/91 which is followed to 1.3 percent in the year 1993/94. Due to the trade diversification and best efforts made by carpet manufactures and exporter the carpet export to USA increase from the fiscal year 1994/95 to 2005/06 but in the year 2006/07 it was decrease to 30.92 percent. Thus with every change in rug market world wide, Nepalese carpet manufactures have achieved increasing results to top USA market.

Importers from America have also helped to promote Nepalese carpets in US market. Rebecca converser, an American carpet specialist, has been working with Nepalese carpet manufactures to improve the designs and colors that can be sold in the American market because the American consumers have not been accepting that is easily accepted by the European market. Therefore there is need to study the US market for the better trade in the years head. While some seem to argue that American prefer tabby carpets with all sorts of color combination and wizardly in the centre there are people in the industry who do not share it on the other hand, what other feel that we can also have market for 60 and 80 knots quality of carpet with the desired color combination. They too prefer American designers coming here and briefing the industry people on the taste of the American carpet buyers. This is to safeguard the interest of Nepalese carpet industry which had taken a nosedive earlier on.

Fig. No. 4.4

Carpet Export to USA from 1986/87 to 2006/07



However, America is a huge country, it is also true that the people scattered around that big geographical region may have different taste. Thus, in order to address their respective choice there must be varieties of carpets which are characterized by difference in designs, color, combination and peak thickness knot count. At present the floor price of Nepalese carpet is US \$ 55 but many exporters sell below that and it caused the desperation on the part of Nepalese carpet manufactures.

American prefers high quality products and this explains why rugs made in Iranian which priced of US \$ 225 are easily sold in US market. However, Central Carpet Industrial Association (CCIA) has inked up with an international management and communication company of the USA with an intention to accelerating the access of Nepalese carpets into the US market. Initial success, although not yet resounding is expected to be still round the corner of course, the concerned efforts will have to be backed up by the use of natural colors, research concern for environment impact.

### iii. Belgium

Belgium is one of the top largest importers of hand knotted woolen carpet in the world. Germany is the top re-exporter to Belgium. India, Iran and Nepal are the major suppliers of carpet to Belgium. Belgium was 4th major importer of Nepalese carpet till 1995/96 and ranked as the 5th position in the fiscal year 1996/97 according for 2.2 percent of Nepal's total export of hand knotted woolen carpet in terms of value, after 1997/98 it covered 4th position till 2003/04. In fiscal year 2004/05 Belgium has covered 3rd position of Nepalese hand knotted woolen carpet importer.

Nepalese manufactures, hand knotted woolen carpet importer and given design specification as per the depends and taste of the buyers abroad. Nepalese carpets are very much popular in Belgium market also due to its unique features and quality. In the last few years, the size in export has tented to decline world wide. The total volume of the carpet exported to Belgium was slowly in fluctuating.

Table 4.6

#### Carpet Export to Belgium

Fiscal Year	Qty. in sq.m.	Value Rs. ('000)	Total value Rs. ('000)	Share % in total value
1986/87	19336	26222	627535	4.2
1987/88	33709	52935	121785	4.4
1988/89	51931	93038	1589193	5.6



1989/90	73332	149850	2294694	6.5
1990/91	74144	171802	9701992	4.6
1991/92	79633	212040	7130928	3.0
1992/93	83157	250157	9525649	2.6
1993/94	110415	316991	9518055	3.3
1994/95	171708	250306	7703760	3.2
1995/96	84035	265268	8032233	3.3
1996/97	63204	201113	9144635	2.2
1997/98	47802	129526	8516344	1.5
1998/99	62699	254141	9885106	2.6
1999/00	114949	742177	10390538	7.1
2000/01	81702	317350	8603721	3.7
2001/02	72996	262097	6108636	4.3
2002/03	60027	195091	5317656	3.7
2003/04	58159	208024	54616301	3.8
2004/05	72329	263731	5961116	4.47
2005/06	73740	231952	5916055	3.92
2006/07	32366	133941	5303238	2.52

Source: Trade and Export Promotion Centre, 2007.

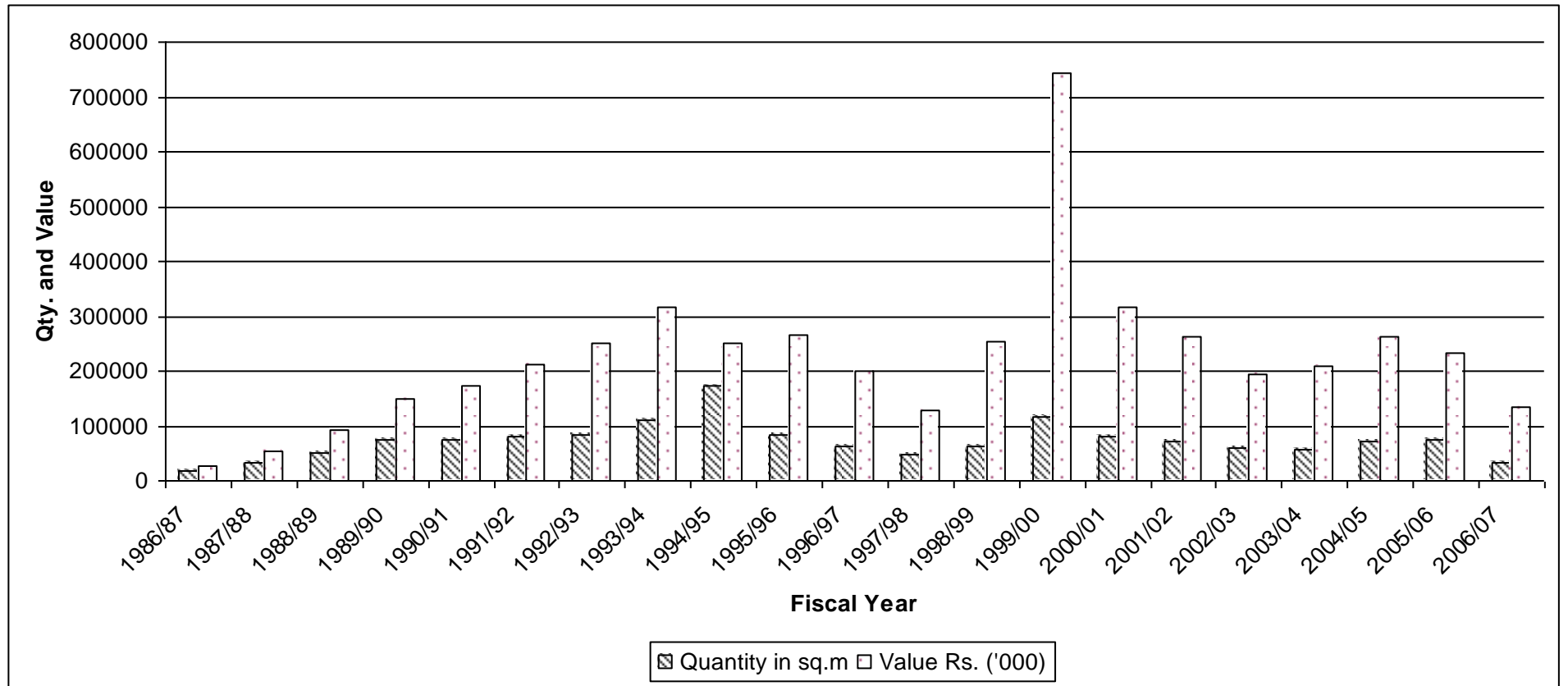
The above table shows the hand knotted woolen carpet export to Belgium. In fiscal year 1986/87 it is Rs. 26222 thousand in value and 19336 sq. m. in quantity. Which is 4.2 percent share in total value. This trend is continuous up to the year 1989/90 with value Rs. 149850 thousand and share percentage in total value is 6.5. Then it falls to 4.6 in the year 1990/91. Which is continuous up to the year 1997/98 with value Rs. 129526 thousand and share percentage in total value is 1.5 which is least share percent during the study percent.

In the fiscal year 1999/00, the export quantity to Belgium is 114949 sq. m. with value Rs. 742177 thousand and share percent in total value is 7.1 which is highest figure during the study period but it is not sustainable for long time. Then after, it has decreased to 2.52 percent of total value in the year 2006/07.

The graphical presentation of woolen carpet export to Belgium is presented below.

Fig. No. 4.5

Carpet Export to Belgium



Printed.....

iv. United Kingdom (UK)

United Kingdom is the largest importer of hand knotted woolen carpet from the world. Especially China, India, Nepal and Pakistan are the main exporters of hand knotted woolen carpet to UK. One of the increasing matters is that UK also re-export carpet to Belgium and Italy. Due to excellent quality of Nepalese carpet, it has occupied good position to UK market.

Table 4.7

Carpet Export to UK

Fiscal Year	Qty. in sq.m.	Value Rs. ('000)	Total value Rs. ('000)	Share % in total value
1986/87	119420	158902	627535	25.3
1987/88	155578	227624	1211785	18.8
1988/89	132661	228668	1589193	14.4
1989/90	116917	227515	2294694	9.9
1990/91	62006	131958	3701992	3.6
1991/92	39161	110639	7130928	1.6
1992/93	33479	98004	9525649	1.1
1993/94	64298	190093	9518055	2.0
1994/95	38230	111393	7703760	1.5
1995/96	35455	104519	8032233	1.3
1996/97	33878	105911	9144635	1.2
1997/98	22927	85887	8516344	1.0
1998/99	48725	188315	9885106	1.9
1999/00	63782	252134	10390538	2.4
2000/01	47912	262327	8603721	3.0
2001/02	48000	177369	6108636	2.9
2002/03	44832	160437	5317656	3.0
2003/04	51356	190972	5461301	3.5
2004/05	66637	247877	596116	4.2
2005/06	75096	285664	5916055	4.82
2006/07	77179	348234	5303238	6.56

Source: Trade and Export Promotion Centre, 2007.

The Table 4.6 shows the export trend of carpet to UK from Nepal. In fiscal year 1986/87 it consist the share of 25.3 percent and reserved the 2nd position of Nepalese hand knotted woolen carpet importer. In the year 1980/81 UK was imported Nepalese hand knotted woolen carpet in 23500 sq. m. in terms of quantity and Rs. 19.3 million in terms of till fiscal year 1986/87. Which is 119420 sq. m. carpet was exported in terms of quantity and Rs. 158902 thousand in terms of value. In the fiscal year 1987/88, 1988/89 and 1989/90 the trend is in slowly increasing. After 1990/91 the export of hand knotted woolen carpet from Nepal to UK was decreasing till the year 1992/93. Then after the trend is fluctuating till 1997/98. Nepal has exported maximum volume in 2000/01 with quantity 47912 sq. m. and value was Rs. 262327 thousand then after the export volume was decreasing 2002/03 but the share percentage in total value was in increasing trend. From FY 2003/04 it was slightly increase in terms of quantity, value and share percent in total value also till now 2006/07.

Since the export of carpet to UK is fluctuating every year, so best efforts have to be many by the manufactures and government also to hold the previous position.

The graphic presentation of hand knotted woolen carpet export to UK is as follows.

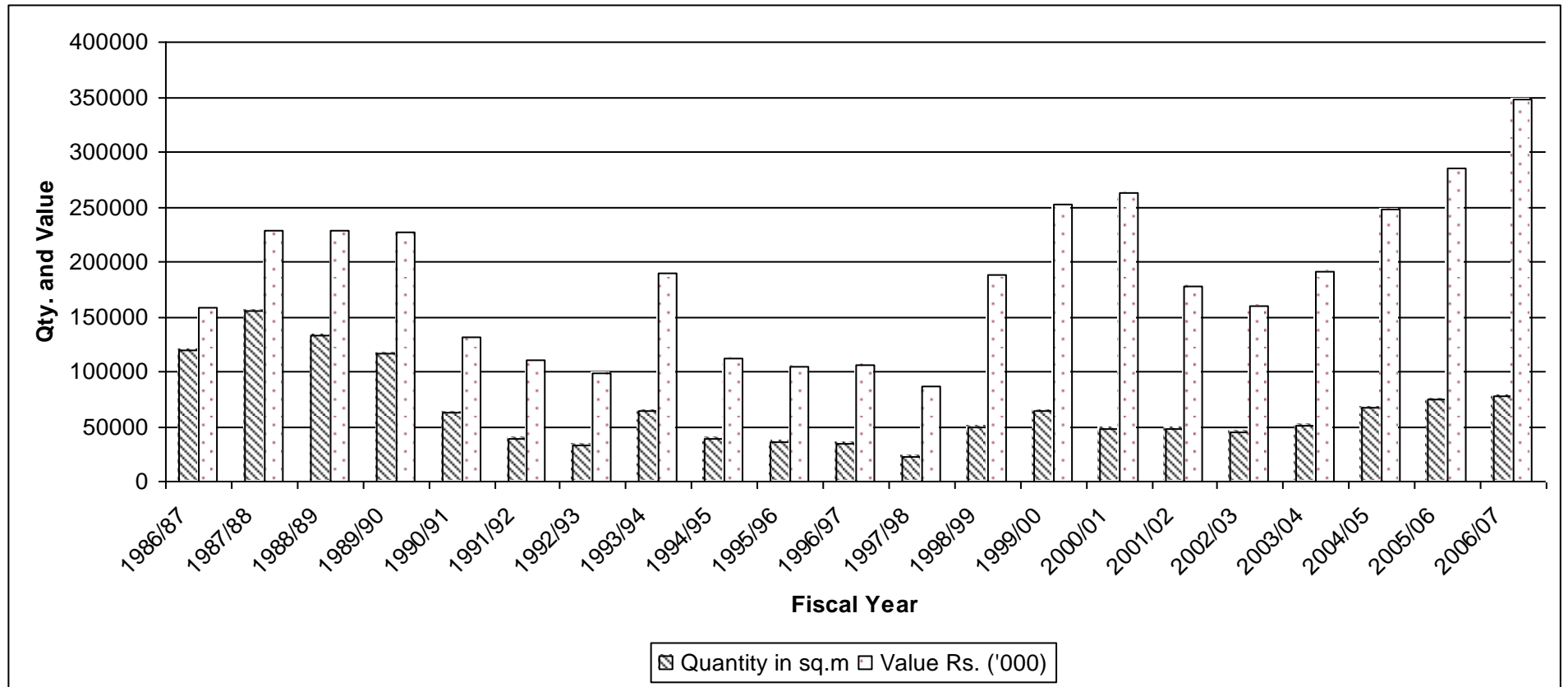
Fig. No. 4.6

Carpet

Export

to

UK



v. Switzerland

Switzerland, which is the world's largest importer of hand knotted woolen carpets and by far the largest on a per capita basis, is a highly quality conscious market and generally shows among the countries examined. Switzerland was the second largest importer of Nepalese carpet. But Iran is still Switzerland's largest supplier by value. Iran, Nepal, India, Pakistan and Turkey are the main suppliers of carpet to the Switzerland.

From the very beginning of the production of carpet for export, Switzerland had helped in production by providing financial and technical assistance under SATA and also was the first importer of the Nepalese hand knotted woolen carpet. Switzerland established Tibetan refugees camp for mass production of woolen carpet. One of the example Jawalakhel Handicraft Centre Pvt. Ltd. Pioneer of Tibetan carpet industry in Nepal was established in 1960 by Swiss help. Switzerland is on of the major markets of Nepalese carpet. Export to Switzerland had been growing in terms of value and quantity every years it ranks in the 2nd position as the importer of Nepalese carpet except in the fiscal year 1996/97 when it ranked third in position.

Table 4.8

Carpet Export to Switzerland

Fiscal Year	Qty. in sq.m.	Value Rs. ('000)	Total value Rs. ('000)	Share % in total value
1986/87	116965	158940	627535	25.3
1987/88	172972	261182	1211785	20.6
1988/89	172646	297832	1589193	18.7
1989/90	207642	408797	2294694	17.8
1990/91	216410	486943	3701992	13.2
1991/92	212914	619352	7130928	8.7
1992/93	252490	702833	9525649	8.0
1993/94	277145	761166	9518055	5.6
1994/95	164382	431641	7703760	5.2
1995/96	137228	416554	8032233	3.4
1996/97	101008	309593	9144635	2.4
1997/98	57097	200589	8516344	2.1
1998/99	54699	206012	9885106	3.3

1999/00	87824	343048	10390538	4.9
2000/01	113051	425329	8603721	4.6
2001/02	70402	280956	6108636	3.7
2002/03	50455	197407	5317656	3.7
2003/04	45334	199983	5461301	3.7
2004/05	60526	230758	596116	3.9
2005/06	49054	203327	5916055	3.4
2006/07	34860	161957	5303238	3.0

Source: Trade and Export Promotion Centre, 2007.

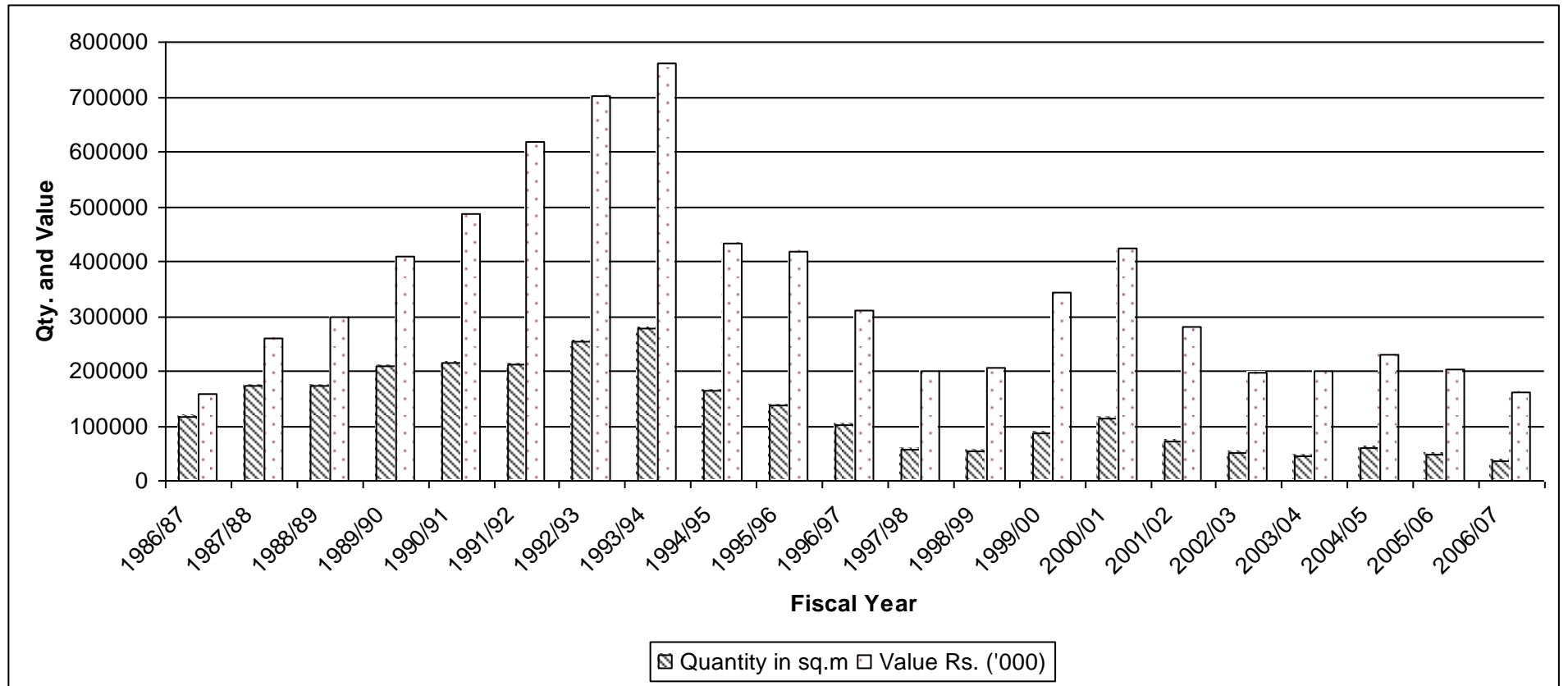
The Table 4.7 shows the annual carpet export to Switzerland in terms of value as well as quantity and its share composition carpet export to Switzerland in value was Rs. 158940 thousand and 116965 sq. m. in terms of quantity in FY 1986/87. Then after the value has increasing rapidly till the FY 1993/94 but the share percent in total value was decreasing because other countries has imported Nepalese woolen carpet in high quantity. Carpet export to Switzerland was very significant till 1993/94. In FY 1986/87 share percent was 25.3 and Switzerland was in 3rd position but in FY 1993/94 it covered only 8 percent. Due to the slumped of carpet world wide, carpet export to Switzerland from Nepal decline in terms of value as well as quantity.

While comparing with FY 1993/94 to 1997/98, the value was Rs. 200589 thousand which is 80.8 percent less then the year 1993/94 in terms of share percent in total value. After that the export trend was increasing till 1999/00. The export value was Rs. 343048 thousand and share percent in total value was 4.9. After this the hand knotted woolen carpet export to Switzerland is decreasing trend till now in terms of quantity and value also.

The graphical presentation of trend of hand knotted woolen carpet export to Switzerland is as follows.

Fig. No. 4.7

Carpet Export to Switzerland





#### 4.1.5 Exporters of Hand Knotted Woolen Carpet

The exporters of hand knotted woolen is increasing in the world. It's total export was estimated in 1984 as US \$ 832.7 million where as the estimation of the year 1993 was US \$ 2054 million. The increment of 146.67 percent is observed. The major exporters are Iran, China, India, Pakistan, Germany, Nepal, Turkey, UK, former USSR. Afghanistan and Morocco. They constitute about 88.7 percent of total world export of hand knotted woolen carpet.

Table 4.9

Carpet Export to the EU

(Quantity in sq. m.)

FY Countries	2002	2003	2004	2005	2006	2007*
Iran	3223481	2905728	2641945	2152427	1878139	776684
India	3997307	4455655	5857694	5369962	5697650	2730951
Nepal	1124872	1042524	1183567	995043	896898	382756
China	745952	1122978	447393	844530	1290572	507538
Pakistan	1594462	184607	1606250	1660827	1423324	700180
Afghanistan	112238	54065	68451	45016	48951	10604
Morocco	339024	327317	333534	304032	255068	117430
Turkey	523038	645795	646465	979048	859285	640022
Tunisia	21727	15064	24447	31565	37723	7908
Others	563507	640757	5040623	660933	600145	289791
Total	12245608	13051490	13314369	13043383	12987755	6163684

Source: European Carpet Importers' Association E.V.

\* Value for January to July 2007 Only.

The major markets for carpet are Germany, the USA, Belgium, Turkey, Switzerland and the United Kingdom. Looking at the export figures from the major carpet exporting countries, India, Iran and Afghanistan have been increasing their export of carpets. The Indian carpet is competitive in the medium price and low price carpet. Nepal's position in the global carpet trade is fourth which takes around 8 percent (2005) of market share of European union in carpet exports as share in carpet exports as volume and around 10

percent as an value. While India's share in volume is around 41 percent and around 25 percent by value and Iran's share is 17 percent as volume and 33 percent by value.

There is a tough competition for Nepalese carpet in comparison to the market share. Even the market share in terms of value may not be quite informative of competition. The table 4.8 reveals that Nepalese carpets have to face the competition in market with the carpets of Iran, China, India, Pakistan, Afghanistan, Turkey and Morocco.

Table 4.10

Top 10 Nepalese Carpet Exporters (Year 2007)

S.N.	Exporter	Sq. m.	Value in US\$
1.	Kantipur Carpet Industries	41785.25	1566844.14
2.	Pioneer Carpet Industries	40327.68	1603491.82
3.	Senon Carpet Industries	35126.34	1474908.33
4.	Exotic Oriental Crafts	26496.59	1131244.65
5.	N.P. Rugs Industries	24685.60	965253.41
6.	T.T. Carpet Industries	22711.28	1223915.92
7.	Joshi Carpet Industries	22544.27	712640.94
8.	Khumbhu Carpet Industries	22103.63	1230790.01
9.	Himali Rug House	22096.77	1913795.33
10.	GK Carpet Industries P. Ltd.	20443.78	654200.61

Source: Report of Trade & Export Promotion Center, 2007.

As shown in the table the top exporting company is Kantipur Carpet Industries in the Fiscal Year 2007 with export volume of 41785.25 sq. m. with the export earning US\$ 1566844.14.

Table 4.11

Top 10 Nepalese Carpet Importers in 2007

S.N.	Importers	Country	Sq. m.	Value in US\$
1.	Ludwig Wissenbach GmbH Co. KG	Germany	74764.38	2704169.17
2.	Teppich Kibek GmbH	Germany	68211.60	2522384.38
3.	Tufenkian Artisan Carpet	USA	40523.09	3291300.84
4.	Talis Vertriebs GmbH	Germany	32349.41	1586807.80

5.	The Rug Company	UK	32023.81	3780509.95
6.	OCI Orient Carpet Import	Germany	29647.87	1179563.79
7.	ABC Carpet Co. Inc.	USA	29480.13	2434632.81
8.	Atlas Einrichtungs Einkauf	Germany	29119.49	1624825.86
9.	Wissenbach GmbH & Co. Kg.	Germany	24552.51	886134.99
10.	Steve T. Cibor	USA	23121.83	2219403.13

Source: Report of Trade & Export Promotion Center, 2007.

As shown in the above table the top importing company all over the world for Nepalese carpet is Ludwig Wissenbach GmbH Co. KG from Germany at the export volume of 74764.38 sq. m. for the year 2007 with the importing value of US\$ 2704169.17. The highest paying company for the exports of Nepalese carpet is The Rug Company from UK at the average unit price at US\$ 3780509.95 from 32023.81 sq. m. of import.

#### 4.2 Competitive Market Structure of Nepalese Carpet

A nation will specialize in the production of the goods and services which utilize to a great extent its abundant resources. These which are relatively more plentiful. These are the resource in which it has a comparative advantage. But a business normally does not operate in a isolated environment. For each products there is other product on the market, or in the process of being developed. The structure of the market in which a country must operate is determined by the nature of the products being manufactured and sold as well as by the number and size of the countries in competition and next, the types of consumers being targeted.

Economist usually group market structure into four basic categories, monopoly, monopolistic competition oligopolistic competition and pure competition.

A simple study of the performance of competitors is not enough in the study of competitive market structure. It is necessary to identify the particular sources of success of each competitor in the market. It is low price ? Service ? Location ? Company ? But, to analyze all of them are out of scope of this study. So a simple analysis on some components of market structure as being in practice of Nepalese carpet is done here.

##### 4.2.1 Product Competitors

The Nepalese carpets of today has come with Tibetan refugee in 1959-60. So the designs, patterns and knotting style of Nepalese carpets are quite Tibetan. The consumers of Nepalese carpets are quite familiar with the name "Tibetan carpet" and "Nepalese Tibetan Carpet."

The feature of Nepali carpets is influenced by Chinese, Mongolian and Turkish Ian, but the way of making knots is quite different. Even the making of knots is similar to Persian. The Persian knots need a cutting each time. But, in case of Tibetan carpets all knots are connected till one line is weaved with the help of iron rod and then knots are separated by cutting a single stroke over the colors inspired by the Hinduism and Buddhism and have specific significance, reflecting both the life and thinking of the people. However, in recent years the Nepali manufactures have been successfully introducing modern designs and colors in line with the consumers' taste. Today, Nepali manufactures can product carpet of any design, color, and sizes according to buyer's choice.

Another unique feature of Nepalese carpet is the use of the handspun woolen yarn which reflects the Nepalese carpets as a real handicraft. So the consumers of Europe like to have Nepalese carpets. Nepalese carpets are woven with 35 to 125 knots per square inch with the help of thick iron and which increases the pile height of the carpet. Generally the thickness of the carpet is between 1 to 1.5 cm and the carpets are mostly weight between 4.5 kg to 5 kg per square meter. And the price of carpet differs according to the knot density and designs.

The three main types of hand made carpets are: hand knotted pile carpets such as Persian Bukhara, Berber or Chinese style, flare woven rugs of Middle East origin such as Kelems and Karamaine, and simple design flat woven carpets made of wool or cotton principally from India when they are known as Dhurries. Other simply flat woven and tapestry types are available from the range of source such as Africa and Latin America. The production of any one of these hand made products are confined to traditional source of supply providing the requisite skills. The hand knotted pile carpets are by far the most important area in handicraft floor covering sector.

In contrast, there are 28 different types of carpets which differ in materials design, and knot style and density one of the common type is Persian carpets. The Persian carpets, original of Iran, are woven in many Arab countries and India and Pakistan, Kashmir,

Srinagor and Lahore are the major places of production of Persian carpets after Iran. The Persian carpets differ in their classic nature and the knot density of 300 to 400 knots per square inch, which takes up to 6 month to make a carpet.

Today India, China and some other countries also produce carpets of Nepali designs and knot type. But they use machine spun yarn as well, which do not mean a complete handicraft product. Next, the blending of New Zealand wool and Tibetan wool gives Nepalese carpet a quality product and unique texture. Nevertheless, the Indian and Chinese carpets of Nepalese style are making Nepalese carpets more competitive in market. Those carpets are named in the markets as "Indo-Nepal carpet" Indo-Tibet carpet and Nepal China carpet.

#### 4.2.2 Competitive Scopes

The focus of all marketing effort is the consumer. It is not a simple job to identify and attract consumers. Traditionally carpets are used to protect from cold as floor coverings. But the hand made carpets are also taken as handicraft product and liked by most of the European and American people. The markets of hand made carpets are the countries of cold climate and economically rich. And the buying season of carpets is winter season. The consumers' taste and preferences are affected by the design, color and thickness. Even most of the people like Persian carpets, being its classic nature, they are expensive too. Another preferred types are Indian, Pakistani, Nepali and Chinese carpets. The American people usually like traditional Indian and Persian carpets.

Another parameter of measuring consumer type is the economy of the people. 'A market requires not only people and willingness to buy, but also purchasing power and the authority to buy (Louis, 1977: 89). One of the important features of Nepali carpet is that it is economically accessible to all class of the people. In markets every carpet needed consumer can afford for Nepali carpets. In contrast, even the Persian carpets and Dhurries are affordable to higher class people, they also like to have Nepali carpet as being a distinct and having uniqueness in weaving style, pile thickness, wool type and texture. It can attract the feelings of people for having a handicraft item. The consumers also used to buy Nepali carpet with the sympathy to a poor country and buy the name of Tibetan refugee.

But, there is no specific consumer group buying Nepalese carpets. They do compare the price, design and quality of the carpets while buying. According to the fashion trend the new generation consumer group do not like the traditional designs, and sizes are also changing according to the room sizes of modern houses in Europe.

The major exporters of the woolen carpet in the world are Iran, China, India, Pakistan, Germany, Nepal, Turkey, UK, former USSR, Afghanistan and Morocco.

#### 4.2.3 Price Structure

Pricing is a crucial decision in marketing. In economics the pricing has been approached in different ways such as pure competition, oligopoly or monopoly. These constitute the overall market structure. The price structure is the unified relationship of pricing on demand and time factors influenced by differences in consumer behavior, competitive response, the firm's cost structure, profit objectives, government regulations and exchange rate.

The price structure is influenced by following factors:

##### a. Firm Level Factors

The firm level factor includes the objectives, market area and cost structure, traditionally the objective of Nepalese carpet exporters were to adapt the product in European markets (especially North European markets). Being the every stage of production was manual at small production centers, the cost of production was higher resulting the price was comparatively higher. However being the product of new taste it was easily salable. But in recent 4-5 years the carpets produced in Nepal in large scale and some mechanized procedures also introduced in carding, dyeing and washing. And change of raw materials also helped to economize the production cost. In the same way the market also expanded to more countries and more consumers. Hence price could cut-off proportionately.

##### b. Product Specific Factors

Nepalese Tibetan carpets are cheaper than the Persian and other carpets more sold in markets. At first the consumers used to buy Nepalese carpets as being uniqueness in weaving style, design, quality and raw materials. But in later years everything except the weaving style has changed according to the demand of time. However, the product has already reached in mature stage as there are substitute of same style and design carpets from India, China and other countries. The delivery and other attributes of shipping has

not changed. The geography of Nepal also causes higher cost of Nepalese carpet in markets. The labor cost, raw materials and lack of any kind of government incentives also make Nepalese carpets costlier than the Indo-Nepalese and Nepal-China carpets. India and China use most of the wool produced in their own country.

c. Market Specific Factors

Till 7-8 years all of the consumers of Germany, Switzerland, UK and other EC countries were not able to buy Nepalese carpet only the economically middle and higher class people used to buy Nepalese carpets. But after 1990-91 the production in Nepal increased according to the political change Multiparty Democracy System and change of government policies. The deflation of Nepalese Rupee in comparison of US\$ and DM reduced market price of Nepalese carpet.

The retail price of usual size Nepalese carpet in Germany was about DM 8000 to DM 9000 in 8-9 years ago. In 4-5 years ago it reduced to DM 4000 to 5000, and in 1993 the same size carpet were sold in Germany in approximately DM 2000 to 3000 (An interview with W.D. Horstmann, an European Importer, taken by Nepal Traveler Publication Pvt. Ltd., published in its special issue for Domotex fair 1994), (C. 1994).

The negative aspect of price drop is due to the much lower quality image of the Nepalese carpets. Earlier it was a luxurious article, but now it is deteriorated to a common article. Consequently a large group of buyers reached automatically. On inspecting this, more furnishing stores, departmental stores, mail order houses, discounters, shops for tools and building materials become very interested in the Nepalese carpets vis-à-vis Persian, India and Chinese carpets.

The Government had tried to control the quality of carpet and price reduction by maintaining floor price of US \$ 67 (unwashed) and US\$ 70 (washed) in 1987. But Nepalese carpet exporters could not compete in markets in that price. So the floor price dropped to US\$ 65 (washed) in 1989 and again US\$ 60 (washed) in 1992. The government price of Nepalese carpet today is US\$ 54 (washed) and US\$ 49.5 (unwashed).

d. Environmental Factors

In comparison to the price structure, Indian and Chinese carpets are more competitive with the Nepalese carpets. The buyers, being price sensitive, began to compare between

those carpets. Indian and Chinese carpets are comparatively cheaper than Nepalese carpets although the quality differ. China brought about very competitive offering by reducing price as promotional tool after 1990 (UK Market Notes, 1993: 3). Similarly India also increased its carpet export 21 percent in quantity in 1991 by reducing price. The devaluation of exchange rate also brought reduction in export price in India and Nepal in 1991. In Iran also the export price of carpet dropped to 40 percent due to exchange rate variation after the ending of Iran-Iraq war.

On the other hand, the excess production in Nepal resulted unhealthy competition among the exporters. Consequently market position changed from seller's market to buyer's market. A few buyers saw the opportunity to buy cheap and bought huge quantity at low cost. So the price wars and the price cuts to drive out competitors destructed the market reputation of Nepalese carpet.

The price of carpet has dropped to 20-40 percent in two years. Most of the exporters have to export their carpet at very much less than the floor price. However, the quality producers and program producers are still getting reasonable price despite less quantity export.

The recession in Europe also affected the macro-economy of carpet marketing. The lower class consumers today use to buy cheaper carpet not withstanding the difference in quality. Hence also the Nepalese carpets become more price competitive with the Indo-Nepal carpets and Nepal-China carpets. But, there are still quality conscious consumers, who know the uniqueness of Nepalese carpet. The Nepalese carpet exporters should maintain and promote these features in order to meet the competition.

Thus, the price structure concludes that the traditional oligopolistic and monopolistic competitive position of Nepalese carpets are facing today the position of pure competition. The producers and exporters has no price policy. They must sell at the market price, over which the buyers have more control.

#### 4.3 Channel Structure

Selling in foreign markets need special efforts and special skill. Usually small and medium-size companies cannot afford to perform the whole range of marketing and sales activities in foreign markets themselves. An easier and less expensive way is to use well



established exporting and importing agencies. Another possibility is direct selling to a large wholesaler, a chain or a large consumer within the export market on the basis of at least a medium term contract (Siro, 1979: 32).

Thus, channel of distribution is the chain of marketing agencies linking the producer to the final buyers in the market. These agencies negotiate sales transactions and direct the physical movement and storage of the product so as to place it ultimately in possession of final buyers. The agencies comprising a given channel of distribution may be independent middlemen or owned by the producer. They may be many or few in number. The concern is how can the producer most profitably get his product to foreign consumers?

Export marketing suggests that the marketer must deal with this question in two stages: (1) the firm's method of entry into foreign markets (2) the selection of distribution channel within each of the firm's foreign markets. A subsequent management task is the coordination of global logistics (Vern Terpstra and Ravi Sarathy, 1990: 361). The entry may be direct or indirect. Manufacturers should have their own criteria for channel selection. However, the choice is influenced by (1) distribution policy, (2) product characteristics, (3) supply characteristics, (4) customer characteristics, (5) middleman's characteristics, (6) channel competition, (7) company characteristics, (8) environmental characteristics, (9) social and ethnical characteristics, (10) sales volume potential, (11) cost of channel usage, and (12) long run profit (Amarchand, Varadharajan, 1979: 21f).

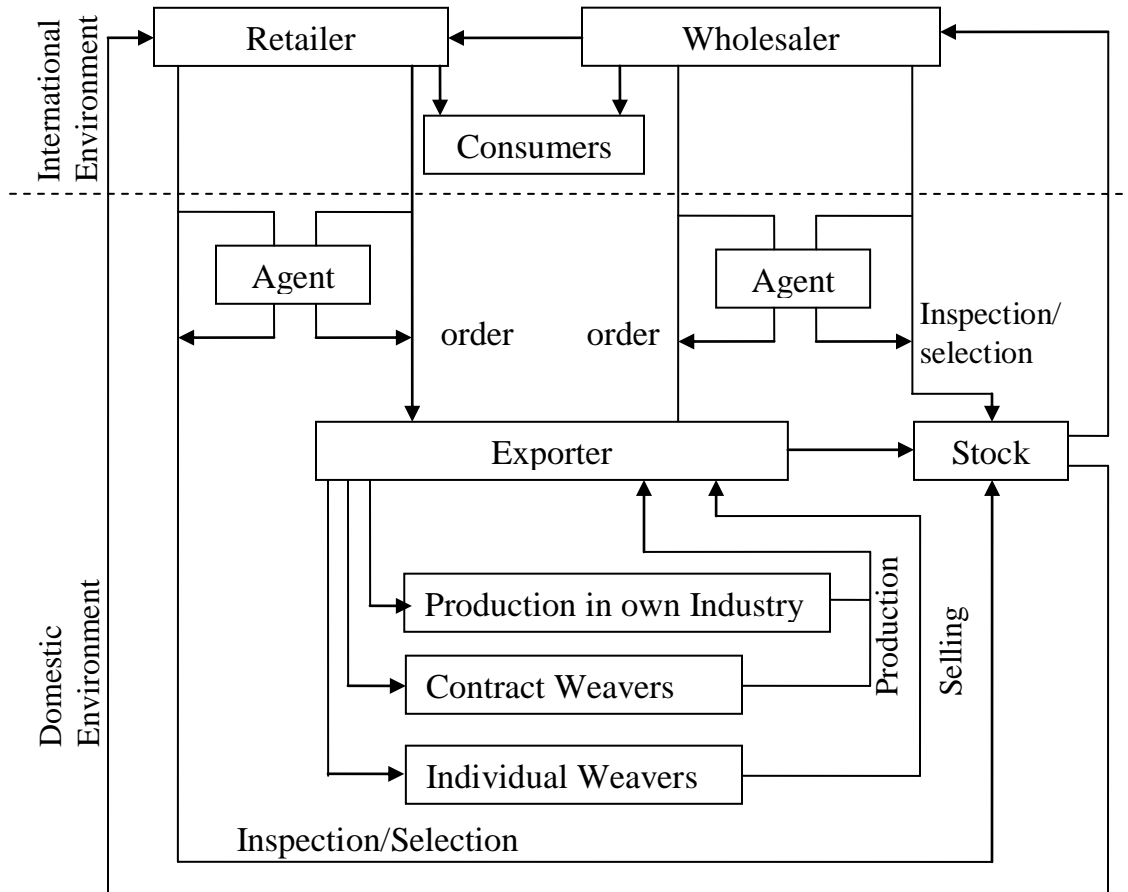
A company's distribution policy is characterized by its market exposer and the product type. Perishable and fashionable products require more direct marketing and intensive distribution policy because of the danger associated with delays and repeated handling. Bulky products require channels that minimize the shipping distance and the number of handling – a selective or exclusive distribution policy may be used. The geographical dispersion of producer and free entry and exit of producer demand the long and indirect channel to be used. Similarly the number and geographical dispersion, regularity and quantity of purchase also influence the channel selection.

But, in developing countries, marketing has not yet received the full recognition, even though the expansion of industrial enterprises is the result of market opportunities and marketing expertise. The marketing channel development of Nepalese carpet started

when it has produced carpet commercially. The buyers (especially retailers) became more attractive to be a channel member between the Nepali producers and the consumers. "Marketing is not only as being carried on by sellers while buyers also carry on marketing activities. A buyer who need a commodity in short supply tracks down sellers and offers attractive terms" (Philip Kotler, 1986: 11). As the market of Nepalese carpet flourished being a uniqueness and in line with the market fashion trend, the intermediaries expanded as doing wholesaling. The production system also dispersed to cottage, small, medium and large production centers; each being a channel member. The free entrance of middlemen resulted the channel structure more complex and larger. However, the buyers were always in stronger position.

Every producer of Nepal is not able to sell their carpet to the foreign consumers directly. The exporters play a chief role in production, they do contact and appoint wholesalers and retailers as channel members, but the buyer have more power than the seller.

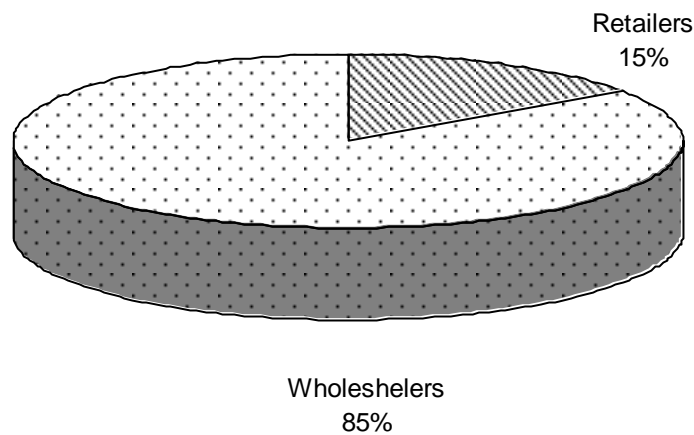
A general channel structure of Nepalese carpet at present is as follows :



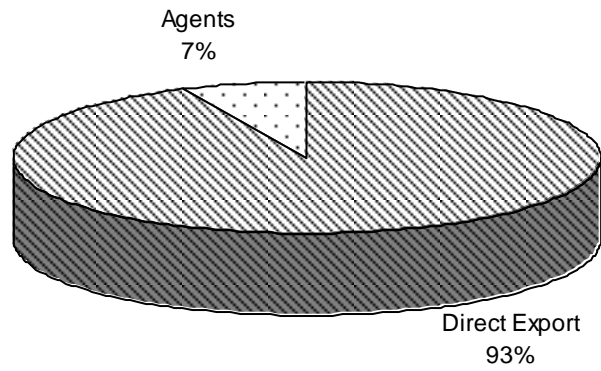
The process begins when a buyer (wholesaler, retailer) places order to the Nepali exporter with a programmed contract of quantity, design, size, price and delivery time. Then the exporter chooses several alternatives whether it should produce in its own factory, provided it has its own factory, or order to external contractor or purchase from individual weaves. The programmed carpet are accumulated in stock within the defined period, which is inspected and selected by the buyer or his authorized agent and approves for exportation. The rejected carpets are again sold to other buyers with same process and in discounted price (stock sales). Nepali carpets are available to consumers in retail stores, furniture stores and individual specialist outlets together with other types of carpets. About 90 percent of carpets are sold from programmed production.

The survey report shows following compositions in distribution channel :

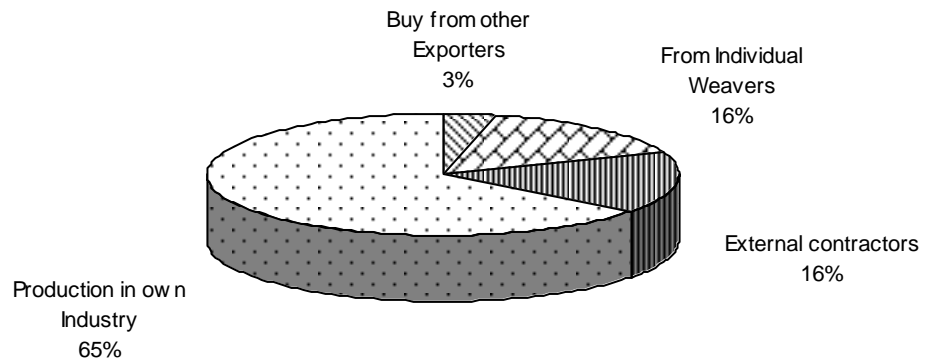
1. Sales to foreign countries :



2. Sales through :



3. Accumulation of Stock :



Source: Carpet and Wool Development Board (1999), Hand Knotted Woolen Carpet from Nepal.

Fig. No. 4.8 : Channel Composition

The Nepali exporters and manufactures have not their own distribution cells in foreign countries. And about 64 percent of the sales goes to wholesales in Germany who are specialists merchants and do re-exporting is done by other countries' specialists as well like UK, Switzerland, Belgium, Hongkong, Singapore etc.

One more area of investigation in market size and structure is an evaluation of trade policies and other pertinent government regulations of market countries, that may influence marketing action, pricing and the like. These include registration requirements for patents and trademarks, import duties, import restriction and controls, exchange permits, anti-monopoly legislation, resale price maintenance laws, trade practice legislation and labeling and standardization requirements. But, they are out of scope of this study. A general study of Nepal's policies are highlighted in the next chapter.

#### 4.4 Export Mechanism and Policies

Exporting is an essential function of international business. Goods manufactured in one country, destined for markets in another, must be moved across their borders to complete the process. Many controls and procedures arise in completing the process. Required documents, terms of payment, tariff systems, and other barriers to the free flow of goods between independent sovereigns are requirements prior to export marketing that must be considered by the export marketer. These mechanics are essence of foreign marketing and their importance cannot be minimized.

This export procedures in one hand and government policies and intervention in pricing, distribution and promotion on the other hand plays a significant role in shaping the composition and direction of export. So this chapter analyses the past and prevailing export procedures, policies and incentives narrating to marketing of Nepalese carpet.

#### 4.5 Export Procedures

Export procedures may be seen as the channel activities taken in export marketing, because channel is defined as a pipeline for goods from manufacturers to consumers. There are more than 200 registered carpet exporters in Nepal. The exporters have to fulfill different procedural requirements from the time an export order is obtained till the realization of export proceeds. Preparation of various documents, banking requirements,

custom procedures and transportation are the most complicated procedures of export marketing in Nepal.

The exporters have to register their firm in the department of commerce or its branches as a trading firm. There are many exporters who have their own industry and many exporters work as marketing institutions between the producers and other channel members. Many small and medium carpet manufacturers do not export directly, the exporters used to buy the carpets manufactured by them after inspection of quality and specifications. Some of those are paid wages on a contract basis after the carpets have been collected. The raw material designs and other required tools and equipments are supplied to the weavers by the established manufacturers and/or exporters.

The industries must be registered within 6 months of operation in department of industry or department of cottage and small industries or its branches. But in present practice, the small manufactures who supplies to the established manufacturers and exporters have not registered their industry.

Next, the exporters should have a current account with a reputed commercial bank authorized to deal in foreign exchange. The bank then agree to deal transaction between the exporter and buyer.

Exporters have to prepare various documents within the distribution pipeline to satisfy government regulations, international commercial and transit rules and payment transactions. At present the Nepalese carpet exporters have to prepare the following documents while executing the export.

1. Export contract form,
2. Commercial invoice, packing and weight list,
3. Certificate of origin,
4. GSP certificate of origin,
6. Letter of credit (L/C),
6. Foreign Exchange Earning Bank Certificate,
7. Custom Transit Declaration Certificate (CTD form),
8. Bill of Lading or Shipping Bill,
9. Railway receipt/Airway Bill,
10. Custom clearance,

#### 11. Insurance policy.

The certificate of origin is issued by the Nepal Chamber of commerce. To enjoy preferential tariff concession in the importing country, the GSP certificate was obtained from the export section of the Trade Promotion Center. But, at present the Carpet and wool Development Board checks and certifies the GSP. It consists of the information about the means of transport, route, name and address of the exporter and importer, number of items, number of packages, description of goods, place of manufacture, gross weight, quality and number, date of invoice and value, certification etc.

To obtain, credit facilities from bank, various documents are needed, such as CTD, Railway/Airway Bill, Bill of lading Insurance policy, Certificate of Origin etc. The exporters today also export their consignments under advance payment receipt, and 10 percent of the exporters use sight draft term while selling samples.

The Nepali exporters should obtain the CTD certificate from the Nepal border custom authorities concerned to assure the Indian custom authorities that the goods are not of Indian origin, and are mean for export from Nepal to third countries, other than India, and shall not be retained in India. Then the consignment is carried by a third agency to its destination. The third agency gives its official receipt (Bill of lading) for the goods shipped in its vessel to carry them to the port of destination.

If the goods are shipped from Nepal border or Indian border by rail, the railway authority issues a railway receipt and endorses it to the exporter. If the goods are not sent by rail, it can be replaced by Cover Note (C/N) issued by a transport company. When the goods are sent by air, the Tribhuvan International Airport issues in Airway Bill. The freight charge is paid by the exporter if the contract is on CIF or C & F and if it is on FOB (FCA) policy, the importer will pay the freight charge. Sixty-two percent of Nepali Carpets are exported under FOB term, 28 percent C & F term and rest 10 percent under CIF term. The importers prefer FOB and C & F term. Even if, sometimes exporter hesitate to export on CIF term.

Before the consignment crossing the Nepal border the exporter should get the goods cleaned by the customs. This procedure should be completed in the customs office of Nepal border or of Tribhuvan International Airport office or of Foreign Post Office Department, from where the goods are passed. At present there is no custom duty, no

excise duty, no sales tax and no quantitative restriction in export of carpets from Nepal. A 2 percent service charge was levied in the value before, but it has been reduced to 0.5 percent since the budget speech of fiscal year 1995/96 (June 11, 1995).

If the good is transported through India, the exporter should clear the custom office at Indian border. As soon as the export consignment crosses the Nepal border, the exporter must get it issued by an authorized insurance company. But the insurance policy depends on the FOB, C & F or CIF terms.

#### 4.6 Transportation

Transportation plays a role of facilitating agency in total distribution channel system. But, one of the major bottlenecks in development of the export sector in Nepal is the country's geography. The difficult mountain terrain on one hand and the landlockness of the country on the other, brings serious challenges for the development of the export logistic system in the country. The country has limited modern transportation network and a major part of the country still depends on the human labor for transportation of goods. This is one of the main cause that most of the carpet manufacturers and exporters are concentrated in Kathmandu valley.

The problem posed by the landlockness of the country is even more severe as the country has to access to sea only through India. The problem of transit, transportation, warehousing, insurance etc. has always been obstacles to Nepal's export trade. All the carpets exported from Nepal have to be carried by air or through India, from Calcutta port.

There is lack of government incentive on transport. More than 75 percent of the carpets are exported by land and sea. So, the exporters cannot meet the prompt delivery commitments. Procedures and physical facilities and services at Calcutta Port is another problem for the Nepali carpet exporters. Exporters also ship their carpets from Bangkok Port and Singapore Port carrying up to there by passenger flight.

#### 4.7 Export Packing and Labeling



Nepali carpets are packed to protect them against damage in transportation. Nepal uses conventional method of packaging. The carpets are rolled and packed in polythene sheets and then covered by jute Hessian or gunny bags.

There is no strict labeling and branding of the carpets. Presently, Nepal Bureau of Standards and Metrology has provided 2 carpet industries the Nepal Standard (NS) Mark. Similarly, the International Wool Secretariat (IWS) provides Wool-Mark on the carpets made from internationally accepted pure wool. The standard is examined and the wool-mark license is provided in Nepal by CWDB. Till 1994, 12 producers have been given the mark. But, these marks are provided as voluntary service. Once, the child labor free tag was withheld for the identified period by the Government on the request of the carpet manufactures and exporters. But, later on it is understood that it will dampen the credibility of Nepalese carpet in international markets and not practiced.

Nepalese carpets are not branded while exporting. However, exporter and buyer put their own names of the carpets to distinguish its features: knot density, quality, design etc. for their convenience. The names like: 'Hotan', 'Sherpa', 'Padme', 'Bhaktapur', 'Annapurna', 'Thali', 'Pokhara', 'Himalaya', 'Shampala', 'Shangrila' etc. differ from buyer to buyer. In addition, the importers and wholesalers also put their own brands while selling.

#### 4.8 Delivery

Delivery of the export consignment is usually made in 1 to 3 months from the confirmed order received. Sometimes for special designs, delivery may take upto 6 months. The big exporters use to keep an adequate stock of carpets in usual designs and sizes to ensure prompt delivery. Such delivery could be made within the 7 days. But most of the exporters produce carpet against the programmed order. The color, design, size, quality, quantity, price and delivery time are already fixed by the buyer and before the shipment the buyer selects and approves the carpets for shipment. The exporters give assurance of color and quality of such carpets. If the shipment is delayed, the exporter gets penalty.

#### 4.9 Export Promotion Policies and Incentives

A strong policy commitment from the government becomes a prerequisite for any meaningful development of the export. A dynamic and determined export policy

followed by a set of committed programs can bring dynamism in the export of the country. Government policy refers to a set of measures taken by the government to maintain sound national economy. A policy is a guide, that gives direction, through which can reach the objectives. The objectives of trade of Nepal has been to promote exports and to restrict the level of imports. The basic objective regarding export promotion of Nepali carpet can be seen in two types of policies. GoN has been amending these policies as demanded by time.

#### 4.9.1 Industrial Policies

In Nepal the first formal Industrial Policy was declared in 1957 shortly after the launching of the First Plan. This was followed by an Industrial Enterprise Act 1961. However it could not reduce the risk associated with the establishment of industries.

Another Industrial Policy was related in 1974, but it also seemed to have little impact on industrial promotion as revealed by an industrial survey conducted by the Nepal Rastra Bank in 1977. The export of handicraft had been the prominent item in export from Nepal other than the primary goods. The objectives of the Industrial Policy was to develop self-sufficiency through the production of antique goods. The foreigners were not permitted to venture into cottage and small-scale industries.

The Industrial Policy was revised and a new Industrial Policy was adopted in 1981 together with the Industrial Enterprise Act and the Foreign Investment Act. The policy encouraged the participation of private sector and foreign investment except in the defense. Emphasis was given to improve the existing industries.

The government announced another Industrial Policy in October 1987 with new thrust in concessional import duties tariffs, subsidies and tax exemption. Some categories of industries including carpet industries were granted permission to import the required raw materials from abroad under much eased open import licensing provision. The policy included encouragement of import substitution, exporting and cottage industries, tax holding for few years and tax rebate for cottage and small industries along with other measures.

A new Industrial Policy was released in 1992. The policy provided delicensing procedure for industrial enterprise except related with defense, public health and environment. No income tax, sales tax and excise duty are to be imposed on traditional cottage industries.

Cottage and small industries are reserved for Nepalese only, allowing only technology transfer in these industries. According to the Industrial Policy 1992, no income tax is levied on the proceed gained through export. There is a provision of duty drawback to the exporters on the basis of the quantity of the export. The custom duty, excise duty and the sales tax levied on raw materials and auxiliary raw materials are reimbursed to the exporters within 60 days upon the receipt of the application for such reimbursement. But, carpet is taken as 100 percent exportable item. So any duty is not levied on the import of raw wool except the service charge. But, duty drawback on the imports of dyes, chemicals and other materials required for Carpet Industries, are not practiced yet.

#### 4.9.2 Promotion Practices

Promotion is said to be an exercise in information, persuasion and influence. These three are interrelated. Information leads to persuasion which in truth results in influence. A consumer must know that a particular kind of product has come out in market with its features, its price, its availability and so on. All these constitute necessary information. But information and persuasion always can not make a consumer to buy the product. Some influence is needed – may be price concession, added facilities or the weight of someone's experience.

Promotion is closely associated with the product planning, pricing and distribution, which are performed mainly within the company or between the company and its marketing partners. But, promotion is the activity in which the organization gets its chance to communicate with potential customers. "Modern marketing is composed of a complex marketing communications system. The company communicates with its middlemen, consumers, and various publics. Its middlemen communicate with their consumers and various publics. Consumers engage in word-of-mouth communication with other consumers and publics. Meanwhile each group provides communication feedback to every other group" (Philip Kotler, 1992: 569, Marketing Management Analysis, Planning Implementation and Control).

The information, persuasion and influence can be obtained by the various promotional mix: advertising, personal selling, sales promotion, publicity and public relation. These tools help an organization to achieve its marketing objectives. There should be certain policies to accomplish the objectives.

Policies and practices take place one after another. When a policy is implemented it becomes practice and, conversely, when a practice is successful, it becomes a policy. So policies and objectives are formulated by the management in the process of planning. Each company needs policy relating to its diverse activities for the attainment of common objectives. Promotional objectives of a company may be getting new consumers, holding current consumers or getting new or additional distribution with trade channels.

To attain these objectives, different types of tools are used to the consumers and channel members. And these becomes promotional policies. Promotional policies may be short term or long term. The short term policies may be used by media advertisement and sales promotional offers to the channel or the users, whereas, public relation and publicity are slow but long term policies.

Promotion should be strongly influenced by a firm's strategic marketing plan. "A strategy is a unified, comprehensive, integrated plan" (Lawarence and William, 1988: 11). Management has to determine what combination of advertising, personal selling and other promotional tools will make the most effective promotion for the company. Four factors should be taken into account in deciding the promotional mix. They are (1) the amount of budget available for promotion, (2) the nature of the market, (3) the nature of the product and (4) stage of the product life cycle.

Promotion in foreign markets, that is communicating with the firm's audience to achieve certain goals, is a vital task than in domestic markets. The promotional strategy determines the positioning of the product abroad. This strategy is dependent to a significant extent on where the product is in its life cycle it particular markets. This is likely to vary between different foreign markets depending on the time of entry, market structure, competition and consumers. The availability of marketing partners, regulations, type of promotional tools available and the media vehicle are the parameters making promotional policies success or failure. In a wider sense, promotion in foreign markets covers advertising, sales literature, trade fairs and shows, direct marketing, publicity, point of purchase, sales representatives and activities of government.

But, in the case of developing countries, the financial constraints and technical know-how are some bottlenecks in implementing promotional policies in foreign markets. So the management of sales force, media advertising and direct marketing are far from the

practice. On the other hand publicity is the difficult and strongest promotional tool. In this chapter an analysis is made on the practices of Nepalese carpet exporters in promotion and communication as well as the promotional activities of government and non-government organization and association.

#### 4.10 Promotion Practice by Exporters

Promotion is found have been done by every Nepali exporters. Either buyers search reliable exporters or exporters search and invite the buyers offering their carpets with negotiation of price, delivery, quality, design, size etc. All of those activities should be taken as promotion practices. Direct contacts and correspondings are done by the exporters to new buyers and vice-versa. There are some promotional items influencing these practices.

##### 4.10.1 Advertising

By definition, advertising is the paid form of non-personal presentation and promotion of ideas, goods, or services by an identified source (Philip Kotler, 1992: 567). Advertising should be a cost effective way to disseminate messages, that is, informing persuading and reminding the customers, middlemen or consumer. There are different media of disseminating such messages such as : magazines and newspaper space, radio and television, outdoor displays, direct mail, tear pads, catalogues, directories, novelties and circulars. But these methods are dependent on the product type, market structure and availability of media.

Furthermore for a developing country to advertise in foreign countries has several bottlenecks. The process should be started from identifying market and buyer motives. It should, then, proceed by setting advertising objectives, budget decision, message decision and selection of media. The effectiveness of advertisement should also measured.

The advertising has many purposes like: building organizational image, building brand image, sales promotional etc. The message designed by the Nepali exporters are to inform about the image and address of the firm and industry. It means that the message is targeted to the intermediaries. This is why the exporters advertise on magazines published by Nepali publishers only.

Advertising in foreign media is quite unaffordable to the Nepali exporters. And, as the Nepalese carpets are purchased on the name of hand knotted woolen carpet rather than a special brand of an exporter, consumer influencing advertising by the exporters is not in practice.

The media used by the exporters are the tourist magazines: Nepal Traveler (Since, 1995), Adventure Nepal, Shangri-La, Welcome Nepal, Nepal Visitors, Bazar International, Connection are some examples. Nepal Traveler and Adventure Nepal are periodic magazines freely distributed to tourists visited in Nepal, Hotels, Travel Agencies and Airlines. These include various articles about Nepal's tourist valued places and things along with tourist information materials. Hence the Nepali exporters aim to inform the buyers and their agents who visit Nepal and stay in Hotels. Nevertheless, the tourists for other purposes are also informed.

Besides, each of Nepal Traveler and Adventure Nepal also publish special issues about various aspects of Nepalese carpet and carpet industries with more advertisements or exporters. The special issue is published in January of every year, when a fair is organized in Hannover, Germany named the "Domotex Fair". The objectives of those magazines are to promote Nepalese carpet by strengthening corporate communication and highlighting the publicity of Nepalese carpets, and they are distributed freely on the fair place.

#### 4.10.2 Sales Literatures, Catalogues and Sales Promotion

Sales promotion consists of a diverse collection of activities having the characteristics of communication, short term incentives. They may be targeted to consumers or middlemen buyers. On the other hand sales literature, catalogues and brochures, also tools of communication and invitation, are considered as direct marketing tools. But, Nepali exporters are not in practice with direct marketing. However, they use the tools such as brochures, design sheets, photo albums, slides and video films; which are operated with their buyers (wholesales and retailers) supporting mail marketing. Only 10 percent of exporters found that they distribute brochures at the time of fair. Almost 70 percent of the exporters use design sheets and photos of their designs, and patterns while contracting the program order and rest 30 percent exporters do only letter correspondence (mail marketing).

Nepali exporters are not using the consumer promotion tools like : samples,, coupons rebates, premiums, prize etc. But, they are using trade promotion tools as sales promotion. "Trade promotion can persuade the retailer or wholesaler to carry more goods than the normal amount. It can also include and stimulate retailers to promote the product and push the product". The exporters use price-off (i.e. off-invoice) on the stock sales, off season purchase and large quantity purchase. They also provide allowance in such purchases and also provide some allowance to the buyer for advertising their carpet in the market (cooperative advertising). The exporters are found to have displayed the carpet at their show room (and/or warehouses). The exporters should send samples, while introducing new designs and styles, but GoN's policy do not allow to send free samples. Either the buyer should pay for the sample or the exporter should compensate to the buyer for making currency payment to the bank. Steps are taken to solve the problem in the current fiscal year.

#### 4.10.3 Trade Fairs, Shows and Seminars

Trade fairs and trade shows are special forms of promotional tools, which are organized for some specific period. These can make face to face communication to the actual consumers and middlemen. And these can influence the consumer to make buying decision and promoting channel members. New products get good response in such fair and shows.

Domotex Trade Fair of carpets and floor coverings is the most important trade fair in international carpet trading. 75 percent of the Nepali carpet exporters are found participated in that fair. Domotex fair, a largest carpet and floor covering fair, is organized in January of every year at Hannover, Germany. The fair provides an exclusive opportunity for the importers and exporters across the world to establish or renew their contacts, to place orders and buy and sell their products, and to have first-hand experience about the recent innovations in the industry. Every year about 40 countries' machine and hand-made carpets, textile floor coverings, and other floor coverings are displayed at the fair. Nepali exporters do not subscribe their own space but in collaboration with their buyers, they could visit the fair to know the new innovation in designs, quality, and fashion trends. The exporters also make contacts with new buyers and get contract of order. The Domotex fair is visited by more than 80 countries' visitors

including architects and interior designers. There is also organized a series of lectures on the future trends and prospects, quality, environment and marketing.

In the Domotex fair 1993 a group of German importers together exhibited a special show called "Fashination Nepal" at the cost of one million German Mark. They had displayed Nepali carpets with special attention to focus Nepal and its products. The show was highlighted in a special television program at Europe. The show had found benefited German importers as well as Nepali exporters. Hence, the same show was repeated in the year 1994 as well. But, in that year the exhibitors and Nepali exporters could not get satisfactory response. The Nepal's status has taken over by the Iranian 'nomadic' carpets and the completely new look of Iranian hand woven carpets called 'Gabbeh'.

The experience of Nepali exporters, who had participated the Domotex Fair 1995, were quite encouraging than the previous year, but they opine that Nepal will have to wait for some times to see the fruits of this fair to materialize.

Another biggest floor covering fair is the Atlanta National Floor Covering Market Fair Organized in the USA annually in January. This fair promoted interrelationship between major retailers, interior decorators, furniture houses and carpet producers. The carpets and rugs of all parts of the world is displayed in that fair. The exhibitors are the leading importers of the United States. Nepali exporters also take part in that fair through their respective buyers. Only 20 percent of the exporters found participated in this fair.

Other trade fairs organized in Germany are Eurotifa – Numbark and Heimtextil – Frankfort. But Nepal's participation in those fairs are very less. All together 20 percent of the exporters participate in other trade fairs in Switzerland, France, Austria, Japan, Holland and Italy. Exporters also participate in domestic trade fairs – Himalayan Expo and seminars or child labor problems, environment, market development, and raw materials and quality control organized by different organizations in Nepal. Besides, the exporters do visit in their major exporting countries to know the on going market trend, make channel relation good and create new channels.

In each visit the exporters have to expend around 1.5 lakh to 5 lakh NRs. The expenses depend in the duration of visit and number of countries in one trip. The expenses are higher in the fair time visit than other visits and those expenses are borne by the exporters themselves.



#### 4.11 Promotion through International Channel Members

Nepali exporters have not practiced in promoting consumers directly. In other words they are using push strategy by promoting and inviting more middlemen (bulk importers). No direct benefits, incentives and influences are provided to the consumers.

In contrast the wholesalers and retailers of foreign markets promote their show-room or trading house with a variety of promotional mix like: advertising, display, discount, premiums, and personal selling. But the trade house do not promote only Nepali carpets. They do business of different countries' different types of carpets, so they promote all the carpets at the same time.

The European importers of Nepalese carpets mainly of Germany, Switzerland and UK are re-exporting the Nepalese carpets in other carpet consuming countries. They are employing sales agents in the US, trying to work in joint venture with American importers and are promoting market prospect by acting as supporting companies there. From the survey, 9 percent of the exporters are found to have been done cooperative advertising in the German magazines.

#### 4.12 Public Relation and Social Factors

Public relation (PR), even though seen less utilized, is an important promotional tool. It has great potential for building awareness and preference in the marketplace. Public relation programs can improve, maintain or protect a company or product image. The country's image regarding the product is essential for export marketing. The public relation is concerned with the publicity of the product, company or the country. Good PR is good corporate communication, diplomacy and behavior. Another important factor of PR is the relations with government and international agencies.

PR assist in the launching of new product, building up interest in a product and positioning. Nepali carpet was firstly promoted with public relation. The Swiss agency and International Red Cross had created the flourishing environment for Nepali carpets in the European markets. The carpets were sold with the name of Tibetan refugees as "Nepalese – Tibetan carpets". The sympathy to the Tibetan refugees and a poor country, Nepal, was the sensitive promotional tool. In 70s and 80s Nepalese carpets were getting popularity in the markets with the "Made in Nepal" label.

As the product got popularity, the private entrepreneurs in Nepal began to increase to fulfill the demand from more retailers and wholesalers and the production increased unexpectedly. So the carpet industries became the subject of public interest (issue). More questions arose on the supply side like raw material, labor, finance – social values and norms, and environment.

"Public relation is good relation with the public, and the publics of the firm are broader than its market. They include all those who are affected by the firm's operation and all of them can have effect on firm's success. They include customers, general public, investors, government, media, laborers, suppliers, activist and lobby groups and distributors.

The concerns of public activist group and media were the child labor, female labor and pollution. The child labor is not a new source of labor, it has been using since the sixteenth century in Europe. But, the move of the twentieth century is towards the human right, social welfare and children's welfare. The issues have been taking place since the decade of 1980. "In 1991-92, the government of USA has banded imports of toys from China in which child labor was being used. The entire for industry has collapsed because boycott from animal lovers. In chat concern the carpets made the child labor cannot get market" (Agrawal, 1992: 16).

Tremendous pressure had already been placed in 1990-91 for human right organizations in the countries like Germany, Belgium, England, Canada, USA, Austria etc. to boycott Indian carpets. As a result the Indian carpets had already set back from markets. India had used to label a trademark on carpets produced with the child labor with the efforts of Indo-German Export Promotion Project (IGEP) and Carpet Export Promotion Council (CEPC) (Financial Express, 1993). The Indian Government had made compulsory for exporters of Indian had knotted carpets to furnish registration-cum-membership certification of CEPC (Economic Time, 1993).

Since then Nepali carpet industries were also looked in the eye of public. But carpet manufacturers/exporters were not the concerned with the new. Rather, they began to hide the weaknesses and were more profit oriented. Even if, there is bonded child labor and domination of laborers as it was in Indian the cases were more or less in practice.

The public relation tools were used to maintain good public relation by creating events such as conferences, seminars on the issues risen in the media. Several articles and views

we published in 1989-1993. Similarly public service activities like child care center, improvement of working environment, employee health check up camps were also conducted by some carpet factories. But the actors destroying PR were more sensitive on the one hand and on the other hand the new comers and more profit oriented industries did not care about the threat. GoN had fined 10 factories in 1993 as child labors are found in those factories in surprise visit (ECON Internal News, USAID, February 22, 1994).

The strength of PR, hence, depleted along with competition and price falls had been loosing the goodwill of Nepali carpets in markets.

The already starting price bargaining and hesitating to order Nepali carpets peaked when the Panorama channel of Norddeastlicher Rundfunk, Hamburg, T.V. highlighted the child labor in Nepali carpets on April 28, 1994, and many (about 52%) of the carpet industries are forced to close their industries due to cancellation of orders, others also could not get orders.

On the other part, the public was sensitive in the impact of pollution and health hazards of the carpet industries. Several studies had been done by some organization like: NPEDC, previously Economic Service Center, had done study on assessment of problems of carpet washing in Nepal and location aspect of carpet industries in Kathmandu valley and concluded that the pollution in water and air from washing and dying is dependent in chemical used and the concentration, and other pollution of carpet industries are land, garbage and waste and absorption of ground water. The carpet industries fail to reflect the full economic and social cost of environment. Recommendations were made to re-locate carpet industries outside the Kathmandu valley. But the government could not take any strict and effective policy regarding relocation, pollution control and employee's welfare by developing infrastructure and incentive packages for them. The activist group and general public continued to oppose the carpet industries.

Thus from the end of 1980s, the traditional goodwill and reputation of Nepali carpets in the market had been decreased. Instead, it brought bad publicity about the industries.

Good public relation assists repositioning the mature product and defend products that have encountered public problems. The carpet manufacturers/exporters today became

aware about PR and not using child labor in their factories and providing reading and health facilities to the children staying with their parents in the factory/factory sites.

#### 4.13 Price-Off and Sales Terms

Price is one of the major factor in marketing mix. The idea behind the demand and supply is sensitive to price. The production cost and competitors' price also affect the price of the product. In addition, pricing has promotional aspects. The price of Nepalese carpet differs widely according to the quality, design, color and size. And it also differs from country to country. In relation to promotion, pricing of Nepalese carpets can be assessed as follows: In the introducing period of Nepalese carpet, the price was based on cost-plus pricing. Since the product was of new type and marketed by the Swiss agency, certain amount was added in cost to support the Tibetan refugees. The carpets could take position in the European markets among the middle class consumers. Hence other private sector also got encouraged to produce carpet in Nepal. Gradually the carpet got popularity in Europe and American markets and having good PR the demand of Nepalese carpet increased. The price of Nepalese carpets were also increasing at the rate of production cost. The process remained until the mid 80s.

In the late 80s several changes occurred in Nepalese carpet trade. The introduction of modern technology in production sector, change in government policy and new raw material sources had reduced the marginal production cost. In the same way the devaluation of NRs. in comparison to US\$ and D.M., Nepalese carpets became cheaper in markets and the lower class people also could buy Nepalese carpets. Hence the increased demand increased the production volume, which also reduced cost of carpet proportionately. However, in numeric value in NRs. and US\$ the price of carpet is seen increasing till 1992.

The price obtained by Nepalese exporters vary from exporter to exporter, buyer and their contract. The data available form the TPC and Nepal Rastra Bank shows decrease in export price since 1992/93. The promotional aspect of pricing of Nepalese carpet is observed that the exporters are cutting the price to stimulate their sales, permitting their costs. Hence, the manufacturers used to reduce their production cost by using cheaper labor, cheaper raw material and neglecting other social costs. But since the buyers got

many alternative supplies, they also began to compare between the exporters. This resulted price wars between the exporters and affected the good-will of Nepalese carpet badly.

According to CCIA, the production cost of Nepalese had knotted carpet in 1991 was Rupees 2028.00 (US\$ 61.00) per sq. m. But the exporters today are selling the carpets even too much lower price than the floor price. They have to sell up to US\$ 30-35 per sq. m. of their carpets. Thus the exporters are found to have been using promotional pricing strategy. They use to provide off season discount and allowance in purchase of stocked carpets. Due to the slackness of market, the small producers intend to sell whatever stock they have at whatever price they can get.

Export prices and terms can be used to promotional advantage in several ways. The carpet must be quoted and invoiced in US\$ while exporting from Nepal. The payment terms allowed by the GoN is letter of credit and advance payment. In that way the exporters cannot get payment against sight draft and open account and the consignment term is also not practiced by the exporters. Thus there is no direct credit to the buyers. It is advantageous to the exporters that they do not hold any uncertainty of payment. The invoice should be made according to at least floor price (custom valuation price). The exporters do not tell the actual price they sell in the markets. It means the contract in paper has not been practiced 100 percent. As the carpets are priced according to the program or stock and differ according to quality, size, color, design etc., the exporters use to sell some carpets higher than the written price and some carpets much lower than that, and make balance of their profit under the table. Sometimes the exporters use to refund the difference money between the written price and price under the table to the buyer from the black money.

Nepali exporters are found selling if f.o.b. (FCA), c & f and c.i.f. prices. These terms are advised by the buyers themselves. But, most of the exports are done in f.o.b. and c & f price, because many buyers have their own contract insurance agency and the Nepali exporters also hesitate to bear the long responsibility occurred in c.i.f. term.

#### 4.14 Institutional Efforts on Promotion

The institutional efforts on promotion have some special international dimensions, which are not usually considered in the promotional mix. They include the activities of government, trader's organizations and associations. In addition, the international agencies, the joint GATT-UNCTAD International Trade Center also have promotional efforts in Nepalese carpet promotion.

#### 4.14.1 Government Associated Organizations

Government assistance in export marketing usually takes three forms: information, financing and promotion. These activities are practiced under the Ministry of Commerce and Nepal Rastra Bank. But, the establishment of Trade Promotion Center has made it as the national focal point of export promotion. Since the beginning, the center has focused on the export promotion of Nepalese carpet in Europe and America along with other products. The major activities done by the center were providing information of markets and importers, participation in trade fairs, organization of trade delegations. But, the activities cannot be assessed as to what extent of efforts were made for carpet promotion and what was the benefits. Nevertheless, the carpet export could increase and diversified to more than 35 countries.

The carpet industries are taken in the category of cottage industry and handicraft sector. Hence, the activities of TPC regarding carpet conducted under the Cottage Industry Export Development Project (CIED) in the beginning of 1980s. Carpet industries could also promote their export through the establishment of Export Production Development and Export Promotion Council. The establishment of 'Products of Nepal' in the USA nevertheless, could not make great impetus in the promotion of Nepalese carpet. TPC has brought several publications like Exporters' (Directory of Nepal, Commodity Profile Woollen Carpets, 2006).

To strengthen the export of some specified product, another project, Export Service Center (ESC) was also created in mid 1980s. It took carpet and wool products in one sector and worked under the marketing strategies chosen by the TPC. Its major activities were: develop contacts among Nepalese exporters and importers abroad, product development, provide technical and market information, train the manpower, check quality of raw materials and exportable products. Organization of buyer-seller meets and publication of rosters of exporters etc.

Realizing the importance of carpet sector in Nepal, an organization, carpet and Wool Development Board was also established in 1990s according to the demand of private entrepreneurs. It specializes in the quality control and promotion of Wool and Woollen products. Regarding its major defined functions like: product development, quality control, market development and diversification, research studies, seminar-workshops, trade fairs and exhibitions, information and publications, training and technical services, the Board in the past days was engaged in the formalizing the export procedures of Nepalese carpet and import of raw wool. Besides, it has organized few seminars and workshops on the timely issues of the carpet industries like: child labor, environment and AZO dyes. The Board has done study on the component of AZO-dyestuffs in the dyes used in Nepal and it has also completed the study on alternative use of cut-piece wool (Jhindu). Regarding the promotional service, the board had organized several buyers-sellers meets, organized buyers' delegations and made visits to the carpet industries, published rosters of carpet manufacturers/exporters of Nepal and importers of European countries, and made video films of Nepalese carpet and sent to the buyers. The Board is also monitoring the markets and providing market information. The Board also provide guarantee service to exporters on carrying export sample of Nepalese carpets without depositing the foreign currency to bank, and the exporters should pay the bank after the carpet is sold. They can also export sample up to amount of US\$ 500 without any deposit for the period of six months or the payment is not received.

There are several other government associated organizations like: Ministry of Labor, Department of Cottage and Small Industries, Cottage and Small Industry Development Board (CIDB), Nepal Bureau of Standard and Metrology, National Productivity and Economic Development Center are also playing indirect roles in promotion of Nepalese carpet.

#### 4.14.2 Non-Government Associations and Agencies

There are more than a dozen of non-government organizations and agencies whose activities cannot be less emphasized in contribution of export promotion of Nepalese carpet. Some of them are: Nepal Chamber of Commerce, Federation of Nepalese Chamber of Commerce and Industry (FNCCI), Nepal German Chamber of Commerce and Industry (NGCCI), Nepal-Nippon Forum, Japan External Trade Organization

(JETRO), Nepal Japan Chamber of Commerce and Industry (NJCCI), Central Carpet Industries Association (CCIA), International Trade Center (ITC) etc.

CCIA is the focal point of export promotion of Nepalese carpet from the non-government sector. It has been organizing several workshops and seminars for the Nepali manufacturers and exporters about the trend and threats of market since the establishment. In the year 1988/89 the then carpet association for the first time compiled and published the detail and informative brochure about carpets and carpet production in Nepal called "Carpets from the Country of Mt. Everest". Similarly, a video film was also made and shown at the ORIA fair in 1991 in New York. Copies of video were also distributed for many carpet importers. CCIA has been continuing such activities to create good public relation in markets. It has published another brochure named. "The Himalayan Collection" in 1994 and 1995. It is also working for quality development and market diversification of Nepalese carpet.

Similarly the Association is working to top American market since 1993 in collaboration with the USAID's Economic Liberalization Project and with the technical assistance of IMCC. The program is focused on familiarization of the Nepali manufactures/exporters with American market taste, design development and establishment of market linkage with American importers. After the two way visits of buyers and exporters, Nepali exporters could receive sample orders through the coordination of CCIA in few lots. The sample carpets were exhibited in the USA as well. Similarly, Nepali designer training in the US also conducted in May 1995. The program is still continuing. The Association is also exploring market of Nepalese carpet in Japan in cooperation with Nepal-Nippon Forum and JETRO. A seminar was held in Kathmandu on December 1993 about 'Carpet Marketing in Japan, and a market research has done in July 1994 with the help of FNCCI. It has also requested the Government to maintain good trade agreement in order to make import of Nepali carpet in Japan easier, Presently an import duty of 35 percent is levied in Japan for Nepali carpets.

The association is also working in the fields of child labor, environmental pollution and quality control, coordination with several other government and non-government organizations. An organization named 'National Society for Protection of Environment and Children' (NASPEC) is also formed in August 1994. NASPEC aims to work to (i)



certify child labor free carpets, and (ii) develop welfare and rehabilitation program for children withdrawn from the industry.

The joint GATT-UNCTAD ITC in Geneva, formed to serve less-developed countries for export promotion, has also played important role in export development of Nepalese carpets. It had published the study report on "Major Markets of Oriental Carpets" in 1969 and "Major Suppliers of Hand-knotted Carpets" in 1981 and 1983. The Center has organized several seminars, workshops and training in Nepal with cooperation of TPC, Nepal Chamber of Commerce and other organizations, similar workshops, seminars and training are organized by TPC in Nepal with the support from ESCAP-Geneva, EEC-Brucellas and GTZ-Germany.

#### 4.15 Major Findings

The overall scenario of carpet exports is declining state. The export of carpet in the fiscal year 1993/94 is its peak volume i.e. 3325000 sq. mt. in quantity and Rs. 9518.1 million in value.

Woolen carpet consist 30.8 percent share of overseas exports.

The top importer countries all over the world for Nepalese carpet are Germany, USA, UK, Belgium and Switzerland. Germany occupies 33.15 percent of the woolen carpet export.

The major exporters of the woolen carpet in the world are Iran, China, India, Pakistan, Germany, Nepal, Turkey, UK, former USSR, Afghanistan and Morocco.

The top carpet exporting company is Kantipur carpet industries in FY 2007 with export volume of 41785.25 sq. m. with value US\$ 1566844.14.

Stock offers by Nepali exporters through sea containers at competitive price vis-à-vis Indian exporters.

Mostly carpets are being made in Nepal as per European designs and other color combination.

Nepali carpet exporters are by and large, loyal to their importers and do not offer one buyer's designs to another thus keeping design secrecy for their buyers. Basically, now it is European design that is being made in Nepal.

Uniqueness of Nepalese carpet. Being genuine hand-spun they give a village look with the use of top quality New Zealand wool and super quality Tibetan wool.

The Nepalese exporters and manufactures have not their own distribution cells in foreign countries except on trade fares. And about 64 percent of the sales goes to wholesale in German who are specialist's merchants and do re-exporting in other countries. The re-exporting is done by other countries' specialists as well like UK, Switzerland, Belgium, Hong Kong, Singapore.

93 percent of the export of the Nepalese carpet is base on direct selling through the individual effort of entrepreneur. Remaining 7 percent is through agents and intermediaries. Similarly the major portion of the carpet export (i.e. 84.78%) is through wholesales and only 12.22 percent is through retailers in the international arena.

The effort made by government to promote the market of the Nepalese carpet is limited to making policies. From the side of entrepreneur the efforts are only limited to the participation on seminars and exhibition.

Nepalese entrepreneur and their alliance are afraid of the cost of advertising on foreign media and, as the Nepalese carpets are purchased on the name of hand knotted woolen carpet rather than a special brand of an exporter, consumer influencing advertising by the exporters is not in practice.

Nepali exporters are not using the consumer promotion tools like: samples, coupons rebates, premiums, prize etc. But, they are using trade promotion tools as sales promotion. Trade promotion can persuade the retailer or wholesaler to carry more goods than the normal amount. It can also include and stimulate retailers to promote the product. The exporters use price-off (i.e. off-invoice) on the stock sales, off season purchase and large quantity purchase. They also provide allowance in such purchases and also provide some allowance to the buyer for advertising their carpet in the market.

## CHAPTER – FIVE

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

Nepal is a land-lock country based on agriculture economy. Low per capita income, high population growth, dependency on foreign trade and continuous deficit in balance of payment are the features of the Nepalese economy, which places itself among the poorest countries in the world. Decreasing agricultural productivity and growing population is facing a number of problems tapped with how to raise her economy and how to confront the decreasing balance of payment position. Having her poor industrial base, she has been depending on the foreign trade. As the lack of technology and capital, Nepal usually imports capital equipments, daily consumable goods, technical know-how, chemicals, means of transport and communication etc. And, she exports the raw materials and labor intensive industrial products.

The major commodity exports from Nepal are carpet, readymade garments, goatskin, hides, pluses, Niger sees, handicrafts, leather goods and woolen goods. The export figures of raw goods are decreasing in comparison to manufactured goods. On the other hand, the labor intensive industries are gaining popularity in internal economy and external markets. The carpet industry is one of them and it has the first rank in the Nepalese economy. The export of carpet increased sharply in the late 80s and beginning of 90s.

The major markets of Nepalese carpet are Germany, Switzerland, UK, Belgium, USA, Austria, France, Netherlands, Spain, Sweden and Italy. Although Nepalese carpets are exported to more than 35 countries of the world, the export to Germany was about 81 percent of the total carpet export. The growth rate was higher during the period 1982-1992. The export to other countries also was increased in between 1980-92, but in the year 1993-94, the export to many countries decreased significantly.

The market structure of Nepalese carpet which was previously monopolistic competitive; and oligopolistic is now changed to pure competition and the producers and exporters has to set the price according to the market.

Many of the exporters have their own industry and some of them act as marketing channel. Many small and medium carpet manufacturers do not export directly, they use to sell the carpets to the registered exporters or they are paid as contract wage providing by them raw materials and required equipments. Thus, the exporters play a chief role in production, they do contact and appoint the intermediaries.

Most of the exporters produce the carpet, for exporting, in their own industry by direct inspection. The carpets bought from the individual cottage weavers are usually sold as stock sales, which are priced lower than the programmed carpets.

The geographical structure of Nepal is one of the major bottlenecks in development of export sector. The transport facility and means as inadequate, difficult and costly inside the country as well as in exporting. There is no government incentive on the transport. The country has an access to sea only through India which arises several problems in getting various documents and custom clearance to satisfy the Indian Government. It also makes obstacles in prompt delivery. On many instances the goods get held up at transit point and the delivery commitment can not be met with.

Most of the exports are done in FOB and C and F terms. That is, the importer should bear the responsibility of the carpets shipped. The producers in the Calcutta port also create many difficulties to the exporters and/or the importers.

Carpet Promotion is found to have been done by Nepali exporters by mail-marketing, advertising, trade discounts and personal selling to the channel members. The financial constraints and lack of technical know-how are the causes that Nepali exporters do not communicate their carpets direct to the consumers. The exporters and producers get only the second hand information through their respective buyers.

One of the short term promotional policy and pull strategy is practiced by advertising in the magazines. Only a few exporters advertise in the foreign magazines as cooperative advertising with their importers. The advertising is especially done during fair time usually opening in Germany and USA. And, they are done for channel promotion than consumer promotion.

The advertising budget is one of the constraints to most of the exporters, most of the exporters do advertising only once in a year and, their advertising has significant relation with their sales. The advertising, to some extent, also influence the consumers to inhabit

with Nepalese carpets. Whatsoever it may be, many exporters hesitate to advertise unless they are requested by the editors, because of the higher advertising rates.

Another short term but push strategy used by the exporters are stock sale and quantitative discount, allowance, use of design sheets, slides and photographs. Only a few exporters prepare trade literature and catalogue. Mail-marketing and common method of promotion by pushing are widely used.

Nepali exporters also participate in the trade fairs. About 75 percent of the exporters visit the Domotex Trade Fair of carpets and floor coverings in Germany and 20 percent visit the Atlanta National Floor Covering Market Fair, USA every January. The participation of the Nepali exporters are not directly subscribing a stall, but with their respective importer-buyers. They make new contacts and receive orders from the buyers in the fairs. Besides, few exporters also participate in the trade fairs of other countries, and also visit their exporting countries for making channel relation good, to know the market trend and to create new channels. These can be considered as personal selling activities. And, they are short term and push strategy.

The popularity gained by the Nepali carpets in the "Fashination Nepal" show on the Domotex fair 1993 had encouraged the importers and exporters of Nepalese carpets. Without having consumers credibility and market orientation, the buyers placed order of huge quantity of Nepalese carpet and the exporters also tried to grab the opportunity. But, consumers do not like same design and style every time. It was proved while the same show was repeated in 1994, which caused the overnight bankruptcy of Nepalese carpet in 1994. Some positive hopes are expected from the fair of 1995.

The depletion of PR and taking over competitions by India, China and Iran, forced the Nepali exporters to cut the price, which was permitted by the cost structure of the carpet production. So, to stimulate the sales, price-offs were started causing the unhealthy competition between the exporters. It was also carried due to excess production, and large number of producers and buyers. The price began to vary from exporters and from buyers to buyers, which brought slackness in marketing. The small producers intended to sell whatever stock they have at whatever price they can get to compensate the bankruptcy.

These days the carpet manufactures and exporters became aware of PR. They are not using child labor in their factories, and are providing education and health facilities to the

children staying with their parents in the factory. GoN is also inspecting and encouraging the carpet industries not to use child labor and provide necessary support to the children who worked previously and those staying with their parents.

The Government has encouraged, assisted, directed and in some cases controlled in the establishment, production and export sector of the Nepalese carpet. The Trade Policies and Industrial Policies are the main policy measures concerned. The initiation of EEE scheme had surely encouraged the exporters. But, after the termination of DER system, there is no direct incentives to the exporters. So some of the exporters complained that the Nepalese carpet industry is suffering from lack of government incentives. However, the delicensing, tariff subsidy, tax exemption, termination of income tax on export, duty draw back and duty free, provision of foreign currency account, and reduction of service charges have encouraged the exporters. Similarly the easier access to import the required materials, export finance systems also played important roles in the export promotion of the Nepalese carpets.

The Trade Promotion Center and then the Export Service Center were the institutions to expand the market of Nepalese carpet on behalf of the Government. The establishment of Carpet and Wool Development Board has shown hopes to promote the Nepalese carpet. However, the manufacturers and exporters are feeling that the lack of state supported promotional efforts has worsened the problem. Manufactures and exporters have to rely on importers' exhibition and display, and wait for demands of their carpets.

## 5.2 Conclusion

An industrial development occurs with the availability of market for the product and the expansion of market area is governed by the high demand of the product. Since 1962 carpets were exported from Nepal with the production and promotional efforts of Swiss agency. Those carpets of Nepal were Tibetan carpets which were liked by European consumers because of the unique artistic and handicraft items. The major changes took place in the early 1980s when the creative importers and exporters were able to blend Tibetan weave with the European design in Nepali carpets. The Nepalese hand knotted woolen carpet then were commercially grown up and reached to all the major markets.

Germany was the center for the international carpet trade. So, most of the producers produced carpets according to the tastes suitable for Germany and Europe. The main channels of marketing were the wholesalers of Germany, UK, Switzerland and France. These countries are also the major importers of hand knotted woolen carpet in the world. The growing competition in the international market has brought new challenges to the Nepali carpet manufacturers and exporters. The huge export in the year 1992-93 is also responsible for the stocking of the carpet in European countries. The change of taste and preference by the new generation within the same period laid the stock difficult to sell and it forced to reduce the price of Nepali carpets.

Nepali exporters communicate with their buyers by mail advertising, sales letters and personal visits. But the consumers are informed and influenced by the intermediary buyers. The exporters use design sheets, photographs and slides, trade brochures and discount on stock sales as promotional tools.

Advertising awareness is recently emerged to the exporters. Still, the major media is fair magazines of Nepali publishers and only the financially sound exporters could advertise. The advertising is targeted to increase channel member. However, many exporters do not depend on advertising, rather, they have a good channel relation and they do personal visits. Only a few exporters provide allowance to their importer-buyers for doing consumer advertising. It implies that most of the exporters lack the practice of informing and persuading potential consumers, which is backed by the financial constraints. They are unknown to the demand of Nepalese carpet in different markets and they are based on the second hand information from the importer-buyers.

The participation in trade fairs had contributed good in export promotion of Nepalese carpet. But, only the financially big and reputed exporters could participate in those fairs in cooperation with their buyers. It was bad practice that the exporters and buyers together forecasted demand of Nepalese carpet from the visitors' response on the trade fairs, without orienting to them.

The disturbance in goodwill and publicity of Nepalese carpet was another reason of bankruptcy in carpet export. It was materialized due to the quick ambition of swelling money from carpet business. Despite, the exporters today realized about their weaknesses and are trying to rebirth the public relation.

The export terms and procedural and technical difficulties in the export logistic like: difficulties in Calcutta port, high transportation cost and lack of honesty in prompt and timely delivery had also handicapped the export activities.

Government assistance is crucial in export promotion. The initiation of EEE had encouraged exporters in 1970s, the export development and market diversification program, dissemination of information of trade opportunities had promoted the export in 1980s and the liberal economic, industrial and trade policies of the democratic Government has encouraged the businessmen to step in carpet business in 1990s. But, the Government could not create the infrastructures for carpet industries to make publicly acceptable and could not provide enough market promotional assistance as trade fairs and publicity campaign in new potential markets.

Promotional activities carried out by the government organizations, though helpful, are not adequate. Carpet industries in Nepal have been trying to secure its existence through adjustment of demand and supply with only minimal guidance of institutional support and policy.

Almost all the manufacturers and exporters in Nepal depend on second hand information regarding. The consumer's taste and preference, their affordability and competitor's taste and preference, their affordability and competitor's performance. This is because there is little or no market study conducted to assess the strengths and weaknesses of Nepalese products.

Although there are many trade associations in the country, their actual performance regarding export promotion is negligible. There is lack of coordination, cooperation and dedication on the individual traders, trade associations and government bodies. They are working without proper guidance and committed plans. The Central Carpet Industries Association is the main responsible body on behalf of the private sector. It was only making efforts to protect the welfare of the members out of the government policies and the public. There is lack of activities on market survey, information and marketing intelligence system; promotion and publicity campaign. The USAID/CCIA market promotion program in USA has shown positive results, even then it is not determined properly as succeed.



### 5.3 Recommendations

The focus of all marketing efforts is the consumer. But, the task is concerned in promotional planning. Planning a promotional strategy requires an information flow several sources: such as markets, competitors, government and other external institutions, and publics as well as from inside the firm. These are impinged by the demographic, technological, economic, socio-cultural, legal and political factors. To be operational, promotional strategy decisions must be communicated to all the members responsible for its implementation, including the distribution channel members and lobby groups, since feedback information is essential to control results in accordance with planned objectives. In line with the major findings of the study, the following recommendations are made.

To keep the strength of the human resource in the carpet and its backward linkage industry by training and keeping updated human resource market.

The wage structure and living standard of carpet labor should be improve at micro level.

It should be materialize the concept of Corporate Social Responsibility in carpet industry and minimize the issues related to child labor.

There should be provision of credit for Nepalese carpet industry and make it competitive in reducing the cost of production.

Sheep farming should be promoted in Nepalese trans-Himalayan range and other probable ranges shown by the reports and studies carried out in the past to make use of major raw material and make lesser the foreign dependence in the raw materials.

To develop the simplification procedure on Duty Drawback Mechanism which is virtually non existent for dyes and other imported inputs and available only for raw wool. It should be monitoring of the use of Azo Dyes in carpet yarn dyeing which had been the major issue in the last decade and also becoming a major issue at this moment in the name of using reducing the carpet product price simply for generating the greater margin yield.

The problems of provision of machine spinning of woollen yarn in the handmade carpet for export should be solved.

Capacity of research and development process to be carried out in the product creation, design development, using more competitive production technology, market promotion

and minimization of the cost of production in view of target and potential market should be enhanced.

Relocation of carpet industries out of Kathmandu Valley is preferable.

Development of agencies in Nepal for the institutional supports for market promotion of carpet is necessary.

Implementation of labeling for Nepalese carpet is essential for exports.

It should be tax exemption/remission for carpet exporters as it is based on the handicraft product.

For diversifying exports, tap hitherto unexplored markets and expand the scope of focus market scheme.

Employment, manufacturing and value additions in the EOU Scheme to be encouraged further by extending the benefit of Focus Products, Focus Market.

In the globalization of world trade regime and the buyers' market, the consumers in Western world have determined which product they produce in the producing country. And the producers produce as per the market demand. The old concept of what-you-make-is-what-you-sell no longer applies. New forces have come into play. There are many players in the field, like the corporate world, consumers and their representatives, pressure groups and lobbyists. There are worldwide networks with widely differing players in those supply and demand loops. As a result, immense consolidation: multinationals cutting back on supplier numbers to keep the complexity of it all from spinning out of their control. Market chains are implementing global reorganizations and merging into commercial world power consumers want the highest possible added value, the best quality and the greatest ease for the lowest price. And they mean quality to include social responsible production.

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CWDB, Various Issue, (<http://www.cwdb.gov.np>)

Domotex, Various Issue, (<http://www.domotex.de>)

FNCCI, Various Issue, (<http://www.fncci.org>)

<http://www.nepalrugmark.org>

<http://www.wto.com>

Trade and Export Promotion Center (<http://www.tpcnepal.org.np>)

Appendix – I

Questionnaire for Carpet Exporter's/Manufacturer's Nepal

1. Name of the company and Address:  
.....
2. Name of concerned person:  
Designation :  
Education qualification :  
Sex : Male  Female
3. Type of the firm/manufacturer's/exporter's?  
(i) Sole Trader  (ii) Partnership firm   
(iii) Joint stock company
4. Carpet exporting countries  
(i) Germany  (ii) USA  (iii) UK   
(iii) Belgium  Switzerland   
(vi) others .....
5. Who is the main competitor's country ?  
(i) India  (ii) China   
(ii) Pakistan  (iv) Iran
6. Do you have your own sale agency in foreign countries?  
(i) Yes  (ii) No
7. If yes, where are they ?  
(i) ..... (ii) .....  
(iii) ..... (iv) .....
8. Have you participated any fair?  
(i) Yes  (ii) No
9. If yes where?  
.....
10. Have you get any contract?  
(i) Yes  (ii) No

11. What kinds of advertising media you preferred to promote carpet ?

		Local	Foreign
i.	Magazines		
ii.	Newspaper		
iii.	T.V.		
iv.	Radio		
v.	Personal Contact		
vi.	Websites		
vii.	Others		

12. What was your advertising budget for last five years ?

- (i) below 5 lakhs  (ii) between 5-10 lakhs   
 (iii) between 10-15 lakhs  (iv) between 15-20 lakhs   
 (v) 20-25 lakhs

13. Is there any problem you have face for carpet export in foreign market ?

.....

14. Does child labor used in your company ?

- (i) Yes  (ii) No

15. How much carpet did you export in foreign market last five years ?

- (i) below 25000 sq. m.   
 (ii) between 25000-50000 sq. m.   
 (iii) between 50000-75000 sq. m.   
 (iv) between 75000-100000 sq. m.   
 (v) between 100000 and above sq. m.

16. Have you got any assistance from CWDB, CCIA, FNCCI, and Trade & Export Promotion Center?

- (i) Yes  (ii) No

17. If yes, what types?

.....

18. What are the causes of declining Nepalese carpet export in foreign market ?

.....

19. What are your present activities for creating new market?

.....



## Appendix – II

### List of Person's met

1. Bishnu Dhakal, Section Officer Trade Fair Section, FNCCI, Teku.
2. Bimal Kumar Nepal, Senior Officer, Trade Fair Section Trade & Export Promotion Center, Pulchok, Lalitpur
3. Jeevan Osti, Assistant Employee Trade & Export Promotion Center, Pulchowk.
4. Narayan Prasad Shrestha, Executive Director Trade and Export Promotion Center.
5. Rish Raj Lamichhane, Office Secretary Central Carpet Industries Association (CCIA), Maitighar.
6. Smita Kayashta, Office Assistant Carpet Exporter's Association, Minbhawan.
7. Bipin Baniya, Office Assistant, Export Council of Nepal Thamel.

## Appendix – III

### Visiting Places

1. T.U. Central Library, Kirtipur
2. FNCCI Library, Teku
3. Nepal Chamber of Commerce and Industry Library, Jamal.
4. Trade and Export Promotion Center Library, Pulchok
5. SAARC Library, Thamel
6. Nepal German Chamber of Commerce and Industry, Pubalisadak
7. Carpet Exporter's Association of Nepal, Minbhawan
8. Carpet and Wool Development Board, Dhumbrahi
9. Central Carpet Industries Association, Maitighar
10. Export Council of Nepal, Thamel