LIGHT YEARS IP

POSITIONING AFRICAN BUSINESS FOR HIGHER TRADE IMPACT

Submission by Light Years IP, supported by the African IP Trust

Summary - A time-sensitive set of opportunities!

At a time when consumers report that they believe that only 28% of established brands add value to our quality of life and wellbeing, new African-owned brands have a better opportunity than at any time in the last 50 years.[1]

The greatest impact on trade, poverty and employment comes from positioning African export businesses and cooperatives in control of retail brands and with some control of the supply chain up to the door of the final retail store where brand-intensive consumption occurs.

This submission gives practical examples of positioning showing much higher impact than any other method at surprisingly modest cost, therefore, more cost-effective.

In our opinion, it is important that the UK international trade effort does not miss this timing opportunity.

Ethiopian Fine Coffee – Large-scale impact through Positioning

In the 2006 film "Black Gold", Tadesse Meskela, General Manager of the Oromia Union of Cooperatives talked about the large gap between the export price paid to Ethiopia and the retail price for Ethiopian Fine Coffee in U.K. stores. Tadesse was a forlorn man when walking through UK supermarkets searching for his coffees, as he realised that the return to Ethiopia was as little as 5% of the retail price of the fine coffees that Ethiopia had brought to the world:

- *Harar* arrived in the Arab world after Harar city became Islamic in 1216 CE
- *Sidama* is thought to have reached Amsterdam around 1630 CE
- *Yirgacheffe*, a Sidama-type coffee that Ernesto Illy regarded as the finest in the world.

These coffees have been in high demand for decades. Research by Light Years IP showed that the magnificent Harar coffee secured retail prices in the range $15.00-$25.00 per pound (across Japan, North America and Europe, while the export price to Ethiopia was in the range of $1.00-$1.20/lb. (about 5% of retail).

Continually demand exceeded supply, but the export price tracked the price of commodity coffee. Economists regard this as a market failure, when retail price signals do not reach the producing sector. The causes of this market failure are still in place for most African producers and producing businesses exporting distinctive, superior or gourmet products – very simply, the negotiating power of foreign importers vastly exceeds that of export sectors.

[1] "Meaningful Brands", 2015

Over 2006-2007, an initiative had been started that would involve Tadesse in much more than fair trade premiums – the Ethiopian Fine Coffee Trademarking and Licensing Initiative.

This descriptive title helped government officials understand what was practically being done. This work directly sought to change the negotiating power for the Ethiopian fine coffee export sector. The business strategy for the Ethiopian fine coffee sector is sophisticated but not complex:

1. Ethiopia would take ownership of the three brands by registering trademarks in important current and future market countries.

2. Using the power of trademarks to restrain trade, Ethiopia then could require distributors and retail stores globally to obtain licenses to sell any of the three brands.

3. The change in power balance would increase negotiating power immediately.

All of these three steps occurred as planned during 2007.

In MBA school language, the fine coffee sector was being POSITIONED with power as the owner of the 3 popular brands and an Ethiopian-controlled network of licensees. Greater negotiating power resulted in doubled annual fine coffee export income from $100 million in FY2007 by the addition of another $101 million in FY2008.[2]

The Initiative was designed to move to exclusive distributors with obligations to promote and report to Ethiopia, further increasing negotiating power and raising export income by a further $300 million annually to about $500 million. DFID, the World Bank and Light Years IP funded the design by a team led by Ron Layton. The counterpart organization was the Ethiopian Intellectual Property Office, led by Getachew Mengistie, a highly competent Ethiopian IP lawyer and administrator.

Export prices for coffee are denominated in US dollars per lb. In mid-2007, Tadesse Meskela negotiated export prices from $1.10/lb. up to $1.85/lb., then raised to $2.75/lb. before easing back to an average of about $2.20/lb.[3]. (See item at the end of this document regarding the current situation in 2016).

Conclusion: The initiative cost just $2 million, including the value of substantial pro bono legal services. DFID's contribution was 475,000 GBP ($874,000 at 2006 exchange rates[4]). On any calculation, the initiative produced a special outcome when measured on aid effectiveness criteria, raising the question of whether such levels of gain could be replicated with other distinctive African export products.

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[2] Reported by the Ethiopian Ministry of Trade and Industry, that credited the Initiative as the cause of the $101 million gain. There was an increase in commodity prices in FY2008 over FY2007, but this acted only as a floor to freely negotiated prices that averaged double the 2007 export price.
3 Tadesse Meskela and other export negotiators had effectively taken the three fine coffees out of the commodity market.
[4] $1.84 per GBP (www.ukforex.co.uk)

"Distinctive Values in African Exports"

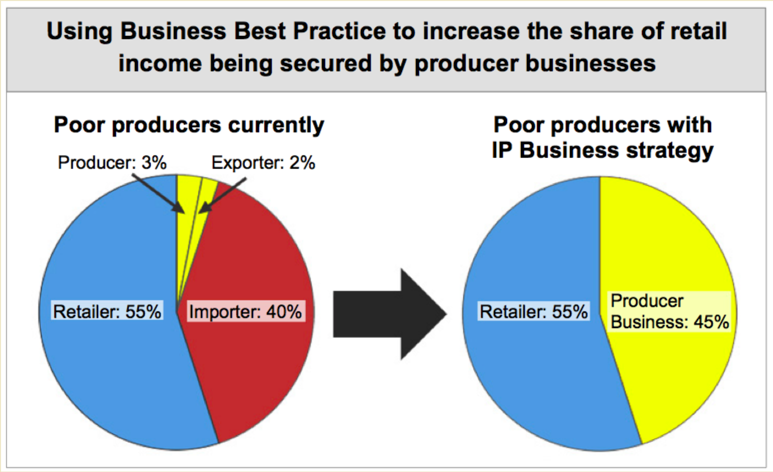
DFID commissioned Light Years IP to research other African gourmet and superior export products and a scoping study series was published as "Distinctive Values in African Exports"[5]; the study was launched at the World Economic Forum on Africa in 2008 by then UK High Commissioner, the Rt. Hon. Paul Boateng.

Further feasibility studies showed that, for 13 African distinctive products, there is little or no farm gate price incentive for quality, because export prices are mostly set at or close to commodity prices.

Imagine if Scotch whisky had never earned more than commodity spirits – it would not now be a large UK export business, because the industry would have been far less able to expand and control the word "whisky" globally if reliant on low margins and modest retained earnings.

Professor Keith Maskus, then World Bank senior economist, wrote his opinion in 2001 that Light Years IP had provided evidence of widespread market failure in the form of consumer price signals that value African distinctive products not reaching the producing sector.

Low incentives for quality means Africa's best products are systematically being diminished by commodity price structures for products that can sell outside the global commodity markets if better positioned. The left-hand graphic below shows the current position facing most African producing and exporting businesses with distinctive products. Positioning these businesses according to business best practice opens the potential for considerably greater resources from increased margins. Vertical integration is common in business, but it is rarely driven from the African end. The cost of improving positioning can be a fraction of the returns, particularly when the future of whole sectors can be secured.



The African IP Trust

Over 2006-7, Starbucks opposed Ethiopia's initiative, including the registration of trademarks for the three fine coffees. The (U.S.) National Coffee Association (which includes most of the large coffee importers and distributors) filed a major document opposing Ethiopia's applications.

A public campaign called on Starbucks to stop the interference and allow Ethiopia to complete trademark registration. In addition to collective action by members of the U.K. Parliament, Mrs. Mary Robinson[6] opened

[5] Available to download on www.lightyearsip.net

6 Former United Nations Commissioner for Human Rights

direct dialogue with Starbucks. The dispute was settled in Ethiopia's favour by Starbucks becoming a licensed distributor in June 2007 and trademarks for all three coffees being granted to Ethiopia in the U.S., Europe and other countries.[7]

Seeking to formalize such influential support for African businesses, including cooperatives and African IP owners, Lord Boateng, U.S. Rep. Diane Watson (ret) and Ron Layton formed the African IP Trust in 2011. Mark Florman and Getachew Mengistie are among the current advisors and board members.

The African IP Trust currently supports another positioning initiative. Since 2009, Light Years IP has helped the two million Maasai people build a representative organization to own their famous cultural brand. Lord Boateng pledged to the Maasai that the African IP Trust would help them negotiate with large corporations using their brand. In 2015, a U.K. global corporation transferred Maasai trademarks to the representative organization, a collaborative approach in stark contrast to the actions of "big coffee" in 2006-7.

Ethiopian Fine Leather – another large-scale opportunity

The Ethiopian Fine Leather sector represents an opportunity for positioning to gain large-scale trade and income impact. Below is a simplified value chain model for fine leather gloves made from the best Ethiopian goatskins. There are currently about 50 million goats and sheep owned by 11 million households, meaning at least 40 million herders, including rural families with 1-2 animals.[8]

7 Details of trademark registrations available.

8 Ethiopian Embassy Brussels, 2015

This graphic shows the six roles in the supply chain, using 2009 data on prices. The Importer/distributor either owns the retail brand or supplies leather goods, such as fine leather gloves, to the retail brand owner.

After many years of managing a major tannery in partnership with the Ethiopian government, UK company Pittards purchased the tannery in 2008 and has been able to raise standards sufficiently to win Global Tannery of the World award in 2009. Pittards also set up a factory in Ethiopia, effectively vertically integrating all four elements to the right side of the graphic. This is a good result for the company and it's suppliers.

With many tanneries and large supply potential for skins, vertical integration from the Ethiopian end can co-exist with the Pittards business. Clearly, the foreign supply chain captures greater margins than the Ethiopian part of the chain, so integration would be transformational to the other tanneries in their continued struggle to raise the quality of finished leather. This struggle has invoked penalties from the Government, so it would be very empowering for the sector to capture margins from foreign importing and distribution.

By positioning Ethiopian businesses as owners of the importer/distributor function, the Ethiopian sector can gain sufficient margin to own new factories and increase quality to international standard rather than depend on foreign companies to build factories. Most foreign owned factories do not pass to Ethiopia the margins available outside the Ethiopian part of this supply chain. Our 2009 feasibility study estimated potential export income gains for Ethiopia from this sector to exceed $400 million annually.

The Advantages of Positioning

- Transforms underfunded African supply chains, enabling investment in quality and incentives for quality at all points including millions of producers
- Sets Africa on a more sustained pathway than selling off assets like tanneries
- Positioning also solves some tough problems like extreme remoteness (see WONS section below)
- Delivers high rural multipliers of huge value to remote populations and governments seeking to slow down urbanization.

Business schools teach:

1. The final retail product must be positioned well in the retail market. Ethiopian Fine Coffee was indeed well positioned in the retail market, but WONS Shea products are not.
2. The producing business gains most by owning the retail brand on the final retail product.
3. The business gains by controlling exclusive wholesale supply of the branded product to retail stores in foreign markets
4. Exclusivity at the import/wholesale level creates the ability to control the entire supply chain
5. The process can then be managed to capture a growing share of retail value up to the share of retail value achieved by the most sophisticated competitor.

Counter proposition: Incremental development philosophy

There are large aid programmes adopting the view that it is Africa's turn to manufacture the lowest value products, competing solely on the lowest cost of labour, and then gradually increasing onshore processing.

Weaknesses inherent in this counter-proposition include:

- Firstly, lowest wages do not equate to competitiveness
- Secondly and most damaging - targeting lowest cost is to live with low margins for many years while passing the retail benefits of gradual quality improvements to foreign owners of retail brands. Low margins mean continued disempowerment.

African business is capable of learning business positioning and will do so widely during this century. The capability of African business and consumers to innovate by leaping over historical barriers has been demonstrated in mobile phone banking and is now an important philosophical stance of most Africans.

Africans don't believe they are limited to lowest value production business. For example, several African Enterprise Challenge Fund investee companies with European offices, even small ones, are aware that they need to move closer to the retail consumer to capture higher shares of retail value. They will get there this century, but this is a particularly important time to speed this process up due to the opportunity for African-owned brands.

Women's Owned Nilotica Shea

Overcoming extreme remoteness, transforming opportunities for some of the last people to come out of extreme poverty

Light Years IP has been working hard on this opportunity, dedicated to achieving an outcome for the women *Nilotica* Shea butter producers of northern Uganda and South Sudan who can earn almost no income at all without better positioning. Commodity prices paid by cosmetic companies and food companies for West African Shea butter are in the range $2.00-$4.00 kg FOB. This returns modest income for producers within 300 km of the nearest port.

For superior *Nilotica (*East African) Shea, no producer is less than 1000km from Mombasa, meaning that even the higher commodity price of $6.00/kg FOB is mostly lost to transport costs. An important Kampala based exporter closed operations in January 2015, due to the low margins. There are women producers in West Equatoria (South Sudan), over 2400km from Mombasa, who can never sell the product if the commodity price is the only option.

Light Years IP developed the business plan for a new business similar in structure to Divine Chocolate, with the women Shea producers positioned as the largest owners of a new brand of cosmetics based on the superior qualities of the highly distinctive Nilotica Shea.

South Sudan has suffered the predicted disruption of a post-conflict state, with civil war following the long fight for independence. However, we challenge the thinking that no development can proceed during the on-off stages of civil war. The total Nilotica Shea area includes most of northern Uganda and an estimated 30,000 square miles in West Equatoria and Central Equatoria zones of South Sudan. With a storage life exceeding two years, Nilotica Shea supply can be guaranteed from the combined work of groups of women in both countries, even if the military disruption resumes.

The business strategy positions the control of the foreign supply chain with a UK-based import/distribution company acting for the ultimate stakeholders, 700 WONS Cooperative members in Uganda and a similar number in South Sudan. The WONS business will capture enough value to ultimately pay $50/kg to producing women. This ultimate price will overcome the distance for all women producers in both countries. The venture is attracting impact investors, but needs the kind of help that Divine Chocolate had from DFID in 1998.

A reasonable question to ask is "why has the Divine Chocolate model not been replicated?" Pauline Tiffen, one of the designers of the Divine company and long time board member of Divine, responds that "many brand owning retailers and distributors are not willing to give such opportunities to producers". The African IP Trust and Light Years IP believe that Africans will change this situation through the power that comes from owning new brands.

A Special Opportunity in Time – many corporate brands are unpopular

An increase in availability and cohesion of social impact investment in 2016 is coinciding with the opening of much greater opportunities for new brands.

At a time when consumers report that they believe that only 28% of established brands add value to our quality of life and wellbeing, new African-owned brands have a better opportunity than at any time in the last 50 years.[9]

Trust in established brands is collapsing and purpose is now a critical element of brand loyalty. With a well-designed retail brand, a superior product and a powerful true story, WONS should be funded this year.

In our opinion, it is important that the UK international trade effort does not miss this timing opportunity for African business based on producer-owned brands positioned well for retail consumers, combined with better positioning for the businesses in control of distribution.

Final Point: Collaboration of providers allows the social mission to be pursued

Positioning work can be done in collaboration with:

- conventional capacity-building of producing businesses and cooperatives
- micro-finance
- onshore processing
- agricultural innovations (the take up rate increases radically if there are adequate price incentives for quality).

Positioning is different from Making Markets Work in that distinctive products open opportunities for sophisticated business models following corporate business best practice. Market development through locating importing distributors should continue for the less distinctive products, while the special opportunities of large-scale impact through positioning need a dedicated programme.

Positioning is also different from Private Sector Development driven by U.K. corporations if they are importers or brand owners seeking to put African products under their brands. It is important to note that major companies have standard formulas to test whether to handle a particular product. If the profit margin does not reach that formulaic standard, the company will move out of the product.

[9] "Meaningful Brands", 2015

A Note on Ethiopian Fine Coffee, 2016
The Initiative lasted just over one year, up to a major specialty coffee promotion event[10] SCAA 2009, due to resignation of Getachew Mengistie due to a severe illness. After a meeting of Ron Layton with Prime Minister Meles Zenawi set up by Lord Boateng, the PM approved the formation of an Ethiopia coffee corporation to operate like Ethiopian Airlines. He tasked the IP Office to take the steps, then died August 2012, so the initiative stayed with IP office without a sponsor.

In 2015, Getachew Mengistie was engaged by UNDP to review the project and seek input from all sources, including the AIPT and LYIP on how to capture more income from renewal of the project. Ethiopia still owns the trademarks, so the balance of the strategy can be carried out, building an exclusive network of licensed distributors and managing it to increase promotion by distributors and to increase trade income dramatically at a very modest cost.

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[10] The Specialty Coffee Association of America (SCAA) annual event, Minneapolis