
Mahaguthi Shops¹

KATHMANDU, NEPAL

Surendra Shahi jumped on his motorcycle and headed back to the office after a long, tiring, unproductive day of Ministry visits. Determined to clarify Mahaguthi Shops' export status, Surendra, their managing director, had solicited advice from the Ministry of Finance, the Social Welfare Council, the Ministry of Education, and the Cottage Industry Development Board. The different Ministry buildings were all located around Kathmandu in enormous, poorly maintained palaces from the former Rana dynasty. The huge empty spaces only exaggerated the problems of understaffing and poor attendance plaguing government agencies.

In ministry after ministry, Surendra searched the buildings for anyone who could direct him to the appropriate office. Once there, he would be offered a cup of tea and then told to visit yet another ministry. Today, after four cups of tea and bureaucratic shuffling between six deputy directors, Surendra's persistence and optimism had finally waned.

His attitude did not improve as he sat in rush hour traffic inhaling fumes from tempos (three-wheeled motorized rickshaws), trucks, and overflowing buses, anxiously returning to his office for his 4:00 pm appointment. By the time he got there, it was quarter to five. He was late for his meeting with the software specialist who was developing the store's new inventory program. With only 15 minutes left before the city electricity

was shut off for the day,² Surendra realized there would be little progress that day on the store's new software.

Background

Mahaguthi Shops, a Nepalese handicraft retailer, wholesaler and exporter with sales of 2.8 million Nepali Rupees, was formed in 1984 under the auspices of Nepal Charkha Pracharak Gandhi Smarak Mahaguthi (NCPGSM), the oldest social service organization in Nepal. The founders of Mahaguthi Shops planned to use its revenues to help support Mahaguthi's social service organization, focusing on the shop's contribution to Nepal's development efforts. They created Mahaguthi more as a social service agency than as a profit-seeking, competitive handicraft retailer. Mahaguthi was founded on the following principles:

- To help stimulate the revival and development of handicraft production as an income generating activity for poor and disadvantaged groups within Nepal;
- To offer product development and design assistance to the craft producers and to provide an effective retail outlet linking producers and markets;
- To help support the program of rehabilitation for destitute women and children of the Tulsi Meher Mahila Ashram.

The Ashram, also a division of NCPGSM, took in destitute women and provided food, shelter, health facilities, literacy courses, schooling for children, and vocational training in sewing and weaving.³ Mahaguthi Shops supported the Tulsi Meher Mahila Ashram in two ways: by purchasing the material woven by the women trainees, and by contributing 75% of shop profits directly to the Ashram. The remaining 25% of profits was distributed as producer incentives or kept by the Shops as retained earnings.

Start-up funds were met in two ways. Capital provided by Oxfam was used to purchase fixed assets, and inventory was purchased on consignment in lieu of working capital. In the first year of operation, Mahaguthi incurred very low overhead expenses. The store space and office space were owned by NCPGSM and they were made available to Mahaguthi rent free. The first manager worked on a pro bono basis for three years. During the first year, the Shops had a gross profit margin of 23% and a net profit margin of 15%. Within two years, Mahaguthi opened its second shop in Kathmandu on Durbar Marg.

As Mahaguthi grew, profits were channeled into producer development and support programs. Through these programs, Mahaguthi was able to offer moral encouragement, production advice, and financial support to new producer groups. For example, when a new producer attempted to enter a saturated market, Mahaguthi might advise her not to make that particular type of product and suggest another possibly more lucrative product idea. Mahaguthi also provided financial support to earthquake victims, helping them rebuild their homes. Whenever Mahaguthi identified a promising producer who wanted to start a producer group, Mahaguthi provided financial support so that the producer received appropriate entrepreneurial and business start-up training.

The Founding Organization

Originally established as an activity within the NCPGSM umbrella, Mahaguthi operated relatively independently of NCPGSM. While in the past no approval had been necessary in management decisions, it was unclear what authority NCPGSM did possess. Historically, Mahaguthi Shops contributed their profits to the Ashram and responded to its cash crises, but received little in return.

NCPGSM was registered with the Social Welfare Council and could form any kind of organization within its jurisdiction. Mahaguthi Shops' affiliation with NCPGSM thus gave them tax-free status, even though no formal recognition existed. As with many things in Nepal, the exact nature of the legal relationship between Mahaguthi Shops and NCPGSM was unclear.

After nine years of affiliation with NCPGSM, the majority of the Mahaguthi Board members favored splitting from NCPGSM. However, due to tight relationships and politics,² leaving NCPGSM would be difficult. Mahaguthi Shops was a financial asset with no financial obligations or risks, so there was little incentive for NCPGSM to sever the relationship.

Mahaguthi's Products and Target Market

Mahaguthi sold many handicraft products in their stores including wood carvings, silver jewelry, traditional wood dolls and puzzles, handmade Nepali paper, wool knit sweaters, handwoven cotton material, clothing, bed spreads, cushion covers, bamboo baskets, ceramics, and a variety of other handicrafts.

The products manufactured in Mahaguthi's own workshops included handwoven fabrics, blockprinted materials, cushion covers, and simple clothing. To date, goods manufactured in-house had been primarily for export. Most export orders were custom orders. The production center made some cushion covers, bed covers, and clothing for sale in the stores.

The current target market for Mahaguthi Shops was determined by their products and their price range. Primarily tourists and expatriates living in Nepal were attracted to and could afford Nepalese handicrafts. Mahaguthi's principal export clients were Alternative Trading Organizations (ATOs).

Scenario # 1

As Surendra sat behind his desk, a few birds flew back and forth above his head from the hole in the window to the hole in the wall where they had made a nest. Normally they did not bother him, but today he was frustrated and short tempered. He stood up and closed the curtain, blocking the birds' path out the window,

then he turned to confront Shakya, his production manager:

“Kaoru Otake from Press Alternative Japan just faxed. He received the shipment of dhaka³ tote bags we sent him last week and he is not happy. He said he has already had two bags returned because the black border was not color fast. I thought I told you to wash one to test the colors.”

Shakya just sat looking at his hands, making no response to Surendra. The week before the Press Alternative order was finished had been Newari New Year.⁴ Many production staff members, including himself, had taken time off for the holiday. The order was not finished on time and Shakya had to rush to send it off to Japan. He had forgotten that the fabric had not been used before and thus required testing.

“We cannot let this happen again. We have very few consistent export clients. It is important that we keep the ones we have.”

As Shakya left the office, one of the birds flew from the nest and hit the curtain blocking its exit. On its way back to the nest, a large dropping fell on Surendra’s desk.

It had not been a good day for Surendra. He just reviewed the sales reports for the last two years, and Mahaguthi experienced an alarming decline in sales growth. In the fiscal year ending July 1989, sales revenues had increased 32% over the previous year, but by 1989–1990 growth had dropped to 13% and net profit actually decreased from 1990 to 1991. Exhibit 1 summarizes sales and profit figures for the past seven years. Exhibits 2 and 3 show the income statement and balance sheet for 1990, Mahaguthi’s most profitable year.

Surendra knew there were solid reasons for the slower sales. The Gulf War had fallen right in the middle of the fiscal year, severely impacting tourism and local sales. In addition, in February 1991 Mahaguthi opened its third shop in Kupondol, outside Kathmandu. Just before the opening, the Bagmati Bridge connecting downtown Kathmandu to Patan (where two out of three shops were located) broke down. Without this bridge, tourists travelling from Kathmandu to Kupondol had to take a much longer and more difficult route to reach the two Mahaguthi shops in Patan. The bridge was out for six months.

While total sales growth had slowed for the past three years, Mahaguthi’s exports had grown. Since receiving their first export order five years before, Mahaguthi had received an increasing number of orders from overseas. Exports on average also offered higher profit margins. For the year ending July 1992, export sales made up 30% of total revenue.

Mahaguthi’s lack of official recognition as a business complicated export procedures. Thus far they had managed to export without official export status, but on a few occasions export orders had been held up until *baksheesh*⁵ was offered too smooth over problems.

Surendra contemplated the current situation and market environment. He needed to develop a plan to ensure continued sales growth, and he was uncertain whether Mahaguthi should focus on expanding their domestic sales or developing their export markets.

Export Potential

Beyond the issue of legal status, other constraints affected Mahaguthi’s export potential. In spite of His

Exhibit 1

MAHAGUTHI SHOPS’ SALES AND PROFIT SEVEN YEAR SUMMARY

1985–1991

in Nepali Rupees

	1985	1986	1987	1988	1989	1990	1991
Sales	788,294	1,016,408	1,461,113	1,723,530	2,271,246	2,626,709	2,845,939
Cost of Goods Sold	<u>606,356</u>	<u>771,391</u>	<u>1,066,151</u>	<u>1,238,274</u>	<u>1,642,371</u>	<u>1,846,490</u>	<u>2,005,136</u>
Gross Profit	181,938	245,017	394,962	485,256	628,875	780,219	840,803
Administrative Expenses	<u>57,591</u>	<u>84,023</u>	<u>123,266</u>	<u>190,591</u>	<u>246,792</u>	<u>282,366</u>	<u>437,507</u>
Net Profit	124,347	160,994	271,696	294,665	382,083	497,853	403,296

Exhibit 2		
MAHAGUTHI SHOPS		
PROFIT AND LOSS STATEMENT		
for period ending 31 July 1990		
in Nepali Rupees		
	Detail	Amount
Sales	2,626,709	
less return	1,575	
discount to Hastakala	<u>55,732</u>	
Net Sales	2,569,402	
Cost of Sales:		
Open inventory	560,904	
Purchases	2,454,503	
less returns	149,240	
less discount	10,093	
Closing inventory	<u>1,065,316</u>	
Total Cost of Goods Sold		1,790,758
Gross Profit		778,644
Operating Expenses:		
Salary & Wages	117,818	
Rent	51,182	
Electric & Phone	7,927	
Office Expense	14,808	
Fuel	6,415	
Travel Expense	15,894	
Insurance	5,376	
Miscellaneous	24,780	
Commission	1,086	
Repair/alteration	12,164	
Publicity	19,265	
Handling charge	<u>5,651</u>	
Net Operating Profit		282,366
Other Income:		
Miscellaneous Income	800	
Interest Received	53,125	
Subsidies ITNC Grant	<u>56,450</u>	
		110,375
ITNC Expenses:		
Remuneration	4,500	
Solma construction	23,535	
Ankhisala construction	16,336	
Revolving fund—ankh	10,000	
Office expense	105	
Transport	294	
Equipment	<u>1,680</u>	
Depreciation		56,450
Allowance incentive		6,359
		54,383
Net Profit		489,461
Distribution:		
Ashram		195,782
Producers incentive		24,472
Revolving fund, workshop		171,317
Reserve		73,418
Welfare fund		<u>24,472</u>
		489,461

Exhibit 3		
MAHAGUTHI SHOPS		
BALANCE SHEET		
as of 31 July 1990		
in Nepali Rupees		
	Detail	Amount
Current Assets		
Cash		745,742
Closing Stock		1,065,316
Advance to Producers		130,573
Rent Advance		28,000
Sundry Debtor		19,324
Hastakala:		
Consignment		251,948
Suspense		<u>2,240,925</u>
Fixed Assets	48,590	
Purchase	<u>5,805</u>	
	54,395	
Less Depreciation	<u>6,359</u>	
		48,036
Total Assets		2,288,961
Liabilities	Detail	Amount
General Fund		204,176
Fixed Asset Reserve Fund		55,984
Revolving Fund		250,502
Caritas Grant		308,489
Oxfam		31,606
ITNC grant		36,200
Promotional Reserve Fund		5,804
UNESCO		11,556
Bonus Reserve		62,023
Expenses Due		540
Welfare Fund Balance		47,048
UNICEF		14,200
Third World		9
Himalaya Trading		63,800
Creditor		526,737
Press Alternative		19,726
Goods consign Hastakala		251,948
Producer Incentives		31,522
Reserve Workshop		171,309
Ashram		<u>195,782</u>
Total Liabilities		2,288,961

Majesty's Government's (HMG) efforts to promote exports, many logistical hurdles stood in the way of the proposed one window system.⁶ The mandatory letter of credit, or the 100% advance payment on all export items, was particularly difficult for handicraft exporters. They usually sold in small shipments to first-time buyers who were most likely uncomfortable with such arrangements.

Surendra knew from experience that the export procedure, far from being a one window policy, could involve

up to six distinct stages through six different agencies (described in Exhibit 4). The procedures could take days, requiring a staff person to run around the valley following up on progress. At every step of the process, government officials could create obstacles that could only be removed with the payment of *baksheesh*. In the past, Mahaguthi avoided such problems by processing their exports through an export agent, incurring a heavy commission charge.

Surendra had never pursued a marketing or promotion plan to reach export markets, but instead had simply let buyers come to him. Most of the export orders he received came from ATOs like Oxfam, Caritas, and Boutique Salaam. ATOs tended to be more flexible on delivery dates and were willing to pay higher prices than commercial buyers.

Supply Problems

Surendra recognized that flexible delivery dates were essential to businesses such as his operating in Nepal. Mahaguthi's raw material suppliers and producer groups were both unreliable. Most raw materials came from India where they were purchased on the open market.⁷ At Mahaguthi's current production levels, raw material requirements were limited and the low prices of the marketplace overcompensated for its inconvenience. However, market supply was dependent on good trade relations with India.⁸

Exhibit 4

EXPORT PROCEDURES

9 February 1993

1. Obtain confirmation from commercial bank of Letter of Credit or 100% advance payment
2. Obtain certification of export products from Handicraft Association
3. Obtain Certificate of Origin from Chamber of Commerce
4. Buy GSP (Goods of Special Preference) from Trade Promotion Center
5. Obtain approval from appropriate ministries for export of certain restricted goods, e.g., metal statues must be approved by the Ministry of Archaeology
6. At Customs, fill out customs declaration form and foreign exchange declaration form

Inconsistency and unreliability among producers were also problems. Many of the rural producers were farmers first and handicraft producers second. They were usually uneducated subsistence farmers who engaged in craft production to supplement their meager earnings. During harvest time and planting season their crops came first. Approximately 90% of Mahaguthi's producers were women. They often lived and worked in a one-room shelter with no electricity or running water.

For rural producers, there were also transportation problems. Over 30% of Mahaguthi's producer groups lived in rural areas, and they produced over 50% of items sold. Nepal's infrastructure was sorely underdeveloped, and many roads were subject to landslides and flooding. Many producers lived in remote areas unreachable by road. Delivery of their goods was dependent on weather conditions and road maintenance.

Telephones were seldom available in the rural areas, making it difficult or impossible for the craft producers to notify Mahaguthi if an order was late. Likewise, placing an order with producers often required travel to their village by a Mahaguthi staff person. The poor condition of roads and buses could make travel within Nepal extremely long and uncomfortable. For example, a bus ride from Kathmandu to Dharan, 150 kilometers away, took a full 17 hours (see map on page 146)!

There was a general lack of understanding and awareness of quality issues. Often finished materials arrived soiled and bamboo products were damaged. Producers nonetheless expected to be paid for all goods delivered, regardless of their condition. Many producers had quality problems that would not be tolerated in the international market.

Another problem occurred when producer groups tried to fill orders that were too large for their production capabilities. By tradition, Nepalese people are non-confrontational and always try to please. This often led people to say "yes" even when they knew the true response was "no." For example, if Mahaguthi asked Nepali Paper Products if they could fill an order for 1,000 pieces of stationery in one month, they would likely say "yes" even if they knew it would take two to three months to produce an order that size.

Because business contracts were not binding, Mahaguthi had no means of ensuring that producer groups

delivered orders on time. This resulted in low stock levels during busy seasons and often meant missed sales opportunities. Without a realistic sense of production capability and with no means to secure delivery dates, Mahaguthi would likely have a very difficult time maintaining export customers.

In spite of these obstacles confronting Mahaguthi's export future, there were solid reasons to consider the potential of the export market.

Domestic Market

While the number of tourists coming to Nepal had continued to grow, the tourist market was highly seasonal and variable. For example, the Gulf War and violence in India were unpredictable, unavoidable events that severely affected the volume of tourists in Nepal. The expatriate community was not expected to grow and would most likely shrink as worldwide recessions caused foreign governments and companies to cut back on overseas staff.

The average Nepali had limited disposable income⁹ and rarely purchased luxury items. Kathmandu, the only realistic target market, had fewer than a million people. The Nepali people were predisposed to buying foreign goods and tended to think of foreign as better. Favorable trade conditions and cheap Indian labor made many products from India attractive as foreign-made, low-cost products, less expensive than the corresponding Nepali products. Nepali people also tended to avoid shopping in stores frequented by Bideshis (foreigners) because they assumed that if Bideshis shopped there, the stores must be expensive.

Competition

Mahaguthi faced intense competition. When Mahaguthi first opened their doors in 1984, they were the first retail outlet available for Nepali handicrafts. Now, nine years later, Mahaguthi faced two types of competition: other nongovernmental organizations (NGOs) like Mahaguthi, which carried very similar merchandise in the same price range; and commercial retailers, who generally could offer the same merchandise at lower prices. In the Kathmandu Valley alone there were easily 250+ handicraft stores plus numerous street vendors.

There were two other NGOs that were Mahaguthi's closest competitors: Hastakala, whose profits went to the Women's Skill Development Project; and Dhukuti, whose profits were channeled into a benefits program for producers. Since these NGOs had a charitable thrust and paid their producers above market wages, their prices were higher than those of commercial retailers.

The commercial retailers paid market wages and offered variable prices, so they could afford to sell the same goods for lower price. Customers who shopped at Mahaguthi, Hastakala, and Dhukuti, however, knew that their purchase supported destitute women and disadvantaged villagers of Nepal, and they were willing to pay more for this social benefit.

Marketing Strategies

At present, Mahaguthi failed to distinguish itself from its NGO competitors. As the first NGO selling handicrafts, at one time Mahaguthi was able to depend on history and experience to distinguish itself from other handicraft stores. In more recent years Mahaguthi was stagnant while competitors aggressively seized market opportunities. Dhukuti distinguished itself for its new products and designs while Hastakala developed a good customer service policy, accepting multiple forms of payment, opening on weekends and later at night, offering gift wrapping, and providing dressing rooms. Hastakala also had a shop in Lazimpat, offering two locations.

Not only had Dhukuti and Hastakala successfully seized domestic market share, they had also expanded their export market. Export sales made up 50% of their total revenue, in contrast to Mahaguthi's 30%. Dhukuti was officially registered as two separate organizations: the export wing was registered with the Nepali Department of Commerce and was currently taking advantage of the tax-free status on exports, while the domestic sales wing was registered with the Social Welfare Council as a charitable organization and hence was not required to pay taxes.

With three, soon-to-be four shop locations, Mahaguthi had one advantage over the others: convenience.

DOMESTIC RETAIL OUTLETS

First Store: Mahaguthi's first shop was located in Patan Durbar Square, a major tourist attraction. Durbar

Square, or King's Square, was home to the King of Patan's palace. The Palace and the surrounding temples were all beautiful and architecturally magnificent historic landmarks. The Mahaguthi Shop was actually located inside the old palace and was approximately the size of a large walk-in closet.

Second Store: Durbar Marg (or King's Way) was centrally located in Kathmandu. Close to Thamel, a major tourist area, Durbar Marg was populated with numerous airline offices and two major four star hotels. The Mahaguthi Shop on Durbar Marg was a very small space, with limited display room. However, due to its prime location, this shop had been lucrative.

Third Store: In 1991, Mahaguthi opened its third and largest shop in Kupondol. Kupondol was a small area located in Patan, outside of Kathmandu. There were many other handicraft stores located in this area and consequently it came to be known as the Handicraft district. In spite of its remote location far from the major tourist areas, Kupondol attracted many shoppers.

Fourth Store: A fourth shop was scheduled to open in the spring of 1993. This shop, with 1,100 square feet of floor space, would almost double Mahaguthi's existing showroom capacity. It was to be located in Lazimpat, an area just north of central Kathmandu. In addition to having many three and four star hotels, Lazimpat had many Embassies and was a popular residential area for the expatriate community.

With over 1,000 producers, Mahaguthi shops were servicing many more producers than either of their competitors. Their founding principle—income generation for the disadvantaged—was thereby fulfilled. But having more producer groups did not guarantee Mahaguthi a competitive advantage.

The handicraft industry in Nepal was plagued by duplication and copying of ideas. There were no intellectual property rights. As soon as a new design was successful, it was copied and readily available in both the NGO and commercial handicraft stores. Many handicraft producers could not afford to pay high designer wages, and, with a small educated work force, Nepali designers were hard to find. Understaffing meant little strategic planning, product development and innovative design, thus design copying occurred frequently.

Retailers relied on a long product life cycle and a long product shelf life. Selling to tourists allowed the retailer to maintain the same products for a longer period of time. Since tourists came and went and thought everything they saw was new and different, it was irrelevant how long the product had been on the shelf. As long as the products were maintained, the product life cycle could be years.

EXPORT STATUS

From what Surendra learned during his Ministry visits, Mahaguthi Shops could proceed in three directions in order to achieve legal export status: (1) maintain their current status as part of NCPGSM, a charitable organization registered with the Social Welfare Council, and try to obtain a certificate or documentation of their tax-free status; (2) establish a separate trading business that would register with the Cottage Industry Development Board, file at the tax bureau as a taxable trading organization, and take advantage of the five-year tax-free policy on exports; (3) become an independent organization, separating itself completely from NCPGSM.

In discussions with the Deputy Director of Finance, Surendra had been advised to pursue the first option, that is, to remain registered with the Social Welfare Council. The official warned that although under the current export promotion program exports from Nepal were declared tax-free for a five-year period, this policy would change eventually. If Mahaguthi were to establish a separate trading business under the Cottage Industry Board (option 2), it could be subject to taxes when the policy changed.

On the other hand, the Social Welfare Council currently did not have a policy that accommodated businesses structured like Mahaguthi. Organizations registered with the Social Welfare Council were assumed to be NGOs that received donor funds and were not engaged in income generating activities. There was no structure for determining whether income generating projects had tax-free status. In order to obtain a tax-free certificate, the SWC would have to write to the Ministry of Finance, then to the Ministry of Education, and finally write a proposal to Parliament that would be subject to their approval—a very lengthy and time consuming process.

The Current Organization

The organizational structure was highly centralized with most decisions made at the senior level by the managing director. At present there were 22 administrative staff (including sales staff) and 20 production staff. An informal working committee had authority to formulate rules and regulations on a day-to-day basis within the framework of the Mahaguthi Constitution. Since it was established in 1991, the working committee had given the managing director a great deal of autonomy and played a largely supportive role, responding only when problems arose.

Surendra, the current managing director, had been with Mahaguthi since 1984 when the store opened. He started as an assistant to the manager, with a bachelors degree in commerce (roughly equivalent to a high school diploma in the United States). At present the managing director had the most decision-making authority, being responsible for purchasing and pricing decisions, personnel, budgeting, promotional activities and financial planning. Product development and purchasing decisions often required travel outside the Kathmandu valley and visits to producers located all over Nepal. In 1992, Surendra spent six months of the year travelling.

In May 1992, Surendra took his first trip abroad to promote Mahaguthi's products. This trip was primarily financed by Butik Salaam, an ATO. He visited ATOs in Germany, England, Switzerland, and Denmark. During his travels he received orders from Butik Salaam and Oxfam. Surendra was solely responsible for meeting with potential buyers, attending trade shows and communicating with export customers.

PRODUCTION

Six months before Surendra had decided to bring a production unit in-house. At the time, the Production Manager, Mr. Shakya, was moved from the Ashram to the new Mahaguthi workshop. The production manager oversaw the three production centers, sewing, weaving, and block printing. He was responsible for procurement of raw materials and the costing of finished goods. Pricing was based on a cost-plus model with a 50% maximum mark up. These workers were paid on a piece rate basis and compensated for holidays, personal days and sick days.

SUPPLIERS

Mahaguthi had a well developed network of suppliers. In order to offer a diverse assortment of products, its suppliers were both charitable and commercial, rural and urban, men and women. At present, the disadvantaged craft workers of Nepal were not producing the quantity, quality or range of products necessary to take to market. Other goods were needed to add variety and better quality to the existing merchandise mix. Thus, Mahaguthi continued to utilize profits to encourage and support disadvantaged craft workers in the hope that their crafts would improve and eventually be capable of surviving independently in the commercial market.

DESIGN

Mahaguthi never had a full-time permanent designer. In the 1992–1993 budget, salary was allocated for a full-time designer, but the amount was insufficient to attract a good one and, as of February 1993, no designer had been hired. In the past, design assistance had been provided sporadically and on a volunteer basis. Approximately three months ago, Avril Corbett, a VSO (from the British Volunteer Service Organization, similar to the U.S. Peace Corps) who had been working with the Tulsi Meher Ashram six days a week, started spending three days a week working in Mahaguthi's workshop developing new designs. Recently Avril extended her contract so that she could work with Mahaguthi for another two years.

FINANCE

The Managing Director was responsible for making financial decisions concerning investments, capital expenditures, fund raising and fund allocation. Mahaguthi had been a self-sustaining organization since the beginning. However, from time-to-time, grants were received to implement producer programs. For example, the International Trust for Nature Conservation provided a grant to initiate a dhaka weaving center in eastern Nepal, and Oxfam provided funds for a Kathmandu-based craft exhibition to promote the craft producers.

SALES PERSONNEL/STORES

All salespeople previously earned a School Leaving Certificate (SLC) for completing 10 years of study. They

had limited English skills and were not very aggressive. Sales personnel worked six days a week (the normal Nepali work week is 10:00 am–5:30 pm, Sunday thru Friday). The shops were closed on Saturdays, the Hindi Holy day, and all major Nepali holidays.

There were currently no customer service policies for returns, discounts, or lay away, and no training on how to greet customers, what to give them as a receipt, brochure, etc. The salespeople were salaried and had no direct incentive to sell merchandise.

MARKETING/PROMOTION

Marketing planning in Nepal was a difficult task, due to the lack of market statistics and accurate data. As mentioned previously, the managing director made all decisions concerning marketing and promotion. Advertisements were run sporadically in local publications, such as *Nepal Traveller* (the inflight magazine for Royal Nepal Airlines) and *The Mirror* (a monthly periodical put out by the United Nations Women's Organization). Mahaguthi had a brochure that was distributed to various locations on an irregular basis.

The most successful promotional activity thus far for Mahaguthi was the annual Handicrafts Exhibition. In the past, Mahaguthi organized the exhibition with the financial support of various donor agencies. In 1992, due to lack of outside funding, Mahaguthi did not host the exhibition. With the exception of the annual exhibition, Mahaguthi had little time and resources to devote to marketing activities.

There was no consensus regarding Mahaguthi's market position or their distinctive competence relative to their competition. At one time, Mahaguthi could rely on a reputation as the first in the field, but this was no longer enough to gain competitive advantage.

Scenario # 2

As Surendra sat at his desk with the birds flying overhead, he could hear the sound of shuttle cocks going back and forth on hand looms in the outside workshop. He thought about the women weavers working steadily at their looms and of the women sewers hunched over their foot-powered sewing machines.

While Surendra was an ambitious young business man, he recognized that many Nepalis were not ambitious.

For example, if he were to raise the sewer's salary to 10 rupees an hour (from the current 8 rupees/hr), instead of working seven hours a day and making 14 more rupees a day, they would probably prefer to work 5½ hours a day and make the same amount of money. With this lack of entrepreneurial spirit, Surendra wondered if Mahaguthi could continue to expand the way it had in the past. Could Mahaguthi's production unit and craft suppliers continue to grow along with Mahaguthi? Was it realistic to pursue export markets under the current circumstances? Or should the company pursue different approaches to production and export?

Notes

¹This case was written by Lee Strauss of the University of Maryland. It is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

²In fall of 1992, after very disappointing summer monsoons, Nepal was forced to start load shedding (daily power cuts lasting from 2 to 8 hours a day) earlier than ever before. In a country with an abundance of natural water resources, Nepal had been unable to capitalize on this resource and harness the hydro power potential. Consequently, load shedding had become an annual occurrence. Some larger businesses in Kathmandu purchased electrical generators.

³For over 20 years the Ashram accepted destitute women and their children. Over this time many women left after completing the two year program, leaving their children at the Ashram while they moved on to find work. Today the Ashram had only 18 women and over 160 children. With this large number of children, the focus of the Ashram had changed. Unfortunately, the Ashram suffered from poor management, the children were not disciplined, and the women suffered.

⁴Kathmandu is a very tight and close knit community. Business and political relationships are often interconnected. At present a number of influential political persons sat on the board of NCPGSM, including the Matrika Prasad Koirala, a former prime minister, and Khadga Man Singh, a former finance minister. Both Koirala and Singh still wielded much power. They could have made it very difficult for Mahaguthi to separate from NCPGSM.

⁵Dhaka is a popular hand woven cotton fabric commonly used for scarves, bags and clothing. Many Nepalese still wear topis (a traditional hat) made from Dhaka.

⁶Newari New Year was celebrated according to the lunar calendar by Newars, a caste of Nepalese who traditionally resided in the Kathmandu Valley and who owned and oper-

ated small businesses. Mahaguthi's staff received 36 personal leave days (for sick leave, vacation, family emergencies, etc.) and 30+ days for government holidays. Newari New Year was a government holiday.

⁷Bribes

⁸A one window system would have simplified export procedures by reducing the paperwork and distributing all documents at a single location.

⁹The markets of Nepal were colorful, lively and chaotic places. Full of everything from imported fabrics to raw vegetables, glass beads, paint thinner, metal tubing and electrical equip-

ment, shop after shop displayed all their inventory in a small space (measuring about 10 x 12 feet). Everything had to be bargained for, and no one shop carried the same goods consistently. In many cases the products were dusty, dirty and slightly damaged. Rarely did the product come in any sort of box or packaging.

¹⁰During the fiscal year July 1989–July 1990, Nepal and India severed trade relations. For fifteen months Nepal suffered as essential imports such as petrol and kerosene were depleted.

¹¹Expected average per capita income in Nepal for 1991/1992 was \$170 U.S. dollars.