EMCS

Executive Summary

Request Services for the Provision of a Study on the Adoption of Ecommerce in the Crafts Industry

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1. Background to the Project

The Malta Commission Authority Economic commissioned the Management Consultancy Services Ltd (EMCS) to carry out the necessary research as part of the Study on the Adoption of eCommerce in the Crafts Industry. The aim of the study was to undertake a mapping exercise of the local crafts sector vis-à-vis the use of eCommerce and cutting edge technologies. In this regard, three basic research techniques were employed :

- As an initial exercise, a desk research was carried out in order to identify the key business models that are being implemented by the crafts sector, to identify niche markets that could be targeted through eCommerce, to examine the implementation of certification of authenticity, and to evaluate the integration of cutting-edge technology in the production process.
- The second technique relates to the quantitative research. The scope of the quantitative research was to obtain information on the level of ICT and eCommerce penetration within the Crafts Industry. Furthermore, the quantitative research also explored the potential adoption of ICT based tools and eCommerce within the industry and the barriers that hinder its adoption. It should be noted that the fieldwork was carried out by the National Statistics Office.
- The third technique relates to the qualitative research. Face-to-face interviews were carried out with stakeholders in the crafts sector in order to identify the needs of the crafts sector and the willingness and barriers for the crafts to integrate eCommerce and cutting-edge technologies in their business strategy.

Upon completion of the above research exercises, EMCS drafted a strategy and action plan targeting the crafts industry. The aim of the strategy is to recommend a range of actions and initiatives that assist the businesses in the crafts sector to take advantage of the opportunities made available by eCommerce.

2. Global Scenario

2.1.　　　Trends in the Crafts Sector

Research shows that at an international level the manufacturing and retail sectors are still predominantly relying on the traditional sales channels, that is, on retail stores and intermediaries. However, these traditional sales channels have undergone a significant change due to the advancement of technology. Indeed, new opportunities have been created through eCommerce which resulted in the creation of new business models where products are sold by the manufacturers directly to the customers. Social media also plays an important role in the selling process as it adds value to the product through the provision of historic information surrounding the product. Social media also allows businesses to build audience and to obtain new innovative ideas.

The crafts sector is no exception to the reliance on the retail stores as a sales channel, mainly because of the target market that is locally based with limited exports to other countries. However, studies in the UK and Ireland show that businesses are also making use of their own website to sell their products. The majority of such websites contain features such as email enquiry, product images, and specifications, with a lower percentage also having online trading facilities. In the last years, there has also been the emergence of specialised craft retail sites, such as Etsy.com, which have encouraged more women to enter the labour force by working from home.

Despite the acknowledged benefits of integrating eCommerce and social media, there are still barriers that hinder businesses from adopting these tools. The main issues relate to the different legislations, regulations, payment methods and logistics services across the different countries. Indeed, different countries have differing rules on sales transactions specifically relating to product labelling, consumer information, and the rights to cancel and return a purchase. The VAT regulations and payment solutions also vary. In the case of businesses that export abroad, these also face issues relating to the varying customs procedures. The underlying issue with regards to the differing legislation relates to the lack of information for the businesses and the amount of resources that businesses need to input in order to obtain information on the issues involved in a sales transaction. Businesses also face other issues with eCommerce which mainly relate to insurance, product certification, lack of standards, rules of origin, fraud, and transport costs. Apart from these barriers, businesses may also face a number of internal barriers to the adoption of eCommerce which mainly relate to the belief of the unsuitability of the tool for the business, the lack of skills and the lack of resources.

There are different ways of how businesses in the crafts sector are incorporating eCommerce. One such option is for businesses to develop their own eCommerce application and incorporate it into their own website. Instead of developing their own eCommerce application, businesses can also opt to add a shopping cart to their website. A third option is for businesses to make use of third party websites such as Craftsbay.ie. If businesses opt for the last option, these need to ensure that their products are in line with the products being sold through the third party websites and the prices.

In the recent years, there has been a shift from products competing on the basis of price to products competing on the basis of the products' uniqueness, design and aesthetics. This has created growth opportunities for those businesses that produce small quantities of a particular product. Customisation is one of the trends that is dominating the markets and which contributes to the creation of unique products. Indeed, crafts businesses can produce their traditional products and make them personalised to the customers. Another trend is the increase in consumer awareness on environmentally friendly products that are also functional. In this regard, traditional crafts products have been adapted to make use of environmentally friendly products in the manufacturing process and have been re-interpreted in order to produce traditional crafts products that meet functional needs. The use of bold geometric shapes and the increase in popularity of men's accessories are also trends that can be taken on board by the crafts businesses. The adaption and reinterpretation of traditional crafts products to the recent trends have witnessed the need for collaboration between artisans and designers.

2.2. Technology as a Useful Tool for the Crafts Sector

There exists the misconception that the production of traditional handmade products cannot include technological elements. However, there are different ways of how cutting edge technology can be integrated in the manufacturing process without decreasing the value of the product. Research shows that businesses in the crafts sector have been seeking ways of how to take advantage of cutting edge technology. Indeed, businesses have been using digital technologies during the different stages of the manufacturing process, from the design stage, to the production, to the marketing of the product. Since most of the businesses in the crafts sector tend to be small or family run businesses, these usually lack the necessary resources (financial and technical) to acquire cutting edge technology. Thus, foreign businesses tend to outsource the work related to the use of this technology. In foreign countries this has led to the creation of a new industry that specialises in the

use of laser-cutting, Computer Aided Design (CAD), Computer Numerical Control (CNC), Computer Aided Manufacture (CAM), and 3D printing.

2.3. Certification

There is widespread consensus for the need to protect the crafts industry through the use of certification schemes. In this regard, there are various types of schemes that are currently being used by the crafts sector depending on the product produced. The most commonly used types of certification include certification marks, collective marks, and geographic indications. The certifications would usually establish the steps in the production process, for such product to be included in the certification schemes and thus make use of the mark. When applying for the certification mark, businesses have to pay a fee covering the evaluation of the application. If approved, businesses would then have to regularly pay a fee for the renewal of the license. It should be noted that in case a business no longer meets the criteria and process established by the authority managing the certification scheme, the business can no longer make use of the mark.

2.4. Government Intervention

It is acknowledged that the crafts sector has growth potential that contributes to the country's economic growth. In light of this, governments have tried to assist businesses in the crafts sector through different means in order to take advantage of growth opportunities. Assistance to the crafts sector includes training programmes in order to develop the skills of business entrepreneurs. The development of a brand name for the local crafts sector is another type of assistance provided through which crafts products are promoted. Relevant national authorities also make available different types of funding and specific services targeting businesses in the crafts sector. Assistance to the crafts sector is also being provided through the enactment and implementation of legislation through which the products of crafts businesses are protected from fake products. In order to encourage businesses to export their products, governments have provided incentives to businesses that form export consortia. Such incentives have taken the form of preferential interest rates on loans and fiscal incentives.

3. Key Findings

3.1. Global Statistics

In Great Britain, various studies have been conducted in order to map the current situation of the crafts sector. From a study carried out by BOP Consulting, it emerged that 93% of the manufacturers in the UK sell their products through a gallery or a shop[1]. Apart from using shops as a sales channel, manufacturers also use their own website (32%), event and festivals (13.3%), and fairs (8.6%). A key characteristic of the UK crafts sector is the limited exports. Indeed, only 30% of the manufacturers export their products. The income generated from online sales is considered as low compared to that generated from the traditional sales channels.

An Irish study explored the features contained in the websites of crafts makers. It emerged that the vast majority of the respondents that is, 87% of businesses have a website with specific features, including email enquiry, product images and specification[2]. However, only 40% have the necessary features that allow for online trading, such as pricing, payment options, and placement of orders. With regards to the crafts retailers, the relative percentages are slightly higher. Indeed, 91% of the crafts retailers have their own website, with over 50% having the features that allow customers to buy their goods online, including the provision of pricing, payment options, and the placement of orders. The popularity of third party websites such as Etsy.com are also on the increase, and around 12.7% of craft makers in the UK make use of such websites[3].

BOP Consulting on behalf of the Crafts Council also studied the integration of modern technology in the practices and production of crafts businesses. From the study carried out, it emerged that 57% of the retailers make use of cutting-edge technology, mainly in the design stage (30%), production process (19%), and marketing of the products (24%)[4]. Modern technology is also changing the materials that businesses use to produce their products. This is evidenced by a study carried out in Australia which shows that craftspeople are making use of a wide range of materials, including

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[1] Brown, J. (NA). *Making It Local: what does this mean in the context of contemporary craft?* Retrieved from: http://www.craftscouncil.org.uk/content/files/Crafts_Council_Local_Report_Web_SinglePages.pdf
[2] Indecon. (2013). *Creative Clusters. Economic Analysis of the Current Status and Future Clustering Potential for the Crafts Industry in Ireland*. Retrieved from: http://www.wcdp.ie/wp-content/uploads/2013/03/Indecon-Crafts-Industry-Report-03.12.13-High-Res1.pdf
[3] BOP Consulting. (2012). *Craft in an Age of Change*. Retrieved from: http://www.craftscouncil.org.uk/content/files/Craft_in_an_Age_of_Change.pdf
[4] BOP Consulting. (2012). *Craft in an Age of Change*. Retrieved from: http://www.craftscouncil.org.uk/content/files/Craft_in_an_Age_of_Change.pdf

plastics and recycled materials (39.3%)[5]. The materials that are being most used are textiles (47%), recycled material (29.7%), paper (27.9%), ceramics (17%), and metal (17.4).

3.2.   The Current Local Scenario

Quantitative Research

From the quantitative research it emerged that the products produced by the local crafts businesses are mainly handmade and the vast majority of the businesses are not seeking to invest in any technology to keep the product handmade. In the case of those businesses who intend to invest, they have plans to invest in machinery that is related to their work with the aim of increasing efficiency in the production process. Businesses state that they do not make use of the internet for work purposes even though they believe that it can be beneficial to their businesses, especially to reach new customers and to communicate with customers. Despite businesses state that they do not make use of the internet, they make use of Facebook to promote their products. The main channels used by businesses to sell their products are mainly through their own shop and fairs. Businesses state that they are satisfied with the current sales channels, and that they do not sell their products online because their products are not suitable for eCommerce. In the case of the businesses that sell their products online, this mainly represents less than 10% of their total revenue. The majority of the businesses do not export their products, but for those that do sell abroad, do so over the internet.

Qualitative Research

The businesses and the other stakeholders interviewed as part of the qualitative research are of the belief that the local crafts sector has great potential abroad. The main aim for businesses to start selling their products online is to replicate the sales at their retail stores, to give the opportunity to customers to buy complimentary products, and to allow Maltese people abroad to buy local products. However, some businesses encountered issues when developing their own eCommerce application mainly relating to the developers' lack of knowledge of complimentary services and the development of the inventory stock that is to be uploaded on the website. The businesses that are currently selling online are facing a number of issues that are related to high shipping costs, the lack of resources needed to keep the website up to date, the need for appropriate packaging,

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[5] Heath, L., Pascoe, J. (2014). *Mapping the Australian Crafts Sector.* Sydney: National Craft Initiative.

importation restrictions especially related to food, and the implementation of a stock control system.

Businesses that are not currently selling online have varied reasons for not doing so depending on whether the business is an established one or whether the activity is carried out as a secondary occupation or as a hobby. For the established businesses, the main reason for not going online is the difficulty in meeting the high demand through eCommerce and in the planning for the uploading of catalogues online. For the businesses that operate as a secondary occupation or a hobby, the main reason for not selling online, is the lack of resources.

The stakeholders have emphasised the importance of product certification in order to protect the local crafts industry against fake products that are flooding the market. Businesses also pointed out to the potential breach of copyrights when selling their products online. Furthermore, businesses showed the need for assistance in the form of grants and preferential tax rates when exporting their products abroad. It should be noted that in the past there have been various funding schemes, but businesses from the crafts sector rarely applied.

When asked about the use of technology in the product processes, the businesses stated that they are against the use of such technology as it decreases the inherent value of the product. However, the other stakeholders stated that there are ways to integrate technology without foregoing the product value. Furthermore, local crafts products need to have foreign appeal, be of good quality, relevant and decorated in such a way that people use it. This also requires collaboration between designers and craftspeople in order to create products that can be bought by foreigners.

3.3.   Local vs. Global

The profile of the local crafts sector is similar to England's crafts sector, whereby it is characterised by micro enterprises that employ less than ten people. However, a distinct feature of the Maltese crafts sector is the significant percentage of craftspeople that produce their products as a hobby (32.2%). Considering the number of craftspeople who do this as a hobby, the number of self-employed in Malta is 39.0% compared to the 78%[6] in England. The majority of the local craftspeople, 50.3% produce their crafts as their main occupation while 13.7% carry out their work as a secondary occupation. This contrasts the data pertaining to England's crafts sector where 85%

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[6] (2012) *Mapping Heritage Craft. The Economic Contribution of the Heritage Crafts Sector in England.* London: Department for Business and Innovation Skills.

do their job on a full time permanent basis, 10% on a part-time permanent basis, with the remaining 5% being fixed term staff, casual staff and unpaid workers. The majority of the Maltese craftspeople possess low educational levels, with 57.8% having completed up to secondary level of education, 20.7% and 19% having completed post-secondary and tertiary education respectively. This pattern is very similar to the educational level of crafts people in the UK (47% completed up till secondary education, 24% completed post-secondary education, and 15% completed tertiary education).

A comparison between the local crafts sector and that of the UK shows that British manufacturers rely on galleries and shops as a way of selling their products (93%), followed by websites (32%), events and festivals (13.3%), and fairs (8.6%). Shops are also the main sales channel for local crafts products, but this is common with a lower number of craftspeople that is, 39.7%. Another 25.8% of local craftspeople indicate fairs as a popular sales channel used. A trend that characterises the UK and the local crafts sector is the limited exports. Indeed, in Malta only 13.3% of the businesses indicated that they export their products abroad, which is a much lower percentage compared to that in the UK which rests at around 30%.

Around 21.8% of the local craftspeople have their own website through which they promote their own products compared to 87%[7] of British craftspeople. The features contained in local websites relate to interaction with customers (21.6%), company information (15.8%), and product information including prices (14.9%). It is to be noted that only 10.7% and 15.3% of the businesses allow for online orders and online payments respectively. The relative percentages for the British crafts sector are higher than those of the local crafts sector. Indeed, 40% of British businesses have features related to online trading.

In the UK, 57% of craftspeople make use of cutting-edge technology which is mainly adopted in the design stage (30%), production stage (19%), and marketing stage (24%)[8]. These percentages are much higher than the relative percentages in the local crafts sector. Indeed, the majority of the local craftspeople stated that their products are either completely handmade or with minimal machine intervention. Furthermore, only 13% of the local craftspeople expressed their interest in investing in such new technology, mainly in relation to the particular products that they produce.

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[7] Indecon. (2013). *Creative Clusters. Economic Analysis of the Current Status and Future Clustering Potential for the Crafts Industry in Ireland*. Retrieved from: http://www.wcdp.ie/wp-content/uploads/2013/03/Indecon-Crafts-Industry-Report-03.12.13-High-Res1.pdf

[8] BOP Consulting. (2012). *Craft in an Age of Change*. Retrieved from: http://www.craftscouncil.org.uk/content/files/Craft_in_an_Age_of_Change.pdf

4. Proposed Actions

4.1.   eCommerce

The analysis has indicated that a significant number of local artisans and crafts entities are very familiar with the traditional marketplace but exhibit a degree of inherent apprehension when faced with the inevitable prospect of venturing onto the online market space.

All too often, the analysis has shown that a number of local entrepreneurs are afraid to venture onto a perceived 'big bang' approach to implementing technology since they generally wish to maintain a balance between their work with other commitments such as family life, full-time occupation or even ongoing studies.

In the past, emphasis has been placed in taking business online by encouraging them to set up their own website with a shopping cart with little thought about what should have taken place beforehand. The proposed strategy is a process which might lead to the incorporation of a shopping cart. Such a process allows for flexibility and adaptability, and allows its implementation depending on the growth of the business. The proposed strategy reflects a process that could potentially lead to the shopping cart stage - provided the organisation wishes to reach this objective.

Within the Maltese scenario, it is clear that there is a need for a gradual, organic inducement of local crafts entities towards the potential and proven prospects that could be achieved across an online environment.

The proposed strategy is based on the implementation of various factors across four stages which are interdependent depending upon the chosen rate with which crafts entities tend to adopt an incremental acceptance of website, web technology and other ancillary channels:

- Presence Stage
- Information Stage
- Payments Stage
- Consolidation Stage

Presence Stage

The first stage is for local craftspeople to ensure an online presence through the implementation of an elementary website. This stage will allow them to acquaint themselves with the online world and understand fundamental principles, terms and acronyms while appreciating what is important and what is not.

A local Authority could assist in the provision of the necessary support to ensure effective presence by the crafts in line with modern marketing benchmarks.

A short, focused and managed 'Presence Stage' can enable crafts people to develop a vision for their online presence that encapsulates clear objectives and defined purpose in line with the business objectives; generally, but not exclusively, that of increasing sales within a much-larger market than could have been the case previously.

Although crafts people would not be able to sell online during this stage, they could still utilize emails and traditional communication in order to communicate with potential clients and effect a sale. This would encourage further investment in technology to move to a higher degree of participation in the global market.

Information Stage

The information stage involves a move from simple presence to strategic information gathering including customer profiling.

A website could attract site visitors ranging from existing clients, new clients and even a whole plethora of competitors. The study has indicated a clear difficulty with local crafts entities to relate to the modern 'invisible customers;" dealing with a customer they cannot see. The face-to-face interaction of yesterday has been gradually disappearing as more and more transactions are carried out over the internet in an informal, albeit electronic, manner.

This stage largely centres on the constant gathering of customer interaction metrics that would enable the development of one or more profiles of the 'typical customer'. These tracking metrics and profiles are based on actions, interactions, preferences and feedback provided. The developed profiles are then used to customise the website in line with customers' needs. Thus, this stage largely addresses a central question, '*who is our audience?*' The website visitor may not be the assumed traditional customer and in some cases the website could challenge the notion of the 'traditional customer.' As an example, a number of interviewed entities see the walk-in tourist as

their traditional customer. However, a corporate website could introduce a number of interested parties, from across the globe, who would be interested in the respective craft. The latter could represent a new class of customer that the entity would need to adapt to in order to satisfy a new class of business needs. Various other new 'customers' could emerge as a result of establishing a website.

This stage requires crafts entities to collect and to gather the following information:

- gender proportion (number of male to female visitors);

- age range / groups of site visitors;

- reason for visiting;

- website areas of specific interest;

- global location;

- native language;

- occupation;

- typical time of visit;

- etc.

Gathering information about site visitors will help determine the general and personal characteristics of each category of audience, the circumstances for visiting and the motivation that underpins every visit to the website. The collected information could shed light on potential changes that might need to be made to the website to match the preferences of the target audience.

Contrary to popular thinking, there are various types of websites each of which has inherent characteristics and specific features. Different types of websites include:

1. **Brochure-based** – provide basic information about the organisation and what it offers.

2. **Marketing Focused** – promotes the organisation and uses marketing techniques to sell products or services across the traditional marketplace.

3. **Information-based** – provides in-depth information about company news, issues and various topics.

4. **Community-based** – nurtures communities of people with a common interest.

5. **Commercial** – intended to sell products and information.

6. **Hybrid** – include aspects from all of the above.

With a successful Information Stage, businesses can start considering moving on to the next stage.

Transactional Stage

The main element of enhancing the website to the Transaction Stage is the establishment of a shopping cart in order to use the Internet to sell goods or services. Implementing a shopping cart is not just a technical process but it also entails a number of decisions that need to be taken prior to realisation, such as:

- an integration between the catalogue set up in the Presence Stage and the shopping cart;

- the optimal and user-friendly view through which visitors can select items to purchase;

- calculation of the sum total of all items selected for purchase;

- calculation of packaging and postal charges across the globe;

- payment mechanism via multiple credit cards;

- integration with a secure payment gateway that verifies sufficient funds and the integrity of a credit card;

- ability to change the quantity of any particular item and re-calculation of the cumulative total; and

- prompt issue of an acknowledgment as soon as the transaction is committed.

Furthermore, the Transactional Stage also involves a number of fundamental policies, relating to privacy, returns, shipping, and fulfilment. There are different shopping cart options, and this stage is so critical, it could justify a strategic plan in its own right. However, every crafts entity will need to decide and adapt the solution that provides the optimum degree of integration, security and user-friendliness that best presents the specific market.

This stage allows for the collation of a wider range of data compared to the Information Stage, including an analysis of the total number of visitors against sales, abandoned visits and conversion rates from visits to sales.

Consolidation Stage

The Consolidation Stage is the final step in the strategic model and unlike the previous stages, there is no discrete point at which one shifts into the last stage. During this stage, the website would have become central to the business operations and a channel through which sales are effected. With a steady flow of transactions across the internet, the website needs to be consolidated within the traditional and mainstream channels such as face-to-face transactions carried out through retail outlets.

4.2.   Other Recommended Actions

National Certification

A national certification for the local crafts products could be developed as a protection measure and which could enable customers to distinguish between authentic and fake products. Such certification could establish the production processes and the necessary checks that need to be carried out to ensure compliance with the specified standards.

Export Consortium

An export consortium would allow businesses to pool resources and share the costs when promoting products abroad during international fora, events and fairs. However, this might need to be managed and overseen by a national authority.

Specialised portal

A national authority could establish a specialised portal to collate websites and social media related to local crafts products. Such a portal would allow direct access to the actual websites of the participating entities.

Promotion

A national authority could be established or identified with the remit of developing, fostering and nurturing a strategic program towards the promotion of local crafts with the global audience

through online channels and enhancement of relationships between local organisations and global audience.

Case Studies

A national authority could develop a set of focused case studies related to local crafts entities, which highlight the financial and legal factors, external market dynamics, internal business processes as well as the technology necessary to cultivate effective online business growth. The case studies should include both Web initiatives as well as those relating to social media channels.