



Aarong:

Social Enterprise for Bangladesh's Rural Poor

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1. Introduction – Going global

Aarong, the retail arm of BRAC, a non-profit development organization based in Bangladesh, was created in 1978 to provide employment, income generation and social development opportunities for underprivileged women through the revival and promotion of Bangladeshi handicrafts. Any profits from Aarong were used to extend such opportunities to more low-income producers and to cross-subsidize BRAC programmes for the poor, in health, education and livelihood development.

In 30 years, from a single shop, Aarong had grown into one of Bangladesh's biggest retail chains, with 15 stores in major cities including Dhaka, Chittagong, Khulna and Sylhet. Its products ranged from clothing, household items, gifts and fashion accessories to children's toys, ethnic wear, and beautiful handicrafts in silk, handspun cotton, endi,¹ terracotta, bamboo and jute. From a simple promoter of artisan handicrafts, Aarong had become the country's leading fashion and lifestyle brand; a "must-see" according to the Lonely Planet guide to Bangladesh.

The competition, however, was intensifying, both from local retailers in individual categories as well as foreign players, such as from India, where manufacturing costs were lower, due to more efficient production methods and less extensive worker benefits. Aarong had been able to rely on its status as a "department store" with a wide product range (in a country where this retail format was not common) and the convenience of a one-stop-shop with extras like parking space and in-store cafes to attract shoppers. But these were easily replicable for foreign players with deep pockets. Furthermore, e-commerce would expose it to global competition as online shopping became more common. How could Aarong compete in a global market? How could it leverage the brand, improve quality to match machine-made consistency, and keep prices competitive, while maintaining its social mission?

2. Background

BRAC

BRAC was founded by Sir Fazle Hasan Abed.² From a privileged home background in Bangladesh, he had gone to study accounting and business in London, staying on to make a career in corporate finance. In 1968, he returned to Bangladesh to manage the accounting department of Shell, the multinational oil company.

On 21 November 1970, a deadly cyclone hit the Chittagong area in southern Bangladesh, killing over 500,000. Abed and his friends volunteered for the relief effort, and it was that experience – facing death and destruction on such a scale – that changed his outlook on life. With the outbreak of the war of liberation in Bangladesh in 1971, he was forced to take refuge in England, where he raised funds for the millions of Bangladeshi refugees in India. After Bangladesh won its independence, Abed sold his London flat for US\$17,000 and returned to his home country.

1 A type of silk.

2 He was knighted by the Queen in 2010.

To add to the ravages of drought and natural disaster, hundreds of thousands of fathers, husbands and sons had been killed in the war, leaving their womenfolk destitute. With his friends, Abed established the Bangladesh Rehabilitation Assistance Committee (a precursor to today's BRAC) – using their own funds to set up a relief and rehabilitation centre in the remote area of Sulla in the war-torn north-east. Subsequently, BRAC received funding from the international development agency Oxfam, which was used to establish four health clinics, build fishing boats and offer housing assistance to promote employment in more than 200 villages in northern Bangladesh.

Realising that poverty was a complex problem to be fought on many dimensions, Abed began working on improving living conditions for the rural poor in Bangladesh, focusing on the landless poor, particularly women living below the poverty line. BRAC³ addressed the various causes of poverty through interlinked programmes in economic development, health, education, human rights, legal services and disaster management. A core component was its microfinance programme, which made small loans to rural women for income-generating activities – for the benefit of their families and communities. The loans were coupled with training (in such activities) as well as offering support to help them obtain high-quality raw materials and market linkages. This “credit-plus” approach resulted in a 99% repayment rate among borrowers, creating a sustainable growth model. Social enterprises were at the heart of BRAC's approach to poverty alleviation (see Exhibit 1):

A social enterprise is a business that trades for a social and/or environmental purpose. It will have a clear sense of its 'social mission': which means it will know what difference it is trying to make, who it aims to help, and how it plans to do it. It will bring in most or all of its income through selling goods or services. And it will also have clear rules about what it does with its profits, reinvesting these to further the 'social mission'.

Social Enterprise UK⁴

These commercially operated, pro-poor enterprises not only funded BRAC's core programmes to make it increasingly self-sustaining,⁵ they created crucial value-chain linkages to increase the productivity of assets and labour and reduce risk for the poor. For example, BRAC ran a bull station to improve cattle breeds for its farmers, as well as a dairy plant for milk processing and marketing. BRAC enterprises ranged from agriculture and dairy farming, water sanitation, handicrafts and fashion through Aarong, to a full commercial bank – BRAC Bank Limited – that lent to enterprises. (Exhibit 2 gives details of the vertical integration of its programmes).

3 Renamed 'Bangladesh Rural Advancement Committee' in 1973

4 UK's national body for social enterprise

5 In 1980, BRAC started de-emphasising reliance on foreign aides for its numerous work and started launching different business ventures to support its programmes. The organisation has achieved over 80% self-sustenance. Source: “As BRAC comes to country”, *AfricAfrica*, 17 Nov 2008

BRAC also embarked on the task of providing decent education.⁶ It built up one of the largest networks of private schools in Bangladesh, set up its own university, and ensured its sustainability by linking the curriculum with job requirements.

What started out as a limited relief operation in 1972 in a remote village of Bangladesh turned into the largest development organisation in the world – on a scale similar to a multinational company – with over 120,000 people working in all 64 districts of Bangladesh and 12 other countries.⁷

Aarong

“Aarong has made a continuous effort in linking crafts to fashion and to the market, both at home and abroad.”

Tamara Abed⁸

Bangladesh had a long tradition of folk art and crafts, such as painting, weaving, embroidery, pottery, carving and inlay, especially in rural villages. When BRAC began scouting for alternative forms of productive livelihoods for women in the 1970s, the commercialization of arts and crafts looked to be a promising option (see Exhibit 3). In 1976, Abed’s wife, Ayesha, initiated many of the major activities of Aarong by identifying and experimenting with various crafts that women could produce at home such as nakshi kantha,⁹ embroidered goods, baskets, mats and other items made of cane, bamboo or jute. However, the quality of the goods was an issue. BRAC had to ensure that whatever the women produced would not be rejected because of poor design or inferior quality.

At that time there were few buyers of such products. Weeks and even months could pass before the women would be paid for their work. The only major fair-price handicraft outlet at the time was the Karika¹⁰ shop in Dhaka, which took goods on consignment, which meant that the producer was not paid until the product was actually sold. To village women who had invested their labour and had borrowed money for materials, this could mean waiting months to be paid, never knowing whether the product would be sold. As they had no control, they might not be able to feed their families. Time was money; unsold goods represented an opportunity cost if the investment failed (see Exhibit 4).

Indeed the creation of Aarong (1978) came from a need to ensure that poor silk farmers, block printers and embroiderers in Manikganj in central Bangladesh were paid on delivery, and at a fair market price.

6 The creation of a bank and setting up of a university were part of Abed's attempt to restore the "Missing Middle" in Bangladesh's society that had been depopulated either due to flight of talent or due to "ethnic cleansing" in the 1971 war, when the Pakistani Army was reported to have systematically killed students, doctors, engineers or anyone with a "potential for leadership". Source: "Rainmaker", Hard News, 10 Dec 2012

7 The BRAC programme countries were: Myanmar, Pakistan, Afghanistan, Sri Lanka, Philippines, Bangladesh, South Sudan, Uganda, Sierra Leone, Liberia, Tanzania, and Haiti.
Fundraising Offices (3): USA, UK, Netherlands

8 "BRAC-Aarong: Financing and promoting the creative industries", International Trade Forum, 1 July 2009

9 A type of embroidered quilt.

10 An artisan cooperative organization set up in 1974.

BRAC entered a joint venture with the Mennonite Central Committee, the international development arm of the Mennonite Church, to open a shop in Dhaka, with the name Aarong, meaning “village fair”. The Mennonites had experience of handicraft production for income generation and had established a programme, “Ten Thousand Villages”, that worked with artisan groups around the world and sold their products through catalogues and retail shops in the United States and Canada.

For the first year the Mennonites assisted with the business side of the operation, while BRAC worked to develop the skills of village women and their products. The first Aarong outlet opened its doors in December 1978, with jamdani¹¹ and block printed silk saris, nakshi kantha quilts, jute products, pottery, silver jewellery, leather goods and other beautiful handmade products.

In the early years of Aarong, BRAC focused on developing its product lines and production capabilities, visiting museums, senior craft masters and private collectors to study the designs and motifs of traditional art forms, and experimenting with indigenous forms and materials to adapt them to new lines. Master craftsmen were hired to help train village women to improve their product designs and quality, and a Textile Design and Service Workshop was set up in Manikganj to experiment with materials and technologies in stitching, weaving and dyeing.

In 1982, tragedy struck the Abed family: Ayesha Abed died in childbirth, leaving a new-born son, Shameran, and a young daughter, Tamara. The Ayesha Abed Foundation¹² (AAF), established by family and friends to commemorate her work, was created to provide an appropriate working environment, financial and technical assistance and training to develop women’s skills in various crafts. All AAF workers were BRAC Village Organization¹³ group members or their family members. The Foundation bought whatever the AAF women produced, as well as from other NGOs and handicraft producers. The AAF’s first project, the Manikganj Centre, opened on 3 September 1983.

Besides starting the AAF, Aarong added four retail outlets and began exporting a small percentage of goods to Fair Trade organizations during the 1980s. It proved to be particularly media savvy, being the first brand to do photo shoots and hold fashion shows, exhibitions and other publicity events (Exhibit 5). Through these marketing initiatives, its popularity and brand awareness grew within the country. As of the mid 1980s, Aarong had garnered a following and began to emerge as a fashion brand.

Prior to the establishment of Aarong retail outlets, high-quality textiles tended to be found in the backstreets of local markets or up-market boutiques in hotels. By offering a one-stop shopping experience – everything from clothing, shoes, jewellery, accessories, to furniture and homeware – Aarong offered the closest shopping experience to a department store in Bangladesh. By the early 1990s it was the country’s leading fashion house and the preferred destination of middle- and upper-class urban shoppers. Through the 1990s, its brand equity

11 A type of weaving technique.

12 The AAF Board was comprised of the 8 family and friends of the late Ayesha Abed. It was registered with the government to receive foreign charitable donations and raised funds in the early years but now operated exclusively as a part of Aarong.

13 Village Organizations were associations of women created by BRAC to strengthen the capacity of the poor for sustainable development and to create a link between the rural people and BRAC.

boomed thanks to fashion shows, media publicity, and an increasingly fashion-conscious clientele. Its product designs drew customers back to 'indigenous' fashion through a clever blend of traditional and contemporary styles. Using traditional craft in non-traditional ways it started a trend that was taken up by other boutiques. For example, through innovative designs and uses created by Aarong, the traditional nakshi kantha was now worn as designer clothing, and used for handbags and other accessories. Aarong expanded its production capacity with the addition of three new AAF centres. Over time, a total of 13 AAF centres were set up.

However, from 2000 the business began to suffer from poor inventory control and a lack of innovation, brand development and strong management. From 2001 to 2004, the company was restructured to tackle issues in costing, pricing, design and marketing. In 2004, armed with an improved set of processes, a refreshed vision and new management team led by Tamara Abed, Aarong achieved sales of almost US\$14 million in 2004, compared to US\$1.07 million in 2000. It earned a profit of US\$1.96 million for BRAC, which was distributed amongst its agriculture, education and health programmes, with the bulk of the funds going to a programme for the very poor. By 2013, sales had crossed the US\$50 million mark.

3. The Aarong Model

In 2013, Aarong operated 12 retail stores spread across Bangladesh, supporting over 65,000 rural artisans and handicraft producers, 85% of whom were women. More than 40,000 of these women worked directly for Aarong in its 13 AAF Centres in Baniachong, Gorpara, Jamalpur, Jessore, Kushtia, Manikganj, Rajbari, Sherpur, and Pabna, Pollobi, Kurigram, Nilphamary and Jhenaidah, and 647 sub-centres spread across Bangladesh.

The women Aarong employed were among the most disadvantaged. Aarong offered a way out of destitution, and the benefits extended beyond the wages earned. Every woman who worked in Aarong-owned production facilities was a beneficiary of BRAC's multifaceted development programmes. In addition, 850 independent cooperative groups and traditional family-based artisans (25,000-30,000 independent artisans and labourers in all) marketed their crafts through Aarong. Independent producers generally provided non-textile goods and skilled services such as tailoring. Potters, brass workers, jewellers, jute workers, basket weavers, handloom weavers, silk weavers, wood carvers, leather workers and other artisans with specialized skills from all over the country came to Aarong for marketing and support services.

The three obstacles to gainful employment of low income or marginalized people in the rural areas were lack of working capital, lack of marketing support, and the opportunity for skills development, Aarong provided a wide range of services to its workers and suppliers (see Exhibit 6):

- Spot payment on product delivery to encourage efficiency and productivity
- Reaching out to producers in remote areas to ensure a fair value for their efforts
- Marketing communication and information for artisans
- Advances against purchase orders where necessary

- Training and education in skills development to raise product quality and marketability
- Product design and support for product development
- Quality control to increase producer awareness of the importance of quality

For independent producers, Aarong maintained Fair Trade guidelines on workers' rights. For example, in order to apply to be a producer for Aarong, a business had to satisfy pre-determined quality and environmental requirements by going through a "social audit"¹⁴ – e.g., to ensure workers were paid on a timely basis and wage rates were competitive. In return, Aarong provided independent producers with various services such as full design and marketing support, payment on delivery, working capital loans, payment advances and interest on deposits. Additionally, producers could attend capacity-building training programmes to improve their managerial, financial and technical skills. In this way Aarong institutionalised large-scale female participation in the retail industry. Besides production, sales as a career choice for women was popularized by the female Aarong store sales associates.

Production

Since it employed workers in various semi-urban and rural areas, Aarong utilized a decentralized manufacturing process, unlike typical commercial enterprises which tended to concentrate production in an area with low-cost infrastructure and labour supply. Most of Aarong's products were produced off-site in scattered home locations of workers.

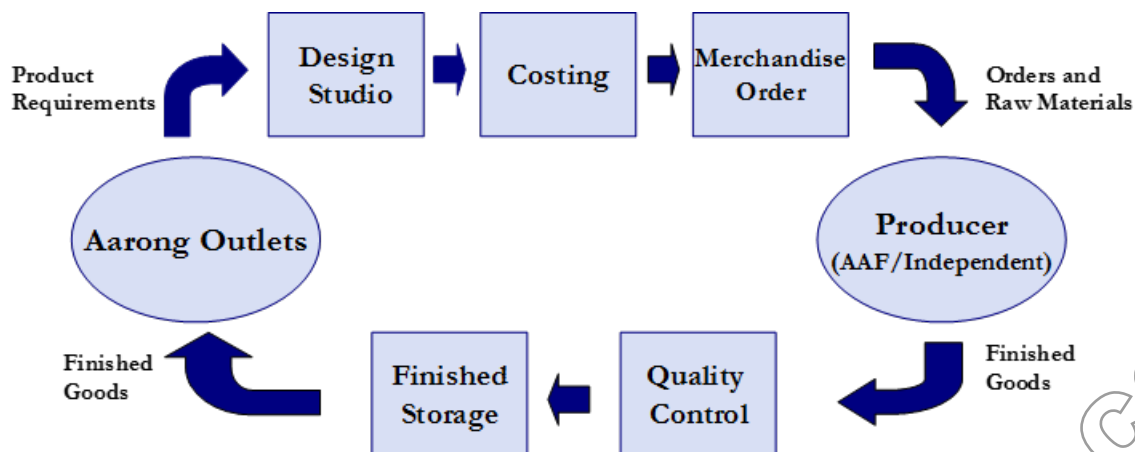


Figure 1

Stage 1: Planning Stage and Product Requirements - Starting approximately one year in advance, Aarong retail stores' sales trends and inventory levels would be analysed to determine the target quantities of each product line by outlet by month for the next fiscal year.

14 Later on, they also had to comply with fair trade principles when Aarong became a recognized fair trade organization and member of World Fair Trade Organization.

Stage 2: Design - A dedicated team of 60 designers were employed to come up with the season's offerings. Using product and quantity requirements established in the planning stage to facilitate the product design process, designers first worked with producers to create product samples, which had to be approved by the General Manager of Design before large-scale production could start.

Stage 3: Costing and Merchandising - Once a product sample was approved, the costing department then worked with outside suppliers to obtain the necessary raw materials and establish the product costing. Designers would also be paired with a Production Officer who worked directly with the producers (i.e., the artisans) and was responsible for managing all aspects of the production process including meeting quantity requirements and quality control. Producers would then be supplied with the necessary raw materials, design instructions and costing information. Working capital was provided to producers through low interest, collateral-free loans and raw materials for select product lines provided on credit. Production was completed through either the AAF centre and sub-centres or independent producers. (See Exhibit 7, relationship between Aarong and the AAF centres and sub-centres).

Stage 4: Quality Control - Quality control requirements were built into each step of the manufacturing process. For example, goods produced through AAF centres or by independent artisans were examined at various stages of production to meet quality standards before being shipped to the main Aarong storage facilities. Once there, they would be re-checked for quality. Only when all stages of inspection were passed were they packaged, tagged and stored before shipping to the retail outlets. Goods that failed inspection were returned to the respective producers for adjustments before final payments were made.

Stage 5: Finished Storage and Inventory Control - The large number of stock-keeping units (SKUs) carried by Aarong meant that it was important for daily sales and monthly production to be closely tracked and recorded to maintain up-to-date inventory levels, as it did not have a retail outlet for liquidating excess inventory. To liquidate old inventory, Aarong outlets held one major sale in March and, if necessary, a second one in August. Sub-standard products produced at the AAF centres were sold through local sales centres in Jessore, Kushtia, Pabna and Baniachong.

As a result of Aarong's decentralized structure it had two main problems: quality control and production scale. While quality checks were in place, many items were made by workers who had little exposure to the final products sold at the retail level, and were less able to visualize the look and feel required. To address quality issues, for the AAF centres and sub-centres, the AAF Management hired outside professionals to teach, supervise and provide live demonstrations in various skills and techniques. The majority were men, teaching trades that had traditionally been male-dominated. The goal was not only to transfer skills but to show what a professional in the trade was able to produce, so that each worker could aspire to a similar level.

Scaling up production to meet growing demand was tricky, as the production process was labour-intensive and scattered, so economies of scale were hard to achieve. Expansion was time-consuming and complicated.

Marketing

As a retailer, Aarong understood the importance of marketing and was market-savvy. It maintained a dedicated marketing staff to assist with major marketing initiatives, including traditional print and billboard advertising, exhibitions and carefully orchestrated fashion shows. These were now a significant part of popular culture in urban Bangladesh. In 2008, in celebration of its 30th anniversary, Aarong participated in numerous fashion shows and sponsored a nakshi kantha exhibition, 'The Story of Stitches' at the National Art Gallery of Bangladesh (Exhibit 8). The annual Eid¹⁵ festival – from which Aarong earned 50% of its annual sales – was also a major marketing event, with a new theme every year (Exhibit 9).

Exports

In 1986, Aarong went abroad. Starting with an initial order from Traidcraft, a UK-based fair trade organization, and given its roots as a social enterprise, Aarong had successfully grown its export customer base among Fair Trade organizations in Europe, North America, Australia and New Zealand. The majority of exports (85%), which represented about 5% of sales, were in the Fair Trade business, mostly wholesalers that channelled products to retail outlets such as world shops or fair trade shops, and usually marketed under the importers' brand. Nonetheless, Aarong received exposure in the form of taglines or promotional materials that told the story of Aarong and the social and financial benefits it provided for artisans.

Under its own name, Aarong had a London-based franchisee that catered to the needs of the large Bangladeshi community there, who imported products and paid an annual royalty fee. However, the franchise ended in 2010 in anticipation of launching an e-commerce website. Aarong tried to open retail outlets in Vancouver and London in 1991 and 1992, but due to poor management and inventory control, both had closed by 1994. Commercial sales in mainstream Western markets remained a challenge.

4. Aarong's Current Position

From its humble beginnings as a way to sell the products of impoverished rural women, Aarong in 2013 was now positioned as a fashion trendsetter and the nation's leading lifestyle brand (Exhibit 10), with over 100 product categories that ranged from men/women/children's wear, home decorations and jewellery, to leather and beauty products (Exhibit 11). On the retail scene, Aarong was a first-mover in many areas. For example, its fusion fashion brand Taaga created a distinct category of clothing for urban youth. It was also the first to take up e-commerce amongst retailers (Exhibit 12).

As part of the charm of being a handicraft retailer, pieces were produced in small quantities (150-250 per design) rather than mass produced, with as few as 3-10 pieces for special items. Perhaps because of the rarity factor, Aarong had about 68% of the total handicraft market share in Bangladesh.

15 Eid-ul-Fitr was the largest religious festival for the Muslims, celebrated after the fasting month of Ramadan and on the 1st day of Shawal (Arabic month).

Aarong's presence had expanded exponentially since 1978 (Exhibit 13) – retail space had grown from its first 1,600 sq. ft. shop to 194,100 sq. ft., with a 36,000 sq. ft. flagship store opened in Uttara in 2011, which took five years to design and build (see Exhibit 14). In an effort to consolidate its brand image and act as a projection of its brand, every aspect of design, from the customized plans for the building to the internal layout and decor, was crafted to international retail industry standards.

Despite the global financial crisis of 2008-2011, Aarong continued to see strong growth in revenues and earnings (see Exhibit 15).

Brand Value

Positioned as the first retail shop in Bangladesh to uphold local heritage and culture through a unique mix of the traditional and contemporary, while protecting Bangladeshi art¹⁶ and the artisans who produced it (Exhibit 16), brand recognition was strong. BRAC even used the name 'Aarong Dairy' to market its milk products, such was the familiarity with the Aarong logo. Aarong outlets were local landmarks.

Customer Profile

In addition to the local professional urban and middle-class community, its customer base also included Bangladeshis abroad looking for products that connected them to their roots and affirmed their identity (see Exhibit 17, customer profiles). Customer approval in 2012 remained strong – about 21,000 customers were served per day, and about 5% of revenue came from 'foreigners'. Aarong had the third largest Facebook fan base in Bangladesh (1 million fans, half of them in the capital Dhaka).

Market Environment

In the past, local customers had tended to favour foreign branded cloth/garments as superior, but there was a move back to local products and hand-crafted production. The trend, according to industry participants, was:

"...back to nature and back to naturalness and back to realness. This trend is strongly mixed with a nostalgia trend ... as far as material, manufacturing method, packaging and other issues are concerned; it is the high quality, which matters and counts for generating interest in crafts..."¹⁷

Local talent was creating new designs in tune with the tastes of middle and high-end domestic customers, helping to lure them back to local brands.

The Competitive Landscape

When Aarong opened its first shop in 1978, the only handicraft marketing outlet and competitor was Karika. While Aarong was now much bigger than any of its competitors, at the individual product level it competed with thousands of retailers who sold similar products

16 Aarong kept a repository of Bangladeshi art, and also kept unsustainable product lines going on for the sake of keeping the cultural craft alive.

17 "Development of handicraft production in Bangladesh" The New Nation (Bangladesh), 20 June 2014

(often produced at lower cost because they did not incorporate Fair Trade practices). Among Aarong's competitors were Kay Kraft, Pang, Anjans, Rina Latif, Jatra, Banglar Mela, and OG (Exhibit 18), some of which had similar social enterprise backgrounds (Kay Kraft, Jatra, Banglar Mela). Ten of the local fashion houses banded together to form DeshiDosh (Bangladesh 10), in a bid to compete with Aarong. (Exhibit 19 compares their relative strengths).

Aarong also faced a potential influx of foreign retailers, especially those from India with more commercialized operations and lower costs of production. In addition, competition from online retailers (such as bdhaat.com, HutBazar.com, khubsoorti.com¹⁸), which could source from anywhere, was mounting inexorably.

5. Challenges

The production structure involved a dual challenge: quality control and scale of production. Timely production of goods was difficult if artisans faced personal difficulties, although Aarong mitigated many of these with advances and loans. Fair Trade practices tended to raise costs (relative to less scrupulous competitors), and the competition was intensifying from local retailers and potentially from foreign players. Its unusual "department store" format with a wide product range, and extras such as parking areas and in-store cafes, could easily be replicated by players with capital. E-commerce was also opening it up to global competition.

As Bangladesh moved up to a middle-income country, labour was becoming more expensive. Given the labour-intensive nature of Aarong's operations, it was becoming harder to compete with low-cost capital-intensive mass-produced goods. For example, demand for hand-embroidery, a mainstay of Aarong's fashion items, was being undermined by a preference for Western-style clothing in its core customer base. How to maintain demand was the key issue, since there was little opportunity to raise prices in such a competitive landscape and costs were rising relentlessly.

Aarong had several options.

- One possibility was to focus on the best suppliers it had. Better and more consistent quality would help it achieve higher price points, and ensure timely delivery from suppliers as the better artisans tended to deliver on schedule – all of which would help to lower the cost of managing Aarong's vast supply chain.
- Another way to manage the price point was to reduce the amount of handwork in a given item. This could be done in several ways. One possibility was to innovate in design to reduce the amount of manual input required. Another was to simply reduce the amount of handwork in existing items. Still another was to mechanize parts of the work done, mixing handwork with machine work to create the finished item (the distinction between machine-made and handmade was slight).

However, all these options ate in to the core mission of Aarong: to provide sustainable livelihoods to as many people as possible. It also exacerbated the problem of providing a

18 Khubsoorti seemed to have been taken over and changed to Khoobsurati.com.

year-long income for the workforce – hand embroidery, for example, employed over 30,000 women. Whatever direction it chose, Aarong wanted to make sure that these numbers in terms of workforce did not shrink.

- A third option was to reduce its margin: maintain end-consumer prices while paying higher wages. There were several issues here. First, as a social enterprise, Aarong was obliged to pay 50% of its profits to BRAC to fund various charitable initiatives. Money was also needed to grow Aarong’s business. Operational costs were high due to the huge range of items into which it had diversified.
- Expanding into new markets was another way to maintain profit levels by increasing sales, notwithstanding lower margins. Currently, its outlets were confined to a limited number of major cities. There was an opportunity to expand into second and third tier cities in Bangladesh, and grow the market that way.
- Another possibility was to create standalone stores for specific product lines to make its most popular lines more accessible, such as an “Aarong Leathers” outlet or a “Taaga” outlet (its brand/line of fusion western womenswear). But some argued that such a move would take away from the department store experience associated with Aarong, diluting the parent brand’s image.
- In the same vein, Aarong was considering expanding internationally. Currently, 98% of sales came from within Bangladesh, but with a trend in favour of more authentic products Aarong saw a potential opportunity in international markets. From previous forays it had learned to start with owned stores in these new geographies, rather than with licensees, as in the past. However, this would require significant investment. Moreover, Aarong had limited capacity to staff owned stores, particularly internationally. It did not have the funds to hire the best talent, capable of creating bricks-and-mortar outlets to deliver the desired customer experience, manage the supply chain, logistics, production and the like, while remaining true to its poverty alleviation mission.
- Some suggested taking Aarong’s e-platform and using that to penetrate international markets. Others felt that while an e-platform was an important aspect of internationalization, it could not supplant bricks and mortar stores in international markets. Consumers outside the Bangladeshi diaspora abroad were unfamiliar with Aarong, and unlikely to buy its products simply because it had an e-platform.

Given the wide range of alternatives, it was important to zero-in on the right solution. How and where should Aarong leverage its brand, knowing that the production base would always put it in a higher cost position than its competitors?

Exhibit 1
BRAC's Social Enterprises

Core Purpose of BRAC Social Enterprise

1. Support development interventions to develop self-employment opportunities of the poor, increase productivity and efficiency of their enterprises activities.
2. Livelihood creation for the poor
3. Source of funds for BRAC

Source: Aarong

Exhibit 2
Example of BRAC's Vertically Integrated Programmes

A BRAC village organizer will first gather 20 to 30 women and extend microcredit. Many use the loans to set up small shops and grocery stores. If the women buy a cow, for example, BRAC will help them double the price they can get for milk by collecting it via refrigerated truck and bringing it to one of BRAC's 67 "chilling stations," then to BRAC's commercial dairy production centre, which processes 10,000 liters of milk, yogurt and ice cream an hour, and selling it in the cities. It earns BRAC \$1.7 million on sales of \$13.4 million, all of which goes back into the programmes.

Likewise, silkworm raising is the bottom step of another commercial market. Majeda Begum, who lives in a small village a day's drive from Dhaka, used her loan to buy silkworm eggs from BRAC, paying \$3 for 50 grams. She hatches them in a tin-roofed shack behind her home. Begum feeds them by spreading mulberry leaves over the top, easy enough to collect, since BRAC has planted 20 million mulberry trees around the area to support the enterprise. She'll sell the cocoons back to BRAC for \$5.75 a kilo. The silk is eventually woven into clothes and sold to Aarong, a chain of upmarket department stores BRAC owns in Bangladesh's big cities.

Source: "As Brac comes to country", All Africa, 17 Nov 2008

Exhibit 3

Potential of Handicrafts Industry to Help the Poor

In addition to their aesthetic and cultural dimensions, several socio-economic characteristics of handicrafts are worth noting:

- * The handicrafts industry is highly dispersed and spread throughout the country, in rural and urban areas.
- * Being a home-based industry, it requires minimum overhead expenses and infrastructure to establish and operate. It can thus create jobs at low cost and has high employment potential in relation to capital employed. For the same reason, it tends to have a high output to investment ratio.
- * Handicrafts are often located in rural areas as dominantly home-based pursuits involve large-scale employment of women, and thus help empower weaker sections of the society.
- * As a labour-intensive, cottage-based and rural and small township-centred industry, handicrafts are a major source of both regular and off-season employment and income for rural communities.
- * Many agricultural and pastoral communities depend on handicrafts as an important source of supplementary income in times of lean harvests, drought, flood and famine – a handy way of fighting the problems of underemployment and unemployment. Even in times of plenty, traditional skills in craft making constitute the basis for additional income-generating activities which are natural means of social and financial independence, especially for youth and women (UNESCO, 2007).
- * In most cases, handicrafts are an export-driven industry and constitute a source of much-needed foreign exchange earnings. The typical export-orientation of the sector is a notable characteristic of the industry in both developing and developed countries. Craft exports constituted, for example, nearly 7 per cent of GDP (gross domestic product) in Vietnam in 2003, (its annual exports were estimated to be US\$9 billion recently) and about the same in Morocco. Astonishingly, craft exports in Italy represent 17 per cent of the country's GDP, making it the largest exporter of handicrafts globally among the developed nations.
- * Employment and income generation through Handicrafts development especially in the rural areas through preservation and improvement of traditional skills and the creative talent of millions of artisans also helps improve poor people's standard of living and quality of life, leading to human development and broader national economic growth.

Like their counterparts in some of the leading handicraft-exporting neighbours (i.e. India, Thailand, Malaysia and Vietnam) our handicraft industry consists of millions of predominantly small-scale units (90 per cent employing less than 10 persons per enterprise) which are located mostly in the rural areas. A high incidence of female employment as part-time workers (using the time available after household chores) in the typical cottage and household crafts units is also discernible in Bangladesh. This provides ample opportunities to the poor women and youth to supplement their earnings from other activities.

Source: "Full potential of handicrafts industry yet to be realised", The Financial Express (Bangladesh) 11 Oct 2012

Exhibit 4

Village Women Working on Handicrafts for their Livelihood



Shondhya Rani Sarkar's eyes light up when she speaks of how well her son is doing in school. When Shondhya first came to the Aarong Production Centre in Manikganj, he was a year old. The self-assured Shondhya of today was then a desperate young widow with no means to feed her baby. She joined a local microfinance group of the NGO BRAC and was recommended for employment with a nearby Aarong production centre, where women like her could earn a decent living without endangering their dignity. That was 15 years ago. Today, Shondhya is one of the most experienced block print workers at the centre, training new recruits. Working 8 am - 5 pm shifts, six days a week, she earns a steady income that could easily rival that of any men-lead family's in her village. Her life is not easy, but Shondhya gains satisfaction from the thought that she has provided for her son and ensured a brighter future for him -- one that fifteen years ago had seemed to her an impossible dream.

Source: Aarong

Exhibit 5

Videos of Aarong's Fashion Shows

<https://www.youtube.com/watch?v=WQOLPhq0p18>

<https://www.youtube.com/watch?v=dp4wNL7iIXQ>

Exhibit 6

The Ayesha Abed Foundation (AAF)



The Ayesha Abed Foundation (AAF) was an organization that aimed to provide avenues for employment and income generation for underprivileged rural women. An enclave for women, its goal was to uplift them economically through their work as producers, and also socially, through their development into entrepreneurs. Working with the most underprivileged women in society, who were often the most neglected and in need of much assistance and support, the AAF played the role of a facilitator, as one of the major challenges that these women faced was that they were marginalized and they, on their own, had no way of becoming part of the economic system. AAF helped these women by giving them the opportunity to become involved in sustainable enterprise. In addition to being trained, women recruited by AAF benefited from a living wage and job security. The workspaces were often right at the doorsteps of the artisans, to enable them to mainly work from home while being able to look after their families.

The AAF was closely interrelated with other programmes, especially BRAC Development Programme and Aarong – working at the AAF gave the women access to other BRAC programmes and all of the AAF's finished products were sold through Aarong, which additionally provided designs, raw materials and financial support to the AAF.

Goals

- Empowering destitute rural women by providing opportunities for employment and income generation.
- Ensuring the commercial success of the enterprise of women producers.
- Reviving traditional skills of rural artisans.

Services

- Skills-building and upgrading through training
- Free medical check-ups, including free eye treatment, eye-glasses and treatment costs for severe illnesses
- Advance wage payments for employees in need
- Day-care services
- Workers retirement fund
- Legal awareness and support

Source: Aarong

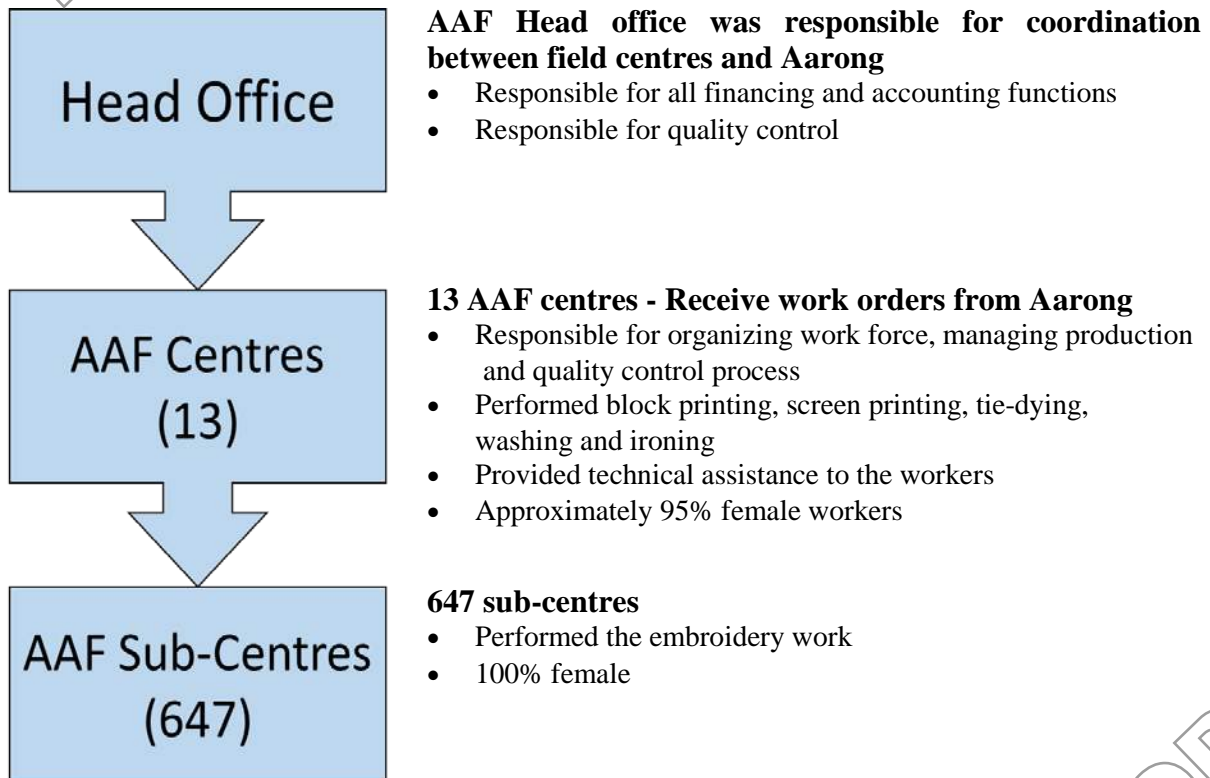
Exhibit 7

Work Flow between Aarong and the AAFs

The AAF produced handicraft items that required a large labour input. The vast majority of the women employed at the sub-centre level performed embroidery work and other processes including block printing, screen printing, dyeing, tie-dyeing and weaving were performed at the centres. Major products included:

- Male – panjabi, fatua, tagga
- Female – salwar-kamize-dopatta, saree, yoke, coaty, long dress, korta, shawl, tagga
- Household & others – bed covers, cushion covers, wall mats, tablecloths, bags, purses, napkins

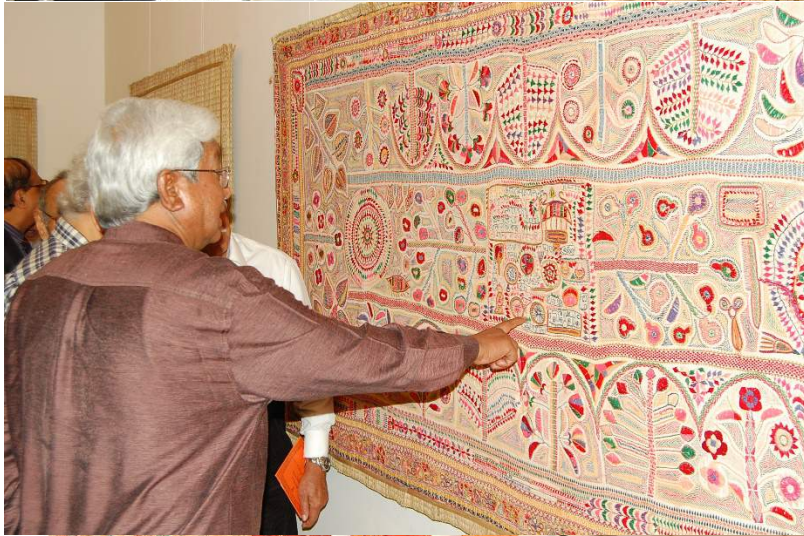
To support Aarong’s production, the AAF centres were organized as follows:



Between 1996 and 2013/2014, BRAC had grown the number of AAF centres and sub-centres from 249 to 647 and increased the number of management and staff from 7,885 to 1,335,000. Wages were paid to workers on a piece rate basis and were based on an average production time per piece. Average daily wage rate for workers had tripled over the years from less than 25 Tk to 77 Tk in 2013/14¹⁹.

19 The exchange rate of taka in 2014 was: US\$1= taka; Euro 1= :taka.

Exhibit 8
Story of Stitches



Source: Aarong

Exhibit 9
Annual Eid Festival



Source: Aarong

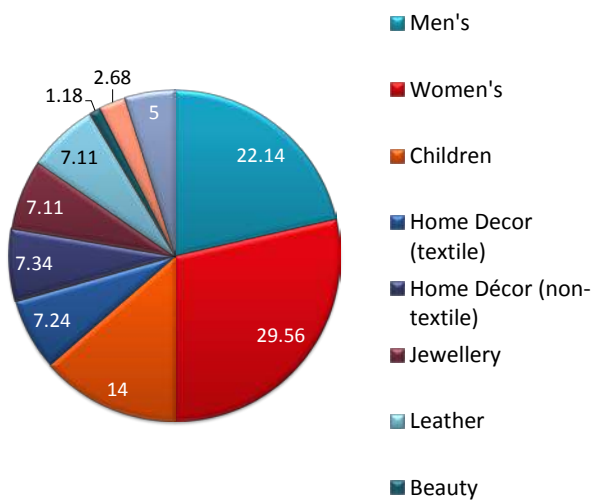
Exhibit 10
Leading Lifestyle Retailer



Source: Aarong

Exhibit 11
Aarong's Range of Products in 2012/2013

% Sales

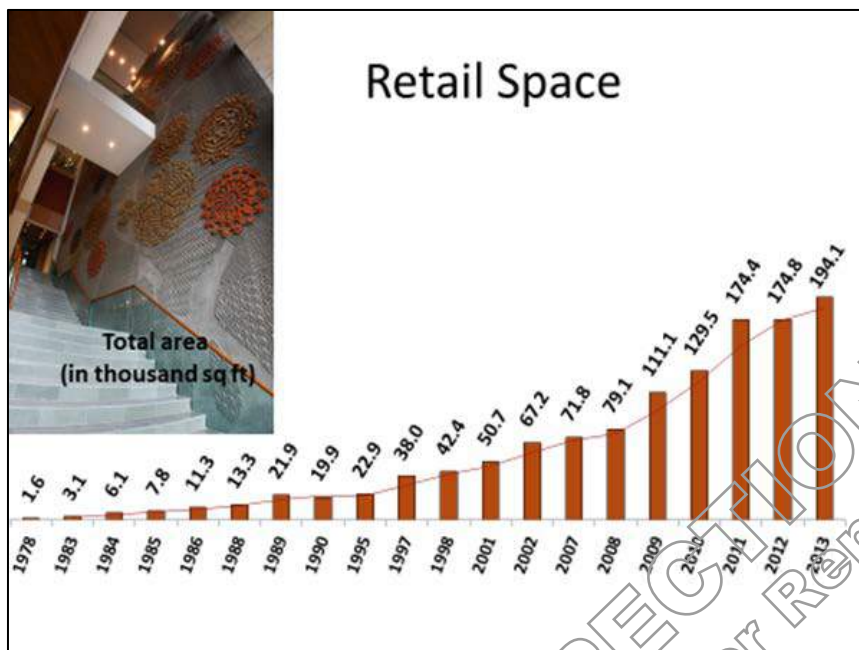


Source: Aarong

Exhibit 12
Aarong's Online Presence



Exhibit 13
Expansion of Aarong's Retail Presence



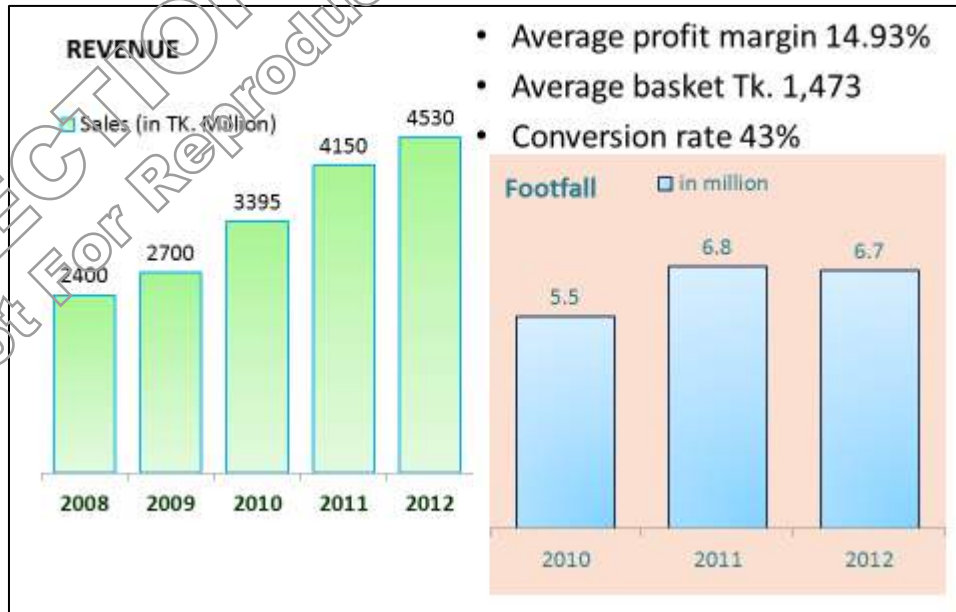
Source: Aarong

Exhibit 14
Dhaka Flagship Store



Source: Aarong

Exhibit 15
Strong Growth in Sales and Profits



Source: Aarong

Exhibit 16
Aarong Brand Position

“Brand Value – Aarong stands for a unique mix of design, quality and convenience, of the traditional and the contemporary. Aarong is one-of-a-kind – globally positioned as a highly successful Bangladeshi craft-based retail chain and brand of pride. It also carries the distinction of being BRAC’s most successful social enterprise....To its consumers, Aarong is a household name – a one-stop shop and a trusted brand that inspires pride, promises quality and sophistication, and helps to keep cultural roots alive in everyday life. For the artisans, Aarong represents the endurance of both their age-old art as well as their livelihoods. For consumers and artisans alike, Aarong has become a part of the cultural fabric of their lives.”

Source: Aarong

Things you didn't know

- In Bengali, 'Aarong' means 'village fair' and 'Taaga' means 'thread'
- Half of the profit from every purchase you make at Aarong goes towards supporting schools, health services and specific interventions targeted to the ultra poor segment by BRAC.
- 3 people enter an Aarong outlet every second
- The amount of fabric consumed by Aarong in a year can wrap around Bangladesh 8 times.

Exhibit 17
Aarong Customer profile



Local Female / Age: 30

Lifestyle/Occupation: Professional, married, 1 child. She is on Facebook, socializes on weekends and likes to window shop. Urban Location.

Relationship to Aarong: Convenience of shopping, entertainment, social, brand ambassador.

Shopping Behavior: Evenings she is a window/impulse shopper. On weekends she knows what she is looking for and running errands.

Comfort with Technology: Medium comfort (3 out of 5). Uses 3 different devices: One at home, one at office and mobile phone



Local Male / Age: 40

Lifestyle/Occupation: Professional, married, 2 children. Comes home late and watches tv while on laptop. On the weekend he sleeps, socializes and shops. Very little exercise. Urban Location.

Relationship to Aarong: He feels it is convenient, trustworthy and a staple.

Shopping Behavior: Focused and occasional shopper, who looks for a fixed price.

Comfort with Technology: Very comfortable (4 out of 5). Uses 3 different devices: One at home, one at office and mobile phone



NRB Female / Age: 35 / "Influencer"

Lifestyle/Occupation: Homemaker that cooks, cleans and takes care of the kids. Local & online shopping. Likes to spend time skyping family. Watches TV. Shopping online and browsing Facebook. Suburban Location.

Relationship to Aarong: Believes Aarong is quality. It is a connection to home. Part of her habit. Trustworthy. Calculates with dollar and enjoys great exchange rate.

Shopping Behavior: Likes to look for what's new. She influences husband. Emotional shopper. She feels a duty to buy for friends/family in Bangladesh. Not confident enough to purchase.

Comfort with Technology: Low comfort (2 out of 5). Just uses it for browsing.



NRB Male / Age: 40 / "Purchaser"

Lifestyle/Occupation: Middle manager. Married with 3 children. Likes to spend time skyping family. Watches TV. BBQs on weekend. Likes to talk and have a "mini parliament". Suburban Location.

Relationship to Aarong: He has an emotional attachment because it's a memory of home. Quality and a complete solution in one place.

Shopping Behavior: Spends weekday purchasing home items.

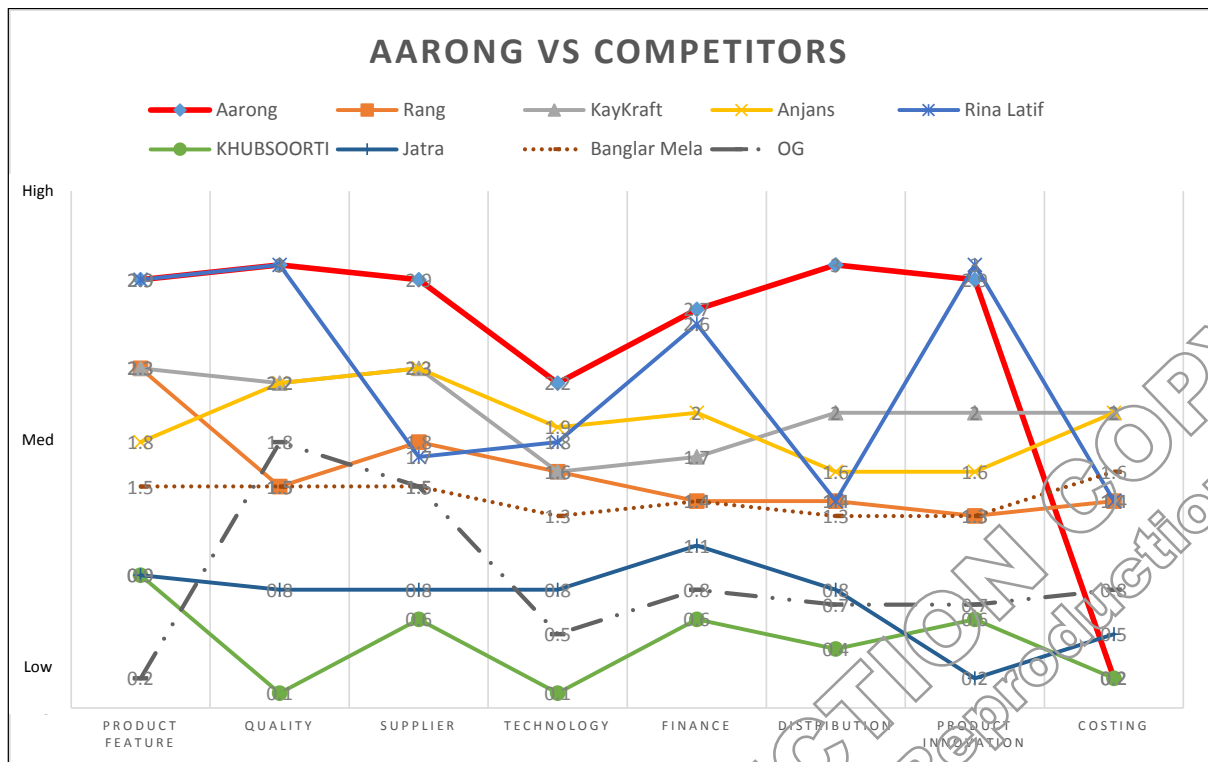
Comfort with Technology: Very comfortable (4 out of 5). Has a laptop and a smart phone.

Source: Aarong

Exhibit 18
Some of Aarong Competitors

Competitor	Website/Facebook	Area of competition
Kay Kraft	http://kaykraft.com/	Punjabee
Rang	http://rang-bd.com/	General
Anjans	http://www.anjans.com/	General
Rina Latif	https://www.facebook.com/rina.latif	Vs Taaga brand
Jatra	http://jatrabd.com/	Non-textiles
Banglar Mela	http://banglarmela.org/	General
OG	https://www.facebook.com/OGFashionHousesor	General

Exhibit 19
Aarong's Position



Source: Aarong