

Strategies for Enhancing the Competitiveness of Leather Industry in India

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Introduction

India has the largest number of livestock, an abundant supply of cheap and skilled labour and an ever-increasing demand for leather goods. In spite of all these factors the Indian leather goods industry has barely 2.5% of the global market share

The Small and medium scale enterprises account for a large portion of the total production. However, they are unable to realize their potential and the slack growth of the sector is due to high price of raw material, lack of negotiating power, lack of technological upgradation, financial constraints, power constraints & environmental considerations and limited access to markets. Efficient Clustering and Networking would allow SMEs to compete globally

Cluster means a geographical concentration of SMEs engaged in the production of related goods, which have common opportunities and face similar challenges.

Networks are groups of firms that cooperate on a joint development project complementing each other and specializing in order to overcome common problems, achieve collective efficiency and penetrate markets beyond their individual reach. Through Clustering and networking the SMEs can -

- 1 overcome the disadvantages of economies of scale
- 2 access skilled and educated labour
- 3 have better cost effectiveness due to sharing of common costs
- 4 have quicker dissemination of information leading to better responsiveness to market challenges
- 5 increase competitiveness by sharing best practices in the areas of organizational capabilities, technological innovations, flexible structure and faster decision making process.
- 6 have better negotiating power

Dharavi, the largest slum of Asia housing over 5000 leather goods manufacturers, has been identified as a focus of the study. Though their products have made a mark in domestic as well as global market, there is a huge potential for them to enhance their competitiveness and market share.

The endeavour is to suggest a clustering and networking model for the leather manufacturers of Dharavi to enable them to build their competitive strength through, cost reduction, value chain upgradation, technological upgradation and collective economies of scale.

The Indian Leather Industry – An Overview

India is the largest livestock holding country (21% large animals and 11% small animals). The industry employs about 2.50 million workforce of which nearly 30% are women. It is a source for nearly 10% of the global leather requirement.

Exhibit 1 shows the estimated annual production capacities

ITEM	CAPACITY
Hides	65 million pieces
Skins	170 million pieces
Leather Footwear	909 million pairs
Leather shoe uppers	100 million pairs
Non- Leather footwear	1056 million pairs
Leather garments	16 million pieces
Leather goods	63 million pieces
Industrial gloves	52 million pairs
Saddlery	0.10 million pieces

Source: CLRI

Today the industry ranks 8th in the export trade in terms of foreign exchange earnings of the country. Over the years the composition of exports of leather and leather products has also undergone a structural change, from merely an exporter of raw material in the sixties to that of value added products in nineties. At present the value added products constitute about 80% of the total exports from the industry.

The Leather Value Chain

The leather industry utilizes the by products of slaughterhouses and transforms the raw material into various types of leather and manufactured end products. The leather production-consumption chain has three processing stages, each requiring different combinations of materials, inputs, labour and capital.

The first stage is the recovery of raw materials that has direct links with animal production activities. Hides and skins are recovered from dairy, draught animals or animals from slaughter houses.

The second stage is leather tanning and finishing, which involves capital intensive operations.

The third stage is the production of leather products, which is a labour intensive activity.

These three processing stages are linked to key commercial components of the chain, such as the marketing of intermediate inputs, components and end products, trade and consumption. The various inputs to the chain without which the chain cannot operate competitively are qualified labour, design and art centers, components production, access to chemicals, technical and administrative support institutions, research and development, training and a set of adequate policies.

Leather Cluster at Dharavi, Mumbai – Current Scenario

Dharavi - infamously anointed Asia's largest slum - is a bustling business centre, with all kinds of industries thriving in the colony. Till a few years back, Dharavi was on Mumbai's outskirts. But today the city has expanded and the slum is located at the heart of the city and can be accessed by two highways and two railway lines. It sprawls over 213 hectares housing close to 6,00,000 people and belies all standard definitions of a slum. Here one can find people engaged in various vocations such as papad making, pottery, pickle making, leather workers, waste paper dealers, furniture makers and polishing units.

At the outset, one needs to understand the difficulty in adopting a well designed sampling method in the context of the Dharavi leather cluster. The methodology adopted is Rapid Assessment Survey method through informal conversations with the concerned people. This unorganized cluster comprises of leather tanners, tanned leather suppliers, suppliers of accessories, leather goods manufacturers and leather goods traders. Here the universe i.e. the authentic total number of each category of players is not available, due to the fact that many of them are illegal establishments (i.e. not registered with any legal/Government Body and do not maintain proper accounting records). Effort has also been made to identify the various support agencies working for the cause and their effectiveness.

The objective of the survey is to assess the strengths and weakness of the naturally formed Dharavi Leather Cluster so as to design thoughtful strategies to enhance its competitiveness.

The survey focused to find out information pertaining to four major areas:

- Functioning of the various intermediaries in the industry
- Challenges/hurdles encountered
- Opportunities and Threats
- Level of intervention of the support agencies

With these objectives in mind, 2 tanners, 40 manufacturers and 10 traders were interviewed.

Tanneries

In the sixties there were about 55 to 60 tanneries. The nature of the processes involved in tanning results in the discharge of untreated effluents. The effluent not only contaminated the water supply on the land, it also affected the food supply for the population. All of these forms of pollution had detrimental effects upon the health of the people in the vicinity. Hence, in view of the environmental considerations and threat to human life the Government ordered for the closure of the tanneries.

Presently, there are about 10-12 tanneries which are operational. Over the years these have also shrunk in size. Tanning requires not only chemicals but also involves multiple stages of treatment, which need space. Thanks to the Maharashtra Government's Directives, in the space previously occupied by these tanneries other tenements have come up, leading to mushrooming of other unorganized sectors. The existing tanneries do not treat the leather completely. They source vegetable tanned hides or semi tanned leather from within Maharashtra (Baramati, Meeraj) or from Chennai, Kanpur and Kolkatta and then carry out only the finishing work. (According to one of the respondents the tanneries do not carry out even 20% of the processes, which should be carried out to make the leather of international standards. The leather called 'Dharavi leather' is banned by various countries in Europe and US)

Problems of tanneries

- environmental pollution due to lack of facilities for treatment and disposal of hazardous wastes.
- lack of financial assistance
- high cost of semi-tanned leather
- Unhygienic working conditions leading to health hazards for the workforce.
- No facilities for quality testing

Manufacturers

Currently, Dharavi houses over 5000 leather goods manufacturers (each unit employs between 2-20 employees). While on the one hand the Government has ordered closure of tanneries, on the other hand the leather goods manufacturers have been given tenements (in place of the Juggi's from where they used to work) to facilitate and promote manufacturing activities. Thus, in spite of closure of tanneries the demand for leather has been increasing over the years. Under the circumstances, the manufacturers have three options of sourcing inputs

- use the cheap, low quality leather processed at Dharavi,
- use high quality, expensive leather processed at Chennai, Kolkatta or Kanpur.
- Use the cheap, imported synthetic leather from China

Using raw material under options one and three result in flooding the market with sub-standard finished leather goods, which do not meet international quality standards. While under the second option the landed cost of tanned leather sourced from Chennai/Kanpur reduces their competitiveness due to escalated costs. It is interesting to note, that the reasons for higher cost of tanned leather is mainly on account of transportation, taxes and levies involved.

Supply Chain

- Animals are slaughtered in various suburbs of Mumbai
 - An intermediary buys and transports the same to Kanpur / Chennai
 - Leather chemicals made in western part of India are transported to Kanpur / Chennai
 - An intermediary buys and transports the semi-tanned leather to tanneries of Dharavi or tanned leather to wholesalers in Mumbai
 - Wholesalers in turn sell the tanned leather to leather goods manufacturer in Mumbai
- Undue Cost escalation due to closure of tanning facilities at Dharavi
- Transportation cost of skins and hides to Kanpur / Chennai

- Transportation cost of leather chemicals
- State / Central Government's sales tax/VAT
- Octroi / Entry tax to the State Governments
- Profit margin and commission of intermediaries

* (One of the respondents stated that over 300 crore skins and hides from slaughter houses located in and around suburbs of Mumbai is transported outside Maharashtra annually). Clustering can help in controlling the cost of tanned leather, which is a major input for leather goods. This will not only bring cost advantage to the leather goods manufacturer, but also save fuel for the nation.

Problems faced by Manufacturers

- Lack of proper working environment
- Illiterate and poverty struck workforce
- underutilization of capacity due to influx of finished goods from China.
- Lack of financial assistance
- non availability of design and art centers
- absence of technical research and development institutions
- absence of training centers
- illiteracy causing unawareness of various incentives/promotional schemes

Traders

Dharavi hosts around 120 small and medium traders operating in a totally unorganized fashion. Of these only 30-35 traders are registered. Due to non-standardisation of material and labour cost, the price of the manufactured leather goods varies substantially. This coupled with tax evasion by non-registered traders further widens the price disparity.

Some of the traders are in an advantageous position as they have their own manufacturing units which gives them cost benefit. A meagre number of traders (3) are in the business of direct export, a few others export through export houses/agents. The unorganized nature of the market leaves a lot of scope for manipulation by a few 'biggies' in the business.

Hindrances encountered by the traders:

- wide disparity in market prices of end products
- lack of financial assistance
- cheap, second hand imported Chinese goods eating up the market share
- inability to export directly leading to untapped export potential
- lack of access to information

Support agencies

1. LEATHER INDUSTRIES DEVELOPMENT CORPORATION (LIDCOM) –It was established on 1st may 1974, with the objective of ensuring the overall development of the leather industry in Maharashtra and for the upliftment of the social, financial and commercial status of the workforce engaged in the leather sector. It has four units for manufacturing leather goods. These goods are supplied to various Government departments, public utility services. They give financial assistance to the 'charmakar' under three schemes namely:
 - 1 50% subsidy scheme
 - 2 margin money scheme
 - 3 NSFDC scheme

The financial assistance is given not only for starting leather related business but to start any kind of business. The criterion for disbursing/ arranging loans through Nationalised banks is that the

individual should be a 'Charmakar' and should be below poverty line. (Earning <Rs. 21,206 per annum in urban area)

Few of the respondents had availed of this facility, few others were either unaware or if aware felt that the paper work involved in getting the loan sanctioned was very tedious. Some of the manufacturers said they could not avail of this facility as they were not of 'Charmakar Caste'

2. LEATHER GOODS MANUFACTURERS' ASSOCIATION (LIGMA)- The association was established as a non-profit organization with the objective of marketing the leather goods of its members who do not have the infrastructure required to display their products. It has around 500 manufacturers on its membership roll. It retains 12% of the sale proceeds, for meeting its operational costs and remits the balance to the concerned members.

While on one hand the office bearers of the association were reluctant to part with any information relating to its operations, the manufacturers stated that the association was working only to safeguard and promote the interests of the office bearers and those who lobby for work.

3. DHARAVI ENTIRE LEATHER GOODS TRADERS' ASSOCIATION (DELTA)- The association was flagged off in 2005 with the objective of bringing the entire trader class under one umbrella and address the day to day operational problems of its members. However, due to differences between the members on various issues, the Association could not continue to operate.

In case of DELTA also, the responses were contradicting. The office bearers felt that there was no unity among the members and so they could not have consensus on various issues. The members on the other hand felt that the Association was formed only to collect money and for personal gain of the office bearers.

4. MAHARASHTRA SMALL SCALE INDUSTRIES DEVELOPMENT CORPORATION (MSSIDC): One of the objectives of MSSIDC is to assist the SSI units in marketing their products. It also helps to promote the products of artisans who are registered with The Office of The Development Commissioner (Handicrafts).

None of the respondents were registered as SSI units. Moreover, they were not aware of the latter option.

5. COUNCIL FOR LEATHER EXPORTS: A non-profit company set up in July 1984 under The Indian Companies Act, 1956. It is the sole agency in India for export promotion of leather and leather products.

Through official sources it is known that none of the Dharavi leather goods manufacturers/traders are registered with the Council.

Conclusion

On the basis of the findings of the Rapid Access Survey, the strengths and weakness of the Dharavi leather cluster are understated.

Strength	Weakness
Abundant availability of skilled manpower	Unorganized & Tiny units
Cheap labour	Lack of negotiating power
Ability to make leather goods in small batches	Inefficient supply chain – most of the raw material are brought from far flung towns / cities
Custom made leather goods	Illiterate man power
Lower conversion cost	No formal training available to the manpower
Proximity to market Closely knit social circle.	Multiple constraints due to lack of access to finance

Government's New Initiative

The Government of Maharashtra has taken the initiative of developing a special zone called “The Additional Ambernath Export Promotion Leather Complex Zone. This was created on the lines of the blue print prepared by the Small Scale Industrial Federation.

The Additional Ambernath Export Promotion Leather Complex Zone is 90 minutes away from Mumbai at a distance of 65 km and admeasuring about 80 Hectares. The complex has state-of-the-art infrastructure and a readymade tenements-cum-work place for footwear leather goods manufacturing; besides it has full concern for environmental regulations.

The infrastructure includes:

Manufacturing Activities:

Footwear, footwear components, leather Garments, other leather products

Common Services:

Warehouse, public utility services, R&D and technological support, transport, banking and financial institutions, Government offices, Testing and quality control, hospital etc.

Environmental pollution control:

Sewage treatment and disposal, CETP, Solid waste collection, disposal and utilisation

Tanneries

Chemicals

Tiny units

Exhibit 2. depicts the infrastructure created at Addnl Ambernath earmarked for the leather complex zone. (This chart is indicative of the available infrastructure and not a blue print of the layout.)

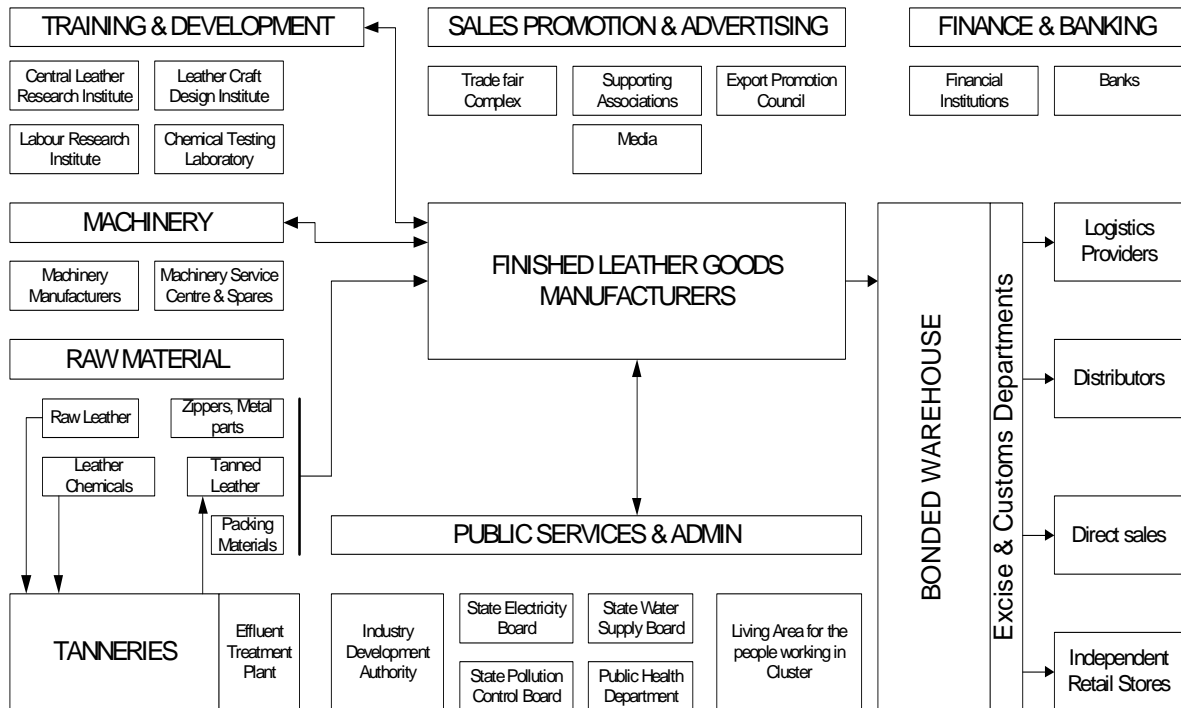


Exhibit .2.Layout at Additional Ambernath

In spite of the initiative taken by the Government of Maharashtra to develop Addnl Ambernath as a globally competitive leather zone, the beneficiaries are neither interested nor willing to shift base from Dharavi.

The numerous reasons stated by the respondents were:

1. Space constraint (Dharavi measures 213 hectares, while in Ambernath provision is only of 80 hectares)
2. Formidable cost of land/galas
3. Distant access to market (Ambernath is 65 Kms away from Mumbai)
4. Situated outside Mumbai Municipal Jurisdiction (So would attract Octroi Levy)
5. Space earmarked for residential units not sufficient.
6. Time, effort and cost involved in commuting to and fro, daily.
7. Workforce reluctant to be cut off from their close-knit social circuit.
8. Burden of adhering to various legal formalities. (Majority of the units are illegal and do not maintain proper records)
9. Reluctance on the part of semi-skilled workforce due to lack of confidence on their competence. (Transition from a highly unorganized sector to an organized sector will bring them under the scanner)
10. Unaware of provision made for various facilities.

Suggested Model

Based on the above findings, the following recommendations are suggested.

1. Addnl Ambernath should house all the planned activities EXCEPT marketing activities.
2. Form a 'Leather tanners association' and a 'Leather manufacturers' association'.
Build horizontal linkages (for collective advantage and enhancing competitiveness) and vertical linkages(to move up the value chain)
3. Simplify the loan disbursement procedure and also provide working capital finance.
4. All manufactured products to be certified for meeting the standard quality norms.
5. Dharavi should be totally revamped and developed into an 'EXCLUSIVE LEATHER MARKETING ZONE'.
6. Formulate a simplified registration procedure to register all the Traders of the marketing zone.
7. Space to be provided in Dharavi for opening a branch of 'Council for leather exports' (CLE) and MSSIDC for assisting in their sales promotion (both export and domestic activities.)
8. The Government of Maharashtra should exempt the Addnl Ambernath leather zone from paying octroi .The zone should also get all the tax exemption benefits as is available to SEZ.
9. Equal representation of all the categories of workforce involved
