LEATHER GOODS: WHAT WORKS IN INDIA’S FAVOUR?

Global leather firms are shifting their manufacturing base to developing countries due to high wage levels and strict environmental norms in developed countries. Factors such as availability of leather, production know-how and processing of shoes work in India’s favour.

Leather industry occupies a place of prominence in the Indian economy due to its massive potential for employment, growth and exports. There has been increasing emphasis on its planned development, aimed at optimum utilisation of available raw materials for maximising the returns, particularly from exports.

Leather has been one of the traditional industries operating in India and is located in certain states but dispersed as cottage industries in rural areas. The Indian leather industry consists of both the organised as well as unorganised players. The predominant decentralised nature and small size make it difficult to change this industry. As small-scale, cottage and artisan sector accounts for over 75 per cent of the total production, it was technologically very under-developed in design, manufacturing, packing and logistics. This makes it necessary to be careful while designing solutions for overcoming the weak technological base.

Global competition has been the major driver that forced the leather industry to upgrade its technological base. Though traditionally the Indian leather industry has been an exporter of tanned hides and skins, in the early seventies it set its sights on becoming a major player in the leather products segments. Over the period of the last twenty years and particularly so in the last ten years, it has become the fourth largest foreign exchange earner in the country. The industry has become an area of export thrust with footwear having been identified as an area of extreme focus.

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 per cent of the global market share. Small- and medium-scale enterprises account for a large portion of the total production. However, these are unable to realise their potential and the slack growth of the sector is due to high price of raw ma-
Market Survey

Indian leather industry comprises the following key sectors: tanning and finishing, footwear, footwear components, leather garments and leather goods and accessories. A large part (nearly 60-65 per cent) of the production is done by the small/cottage sector. The industry uses primarily indigenous natural resources with little dependence on imported resources. It has production capacity across all key sectors.

Leather and leather goods production is centred in southern, northern and eastern India. Key production units are located in Tamil Nadu, West Bengal, Uttar Pradesh, Punjab, Karnataka, Andhra Pradesh, Haryana and Delhi. Tamil Nadu is the biggest leather exporter in the country, with the south accounting for 43 per cent of the country’s share.

Exports

India’s exports of leather goods touched $3.47 billion in 2007-08. The country exports a host of niche leather goods—garments, bags, footwear, gloves, and saddlery and harness. The international demand for leather products is shifting from luxury goods to necessary goods. It is important for Indian manufacturers to strike a balance between quality and quantity to cater to the present need. Indian producers need to gear up to manufacture goods at competitive prices.

As per DGCI&S, the export of leather and leather goods for the

<table>
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<th>Table I: Key Sector-Wise Leather Production</th>
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<tbody>
<tr>
<td>Item</td>
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<td>---------------</td>
</tr>
<tr>
<td>Hides</td>
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<tr>
<td>Skins</td>
</tr>
<tr>
<td>Leather footwear</td>
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<tr>
<td>Leather shoe uppers</td>
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<tr>
<td>Non-leather footwear</td>
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<tr>
<td>Leather garments</td>
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<tr>
<td>Leather goods</td>
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<tr>
<td>Industrial gloves</td>
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<tr>
<td>Saddlery</td>
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</table>

Source: CLRI & www.leatherindia.org/ind_at_glance.asp
first eleven months, i.e., April-February 2008-09, touched $3337.33 million as against $3248.73 million in the corresponding period of last year, registering a positive growth of 2.73 per cent in dollar terms. The major markets for Indian leather products are Germany with a share of 14.28 per cent, Italy 13.20 per cent, UK 11.42 per cent, USA 9.56 per cent, Hong Kong 6.23 per cent, France 6.23 per cent, Spain 5.99 per cent, Netherlands 4.22 per cent, UAE 2.42 per cent, Denmark 1.73 per cent, Belgium 1.53 per cent and Australia 1.52 per cent. These twelve countries together account for nearly 78.33 per cent of India’s total leather products export.

Overall positive growth is seen in markets like USA (12.22 per cent), Germany (5.24 per cent), UK (0.03 per cent), France (13.57 per cent), Spain (1.50 per cent), Netherlands (13.23 per cent), Australia (11.87 per cent) and Denmark (26.23 per cent).

The industry was hopeful that something better would happen in the future. It was talking with the government on duty drawbacks, licensing, import and marketing polices as well as loans and credit. However, there is a silver lining. Importers of leather goods from China are now shifting focus to India as Indian leather goods are cheaper.

India’s export of leather products increased from $2216.45 million in 2003-04 to $3477.52 million in 2007-08, recording an annual growth rate of 11.91 per cent. The industry has set a trade target of $12 billion by 2012, including exports worth $7 billion and domestic sales worth $5 billion.

Indian leather garment manufacturers should continue to make all efforts to keep their presence in Argentine market as it was observed that Chinese leather garments are being dumped in the market. The fashions and expectations in Argentina are similar to that in European countries. This should be kept in mind by Indian exporters.

The scope for export of Indian leather garments, saddlery and harness is pretty good. Tanneries can tie-up for regular supply of cow hides or tanneries can be set up for processing of leather up to wet blue stage for finishing in India according to local requirements. Sheep and goat skin can be exported to Brazil in

### SWOT Analysis of the Indian Leather Industry

#### Strengths
1. High growth
2. Ready availability of highly skilled and cheap manpower
3. Large raw material base
4. Policy initiatives taken by the government
5. Capability to assimilate new technologies and handle large projects
6. Continuous emphasis on product development and design upgradation

#### Weaknesses
1. Lack of warehousing support from the government
2. International price fluctuation
3. Huge labour force resulting in high labour charges
4. Lack of strong presence in the global fashion market
5. Unawareness of international standards by many players

#### Opportunities
1. Rising potential in the domestic market
2. Growing fashion-consciousness globally
3. Use of information technology and decision-support software to help eliminate the length of the production cycle for different products
4. Use of e-commerce in direct marketing

#### Threats
1. Major part of the industry is unorganised
2. Limited scope for mobilising funds through private placements and public issues (many businesses are family-owned)
3. Difficulty in obtaining bank loans resulting in high cost of private borrowing
4. Stricter international standards
5. High competition from East European countries and other Asian countries
6. Lack of communication facilities and skills

### Table II

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (US$ million)</th>
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<tbody>
<tr>
<td>2003-04</td>
<td>2,216.45</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,496.37</td>
</tr>
<tr>
<td>2005-06</td>
<td>2,752.50</td>
</tr>
<tr>
<td>2006-07</td>
<td>3,059.43</td>
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<tr>
<td>2007-08</td>
<td>3,477.52</td>
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</tbody>
</table>

### Table III

<table>
<thead>
<tr>
<th>Animal</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Goat</td>
<td>60</td>
</tr>
<tr>
<td>Cow</td>
<td>20</td>
</tr>
<tr>
<td>Buffalo</td>
<td>15</td>
</tr>
<tr>
<td>Sheep</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Note: Average price per sq.ft is $1.60*
during this period. At present, the industry employs 2.5 million people directly and indirectly.

**Shifting of manufacturing base.** Major world tanning firms are in the process of shifting their manufacturing base to developing countries due to high wage levels and strict environmental norms in developed countries. Factors such as availability of leather, production know-how and processing of shoes work in India’s favour. India could effectively use these advantages to augment its share in global production and exports.

**Government support.** Technology upgradation and modernisation of the entire leather value chain should be given priority. Recently, the government approved Rs 2.9 billion for modernisation and technology upgradation programme.

**Strong production base.** The industry should lay emphasis on design and technology, quality and innovation and economies of scale. Skill development for the manpower engaged in the sector is vital for enhancing the export potential of this sector.

**Investment by large corporate.** The Indian leather industry is dominated by household and small-scale sectors. Corporate presence would enhance the capability of producing quality leather products. The large capacity would also bring down the

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**Table IV**

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</tr>
</thead>
<tbody>
<tr>
<td>Finished leather</td>
<td>459.25</td>
<td>508.83</td>
<td>555.71</td>
<td>607.73</td>
<td>606.06</td>
<td>688.05</td>
<td>766.93</td>
</tr>
<tr>
<td>Leather footwear</td>
<td>395.39</td>
<td>423.3</td>
<td>553.04</td>
<td>657.78</td>
<td>786.76</td>
<td>950.90</td>
<td>1,163.82</td>
</tr>
<tr>
<td>Footwear components</td>
<td>233.94</td>
<td>175.07</td>
<td>161.27</td>
<td>179.24</td>
<td>179.04</td>
<td>212.65</td>
<td>266.11</td>
</tr>
<tr>
<td>Leather garments</td>
<td>378.75</td>
<td>272.08</td>
<td>301.08</td>
<td>328.44</td>
<td>328.44</td>
<td>306.98</td>
<td>343.99</td>
</tr>
<tr>
<td>Leather goods</td>
<td>407.16</td>
<td>425.39</td>
<td>539.21</td>
<td>585.72</td>
<td>649.14</td>
<td>690.66</td>
<td>784.95</td>
</tr>
<tr>
<td>Saddlery and harness</td>
<td>35.64</td>
<td>43.66</td>
<td>52.71</td>
<td>61.71</td>
<td>76.4</td>
<td>81.85</td>
<td>105.81</td>
</tr>
<tr>
<td>Non-leather footwear</td>
<td>26.02</td>
<td>26.88</td>
<td>53.42</td>
<td>73.78</td>
<td>68.75</td>
<td>48.69</td>
<td>45.90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,936.14</td>
<td>1,875.21</td>
<td>2,216.45</td>
<td>2,495.37</td>
<td>2,694.59</td>
<td>2,979.78</td>
<td>3,477.51</td>
</tr>
</tbody>
</table>

**Top ten Indian leather exporters**

1. Tata International Ltd
2. Florind Shoes Ltd
3. Punihani International
4. Farida Shoes Ltd
5. Mirza Tanners Ltd
6. T. Abdul Wahid & Company
7. Hindustan Lever Ltd
8. Super House Leather Ltd
9. RSL Industries Ltd
10. Presidency Kid Leather Ltd

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The Indian leather industry is targeting over $5 billion exports by 2010 and is expected to add about one million direct and indirect jobs during this period. At present, the industry employs 2.5 million people directly and indirectly.

**Strategies**

The Indian leather industry is targeting over $5 billion exports by 2010 and is expected to add about one million direct and indirect jobs during this period. At present, the industry employs 2.5 million people directly and indirectly.

- **Environmental issues.** Leather is traditionally considered as a polluting industry in the tanning and finishing stages of the production chain. Global standards set by importing countries affect the entry and increase the cost of market access to products of developing countries. Usage of many chemicals has been banned by various countries. The product specifications for leather are constantly under review, leading to greater stringency.

- **Impact of PETA.** Campaigns by NGOs, such as People for Ethical Treatment of Animals (PETA), related to cruelty against animals have led to boycott of Indian leather products by many foreign companies.

- **WTO related matters.** With the advent of WTO, the average and bound tariffs for manufactured products have fallen in the developed countries. However, the average and bound tariffs for leather products remain relatively high. Many developed countries are implementing technical barriers to trade (TBT) as non-tariff barriers to restrict leather exports from developing countries like India.

- **Cost escalation.** Leather exporters have to meet domestic as well international environmental norms. Testing and certification requirements add to the cost.
unit cost and increase the competitiveness in international markets.

**New markets.** Diversification of export markets is another important strategy for the Indian leather industry. Consolidation in new markets such as Croatia, Slovakia and Serbia would sustain its export growth momentum. Imports of leather articles by these countries have increased in the range of 20-30 per cent in a period of five years.

**New trends.** The industry needs to keep itself abreast with latest fashion trends in the sector. It is observed that Italian buyers pay attention not only to the quality of the leather products but also to the accessories used in the garments. It is imperative that adequate care is taken about the packing material.

**Diverse marketing techniques.** India needs to adopt aggressive marketing techniques in order to endure global competition. The industry should undertake business delegation to secure overseas investments and technology partnerships, besides building brand image. Developing countries like India should have twopronged marketing strategy of simultaneously targeting both low-price and high-quality markets, rather than the traditional strategy of being a low-price-low quality supplier.

**Enabling infrastructure.** The development of the Calcutta Leather Complex is a positive sign as all amenities are available at one place. Such exclusive leather complexes could be developed in other major production centres. Improvements in efficiency of ports, internal transport, customs procedures and supply chain management are necessary for augmenting the productivity and exports in this sector.

**Fairs and exhibitions.** It is imperative that Indian exporters participate in fairs and exhibitions organised in the international market. It could serve as a good platform to showcase our products. Lack of information about Indian leather manufacturers also acts as a hurdle for international buyers.

**Training facilities.** Training programmes should enable the industry to foresee and adapt to changing trends and technology. It is imperative that the staff is skilled and well qualified to train the students. Further, programmes need to be conducted to make Indian exporters aware of different standards and requirements in the global market to ensure that Indian exports do not get rejected due to environmental norms.

### Initiatives

Recognising the potential of the leather industry and keen to take the industry’s share to 4 per cent of the world trade by 2010, the government has taken several initiatives:

1. **Foreign equity up to 100 per cent is allowed, subject to certain conditions.**
2. **Foreign equity up to 51 per cent is accorded automatic approval in several key areas.**
3. **Investments over 51 per cent equity participation are approved on a case-to-case basis by the Foreign Investment Promotion Board (FIPB).**
4. Clearances of proposals by the FIPB take around six weeks on an average.
5. **Free repatriation of profits and capital investment is permitted, except for a shortlist of specified consumer goods industries.** During the 10th Plan, the government of India has provided financial assistance to build a footwear component park and a footwear complex at Chennai, and provided marketing and training assistance to artisans and primary workers.

The government also proposes to build a footwear park, a processing complex, a leather goods park and two footwear component parks for the leather industry, all by 2010. It has announced that exports of garments and all leather items to the European Union and the US from April 1, 2009 will be entitled to a 2 per cent incentive from the government.

Most of the leather firms are in the unorganised sector. The small-scale industries, cottage and artisans sector follows old and traditional methods of manufacture. As production processes are traditional, product quality cannot meet the international standard. Low-quality products with limited variety have made many of the Indian leather units non-competitive.

Given its nature, modernisation of the leather industry requires the following initiatives to make it efficient, agile, responsive and competitive:

1. **Enhance productivity**
2. **Reduce wastage**
3. **Increase the product design**
4. **Automate the production process**
5. **Understand the customer needs**
6. **Extend the reach through e-commerce**
7. **Introduction of new technologies**

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