CHAPTER 5

STRATEGIC ANALYSIS AND PROSPECTS OF LEATHER INDUSTRY IN KERALA
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CHAPTER 5

STRATEGIC ANALYSIS AND PROSPECTS OF LEATHER INDUSTRY IN KERALA

5.1. STRATEGIC ANALYSIS

Three different techniques of strategic analysis are applied in leather industry to ascertain the structure, competitiveness, managerial efficiency, strength and weakness of Leather Industry in the State.

5.1.1 Leather Industry structure and Competition Analysis

The Leather industry in Kerala is analysed on the basis of Michael Porter’s Five Forces Model of Industry Analysis. The Industry Structure Analysis determines firm level profitability, competition, SME viability and prospect of growth.

The threat of new entrants into the leather industry in the State merit consideration. The entry barrier of the State is very low. Anyone can enter the industry with an investment of Rs. 20,000 – 30,000. If one wants to make batik dyed pasted leather items, no more than equipments of Rs. 5,000 would suffice. There is no propriety skill/technology and there is hardly any product differentiation and brand identification. A local market of low/medium quality products is also available for the cottage scale entrepreneurs. This also makes the entry easier.
The rivalry among the firms is moderate. High rivalry based on price competition was expected. However, rivalry among the entrepreneurs is quite moderate. This is due to the fact that some of the entrepreneurs subcontract under exporters and some depend on fair marketing.

The bargaining power of the manufacturers is low so far as local market is concerned. This makes the profit margin remain low. For the subcontractors under exporters, bargaining power of the manufacturers is also low but there is better profit margin.

Bargaining power of the customer is always high. The local handicraft dealers, the exporters and even consumers in the trade fairs have high bargaining power. This is due to price based competition and wide choice of alternative products in the market.

Threat of substitute products mainly synthetic products though different is a problem for leather products. The synthetic products satisfy the same set of customer needs. The influx of Chinese items in the market is also a threat for the leather products.

To sum up, using the Five forces model of industry competition, the firms dealing in leather products can determine the industry attractiveness, and to understand the structure and dynamics of the
industry with a view to finding the suitable strategies for achieving success

5.1.2. Leather Value Chain Analysis

The value chain analysis is a representation of the interrelated chain of activities that are required to be undertaken to bring the finished leather product to the doorsteps of the customers. The profit margin that an organization earns depends on how effectively the value chain has been managed.

The leather industry utilizes the by products of slaughter houses 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.

**Value Chain Analysis in practice**

Cattle skin of 10 Square feet at

<table>
<thead>
<tr>
<th>Stage</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. 25 per Square Feet</td>
<td>Rs. 250</td>
</tr>
<tr>
<td>Value after Transportation</td>
<td>Rs. 283</td>
</tr>
<tr>
<td>(Addition = 1.32 %)</td>
<td></td>
</tr>
<tr>
<td>Value after Washing</td>
<td>Rs. 283.85</td>
</tr>
<tr>
<td>(Addition = 0.3 %)</td>
<td></td>
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<tr>
<td>Value after Cutting and Block</td>
<td>Rs. 286.69</td>
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<tr>
<td>Printing</td>
<td></td>
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<td>(Addition = 1 %)</td>
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<tr>
<td>Value after Dyeing</td>
<td>Rs. 336.49</td>
</tr>
<tr>
<td>(Addition = 17.37 %)</td>
<td></td>
</tr>
<tr>
<td>Value after Assembling of</td>
<td>Rs. 605.68</td>
</tr>
<tr>
<td>Components and Packing</td>
<td></td>
</tr>
<tr>
<td>(Addition = 80 %)</td>
<td></td>
</tr>
<tr>
<td>Value after Manufacturer’sMargin</td>
<td>Rs. 726.85</td>
</tr>
<tr>
<td>(Addition = 20 %)</td>
<td></td>
</tr>
<tr>
<td>Value after Traders’/Exporters’</td>
<td>Rs. 1054</td>
</tr>
<tr>
<td>Margin</td>
<td></td>
</tr>
<tr>
<td>(Addition = 45 %)</td>
<td></td>
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</tbody>
</table>
5.1.3. SWOT Analysis

SWOT analysis for leather industry in Kerala is based on the information obtained from the detailed analysis of the industry in the State.

STRENGTHS

- Existence of more than sufficient productive capacity in tanning.
- Easy availability of low cost of labour.
- Exposure to export markets.
- Managements with business background become quality and environment conscious.
- Presence of qualified leather technologists in the field
- Comfortable availability of raw materials and other inputs.
- Massive institutional support for technical services, designing, manpower development and marketing.
- Exporter-friendly government policies.
- Tax incentives on machinery by Government.
- Well-established linkages with buyers in EU and USA
Market:

♦ The product has the advantage of being famous as ‘Exquisite Handcrafted Original Leather Products’ originated in the State.

♦ Demand exists from tourists of Kerala

♦ There is enormous scope for exporting the products from the State.

♦ Good scope exists for marketing the products through trade fairs.

Technology:

♦ Requires less application of machines, as those are handcrafted products.

♦ Technology is easily available in the State.

♦ Required machinery is available at low price.

Inputs:

♦ Raw materials are available in sufficient quantity from Karnataka.

Innovation Capabilities:

♦ Workers are very skilled to make prototype of new sample.
Skills:

♦ Skilled manpower is available easily.
♦ Most of the skill is acquired on job.

Business Environment:

♦ Stable business exists in the State.
♦ Government tries to boost investment in various sectors of industries in the state

WEAKNESSES

❖ Low level of modernisation and upgradation of technology, and the integration of developed technology is very slow.
❖ Low level of labour productivity due to inadequate formal training / unskilled labour.
❖ Absence of growth of tanneries.
❖ Less number of organised product manufacturers.
❖ Lack of modern finishing facilities for leather.
❖ Highly unhygienic environment.
❖ Unawareness of international standards by many players as maximum number of leather industries are SMEs.
 Difficulties in accessing to testing, designing and technical services.

Environmental problems.

Density of population

Markets:

♦ Product is not cost competitive.

♦ Middlemen/traders enjoy most of the profit margin.

♦ Brand Building process is never undertaken

♦ Little information is acquired on changing customer preference in the international market.

Technology:

♦ Traditional method of production

♦ Low productivity of traditional method

Inputs Availability:

♦ High cost of raw material

♦ It is difficult to get right quality raw material

♦ Raw material and accessories sources are not located in the State.
Innovation Capabilities:

♦ Stale Design
♦ No change in technology and machine application over long time
♦ Innovative marketing strategy has not been applied

Skills:

♦ Over dependence on traditional skill
♦ Inadequate skill development training facility

Business Environment:

♦ Business environment is changing
♦ Competition is going to increase
♦ Traditional Processing Technology
♦ Dependence on Imported Machines and Components
♦ Inadequate Internal Demand
♦ Pollution Problem
♦ High Degree of Subjectivity in Quality Assessment and Grading
♦ Widely Dispersed and meager Units
♦ Insufficient Enterprising attitude of the Industry
♦ Poor Database

♦ Technology Management and Financial Problems

OPPORTUNITIES

❖ Abundant scope to supply finished leather to multinationals setting up shop in other States

❖ Growing fashion consciousness globally.

❖ Use of information technology and decision support software to help eliminate the length of the production cycle for different products

❖ Product diversification - There is lot of scope for diversification into other products, namely, leather garments, goods etc.

❖ Growing international and domestic markets.

Markets:

♦ Local markets can be better utilized by brand building, image building and cost reduction

♦ In addition to participation in standard fairs, the enterprises can organize fairs themselves

♦ Organized enterprises can go for direct export
♦ Enterprises can join hands for international marketing, brand building and participation in international trade fairs

♦ Marketing Consultants can be employed for adopting effective marketing strategy

♦ Original designs can be introduced for enhancing market

♦ For subcontracting more exporters can be approached

**Technology:**

♦ Machinery application can be increased to increase productivity and quality

♦ Design development library can be established

♦ Scope for organizing design development training facility

♦ Common facility centre can be established

♦ Scope for organizing skill up gradation training centres

♦ Scope for BDS development in the area of machinery sales and service

**Inputs availability:**

♦ Enterprises can join hands for bulk purchase of raw material for trade discount and better quality
Scope for developing clusters for raw material and accessory marketing

**Innovation capabilities:**

- Scope for brand promotion, design development, and packaging development
- Scope for exposure visit to make the entrepreneurs more innovative in problem solving

**Skill:**

- Scope for effective training facility to develop skilled workforce
- Scope for improvement in work environment, introduction of medical facility and insurance

**Business environment:**

- Changing business can provide opportunity for new firms
- Alternative Opportunities
- Incentive from the Government
- Advancement in Modern Biology, Genetics, Chemical Engineering, Computers and Electro polymer Science
- Opulence of Synthetic Support Materials
♦ Rising potential in the domestic market

♦ Growing fashion consciousness globally

♦ Use of information technology and decision support software to help eliminate the length of the production cycle for different products

♦ Use of e-commerce in direct marketing

Strengths

♦ High Growth

♦ Ready availability of highly skilled and cheap manpower

♦ Large raw material base

♦ Policy initiatives taken by the Government

♦ Capability to assimilate new technologies and handle large projects

♦ Continuous emphasis on product development and design upgradation
THREATS

- Entry of multinationals in domestic market.
- Stiff competition from other countries. (The performance of global competitors in leather and leather products indicates that there are at least 5 countries viz, China, Indonesia, Thailand, Vietnam and Brazil, which are more competitive than India.)
- Non-tariff barriers - Developing countries are resorting to more and more non-tariff barriers indirectly.
- Improving quality to adapt the stricter international standards.
- Fast changing fashion trends are difficult to adapt for the Indian leather industries.
- Limited scope for mobilising funds through private placements and public issues, as many businesses are family-owned.

Markets:

- Competition is going to increase
- Only the fittest enterprises would survive
- Cheaper alternative products of inferior materials are posing tough competition
Technology:

♦ Financial constraints may restrict modernization

♦ Modernization may create idle capacity

Inputs availability:

♦ Raw material price may increase

Innovation capabilities:

♦ Competitors may adapt more innovations

Skill base:

♦ Unless newer skill development takes place productivity will decrease

Business environment:

♦ Changing business poses uncertainty

♦ Major part of the industry is unorganized

♦ Difficulty in obtaining bank loans resulting in high cost of private borrowing

♦ Stricter international standards

♦ High competition from East European countries and other Asian countries

♦ Lack of communication
5.2. PROSPECTS OF LEATHER INDUSTRY

The future prospects of the Leather industry in the country are very encouraging and bright which in turn help Kerala State to reap the benefits of the better prospects of the industry.

5.2.1. Future outlook for production and exports

The sector’s perception of the leather industry based on the survey of 100 firms and by theICRA Study has observed that the major factors limiting the growth of firms in the leather industry were access to capital, high per capita cost, shortage of skilled labour, taxation regulations, appreciating rupee, competition from imports and high employee cost. At the macro level, the key constraints of the leather industry particularly in its shift to a high value chain segment is quality of raw materials, absence of an institutional mechanism for design inability of Indian producers to build the brand despite a huge domestic markets and technology gaps. However, given the responsiveness of this sector to the policy initiatives as illustrated by the study, it is possible to be optimistic about the future prospects of this sector. A rising disposable income and a low share of the footwear and leather components in the overall consumption expenditure of the households, abundance of leather as a raw material and low cost manufacturing base are the strong points on
which the leather sector could buildup its future growth story. The de-reservation and de-licensing of several leather goods from the small scale sector in 2001, 100% FDI allowed in the leather and footwear sector since 2002 and focused market scheme introduced by Department of Commerce have created the groundwork for the expansion of this sector. Comprehensive scheme of the ILDP for modernization and technological upgradation of the leather sector covering tanneries, footwear, leather goods and garments have created the basic conditions for building growth in future.
T144. Domestic production and exports of leather products -

Outlook

<table>
<thead>
<tr>
<th>Marething</th>
<th>PFCE</th>
<th>Exports</th>
<th>Production</th>
<th>Share of FW in PFCE</th>
<th>Exports Share in production</th>
<th>Global Imports</th>
<th>Exports From India</th>
<th>Share in exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rscore</td>
<td>In per cent</td>
<td></td>
<td>US $ Million</td>
<td>Per cent</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td>59086</td>
<td>93625</td>
<td>1.12</td>
<td>141393</td>
<td>4725</td>
<td>3.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>66176</td>
<td>105520</td>
<td>1.16</td>
<td>156380</td>
<td>5434</td>
<td>3.47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>74117</td>
<td>118942</td>
<td>1.19</td>
<td>172957</td>
<td>6249</td>
<td>3.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>83011</td>
<td>134088</td>
<td>1.23</td>
<td>191290</td>
<td>7186</td>
<td>3.76</td>
<td></td>
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</tr>
<tr>
<td>2016</td>
<td>92973</td>
<td>151183</td>
<td>1.27</td>
<td>211567</td>
<td>8264</td>
<td>3.91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>104129</td>
<td>170479</td>
<td>1.31</td>
<td>233993</td>
<td>9504</td>
<td>4.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>116625</td>
<td>192265</td>
<td>1.34</td>
<td>258796</td>
<td>10929</td>
<td>4.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>130620</td>
<td>216864</td>
<td>1.39</td>
<td>286228</td>
<td>12569</td>
<td>4.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>146294</td>
<td>244643</td>
<td>1.43</td>
<td>316569</td>
<td>14454</td>
<td>4.57</td>
<td></td>
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</tr>
<tr>
<td>2021</td>
<td>163850</td>
<td>276020</td>
<td>1.47</td>
<td>350125</td>
<td>16622</td>
<td>4.75</td>
<td></td>
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<tr>
<td>2022</td>
<td>183512</td>
<td>311465</td>
<td>1.52</td>
<td>387238</td>
<td>19115</td>
<td>4.94</td>
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<tr>
<td>2027</td>
<td>323410</td>
<td>571076</td>
<td>1.76</td>
<td>640846</td>
<td>38448</td>
<td>6.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


(Global imports are projected to increase at 10.6%, at the observed rate of growth of imports during 2000-2010)
5.2.2. Production and Exports of leather products

It is expected that the future outlook of the leather production and exports to be really promising. The future production and export outlook have been projected on the assumption that the share of the footwear consumption in private final consumption expenditure would reach 1.5% in next ten years. India’s share in the global leather market is also expected to increase by around 5% in 2027. Within these two considerations, a growth of 12% in the private final consumption expenditure of footwear, can be predicted, giving the elasticity of expenditure to GDP at 1.3. The export sector is expected to growth at 15% per annum in rupee terms. The projection is at 2011-12 prices. Based on these, the future outlook for production and export is indicated below. The export projection at the product level has also been worked out assuming differential rates of growth for finished leather, footwear and other leather products. The results are presented in the following table:
### T145. Commodity Composition of Exports (US $ Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Leather</td>
<td>950</td>
<td>1093</td>
<td>1256</td>
<td>1445</td>
<td>1662</td>
<td>1911</td>
<td>3843</td>
<td>7730</td>
</tr>
<tr>
<td>Footwear</td>
<td>2200</td>
<td>2530</td>
<td>2910</td>
<td>3346</td>
<td>3848</td>
<td>4425</td>
<td>8900</td>
<td>17902</td>
</tr>
<tr>
<td>Leather Garments</td>
<td>500</td>
<td>575</td>
<td>661</td>
<td>760</td>
<td>875</td>
<td>1006</td>
<td>2023</td>
<td>4069</td>
</tr>
<tr>
<td>Leather Goods</td>
<td>950</td>
<td>1093</td>
<td>1256</td>
<td>1445</td>
<td>1662</td>
<td>1911</td>
<td>3843</td>
<td>7730</td>
</tr>
<tr>
<td>Saddlery &amp; Harness</td>
<td>125</td>
<td>144</td>
<td>165</td>
<td>190</td>
<td>219</td>
<td>251</td>
<td>506</td>
<td>1017</td>
</tr>
<tr>
<td>Total</td>
<td>4725</td>
<td>5434</td>
<td>6249</td>
<td>7186</td>
<td>8264</td>
<td>9504</td>
<td>19115</td>
<td>38448</td>
</tr>
</tbody>
</table>


The Government of India had identified the Leather Sector as a Focus Sector in its Foreign Trade Policy 2004-09 in view of its immense potential for export growth prospects and employment generation. Accordingly, the Government is also implementing various Special Focus Initiatives under the Foreign Trade Policy for the growth of leather sector. With the implementation of various industrial developmental programmes as well as export promotional activities; and keeping in view the past performance, and industry’s inherent strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and dedicated
support of the allied industries, the Indian leather industry aims to augment the production, thereby enhance export, and resultantly create additional employment opportunities for overall one million people.

Against the above backdrop Kerala has better prospects for leather and ancilliary industries to do both manufacturing and trading activities on a reasonably large scale. Even though full tanning process cannot be undertaken in the state due to environmental issues, all other business practices shall be carried out successfully. Leather industry can contribute towards the economic development of the State in the ways analysed above.