

VALUE CHAIN ANALYSIS OF MEDIUM SCALE LEATHER GOODS ENTERPRISES

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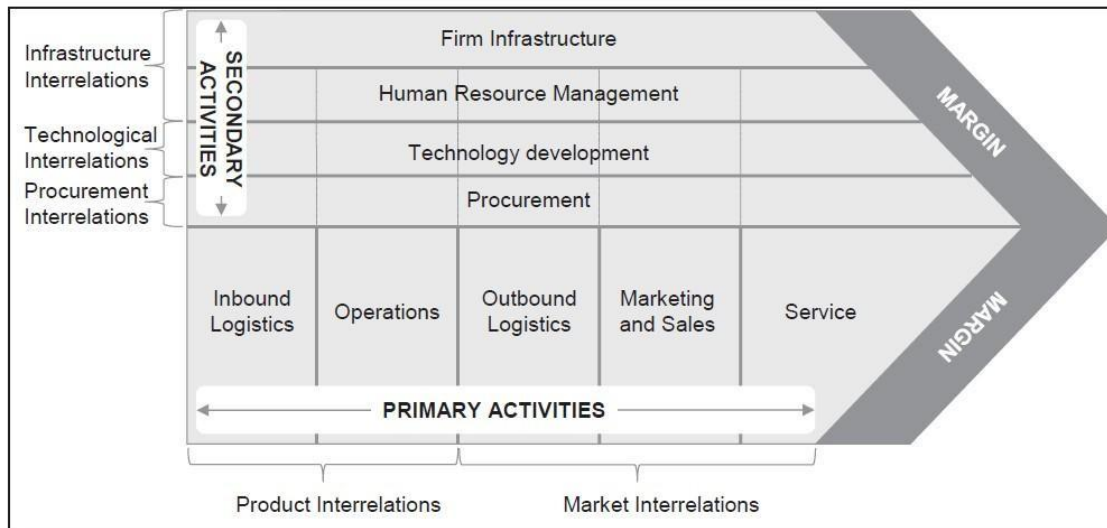
ABSTRACT

This research work was designed to analyze the value chain analysis of medium enterprises of leather goods industry in U.P. This paper uses the value chain model developed by Dr. Michael Porter of the Harvard Business School to analyze industry activities. To achieve this purpose personal interview was conducted with the different medium size leather goods producer. The population of this study consists of those leather goods manufactures of Kanpur. Our findings revealed that the leather good producer. The main problem of the leather goods sector is the good quality supply of quality leather and woven fibers, the base materials of the industry, lack of advance technology etc. The value chain analysis used in this report is based on the primary and support activities of the producers. It does not consider the external value chains of suppliers and buyers. In addition, financial data were not considered in the value chain analysis as these would be hard to obtain and reconcile on an industry level.

Keywords: *Value Chain, Leather goods, Medium enterprises, industry competitiveness,*

INTRODUCTION

To Produce and deliver the ultimate product to the market, there certain key activities inside the firm through which it can produce a competitive advantage for itself. The Value Chain Analysis is basically entails the linkages of mainly two areas. Firstly the Value chain links the value of the firm's activities with its main purposeful elements and secondly assessing the contribution of these activities to the total added value of the business (Lynch, 2003). Porter (1985) divided the firm activities into two parts first is the Primary activities which involves making and delivering of products and services. Second one is Support Activities which basically provides aids and help to primary activities in making and delivering products and services.



Classical value chain: adapted from Porter (2001)

Inbound Logistics: These activities involve receiving, storing, handling & inventory control input materials.

Operations: These activities are concerned with transformation of inputs into final products i.e. Production of products and services.

Outbound Logistics: These activities involve distribution of the final product and service to the consumers along with warehousing, order fulfilment etc.

Marketing and Sales: These are activities that are concerned with inducing the buyers to purchase the product of the firm. It is responsible for analyzing the needs and want of customer and creating awareness about the products of the firm in the niche market.

Service: This service like pre-installation or after – sales service before or after the sale of the product.

Support activities

Procurement: This activity is basically responsible for acquiring the high quality goods /inputs/raw material for the firm's operational activities at the lowest cost.

Human Resource Management: This activity deals with recruiting, training and rewarding the employees of the firm.

Technology Development: This activity is concerned with technological innovation, training and knowledge that are crucial for most firms today in order to survive, because this is the arena in which competitive advantage can be achieved.

Firm Infrastructure: This includes planning and control systems, such as finance, accounting, and corporate strategy etc.

ABOUT MEDIUM ENTERPRISES:

According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, **A medium enterprise** is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

In the case of the enterprises **engaged in providing or rendering of services**, a **medium enterprise** is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

ABOUT LEATHER GOODS INDUSTRY:

Leather business is one among the necessary industries in India. The importance of those business lies owing to its contribution towards employment. This sector is one among the distinctive sectors in the country that carries advantage of the value addition and export potential. It conjointly contributes considerably to total producing output and exports from the country.

Leather business is blessed with the huge potential for employment, output growth and export. It is among the highest eight exchange earners price over Rs. 10,000 Crores once a year and accounts for third of the worldwide leather-related trade of Rs. 387200 crores. An estimated total purchase of 15% of leading global brands in footwear, leather goods, garments, & other leather accessories in Europe, and about 10 percent of worldwide supply is outsourced from India. Leather business of the country has taken a drastic transformation in the recent years form was just a mere exporter of raw materials during sixties to now value added finished product in the nineties.

The Indian leather industry includes both organized and unorganized sectors. The organised manufacturing sector broadly consists of tanning, leather manufacture of luggage, handbags saddlery, harness and footwear. Presently the entire production of the industry is dominated by the unorganized sector. The unorganised sector comprises of the small scale, cottage and artisan sectors which accounts for over 75 per cent of the total production of the industry. Although footwear is manufactured by both large and MSME (Micro, Small and Medium Enterprises) sector, the MSME sector has virtually ninety per cent share within the total production of footwear in India.

Items made by this sector embrace, additionally to baggage, handbags, handgloves and industrial gloves, wallets, ruck sacks, folios, temporary cases, travel ware, belts, sports product, upholstery and saddlery product.

A surfeit of recent units in Chennai, Kanpur, Agra and urban centers using proficient human resources and equipped with new and sophisticated machinery account for a diversified vary of superlative small leather goods which includes baggage, purses, wallets, industrial gloves etc. made from quality leathers of cows, sheep, goats and buffaloes. The product meets the need of bulk consumers and customers in Europe, USA and Australia.

The major marketplace for Indian leather goods is Germany, near about 25 per cent of the leather goods produced in India followed by USA, UK, France and Italy. With products ranging from designer collections to personal leather accessories, this sector incorporates a share of 20.53 % in the leather industry, whereas maintaining a median rate of 11% recorded within the last 5 years.

PROBLEM

Leather goods Medium enterprises contribute significantly in country exports but still they have not yet explored the macro area like the proliferation of trade agreements, technological development and facility of foreign direct investment etc. These development will prepare path for such enterprises to trade globally. However these changes will bring threats to these enterprises competitiveness due to their traditional and outdated way of functioning. The success of these enterprises critically depends on the degree of their adaptability to new market and surroundings and their competitiveness in today's globalized era.

Therefore, the research problem of the proposed paper is principally revolved around the in depth analysis of value chain of the Medium enterprises and providing them suggestions to enhance their competitiveness.

OBJECTIVE OF THE STUDY

The main objective of the paper is to analyze the various activities of the Medium enterprises through value chain analysis in a way that the Indian leather goods industry could improve its performance and value for customers.

SIGNIFICANCE OF THE STUDY

- The study can contribute valuable inputs in value chain analysis practices of Medium Enterprises.
- The study can provide a means for prioritizing market-based solutions that will have the greatest impact on the value chain and participating Medium Enterprises.

- It may provide a new approach to the business linkages of Medium enterprises with business linkages to other enterprises which will provide a new approach to these kinds of linkages.

LITERATURE REVIEW

Gereffi and Porter (1985) among the one of the leading thinkers on the value chain analysis concept in determining the competitiveness of the industry. It involves a chain of activities that are associated with adding value to a product through the production and distribution processes of each activity (Schmitz, 2005). An organization's competitive advantage is based on their product's value chain. The goal of the company is to deliver maximum value to the end user for the least possible total cost to the company, thereby maximizing profit (Porter, 1985). Porter in his work "*Competitive Advantage: Creating and Sustaining Superior Performance*," divided the firm activities into two parts: Primary activities and secondary activities. On the other hand, Gereffi and Kaplinsky's work (1994, 2000 and 2002) has made significant contribution on the study of global value chains.

Schemel (1998) and Magretta (2000) observed that marketing is the core of the modern leather products business and the principal marketing agents should have the necessary trade related information. A wide network of sales channels should be established to allow them for contracting production, providing finance and serving the customer on time (within three to five weeks after placing order) with the management of the complex mechanism of supply chain within the strategy of buyer-driven commodity chains. The authors conclude that there are two markets, the local and the export market; the latter is usually managed by rules of a buyer-driven commodity chain, supply chain and triangle manufacturing.

RESEARCH METHODOLOGY

Sampling Design

Total Population: There are total 1235 leather goods units are in India including factory and Households. Out of which there are total 52 units enterprises are in U.P of which 30 units are in Kanpur.

Sampling Frame: In this study Medium Scale leather goods manufacturing units of Kanpur is included.

Sampling Technique: Census sampling

Primary Data: Individual Interviews, Personal interview of concerned persons at different level.

Secondary Data: Various research papers on the problem related to industry, reports and documents from different magazines, journals, newspaper, Central & State Government agencies as well from different associations was considered.

DISCUSSION THROUGH PERSONAL INTERVIEW:

The Leather goods Process Flow

The Leather goods products Value Chain starts with the advancement of configuration gathering normally managed via season and usefulness. The producer exporter begins with item improvement, the investigation of materials and adornments appropriate to current shading and style patterns.

In their item advancement, a few organizations attempt automated configuration work. Others get the administrations of outside configuration advisors, who may be a piece of their purchasers' outline group.

Different firms depend on outlines indicated by their purchasers. The fare requests got are either contract fabricating understandings or direct requests from purchasers. Under an agreement fabricating assertion, the base material, typically leather, is dispatched to the maker. In the event that a request exudes from the exporters' own outline accumulation, the exporter sources all materials needed. With direct fare deals, makers by and large utilize by regional standards delivered cowhide unless the purchaser requests leather of a higher quality. In this circumstance, the exporter imports cowhide in the obliged details.

Item improvement for direct fare arranges more often than not takes longer. The introductory model is produced and sent to the purchaser for remarks. Further changes on the configuration are made before the genuine sourcing of materials. Simultaneously, the producer likewise sources the segments expected to create the fare request.

The real creation procedure is normally done in-house. Makers ordinarily attempt 60% to

70% of the generation, utilizing their own offices and specialists. They normally keep up a pool of in-house specialists that does the cutting and example making. Subcontractors are utilized basically to amass parts of the item. The slice parts are sent to the subcontractors for part, sewing, skiving, sewing and edging, after which completing and last pressing are done in-house.

A couple leather goods merchandise firms with direct outside ventures, particularly those situated in fare handling zones attempt all phases of creation from item advancement to generation, quality examination and in house delivery.

FINDINGS

Unavailability of raw materials:

The unavailability of raw materials is a serious problem for the Medium enterprises of this sector. Other components like fittings, adhesives and many more are also less accessible in preferred scale.

Chinese competition:

Heavy competition from China as it dominates the sector due to its low production costs and low prices.

Lack of technology:

Leather goods are still produced in the old fashioned way through in the enterprises Further, the activities of designing, cutting and stitching are done manually, which affects the quality and unit value realisation of products. Evidently, the enterprises lacks in terms of level of modernisation and technology readiness.

Inadequate investments:

A medium enterprise needs to make high capital investments for proper production processes and infrastructure.

Lack of skilled labour:

Enterprises are affected by lack of skilled labour, and low level of labour productivity, as the employees are not exposed to any formal training.

Underutilisation of capacity:

Due to deficient raw materials, shortage of finance, labour problems and regular power failures there is underutilisation of capacity in the enterprises.

Though Leather goods sector have marginal presence in the industry but can add substantially to growth of the cluster in future. As many operations like clicking and closing etc. cut across various sub sectors, shortage of skilled manpower is also a major constraint to their growth.

CONCLUSION:

It is quite apparent that the globalization process though threatens the medium scale leather good enterprises but at the same time it provides ample opportunity in the form of potential growth. Therefore efforts should be made by government and other agencies to help these enterprises to improve their product quality through improved design, development and prototyping.

These Leather producing units should be given incentives to adopt adequate technology so that their production cost can be minimised and their profitability increases. Modernization will definitely require a heavy dose of investment for which availability of capital will be a major constraint for medium scale enterprise the government should take proactive steps for easing the capital constraint.

Encouraging FDI in the leather sector would ease capital constraint and also improve the quality of Indian leather products. However, in order to increase FDI in the Indian leather sector it is essential to encourage good governance and global bench mark of best practices and provide good infrastructure for the sector.

Development of human resource is an important requirement of this sector. In order to increase the availability of a large pool of skilled workers and artisans, efforts should be made to enhance training and capacity building infrastructure in the industry.

There is requirement of timely and a purposeful review of the policies implemented by the government for the leather sector from time to time and a need for developing a coherent statistical data base on the leather sector with regular updating.

In order to rejuvenate and drive the industry on its potential growth trajectory there has to be an appropriate detailed policy package and a road map for the fast track growth and development of the sector.

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