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# Entrepreneurship Development Institute of India

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**Diagnostic Study  
&  
Action Plan  
of Leather and Leather  
Product Cluster, Chennai  
BDS Market Development**



# Introduction

## The Study DSR

**TO Unfolds the scope of necessary interventions for growth of BDS market to help the cluster convert existing Comparative Advantage into sustainable Competitive Advantage, with thrust on**

*cost / productivity,  
compliance, and  
market-access related advantage.*



# Data & Information Collection Methodology

For the Diagnostic Study over

- 35 Core (Leather and Product Manufacturing) Firms,
- 3 Machinery Manufacturers and Suppliers,
- 3 Chemicals and Dyes Manufacturers, and (Hides and Skins) Suppliers, and
- 21 Private and 13 Public Service Providers were directly approached.
- The 7 related Industry Associations were involved in directly providing various information and data.
- Several Focus-Group meets were arranged with office-bearers of BMOs and service providers.
- Further, interactions were held with some key representatives of FIs such as the Indian Bank and the State Bank of India with significant exposure with firms in the cluster.

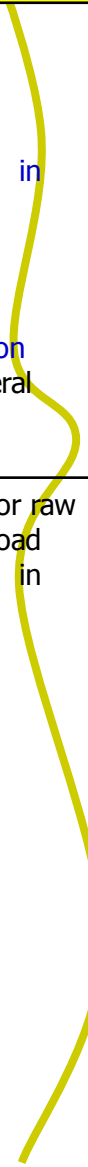
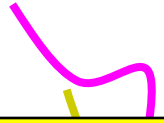


# To evaluate demand as well as map the supply side, services have been grouped broadly into several specific categories

|  |   |
|--|---|
| <b>Environmental compliance</b> (e.g., services addressing costs of compliance -power and energy, cleaner production technologies)   | <b>Procurement</b> (e.g., optimal National and global sourcing along the value chain, appropriate instruments, procurement warehousing services)  |
| <b>Skill development and training</b> (e.g., design, shop-floor operator training, result-oriented entrepreneurship development training)  | <b>Technology up gradation</b> (e.g., dissemination, services ,demonstration of benefits, evolving and establishing joint/common facilities on a PPP mode, infrastructure-display facilities) |
| <b>Productivity</b> (e.g., ERP, MIS, lean manufacturing)   | <b>Market access and "brand" promotion</b> (e.g., services related to market warehousing abroad, consortia marketing)   |
| <b>Finance</b> (e.g., access to appropriate and non-asset based (collateral-free) institutional credit, foreign-equity/venture capital, group-financing instruments for micro players) | <b>Infrastructure</b> (e.g., industrial and social-infrastructure)  |
| <b>Socio-environmental certification</b> (e.g., SA 8000, ISO 14000)  | <b>Advocacy</b> (e.g., more appropriate orientation of/effective synergies with PPP options for WEG, advocacy in terms of appropriate orientation of duty-drawback rates)                     |



# Demand Side Perspective



| Value-chain Activity                            | Typical Services Availed   | Extent of usage | Perceived Demand/ need by way of services  |
|---|--|-----------------|--|
| <b>Leather (MSE tanneries)</b>                  | Subsidized technology transfer from CLRI   | M               | <ul style="list-style-type: none"> <li>• Services facilitating optimal sourcing of consumables (dyes/chemicals from India/abroad with appropriate credit institutions/instruments)</li> <li>• Energy/power cost optimisation/reduction in operation of ZLD-CETPs</li> <li>• Access to non-asset based finance</li> <li>• Services vis-à-vis deployment of Cleaner Production Technologies</li> <li>• Services facilitating technology upgradation (possibly under a PPP mode)/sans collateral requirements</li> <li>• Productivity related (IT-MIS)</li> </ul> |
|   | Taxation and audit related services  | H               |  |
|   | Production and shop-floor maintenance  | L               |  |
|   | Environmental compliance (joint ETPs)  | H               |  |
|   | Labour (salaries, legal issues, working conditions – through BMO AISHTMA)                  | H               |  |
|   | Testing and certification services   | H               |  |
|   | Access to conventional finance (project preparation, loan syndication)                     | M               |  |
|   | Use of agents for export marketing   | M               |  |
| <b>Leather (MLEs - Medium and larger firms)</b> | Subsidized technology transfer from CLRI   | H               | <ul style="list-style-type: none"> <li>• Services facilitating global warehousing for raw material hides and skins in India and abroad</li> <li>• Energy/power cost optimisation/reduction in operation of ZLD-ETPs</li> <li>• Services facilitating optimal sourcing of consumables (dyes/chemicals from India/abroad with appropriate credit institutions/instruments)</li> </ul>  |
|   | Environmental compliance (individual ETPs)   | H               |  |
|   | Taxation and audit related services  | H               |  |
|   | BDS provided by ITPO/CLE for participation in fairs abroad; use of importing agents abroad | H               |  |
|   | Quality and ISO 9000 certification   | M               |  |
|   | Maintenance services   | H               |  |
|   | BDS in Cleaner Production Technologies   | M               |  |
|   | Productivity related (ERP, MIS)  | M               |  |
|   | Labour (salaries, legal issues, working conditions – through BMO AISHTMA)                  | H               |  |
|   | Testing and certification services   | H               |  |
|   | Access to conventional finance (project preparation, loan syndication)                     | H               |  |
|   | Quality certification (ISO 9000)   | M               |  |



**Product manufacturing (MSEs)**

|  |   |
|--|---|
| Taxation and audit related services  | H |
| Market linkages – Agents   | H |
| Training services – shop-floor workers and supervisors                                     | M |
| Access to conventional finance (project preparation, loan syndication)                     | H |
| Testing services   | H |
| BDS provided by ITPO/CLE for participation in fairs abroad; use of importing agents abroad | H |
| Design services  | M |
| Use of agents for export marketing   | H |

- Access to appropriate institutional credit on non-asset based terms
- Quality certification (ISO 9000)
- Socio-environmental certification (SA 8000, ISO 14000)
- Training of staff on design (footwear, goods, garments)
- Services facilitating start-up's (EDPs to also facilitate diversification/value-addition)
- Market facilitating warehouses abroad
- Productivity related BDS (ERP, MIS, lean manufacturing)
- Fresh supply of trained shop-floor workers
- Social infrastructure for the labour force

**Product manufacturing (MLEs medium and large firms)**

|  |   |
|--|---|
| Quality and ISO certification  | M |
| Socio-environmental certification (SA 8000 and ISO 14000)                                  | M |
| Design related BDS (including designers from abroad)                                       | M |
| Productivity related BDS   | M |
| Market linkages – Agents   | L |
| Training services – shop-floor workers and supervisors                                     | M |
| Labour (salaries, legal issues, working conditions – through BMO AISHTMA)                  | H |
| Access to conventional finance (project preparation, loan syndication)                     | H |
| Testing services   | H |
| BDS provided by ITPO/CLE for participation in fairs abroad; use of importing agents abroad | H |

- Market facilitating warehouses abroad
- Productivity related BDS (ERP, MIS, lean manufacturing)
- Fresh supply of trained shop-floor workers
- Social infrastructure for the labour force
- Training of staff on design (footwear, goods, garments)



# Supply-Side Perspective

Services in the BDS arena is being provided by three categories of service providers, that is,

- (i) Public service providers who offer their services on largely non-commercial terms. These are typically government support institutions.
- (ii) Business Management Organisations (BMOs) or industries associations and their SPVs to implement joint-projects for compliance and competitiveness
- (iii) Private Service Providers who operate for profit and offer services on commercial terms.

- **Operational BDS** are widely availed of, and the supply base ensures their availability at competitive rates (for example Rs. 2-3,000 per annum for CAs services by an MSE).
- Supply in certain strategic areas such as training and design is also conveniently available, but effectively subsidised by public service provision.
- Also, fee based services by cluster firms in strategic areas such as productivity, environmental certification, and quality certification is largely availed of only by large and a few medium-sized firms.
- **The pressures of environmental compliance** has encouraged even MSEs to come together and establish networks (SPVs) of local associations to jointly avail large environmental compliance services and jointly avail of relevant BDS. This has also been partly subsidised through agencies such as the Department of Industrial Policy and Promotion (DIPP) and the UNIDO.
- Medium and large firms also avail of BDS services to jointly-implement specialised infrastructure such as a footwear components park (under implementation)
- **Consolidation in terms of networks (consortia, SPVs, and BMOs) encourages firms to jointly avail of relatively expensive BDS on some fronts.**
- As a matter of fact some BMOs in the cluster (a network of SMEs) offer value-added BDS to members in terms of joint-global sourcing of some inputs to an extent, **leading business delegations abroad**, etcetera.
- **The industry has been benefited by (in-effect) subsidised services** offered by support institutions such as the CLRI, FDDI, CLE, and the CFTI.
- Many of other BDS in terms of raw material (consumables) inputs as well as machinery and equipment are usually **embedded and bundled services**.



| Sr. No. | Value-chain segment   | Critical Constraints (and BDS market gaps)   |
|---------|---|--|
| 1.0     | Tanning (accounting for about 32 per cent of cluster exports and output)  | <ul style="list-style-type: none"> <li>• <b>Environmental compliance:</b> High cost of environmental compliance particularly relating to power costs in individual and common Effluent Treatment Plants (ETPs) - <b>inadequate awareness on related BDS options due to the non-energy intensity of most value chain activities</b></li> <li>• <b>Procurement:</b> Dis-optimal sourcing of dyes (source-wise), dis-optimal sourcing of chemicals (credit purchase-wise), inadequate warehousing initiatives (in Chennai and abroad) to conveniently source/stock hides and skins - <b>gaps in availing related BDS due to information-limitations in terms of related instruments and service providers</b></li> <li>• <b>Finance:</b> Poor access to appropriate and adequate institutional credit facilities (term as well as working capital facilities) - <b>gaps in linkages with related BDS providers and instruments, inadequate outreach by service providers</b></li> <li>• <b>Productivity:</b> Weak management information and control systems in business, particularly in the context of MSEs – <b>inadequate appreciation of benefits of availing related BDS (e.g., ERP, MIS); limitations in outreach of service providers</b></li> <li>• <b>Technology upgradation:</b> Weak initiatives to upgrade (in terms of expensive) technology, and enhance productivity (e.g., vacuum drying) perhaps on a joint/PPP mode by MSEs) – <b>capital-intensity of related options affect provision of related BDS</b></li> <li>• <b>Constraints in terms of non-deployment of Cleaner Production Technology processes by MSEs - inadequate appreciation of benefits of availing related BDS</b></li> </ul>  |
| 2.0     | Product manufacturing (largely footwear and components, accounting for about 52 per cent of cluster exports and output)       | <ul style="list-style-type: none"> <li>• <b>Finance (debt):</b> Poor access to appropriate and adequate institutional credit facilities (term as well as working capital facilities), particularly by MSEs- <b>gaps in availing related BDS due to information-limitations vis-a-vis related instruments and service providers</b></li> <li>• <b>Procurement:</b> Inadequate “convenience” infrastructure to source the multitude of components from one location – <b>limitations in terms of BMOs availing necessary BDS, inadequate information on the range of related PPP options</b></li> <li>• <b>Technology upgradation:</b> Inadequate infrastructure – display facilities of equipment-technology options of domestic manufacturers - <b>limitations in terms of BMOs availing necessary BDS, inadequate information on the range of related PPP options</b></li> <li>• <b>Training/Skill upgradation:</b> Shortage of skilled operators ; inadequate indigenous / in-house designer development initiatives – <b>inadequate BDS initiatives to source, train and supply fresh (and competitive) workers to industry</b></li> <li>• <b>Market access and brand promotion:</b> Gaps in terms of initiatives to explore direct market access (warehouses abroad, consortia), particularly by SMEs and larger firms – <b>limitations in terms of awareness on the range of available public and private BDS providers and instruments</b></li> <li>• <b>Finance (equity):</b> Inadequate links with equity and venture capital providers (Medium and Large – MLE firms) – <b>gaps in terms of links with related service providers and instruments</b></li> <li>• <b>Social infrastructure:</b> Inadequate accommodation facilities for outstation/state labour (MLEs)</li> </ul> |
| 3.0     | Garments and goods manufacture (relatively small segment with several cross-cutting issues with the footwear related segment) | <ul style="list-style-type: none"> <li>• <b>Finance:</b> Poor access to appropriate and adequate institutional credit facilities (term as well as working capital facilities), particularly by MSEs</li> <li>• <b>Procurement:</b> Inadequate “convenience” infrastructure to source the multitude of components from one location</li> <li>• Inadequate infrastructure – display facilities of equipment-technology options of domestic manufacturers</li> <li>• <b>Skill upgradation:</b> Shortage of skilled operators; inadequate indigenous / in-house designer development initiatives; result-oriented Entrepreneurship Development Programmes (EDPs) to generate appropriate entrepreneurial start-up’s (particularly, in the goods and components segment) – <b>gaps in outreach of existing specialized BDS providers</b></li> <li>• <b>Market access/brand building:</b> Gaps in terms of initiatives to explore direct market access (warehouses abroad, consortia)</li> </ul>   |