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Feasibility of a Leather Manufacturing Unit

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1.1 INTRODUCTION

1.1.1 THE LEATHER INDUSTRY

In the history of mankind, Leather was the first thing used by man to cover the body. In early times skins were used for many purposes. Leather provided men with cover warmth and protection against nature's adversities leather was one of the most important safeguards that helped man to with stand geological changes.

Unless men managed to exploit leather to cover and warm him , he would not have been able to survive neither morally nor physically. At present, leather, with all its animal recourses has become a major economic industry to which developed nations give particular, special comprehensive attention, in various different forms garments, footwear, furniture, bags purses and belts all these items are made from leather

The tanning industry play a vital role in the progress of these sub sectors by providing the basic material i.e. leather.

Thus leather enriches our lives in numerous pleasant ways.. In the developed countries almost all of which are located in the frigid north, leather jackets, trousers and suits have long become a status symbol.

1.1.2 THE LEATHER GARMENT INDUSTRY

Keeping pace with exquisite garments, Pakistan's leather garments industry has achieved a distinctive place in the world of fashion. High quality leather, fine stitching, exquisite workmanship, sophisticated and trendy designs give an exclusive touch to Pakistan's leather garments which cover a broad spectrum of colors and shades. Quality control and strict

following of delivery schedule has made Pakistan's leather garments industry as one of the country's leading industries

1.2 HISTORICAL DEVELOPMENT OF THE LEATHER GARMENT INDUSTRY

Artist and crafts man in leather generally was Indian Muslim who migrated to Pakistan during the early days of Pakistan the leather crafts man's production was carried on small-scale handicraft basis. This activity was spread throughout the country. The leather garments industry, started in the seventies, was that time on a very small scale.

Leather garments industry is a part of fashion industry. The fashionable man and woman want to put hi or her wardrobe together to express his or her personality and individuality.

Since the leather industry of Pakistan is appreciably export oriented, its cetral aim is to make them quality and price competitive in the international market, Pakistan produces a wide range of leather garments, of fine quality such as , jackets, coats and trousers, maxi shirts waistcoats gloves belt wallets etc.

1.3 PROJECT BRIEF

The proposed project presents an investment opportunity in Leather Garments manufacturing unit. Major products will include Leather Jackets, Biker Jackets and Overcoats for men, women and children. However, the product line can be extended to manufacture all kinds of leather upper garments.

1.4 TYPE OF LEATHER PRODUCED IN PAKISTAN

Pakistan has the following types of leather available for export and domestic consumption.

- Cow leather
- Buffalo leather
- Goat leather
- Sheep leather

1.5 PRODUCTS OF LEATHER GARMENT

Items most commonly demanded and appreciated for local and foreign consumptions or export are.

- Jackets
- Coats and Trousers
- Maxi shirts
- Waistcoats
- Gloves
- Belt
- Wallets
- Other accessories

Process Flow for Leather Garments Manufacturing



1.7 CUSTOMERS

The customers for leather garments of Pakistan are mainly the foreign countries most of them, are located in the frigid north the major importers of leather garments are

TABLE:1-1 Pakistan Trading Partners	
Countries	
GERMANY	PORTUGAL
UNTD KINGDOM	SAUDI ARABIA
USA,PR,USVI	FINLAND
FRANCE	SWITZ.LIECHT
NETHERLANDS	AUSTRALIA
UNTD ARAB EM	IRELAND
SWEDEN	SINGAPORE
UZBEKISTAN	HUNGARY
HONG KONG	CZECH REP
BELGIUM-LUX	
SPAIN	
DENMARK	
KAZAKSTAN	
GREECE	
ITALY	
JAPAN	
NORWAY	
CANADA	
AUSTRIA	
S.AFR.CUS.UN	
RUSSIAN FED	
AZERBAIJAN	
KYRGYZSTAN	

1.8 STATEMENT OF THE PROBLEM

The leather industry is the second dynamic sector of Pakistan after textile sector it contributes about 5% in total GDP and 7.9% to export earnings, the proposed project presents an investment opportunity in leather garment manufacturing unit.

This study is intended to investigate the following issues:

- The factors involved in setting up a new leather garment manufacturing unit.

- Challenges and prospects of leather garments in Pakistan.

1.9 SIGNIFICANCE OF THE STUDY

Leather and leather products (including leather garments) manufacturing industries, occupy an important place in Pakistan's economy. Apart from catering for the entire domestic demands, the country produces a sizeable surplus also for export. Making it a major source of foreign exchange earnings

The significance of the study is for my personal benefit. However, it is also benefit for students who are willing to learn and study about leather garment manufacturing or similar research studies.

This study will be beneficial for the investors that are willing to invest in the leather garments sector or already the part of this sector. The investor will get the idea of factors involved in setting up a new leather garment manufacturing unit and what are the challenges and opportunities in this sector.

1.10 DEFINATION OF TERMS

TABLE:1-2 DEFINATION OF TERMS	
TERMINOLOGY	DEFINATIONS
LEATHER	Leather refers to animal skin that has been fully tanned
TANNING	Tanning is a process that chemically alters animal skins, making them supple, strong and resistant to rotting
PLEGMA	Pakistan Leather Garments Manufacturers and Exporters Association of Pakistan
PTA	Pakistan Tanners Association
EPB	EXPORT PROMOTION BUREAU.
SMEDA	Small & Medium Enterprise Development
APLF	Asia Pacific Leather Fair
GDP	Gross domestic product
DYEING	The application of color, either by spraying, hand rubbing or immersion.
HAND	A term used to describe the softness or feel of leather.
HIDES	Skin of large animals, usually cattle.
NAPA	A term used for leatherized sheepskins

2.1 RESEARCH DESIGN

The research has been designed in such a manner that it fulfils the entire requirement and so covered all relevant information with respect to the topic. While designing the

research it kept under consideration that it will serve the purpose practically and will be in line with the purpose of the study.

Also all the expenses and barriers will be kept in consideration while designing the research .it is also kept in mind that this research work is being done to add or contribute in the existing knowledge about topic.

2.2 RESEARCH METHOD

The method of conducting this research will be based on primary and secondary data as well.

Primary data will be gathered through unstructured Face to face interviews and meetings will be held with different representatives of leather garment manufacturers and experience person of this field. The purpose of primary research is to confirm the validity of the data collected from secondary data.

Secondary data will be also adopted so, internet, business magazines, newspapers, books and different libraries will also be considered.

2.3 RESPONDENT OF THE STUDY

Respondents of the study will be the representatives of various leather garment manufacturers and the exporters, and other key personnel that are related to the field in the both public and private sector, in order to cover the project effectively and efficiently.

2.4 RESEARCH INSTRUMENTS

Research instruments for primary data will be the unstructured interviews and the observation. All the data will be noted down on a sheet during face to face interviews and meetings. It will be necessary for me to discuss with the concern people to get the proper and useful information on different aspects of project.

The instruments for secondary data will be the reports of various researchers, business magazines articles on newspapers and internet

2.5 SOURCES OF DATA

For the data collection purpose both primary and secondary data will be use

Primary sources will be the data gathered from face to face interviews and observations. Secondary sources include newspapers internet, magazines, books, different libraries.

2.6 TREATMENT OF DATA

The data that will be gathered during primary and secondary data sources will analyzed in verbal context as well as in financial terms.

2.7 PRESENTATION ANALYSIS

Presentations of facts and figures are in the form of tables, figures, different charts and financial statements will be used.

CURRENT INDUSTRY STRUCTURE

There are about 355 leather garment manufacturing unit in the organized sector of the country the annual installed capacity of these units is estimated to be 15 million leather garments(of all kinds) per annum

Sialkot has the largest number of leather garments manufacturing units in the country. There are more than 186 units installed in the city that covers 60% of total installed manufacturing capacity. Karachi is the second largest cluster with 130 units. Followed by Lahore with around 21 units the overall geographical distribution of leather garments units exhibited in the following table

TABLE:3-1			
LEATHER GARMENTS PRODUCTION IN PAKISTAN			
Cities	No.of Units	*Installed Capacity (Mill. Pcs.)	Average Capacity (Million Pieces/Unit)
Karachi	163	4.64	0.028
Gujranwala	4	0.10	0.025
Islamabad	4	0.04	0.010
Kasur	3	0.05	0.017
Lahore	26	1.14	0.044
Multan	2	0.06	0.030
Rawalpindi	6	0.08	0.013
Sahiwal	3	0.22	0.073
Sialkot	166	9.05	0.055
Mirpur	1	0.01	0.010
Total	378	15.39	0.041

MANAGEMENT, PROPONENTS PERSONNEL, AND ORGANIZATION

Management Complement and Supporting Professional Firms

DURING THE PRE-OPERATING PERIOD.

- Owner/ Chief Executive/ Director
- Manager
- Accountant or store clerk
- Supplier of machinery
- Bank
- PLGMEA
- WATER AND SEWERAGE BOARD
- KORANGI TRADE ASSOCIATION
- CBR
- FPCCI
- EPB

MANAGEMENT COMPLEMENT

- The Owners/ Founders/ CEO/ Directors Who is going to open leather garment manufacturing unit and will finance the project
- A General Manager is required for managing all the activities.
- A Legal advisor would hire for all the legal requirements like; Registration of partnership deed and for Tax purposes e.tc.
- Accountant or store clerk for all relevant activities.

FIRMS INTRODUCTION:

The Bank

The bank will be the “**ALLIED BANK OF PAKISTAN**” which will finance the project by providing 50% debt (that is RS.21, 32,538) through long term debt and running finance facility. **ALLIED BANK OF PAKISTAN** incorporation in 1942 at Lahore, to become the first Muslim bank established in the territory that became Pakistan. It has been financing various successful projects during 63 years of its reputable services

PLGMEA

The Pakistan Leather Garments Manufacturers and Exporters Association (PLEGMA) is headed by Fawad Ijaz Khan, which provide assistance to leather garment manufacturers and exporters, it also provide a platform for leather garment manufacturers and exporters to remove difficulties and short comings in the leather garments trade To advise, protect, safeguard and promote the rights, interests and privileges of its members.

CBR

Central board of revenue for taxation registration purpose for getting tax exemptions and tax schemas etc and import duty matters.

FPCCI

The Federation of Pakistan Chambers of Commerce & Industry (FPCCI) which enjoys the status of the apex body of trade and industry has a significant and most distinguished role in the economic development of the country. Its primary aim is to promote, encourage and safeguard the interest of private sector in Pakistan and to serve as a bridge between the business community and the government. FPCCI has its fingers on the pulse of the economy and serves as a beacon light for trade and industry.

EPB

Export Promotion Bureau (EPB) is the primary agency of the Government of Pakistan engaged in promotion and boosting of country's exports. Since its inception in 1963 as an attached department of the Ministry of Commerce, EPB continues to facilitate the exporters in overcoming difficulties faced by them on the supply and demand side of our exports.

On the demand side, EPB helps exporters to participate in exhibitions abroad and sends delegations to export markets with a view to explore new markets and develop the traditional markets.

DURING THE OPERATING PERIOD.

MANAGEMENT PERSONNEL AND FIRMS:

Operating period starts after the completion of all the aforesaid legal and other requirements. Operations of the company would be carried out by a Based on operational needs, the company requires the following personnel;

- Owner/ Chief Executive/ Director
- Manager
- Legal Advisor
- Raw material suppliers
- suppliers
- machinery supplier
- Accountant or store clerk
- Peon

PERSONNEL OR WORKFORCE

TABLE:3-2 PERSONALE OR WORKFORCE			
Job description	Nos.	Salary in Pak Rupees	
		Per month	Annual
Production staff			
Stitching supervisor	2	15,000	360,000
Quality controllers	2	15,000	360,000
Final inspector	1	15,000	180,000
Electrician (part time)	1	1,500	18,000
Skilled stitchers ¹	30	175/piece	² 362,500
Cutting masters ³	8	30/piece	⁴ 378,000
Total production staff	44		3,658,500
Administrative staff			
Manager	1	30,000	360,000
Account/store clerk	1	17,000	84,000
Security guards	2	3,500	84,000
Total administrative staff	4		528,000
Total	48		4,186,500

1 Each skilled stitche stitches 2 pieces per day.

2 Calculated at 75% production capacity.

3 Each cutting master cuts 7-8 pieces per day.

4 Calculated at 75% production capacity

ORGANIZATION (FOR OPERATING PERIOD)

FORM OF THE BUSINESS ORGANIZATION

This Feasibility study i.e. on **Establishing a leather garment manufacturing unit in Karachi** has been made while considering the form of organization as a PRIVATE LIMITED COMPANY.

ORGANIZATIONAL STRUCTURE:

Based on operational needs, the company has the following departments/sections namely:

1. Stitching
2. Cutting
3. Administration (Admin)
4. Quality Control
5. Finance (FIN)

All the departments/sections head report to the Manager and Manager would report to the Director:

PROJECT IMPLEMENTATION TIMETABLE

The Project of setting up a new leather garment manufacturing unit will be implemented in 6 months time.

MARKETING

DEMAND

Leather and leather products manufacturing industries, occupy an important place in Pakistan's economy. Apart from catering for the entire domestic demands, the country produces a sizeable surplus also for export, making it a major source of foreign exchange earner. Leather and leather products, having a big share in the national economy,

FOREIGN DEMAND

Pakistani leather garment has reputable position in world market; Pakistan is exporting to number of countries. 95% of total productions of leather garments are exported to developed countries. Pakistan's long and distinctive participation in the global leather industry is recognized in its selection as Focus Country at the Asia Pacific Leather Fair (APLF) 2004. The Focus Country always adds color and interest to APLF, giving visitors an insight into the country's culture as well as its leather industry. This initiative will provide an opportunity for Pakistan to show visitors the major contribution the country makes across the complete leather sector, from hide and skin supply to finished leather products, particularly leather apparels, gloves and footwear.

The export market for leather garments is fairly diversified. More and more countries are being added. Major buyers of leather garments during 1989-99 were Germany, USA, UK, France, Hong Kong, Netherlands, Spain and Dubai.

TABLE: 3-3
CURRENT TRADING PARTNERS OF PAKISTAN

Countries	
GERMANY	PORTUGAL
UNTD KINGDOM	SAUDI ARABIA
USA,PR,USVI	FINLAND
FRANCE	SWITZ.LIECHT
NETHERLANDS	AUSTRALIA
UNTD ARAB EM	IRELAND
SWEDEN	SINGAPORE
UZBEKISTAN	HUNGARY
HONG KONG	
BELGIUM-LUX	
SPAIN	
DENMARK	
KAZAKSTAN	
GREECE	
ITALY	
JAPAN	
NORWAY	
CANADA	
AUSTRIA	
S.AFR.CUS.UN	
RUSSIAN FED	
AZERBAIJAN	
KYRGYZSTAN	
CZECH REP	

Country-wise export of leather garments is given in table-2. there are bright aspects of increasing per unit value of exports, as well as quantity of exports of leather from Pakistan.

TABLE:3-4 COUNTRY WISE EXPORT OF LEATHER GARMENT							
EXPORTS VALUE 000'S							
YEARS							
COUNTRY	2003-04	% SHARE	2002-03	% SHARE	2001-02	% SHARE	CAGR
USA	77416	2.63	83730	3.20	76699	3.40	0%
UK	44,914	4.77	46,086	5.85	48,376	7.34	-4%
DUBAI	33,257	3.72	24,059	2.39	17,116	2.60	39%
CHINA(HONG KONG)	7,868	1.35	14,552	2.82	7,756	1.75	1%
CHINA	1,819	0.63	860	0.35	176	0.08	221%
DERMANY	41,560	6.85	46,188	7.97	46,550	10.30	-6%
ITALY	9,433	2.08	7,173	2.10	6,765	2.67	18%
SAUDI ARABIA	10,099	2.90	6,354	1.33	5,049	1.53	41%
FRANCE	29,454	8.70	27,024	9.28	31,598	12.81	-3%
NETHERLANDS	12,923	3.86	14,762	5.15	18,651	6.14	-17%
SPAIN	33,052	10.97	22,605	9.88	25,546	14.69	14%
BELGIUM	11,666	4.45	11,286	4.71	10,033	5.62	8%
TURKEY	4,074	1.86	3,423	2.34	6,462	6.58	-21%
SOUTH KOREA	358	0.18	445	0.20	265	0.10	16%
CANADA	9,265	5.10	10,252	4.98	7,962	4.56	8%
JAPAN	4,537	3.37	5,926	4.17	8,735	5.25	-28%
AUSTRALIA	2,318	1.78	2,324	1.93	2,055	2.03	6%
SOUTH AFRICA	17,688	14.45	7,441	6.67	5,581	7.45	78%

Russia is considered to be a one of the largest market of leather importing countries because of its extremely cold climate and huge population of 150 million. This huge and lucrative market is awaiting since last 12 years but neither government / E.P.B. nor leather exporters have seriously considered to avail the opportunities.

Leaving a few small exporters no leather giants have ever tried seriously to enter Russian market, which is evident from the fact that just 235 thousand US\$ is the export volume of Pakistani leather products to Russia as per statistics of 2000-2001.

Market analysis reveals the fact that, quality of leather, availability of skilled but low cost labor; exporter friendly government policies and an easy accessibility to Russian market will certainly help to boost up exports of any leather garment exporter country.

Pakistani raw leather exporters if try will not take long to make a place for their products in Russian market,

The leather garment industry is largely technology-oriented and therefore, its further progress depends on a continued process of improvement in technology necessitating joint ventures with foreign companies. As Pakistani leather has qualitative edge over the Indian & Chinese leather which provides opportunities to be the market leader.

LOCAL DEMAND

Little demand is there comes from only the small circle of fashion conscious upper classes and the residents of cold areas like N.W.F.P and UPPER PUNJAB. The absence of domestic market, however, has not discouraged the enterprising individuals to establish leather garment manufacturing units, the majority of which are owned by small and medium investors.

SUPPLY

In addition to easy availability of primary raw material, Pakistan is also well recognized in the international market as a manufacturer of quality leather garments and is ranked third amongst the top three exporters of leather garments in the world. Other two top exporters are china and India, china is the world's biggest exporter of leather garments and the market leader.

PRICING

The pricing scheme will be based on maintaining a competitive price relative to the competitors.

MARKETING PROGRAM

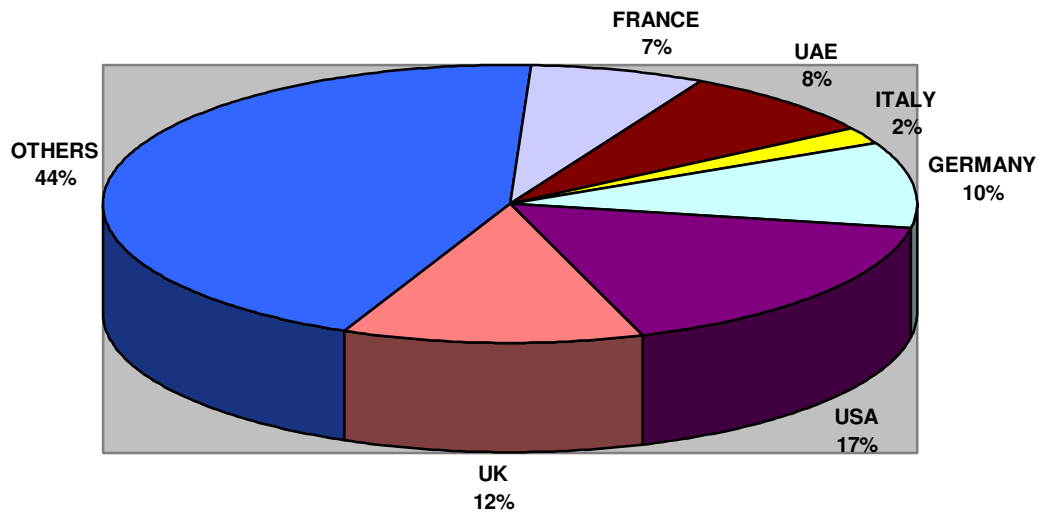
TOTAL MARKET SIZE

95% of the leather garments manufactured in the country are targeted towards exports. In 2003, an estimated 8 million pieces of leather garments were exported from the country. Local consumption of leather garments is minimal and is estimated to be less than 90,000 pieces per annum.

TARGET CUSTOMERS

Export market is the primary market for a leather garment-manufacturing unit. In the export market, major customers include chain stores and major garment brands in Europe and USA. Major customers of Pakistani leather garments are Germany, USA, United Kingdom, and UAE & France. The business is done either directly to the buyers or through middlemen.

PAKISTAN EXPORT PARTNER FOR YEAR 2003



SUPPLY CHAIN MANAGEMENT SYSTEM

Facilities and distribution options that performs the functions of procurement of materials; transformation of these material into intermediate and finished products; and distribution of these finished products to customers. (Source: Ganeshan & Harrison - Introduction to Supply Chain Management)

The supply chain essentially has three main parts, the supply, manufacturing and distribution:

The **supply** side concentrates on how, where from and when raw materials are procured and supplied to manufacturing.

Manufacturing converts these raw materials to finished products and

Distribution ensures that these finished products reach the final customers through a network of distributors, warehouses and retailers.

So the Supply chain management system starts with suppliers of leather garment manufacturing unit supplies and end with the final customer of leather garment manufacturing unit products.

PARTIES INVOLVED IN SUPPLY CHAIN MANAGEMENT SYSTEM

SUPPLIERS

The suppliers for leather garments are the tanners producing finished leather from cowhide lambskin sheepskin and shearling, which is used as a primary raw material for leather garment manufacturing industry. Pakistan, have excess supply of quality leather hides which is not only famous in local market but also well recognized in the international market.

LEATHER GARMENT MANUFACTURING UNIT

Leather garment manufacturing unit converts these raw materials to finished products. Through a process in which various departments involved in it starts with the purchasing department and ends with the accounts department.

BUYING HOUSES, AGENTS AND DEALERS

Leather garment manufacturing is totally export oriented unit, as I assumed, so it sells its products through different buying houses, agents and dealers of different countries.

PROPOSED ACTIVITIES OF THE SYSTEM

APPROVAL:

After the approval of the buyer order, the terms and conditions are finalized where which depends on the type of contract made which can be DA, DP, and LC. The term of payment is also finalized which can be 15 to 30 days after the receiving of delivery. The terms and condition also include the quantity of the order, the price of the order, and the date of delivery and also the means by which the order will reached the required destination. Included is the description or the type of items placed in the order.

MERCHANDISING DEPARTMENT:

After acquiring an order, the job of merchandising department begins and the calculation of rates and feasibility of order is done and also the delivering time is evaluated. Also the other requirements are taken into consideration which includes the type of leather and other accessories required for the completion of the order. Large orders require extensive amount of evaluation of the leather and other accessories.

PURCHASING DEPARTMENT:

The job of the purchasing department is to create feasibility report of the order to be manufactured and also determines which material is to be bought from where and what will be the costing of the leather and other accessories to be used while manufacturing the order. The purchase departments maintains contact with the suppliers of leather and accessories and selects the one depending on the price offered by the supplier and determine the term of payment which varies from 45 to 90 days. The purchase department also takes into consideration the quality of the requirements and also the most suitable delivery time.

PRODUCTION DEPARTMENT:

This is the department where the actual manufacturing of the product is done. This process includes the following department

- **MATCHING**
- **CUTTING**
- **ASSEMBLY**
- **STITCHING**
- **FINISHING**
 - **CROPPING**
 - **GENERAL**
 - **TAGGING**
 - **CHECKING**
- **PACKAGING**

MATCHING

Leather made from different skin/hides inherently varies in grain style for each other. In the matching process the grain and color of leather are matched on per garment requirement. This is the most critical part in the whole process and requires expertise of the matcher.

CUTTING

After the matching, the cutter cuts different panels of a jacket with the help of the design templates and knives. The list of panels includes Front, Back, Collar, Sleeves, and Cuff etc.

Generally, design templates made of cardboard are used in cutting process. In case single type/design garments are to be manufactured in large quantities, then press machines with metal dyes can also be used. Average wastage of leather in cutting process ranges between 15 to 25%. In Pakistan, a cutter cuts 15 to 20 jackets per day per shift (shift 8hours).

ASSEMBLY

After the cutting process, fusing is added to different panels of the garment, as per design requirement. Fusing machines or irons are used for this purpose. Generally, half fusing is done on the end area where stitching is to be done and full fusing is applied on front & back panel for providing garment outlook. Fusing reduces stretch ability and adds stiffness to the leather making it convenient for the stitcher to stitch. In this process, accessories are added and rolled together for sending to the stitching section. Major accessories include lining (Cotton, Viscose, and Satin), zippers (Metal, Nylon), padding, wadding, shoulder pads, buckles, buttons, labels and thread.

STITCHING

Next to assembly is the stitching of different panels of the garments by using sewing machines. Two stitching methods, depending upon the quantity produced, are currently being employed in the industry.

1. One stitcher one garment
2. Chain process (Assembly Line)

In the first method, one stitcher stitches together all the panels of the garment. All the allied processes (folding etc.) required during stitching are also performed by one person. Depending upon the garment type & size, on an average, output per stitcher per shift is between 1 to 2 garments.

The second method is more efficient and average productivity level per stitcher in some cases rises between 4-8 garments per day. In the chain process, an assembly line is made Pre-Feasibility Study Leather Garments Manufacturing Unit in which each stitcher is assigned one specific process out of the total processes required for garment manufacturing. Ultimately, the stitcher gets specialized by constantly performing one task resulting in production efficiencies and better quality. In each assembly line, there are seven stitchers who perform the following sub-processes:

1. Folding
2. Lining Stitching

3. Sleeves
4. Back
5. Front
6. Pocket
7. Panel Joining

FINISHING

In the finishing process, buttons are attached to the garment, extra thread and fibers are clipped off, and finally, the garment is ironed. The final stage is the quality check by the quality inspector. His job is to check the conformance of the manufactured garment to the customer's specifications.

The quality check is followed by the final packing of the garment.

PACKAGING

This is the final phase of production where the finished item is neatly packed in poly bags. These bags are printed with the company name and placed in specified packing cartons which are design and printed specially with specific information about the item (size, number of units of each size, color, item code, etc). And the cartons are sealed with special fiber tape and plastic tape. There are about 5 to 10 workers are involved in this phase who are highly skilled in this area.

EXPORT DEPARTMENT:

The last phase of the process is the export of the finished items. The jobs of the export department are as follows,

- Export documentation handling
- Booking of shipping
- Hiring of clearing agent
- Shipping line/Airline

EXPORT DOCUMENTATION HANDLING:

The personnel of the export department are responsible for the visa, invoices, packing list which contains the specification of each item which vary from the sizes, color, weight, and item code, Etc.

BOOKING OF SHIPPING:

The export personnel book the best mode of transportation according to the requirement of the buyer. If the timing is not crucial, the shipment normally sent by sea. On the other hand, if the buyer requires immediate delivery, air transportation is used.

CLEARING AGENT:

The export department hires a clearing agent who is responsible for transportation of the goods from the factory to the port. He also takes care of all the formalities at the port. These formalities can be dealing with the port staff, necessary documentation, etc.

SHIPPING LINE/AIRLINE:

The selection of the mode of transportation is based on the requirement of the buyer. The manufacturer will prefer to send the goods by sea but if required, goods can also be sent by air.

ACCOUNTS DEPARTMENT:

The accounts department handles all the financial aspects which are;

- Financial statements
- Bank reconciliation
- Payment of purchases
- Payment from buyers
- Letters of credit
- Purchase invoices
- Sales taxes and duties
- Credit from bank
- Leasing of machines
- Other expenses
- Salaries/Labor payment
- Insurance

. TYPES OF GARMENT LEATHER:

- **COWHIDE**

This is the most common leather used in the making of garments, furniture and leather goods. Cowhide as a category covers a wide spectrum of textures and quality, but generally, it is quite durable, easy to care for and resistant to water and dirt. Cowhide leather will maintain its integrity, taking on the shape of the wearer, making it more comfortable with everyday use. This affordable, functional leather offers fashion, value and endless colors and style.

- **LAMBSKIN**

This is very soft luxurious leather. Its natural lightweight layers give it a distinctive, velvety touch, which suits form fitting jackets, pants, skirts as well as coats. But don't let its delicate texture discourage you. With a little extra care, lambskin is very wearable and the ultimate luxury.

- **SHEEPSKIN**

This refers to the hide of a sheep used with the wool still attached. Usually, the wool side faces into the garment or accessory, but it can also be made reversible. The wool can be ironed, which means straightened to yield a smooth, fur-like appearance, or it can be left naturally curly. Whichever way the wool is styled, this is the warmest leather available.

- **SHEARLING**

This is quite similar in appearance to sheep skin, the term shearling refers to hides from lambs which are generally much lighter in weight than sheepskin hides and much softer. Although they may be lighter, shearling coats are just as warm as the heavier sheepskin. They are an elegant alternative to a fur coat

PRODUCTION PROCESS

The process starts with customer providing the manufacturer details regarding quantity requirement, type of leather, design specifications, accessories detail, stitching style etc.

Upon receiving the information, a sample garment is prepared and sent onward to the customer for final approval. Once the sample is approved and order is confirmed, the design template for producing the required quantity is developed by Pattern Cutting Department.

• MATCHING

Leather made from different skin/hides inherently varies in grain style for each other. In the matching process the grain and color of leather are matched on per garment requirement. This is the most critical part in the whole process and requires expertise of the matcher.

• CUTTING

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Generally, design templates made of cardboard are used in cutting process. In case single type/design garments are to be manufactured in large quantities, then press machines with metal dies can also be used. Average wastage of leather in cutting process ranges between 15 to 25%. In Pakistan, a cutter cuts 15 to 20 jackets per day per shift (shift 8hours).

• ASSEMBLY

After the cutting process, fusing is added to different panels of the garment, as per design requirement. Fusing machines or irons are used for this purpose. Generally, half fusing is done on the end area where stitching is to be done and full fusing is applied on front & back panel for providing garment outlook. Fusing reduces stretch ability and adds stiffness to the leather making it convenient for the stitcher to stitch. In this process, accessories are

added and rolled together for sending to the stitching section. Major accessories include lining (Cotton, Viscose, and Satin), zippers (Metal, Nylon), padding, wadding, shoulder pads, buckles, buttons, labels and thread.

• **STITCHING**

Next to assembly is the stitching of different panels of the garments by using sewing machines. Two stitching methods, depending upon the quantity produced, are currently being employed in the industry.

1. One stitcher one garment
2. Chain process (Assembly Line)

In the first method, one stitcher stitches together all the panels of the garment. All the allied processes (folding etc.) required during stitching are also performed by one person. Depending upon the garment type & size, on an average, output per stitcher per shift is between 1 to 2 garments.

The second method is more efficient and average productivity level per stitcher in some cases rises between 4-8 garments per day. In the chain process, an assembly line is made Pre-Feasibility Study Leather Garments Manufacturing Unit in which each stitcher is assigned one specific process out of the total processes required for garment manufacturing. Ultimately, the stitcher gets specialized by constantly performing one task resulting in production efficiencies and better quality. In each assembly line, there are seven stitchers who perform the following sub-processes:

1. Folding
2. Lining Stitching
3. Sleeves
4. Back
5. Front
6. Pocket
7. Panel Joining

• **FINISHING**

Finishing is the last process in leather garments manufacturing. In the finishing process, buttons are attached to the garment, extra thread and fibers are clipped off, and finally, the garment is ironed. The final stage is the quality check by the quality inspector. His job is to check the conformance of the manufactured garment to the customer's specifications.

The quality check is followed by the final packing of the garment

PROJECTED SALES QUANTITY

TABLE:3-5 PROJECTED SALES QUANTITY	
YEARS	SALES QTY
YEAR 1(75%) ⁵	13,500
YEAR 2(100%) ⁶	18,000
YEAR 3(100%)	18,000
YEAR 4(100%)	18,000

⁵ YEAR 1 at 75% Capacity Utilization

⁶ YEAR 2-5 at 100% Capacity Utilization

RAW MATERIAL

TABLE:3-6 RAW MATERIAL			
Description	Price/unit(RS)	Required	Cost(RS)
Leather(local) ⁷	65/sq.ft	34 sq. ft ⁸	2,210
Lining(stin, cotton)	21/yrds	2.25yards	47
Pocket lining	29/yard	0.2yards	6
Front zipper	75	1	75
Pocket zipper	10	1	10
Fusing	15	1	15
Stitching tape	5	1	5
Packing	10	1	10
Total cost/piece			2,378

⁷ The prices of leather range from Rs. 50 to Rs. 110 per sq. ft depending on the type.

⁸ Leather required for a normal jacket

For the purpose of this feasibility, the leather garments are categorized according to the type of leather used. The different kinds of leather used are; cow, goat, buffalo and sheep leathers. The sales price of leather garments also depends on leather type. The garments made from cow and sheep leather are expensive as compared to garments from buffalo and goat leather.

MACHINERY DETAILS

Japanese stitching machinery is being proposed in this pre-feasibility study. Although, the Japanese machinery is expensive but it has an established market share, because of the easy and speedy availability of spare parts and machine mechanics.

TABLE:3-7 MACHINERY LIST			
Machinery and Other Equipment	Machines	Cost/Machine(Rs.)	Total Cost(Rs.)
Lock stitch machine(single needle)	3	34,500	1,035,000
Lock stitch machine(double needle)	1	80,000	80,000
Over-lock Machine	1	60,000	60,000
Over-lock Machine	1	40,000	40,000
Embossing machine	1	50,000	50,000
Stripping machine	1	100,000	100,000
Electric wiring(per machine0	33	1,000	33,000
Machine base table	33	1,500	49,500
Generator (50 KVA)	1	350,000	350,000
Total costs			1,797,500

OTHER OPTIONS AVAILABLE FOR MACHINERY

Stitching machinery from Korea, Taiwan, Hong Kong and China is also available in the local market. These machines are comparatively less expensive than the Japanese machinery. Second hand machinery is also available and can be used.

FURNITURE & FIXTURE

TABLE:3-8 FURNITURE & FIXTURE			
Furniture & Fixture	Required	Cost (Rs.)	Total Cost(Rs.)
Factory Tables	15	1,500	22,500
Office Chairs	8	500	4,000
Office tables	3	2,000	6,000
Computer	1	40,000	40,000
Telephone	2	950	1,900
Printer	1	20,000	20,000
Fax machine	1	8,000	8,000
Carpet(sq.ft)	150	30	4,500
Air-conditioners	1	45,000	45,000
Office equipment	1	21,000	21,000
Total cost			172,900

LAND & BUILDING

TABLE:3-9 Building Covered Area Requirement			
Description	Area (Sq.ft)	Construction (Rs./Sq.ft)	Total
Raw material store	1,000	350	350,000
Matching & cutting section	1,000	350	350,000
Role checking and fusing	625	350	218,750
Stitching hall	1,650	350	577,500
Finishing	625	350	218,750
Inspection & packing section	325	350	218,750
Manager office	150	600	90,000
Cafeteria	500	400	200,000
Misc. (washrooms)	250	400	100,000
Pavements/Driveway	400	100	4000
Free Space	700		
Total	7,875		2,503,750

RECOMMENDED MODE FOR ACQUIRING LAND

It is recommended that this project should be started in a rented building. This will help to reduce the initial capital cost of the project. Usually, appropriate premises are available in the commercial/industrial areas of under-mentioned clusters. These premises can be easily hired at approximately Rs.10,000/kanal.

SUITABLE LOCATION

Suitable locations for a leather garment-manufacturing unit korangi industrial area Karachi, the location is selected as related industries are available at korangi and other leather garment manufacturing units are working in this area

UTILITIES REQUIREMENTS

- Electricity
- Telephone
- Water and sewerage

TAXATION AND LEGAL MATTERS

TAXATION

- Refundable sales tax paid in utility bills.
- 15% sales tax on the sales is refunded at the end of the year
- 25 percent freight subsidy on both air and sea shipments of leather garments.
- **Tax relief:** Initial Depreciation Allowance (IDA) @50% of machinery & equipment cost.

SPECIAL INCENTIVES

- Government offers 5.33% at f.o.b. value export rebate on the exports of leather garments.
- If imported wet blue leather is used, then rebate rate is 1.85% at f.o.b. value.
- If imported finished leather is used; the rebate is 2.43% at f.o.b. value.
- ECC had allowed a 6 per cent compensatory rebate to textile garment exporters to help them maintain their share in the EU market.
- 5% customs duty on imported machinery if not manufactured locally.
- Above incentives are also available if 50% of production is exported.
- Textile Ministry has asked the Central Board of Revenue (CBR) to give 6 per cent compensatory rebate on export of leather garments as allowed by the ECC of the cabinet on the export of textile garments

CHALLENGES AND OPPORTUNITIES FOR LEATHER GARMENT INDUSTRY IN PAKISTAN

CHALLENGES

- Leather and Leather garment industry of Pakistan is confronted with various challenges to survive in international market. On top of them is the use of Hi-tech for quality products and availability of skilled manpower to cater to the needs of the world market. This is a serious issue and need to be addressed as early as possible. There is a growing need to prepare labor force having capacity to produce leather garments on scientific lines and comply with the demands of international market to compete. There is an immediate need to training our labor force on modern pattern to upgrade our end product to enhance credibility of leather garment industry in Pakistan.
- Cost of production is also very high in Pakistan as compared to our competitors like China and India. The high cost of various inputs especially utilities and taxes make our products uncompetitive in international markets. Pakistan can capture the lost market share provided the industry is enabled to reduce cost of production.
- Good quality leather is mostly exported and is not available for high value-added Leather Garments & Leather Products. Leather garments in Pakistan are made mostly from low grade & medium grade leather. These garments face stiff competition from Chinese & Indian products. Unless good quality leather is made available to value-added sectors, these sectors will continue to suffer and lose their market shares in global markets for Leather Garments and Leather Products.
- Concern over the expansion of the leather sector has resulted in considerable pressures on the environment and pollution that affects the local people. One project in Kasur, in north-eastern Pakistan, is attempting to solve the problem. The Kasur Tanneries Pollution Control Project is helping to reduce the

environmental damage caused by tannery waste. It also aims to improve tanners' technical and managerial skills and promote environmental awareness among the population to ensure the long-term sustainability of the industry. More projects should be launched to overcome the environment problem

OPPORTUNITIES

- In addition to easy availability of primary raw material. Pakistan is also well recognized in the international market as a manufacturer of quality hides and skin. The country is ranked third amongst the top three exporters of leather garments in the world. Moreover, because of the presence of large number of leather garments manufacturing units a pool of trained skilled worker is also available in the country

The Leather Industry of Pakistan contributes 5% of GDP and 7.5% of the overall export earnings of the country and is treated as the second biggest oriented industry of Pakistan for playing an important role in strengthening the country's economy.

- The global leather market, which was recorded some where 98 billion US\$ in 2001 has very vital avenues for Pakistani leather garments /goods. A minimum share of 2-2.5 percent (which makes 2- 2.5 billion US\$) of global leather market against present share of only 0.7 percent (which is only 700 million US\$ approximately). This makes the business an attractive export opportunity. Pakistan has an inherent advantage due to local availability of quality hides and skins. The country has also developed a large tanning base. As a result good quality leather for leather garments is easily available.

These are the estimations for Pakistan leather sector by March 2010 provided by the PLEGMA

TABLE:3-10 PAKISTANS LEATHER SECTOR BY MARCH 2010			
	Year 2000	Low road	High road
Leather goods	\$8 million	\$35million	\$100million
Leather gloves*	\$109 million	\$150million	\$180million
Finished leather	\$170 million	\$200million	\$350million
Leather garment*	\$298 million	\$400million	\$600million
Leather footwear	\$27 million	\$200million	\$600million
Total	\$600 million	\$985million	\$1830million
Growth rate		4.9%	12%
Investment requirement(m\$)		175+	370+

- Pakistani exporters must come out of self created shell of traditional markets, and endeavor to reach- out to non-traditional / new markets. Russia is considered to be one of the largest markets of leather importing countries because of its extremely cold climate and huge population of 150 million.
- Pakistan's long and distinctive participation in the global leather industry is recognized in its selection as Focus Country at the Asia Pacific Leather Fair (APLF) 2004. The Focus Country always adds color and interest to APLF, giving visitors an insight into the country's culture as well as its leather industry. This

initiative will provide an opportunity for Pakistan to show visitors the major contribution the country makes across the complete leather sector, from hide and skin supply to finished leather products, particularly leather apparels, garments, gloves and footwear.

KEY SUCCESS FACTORS/PRACTICAL TIPS FOR SUCCESS

- A high break even of 50% requires consistent availability of export orders.
- Availability of consistent quality raw material & accessories.
- Knowledge of international fashion trends both in garments and leathers.
- Participation in international trade fairs.
- Better production operations management especially in cutting and finishing sections.
- Liaison

FACTORS & STEPS IN DECISION MAKING FOR INVESTMENT

Before making the decision, whether to invest in this project or not, one should carefully analyze the associated risk factors. A SWOT analysis can help in analyzing these factors which can play important role in making the decision.

STRENGTHS

- Large domestic population of cattle resulting in excess supply of hides and skins.
- Meat eating habits of population
- Availability of skilled workforce
- Access to international markets
- Well established repute of country in international markets

WEAKNESSES

- Shortage created in local market due to exports of raw and finished leather
- Requirement of high working capital
- Tendency of skilled labor to shift towards textile sector
- High cost of electricity
- High cost of raw material inventory and obsolescence
- Exports mostly in low to medium end segment
- Quality hides and skins are abundantly and cheaply available immediately after religious festival (Bakar Eid). Rest of the year prices are very high.

OPPORTUNITIES

- World export trade market of leather goods is growing at an average rate of 8% during 1998-2003
- Better policies by government in livestock sector resulting in higher availability of hides and skins
- Low to medium end garments stitching being shifted from China to Pakistan
- Conducive policies of government for encouraging leather garment exports by providing export and freight rebates.

THREATS

- Exponential increase in prices of finished leather due to exports.
- Non availability of leather during peak production season
- Impact of environment regulations under WTO on tanning industry resulting in shortages of finished leather.
- Abrupt change in international fashion trend can result in increase inventory of finished leather and accessories
- Increasing prices of POL
- Animal protection rights issue in western hemisphere markets.
- Stakes concentrated in few traditional international markets.
- Hot local climate not conducive for local leather garments consumption

PROJECT ECONOMICS

TABLE:3-11 PROJECT COSTS	
ACCOUNT HEADS	COSTS (RS)
PLANT AND MACHINERY	1,797,500
Furniture/fixture & equipment	172,900
Pre-operational Expenses ⁹	64,000
Vehicles	346,000
Total fixed cost	2,380,400
Stocks & raw material	1,605,184
Up-front insurance payment	69,492
Up-front for building rental	210,000
Total working capital	1,884,676
Total project cost	4,265,076

⁹ Pre operating cost includes salaries of staff hired and utility bills before the starting of business

FINANCING

TABLE:3-12 FINANCING PLAN		
Financing	Ratio	RS
Equity	50%	2,132,538
Debt	50%	2,132,538

TABLE:3-13 PROJECT RETURNS	
IRR	60.71%
NPV (RS)	6,264,585
PAYBACK PERIOD (YEARS)	5.02

SOCIAL DESIRABILITY

SPECIFIC PROJECT CONTRIBUTION TO THE ECONOMY AND SOCIETY.

CONTRIBUTION TO THE GOVERNMENT REVENUES

By paying taxes and duties the project will contribute to the government revenues.

CONTRIBUTION TO FOREIGN EXCHANGE RESERVES

By exporting the leather garments the organization will earn foreign exchange for the currency and will effect positively on balance of payment.

CONTRIBUTION TO THE GROWTH OF RELATED INDUSTRIES.

Leather garment manufacturing industry has direct relation with

- Live stock industry
- Garment industry
- Private sector of the country
- Color and dying industry

CONTRIBUTION TO THE WORKFORCE FORCE OF THE COUNTRY

Leather garment manufacturing contributes to the workforce of the country by providing thousands of direct and in-direct jobs.

KEY ASSUMPTIONS

TABBLE:3-14 MACHINERY ASSUMPTIONS	
Number of Machines Installed	35
Maximum Capacity Utilization	100%
Capacity Utilization (Year 1)	75%
Total Production of units per day (garments)	60
Total Production of units per month	1,500
Total Production of units per year	18,000
Total Production of units in Year1	13,500

TABBLE:3-15 Operating Assumptions	
Hours operational per day	8
Days operational per month	25
Days operational per year)	300

TABBLE:3-16 Economy-Related Assumptions	
Electricity growth rate	10%
Wage growth rate	5%

TABBLE:3-17 Cash Flow Assumptions	
Accounts Receivable cycle (in days)	45
Accounts payable cycle (in days)	30
Raw material inventory (in day)	15
Equipment and spare part inventory (in months)	1

TABBLE:3-18 Revenue Assumptions	
Production capacity in first year	75%
Sale price per unit in year 1 (in Rs.)	3,240
Sale price growth rate	5%
Export sales	100%
Rupee Dollar Exchange Rate	Rs 60/\$

TABBLE:3-19 Expense Assumptions	

Administrative & Factory overhead (% of Sales)	3.5%
Office expenses (stationery, entertainment etc)(% of Sales)	0.25%
Raw material inventory (in day)	15
Machine maintenance (per piece)	Rs.10
Machine maintenance growth rate	1%
Pre-paid building Rent (months)	12
Rent growth rate	10%
Petrol Oil & Lubrication(% of Sales)	0.5%
Raw Material Price Growth Rate	5%
Insurance rate (% of net fixed assets)	3%
Freight Charges/Piece (in Rs)	\$ 1

TABLE:3-20 Financial Assumptions	
Project life (years)	10
Debt	50%
Equity	50%
Interest rate on long-term debt	18%
Interest rate on short term debt	18%
Debt tenure (years)	5
Debt payments per year	1
Discount rate (weighted Avg. cost of capital for NPV)	20%
Minimum Cash Balance Required	Rs.50,000

4..1 FINDINGS

- The project of setting up a new leather garment manufacturing unit in Karachi Pakistani is feasible and would maximize the profits for the investor if there is a perfect match between entrepreneur and the opportunity
 - Market analysis reveals the fact that, quality of leather, availability of skilled but low cost labor; export friendly government policies and an easy accessibility to US and South African markets will certainly help to boost up exports.
 - No doubt there is many opportunities exist for Pakistani leather industry like: shift of production centers from developed and developing countries, to move into high end markets, unexploited USA markets. However, many threats are also ahead to be faced by the industry in future. For instance; imposition of environment standards, increasing international competition(China, India & Eastern Europe) and limited supply of quality hides and skins to the leather garment industry
 - Combined affluent plant has been set up with a cost of RS 500 million in korangi industrial area. It has been completed in June 2003. This plant is sponsored by Pakistan tanners association on a land of 15 acres. Its installation has been funded by export development fund of government of Pakistan.
 - With a view to encourage the leather-related exports, the government has offered a variety of incentives. They include the duty- free import of raw hide and skins. The import of tanning and leather garment machinery and spare parts are also duty free. A duty drawback on export of leather and leather made-ups provided, technical and marketing assistance for the private sector to promote the exports of leather and leather made-ups and participation in international fairs and exhibitions at subsidizes rates through the export promotion bureau is also provided

4..2 CONCLUSION

The LEATHER GARMENT MANUFACTURING sector is gaining popularity and growing very fast in Pakistan. Leather and leather products is one of the major foreign exchange earners for Pakistan .Educational institutions can be so handy in enhancing the skills of artisans so that wastage can be curtailed . The leather and leather products are labor intensive and highly skilled labors can bring even more earnings .The recent growth of the leather industry is due in large part to its successful progression from the export of raw hides and skins and semi-processed leather towards high value-added finished leathers and leather products (including leather jackets, gloves, and sporting goods). The local market for leather is limited, and about 90 percent of production is exported. More emphasize on quality control and sophisticated and trendy designs can explore more beneficial markets. According to an estimate by the Board of Investment, Pakistan, the requirement for investment in the industry ranges between US \$ 175 to US \$ 370 million. This feasibility study is intended to provide general information on the opportunity for an investor in the leather sector particularly leather garment manufacturing unit This project would maximize the profits for the investor if there is a perfect match between entrepreneur and the opportunity.

4..3 RECOMMENDATION

- Efforts are required to be made to established joint ventures particularly with Italy, Spain England, Taiwan, and Korea. Due to the reasons that these countries due to high wages are now reluctant to manufacture the leather and leather products in their own countries. Hence efforts may be made for transfer of technology through joint ventures.
- Due to deferment of USSR the potential consumption of leather and leather products in the newly created states of central Asia is expected to increase manifold. Due to economic crises the leather tanning activities in central Asian countries has been badly affected. There are bright prospects of entering into joint ventures in central Asian countries.
- Government of Pakistan can consider an airfreight subsidy on the export of leather and leather products.
- Duty free import of second hand machinery for leather products may be allowed so that the capital investment can be reduced much effectively which would minimize the cost of productions.
- Pakistan have excess supply of raw leather but the fine leather is exported as row leather, the value added products have more profit margin than row leather, so measures should be taken to hold the best leather at home and export finished goods to earn more foreign exchange