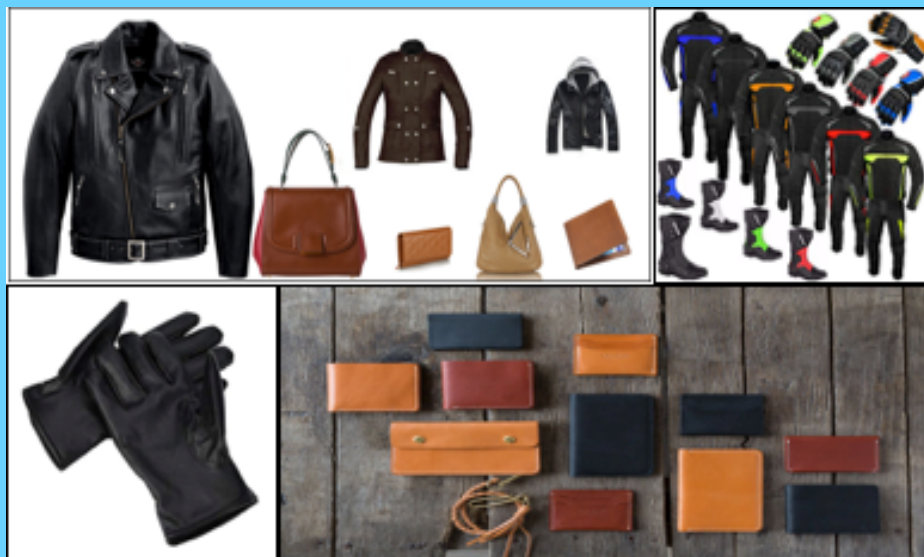


2020

Cluster Profile Leather Goods, Sialkot



Turn Potential Into Profit

Small and Medium Enterprises Development Authority (SMEDA)
Ministry of Industries and Production (MoI&P)
Government of Pakistan

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1 Description of Cluster

1.1 History & Background of Cluster

Sialkot is known internationally as a producer of quality products in sports goods, surgical instruments, leather goods, sportswear and musical instruments. The local craftsmen produce immaculate products while export oriented entrepreneurs ensure that products reach international destinations. More than 200,000 people are engaged directly or indirectly with export activities, while the export earnings of the city hover around US \$ 2,200 million¹.

Sialkot is very famous city for the production of leather and leather products from decades. Initially the leather was produced to manufacture footballs some 100 years back. Later on during early 1970's, the production of leather gloves started soon followed by leather garments. In 1980's the artificial leather replaced natural leather in production of football.

Consequently, the tanners producing leather for football manufacturers switched to production of leather for gloves, garments and other leather accessories. This led to emergence of leather products manufacturing industry in Sialkot. The industry focused its exports to Europe and USA, mostly producing leather gloves and motor bike garments. Karachi was the main cluster of leather garments and had strong presence in North America and Europe. During the 1990's, exports from Sialkot started to flow into the North American market and the volumes also increased in the European markets. Presently, Sialkot share in Pakistan's exports of leather garments, gloves, and club wears is around 65%, 90%, and 70% respectively².

1.2 Defining the Products

The scope of leather goods contains quite a lot of products, however the flagship product of the cluster is leather gloves and leather sportswear. While, rest of the products made by the cluster can be considered as off shoot of the stated product line. The major products manufactured in the cluster with significant production quantities and having export potentials include the following:

Table 1: Product Classifications

Gloves	Fashion Garments	Motorbike Garments	Club Wear	Accessories
Winter Gloves	Chaps	Biker Suits	Belts	Suspension cuffs
Industrial Safety Gloves	Jackets	Biker Jackets	Wallets	Leather Restraints
Tactical Gloves	Shirts	Biker Pants	Hand Bags	Hogtied

¹ Sialkot Chamber of Commerce and Industry (SCCI)

² Sialkot Chamber of Commerce and Industry (SCCI)

Farming Gloves	Trousers	Biker Gloves	Saddle Bags	Cops
Driving Gloves	Suits	Lady biker suits	Mouse Pad	Hoods
Flight Gloves	Dress Gloves	Tool Bag	Knife Cover	Bra
Weight Lifting gloves	Blazer		Leather Mitts	Coats
Horse riding gloves	Skirts		Leather Bibs	Kilt
Shooting Gloves	Shorts		Travel Bags	Corset
Paintball Gloves	Vests		Head wrap	Panties
	Coats		Boots	Teddy

1.3 Core Cluster Actors

There are more than 450 firms registered with Pakistan Gloves Manufacturers and Exporters Association (PGMEA), 150 firms with Pakistan Leather Garments Manufacturers and Exporters Association (PLGMEA, North Zone). Moreover, around 3,000 firms are registered with Sialkot Chamber of Commerce and Industry (SCCI). Most of these are small and medium firms dealing in trading activities also commonly known as “Commercial Exporters”. The breakup of the firms is as follows:

Table 2: Leather Goods Cluster, Sialkot

Number of Units	Large Firms: 500 Medium Firms: 1,200 Small Firms: 1,150 (Active Member of SCCI)
Employment Generated	Around 25,000 People
Revenues	Approximately Rs. 56 Billion
Capacity Utilization	55% to 70%

Source: PLGMEA, PGMEA, SCCI and Trade Development Authority of Pakistan (TDAP)

1.4 Other Cluster Actors

Raw materials used are both of foreign and local origins. High quality inflatable balls are made from imported artificial leather. Similarly specialty fabrics used as inner of garments and sportswear are also imported. Natural leather used in industry is produced locally by the tanneries or bought from Kasur, Lahore and Karachi. Large and some medium level firms import materials directly, while others buy from local traders.

1.5 Geographical Location

The cluster is scattered around the city, however main concentrations are on:

- Daska Road
- Defence Road
- Marala Road
- Small Industrial Estate, Shahabpura
- Uggoki Road
- Kashmir Road
- Pasrur Road

Apart from these areas, numerous stitching units are also established in the nearby villages by the factories.

1.6 Current Cluster Scenario

Currently, leather industry is in transition period. They are focusing more on leather shoes, hand bags and leather accessories instead of gloves and jackets. Due to this, cluster is diversifying its main product lines as export in the year 2018, has slightly increased. The industry and Government Institutions are focusing in capacity building of workforce to meet the changing market demands in product diversification, especially pattern making and fashion designing in leather accessories.

2 Analysis of Business Operation

2.1 Production Operations

Production operations begin with pattern making of the product. Pattern making is usually done manually by expert pattern masters. Few firms have installed CAD based pattern making setups.

The finished leather is placed on the cutting table and pattern is placed on top of the leather. This is accomplished in one of two ways; tissue-paper patterns may be pinned onto the leather, or the pattern may be marked with tailor's chalk. The cutter using his judgment and work guidelines cuts the various parts of the garment while minimizing the leather wastage. Afterwards, embroidery is made on some specific part of the garment as per requirements of the customers. It is a process, used to emboss or engrave brand names, logos and different designs on the garment. Stitching is the next step. Large firms follow “chain” system of stitching. In this system one leather garment is made on 10—12 machines; each worker stitches only some portions of product. The traditional style is single unit stitching where complete product is stitched on one machine. Chain system also results in job specialization and ensures quality. Medium, Small and cottage size units still follow the traditional one machine stitching approach. Protective pads/sheets are inserted in the motor bike garments. These protections are use in different places in leather garment, such as, under arms, shoulders, knees and etc. protection are usually made with rubber or polymer material.



Finishing includes trimming, ironing & packaging; extra threads, extra leather portions inside the jackets, etc. are removed. This is a labor-intensive job and mostly carried out by low/semi-skilled workers. Buck presses equipped with controls and gauges to regulate the amount of steam and pressure are used to give the jacket its distinctive shape. Curved blocks are placed around the collars and cuffs and then heat is applied. The blocks are removed, leaving the collars and cuffs curved. Large Factories use steam irons but small/cottage firms use traditional irons. They put a fabric / craft paper on leather then use iron. Garments are packed in polyethylene bags and packed in corrugated boxes. Some large units also ship garments in “hanged” form in specially designed sea containers.

2.2 Raw Material

Tanned leather is the primary raw material. Following are the types of leather or inputs used in production of leather goods.

Table 3: Major Raw Material

Raw Materials	Description	Source
Tanned Leather	Sheep Skin Lamb Leather Goat Leather Cow Leather Buffalo Leather Rabbit Leather	Local: Kasur, Sialkot, Lahore and Karachi Around 500 Tanneries are operative in the cluster. These tanners are registered with Sialkot Tanneries Zone Association Imported: raw hides from Saudi Arabia, Iran, and China, Dubai, Sudan, Kenya, Australia and Italy
Artificial Leather	Two main types are in vogue, the PVC and PU based	Imported: Korea, Taiwan, Thailand Local: Lahore
Inner Fabrics	Cotton, Polyester Cotton, Polyester, Nylon, Spandex, Lycra, etc base fabrics both knitted and woven	Local and Imports
Accessories	Zippers, Buttons, Fusing Fabric, Eyelets, Snaps, Protective Pads, Gel Foams, etc.	Mostly Imported (Hong Kong, Thailand, China etc.) For sundries local supplies from Lahore, Karachi,

	Sundries: Labels, Hang Tags, Poly Bags, Marking Tapes, Embroidery Patches, Thread, etc.	Faisalabad and Sialkot is also available
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2.3 Technology Status and Quality Assurance

Manufacturing of leather goods is mostly based on manual skills of expert craftsmen barring only a few processes like pattern making and cutting. This manual skill in fact gives Sialkot the competitive edge in international markets. Stitching machines made by world renowned manufacturers are used. The new developments in technology find their way into the cluster easily. Manual pattern making is being replaced gradually with computerized pattern making. Similarly gloves manufacturing can be compared with sportswear in technology levels. The large manufacturers are the early adopters and the vendors are usually the last ones.

The cluster seriously lags behind in accepting and adopting the new technologies in manufacturing of leather belts and small patches which are being manufactured on total automated machines in China and Turkey. The cluster is almost at par with its international competitors with respect to technology used in sublimation and engraving.

There are few firms with ISO certification. CE Mark is highly recommended for motorbike garments exporters to EU. Other certifications like BSCI, GO GREEN, WRAP, SEDEX, SA8000, LSAS, & OEKO-TEX are also appreciable.

2.4 Marketing & Sales

The leather garments are mostly exported and the major destinations are EU and USA. The exporters visit foreign markets and attend different exhibitions. Small exporters mostly rely on B2B portals for orders. The products are manufactured according to the designs provided by the customers.

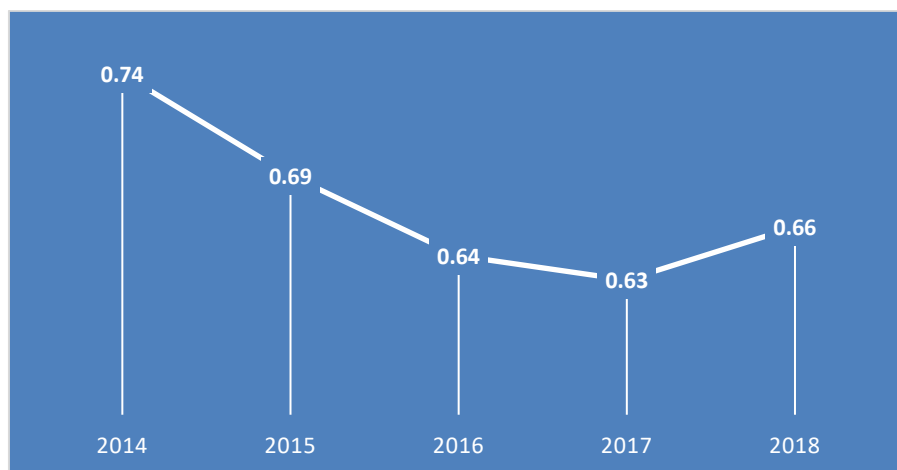
Mostly the shipments are made by sea, although small quantities are also shipped by air. There is no significant presence of cluster brands in international market but few exist in domestic markets. Although many exporters have built their own warehouses in EU & USA but still they failed to establish their own brands. Few online brands exist on ecommerce giant Amazon but failed to claim as Pakistan origin brands.

Production cycle of leather garments has shortened over the years. It starts in June and ends in November barring a few exceptions. The sales are usually made against Letter of Credit. However, sales on credit are also made.

2.5 Global Trade

During Calendar year 2018, the global exported value of Leather Goods³, was US \$ 83.24 billion. Pakistan exported worth US \$ 0.66 billion for the same year. The following graph shows the trend in Pakistan's export of Leather Goods.

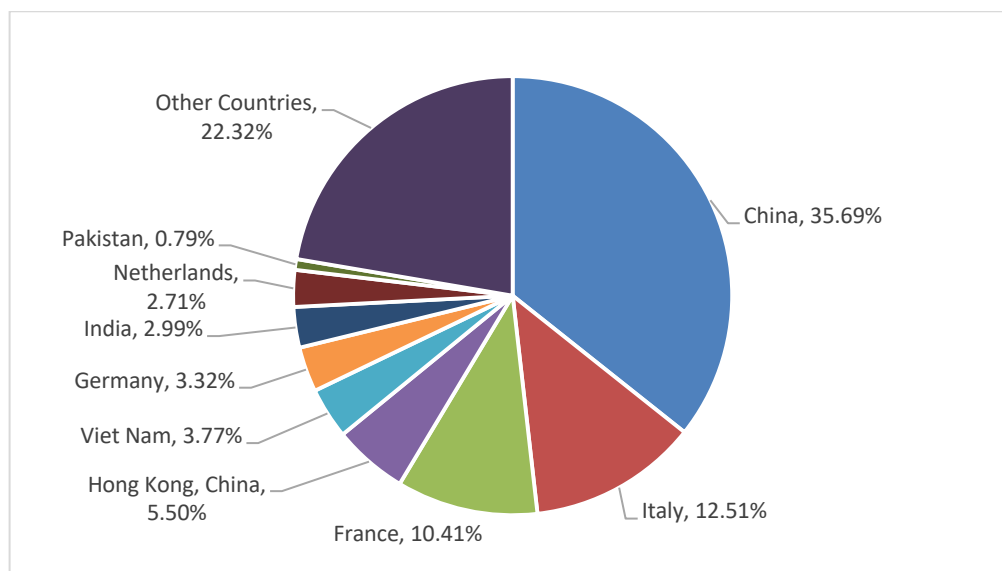
Figure 1: Growth Trend of Leather Goods Exports (Value US \$ Billion)



Source: Trade Map

The major exporter of the leather goods in the world is China followed by Italy and France. The percentage share of the biggest exporting countries is exhibited below;

Figure 2: Global Share in Exports of Leather Goods in 2018

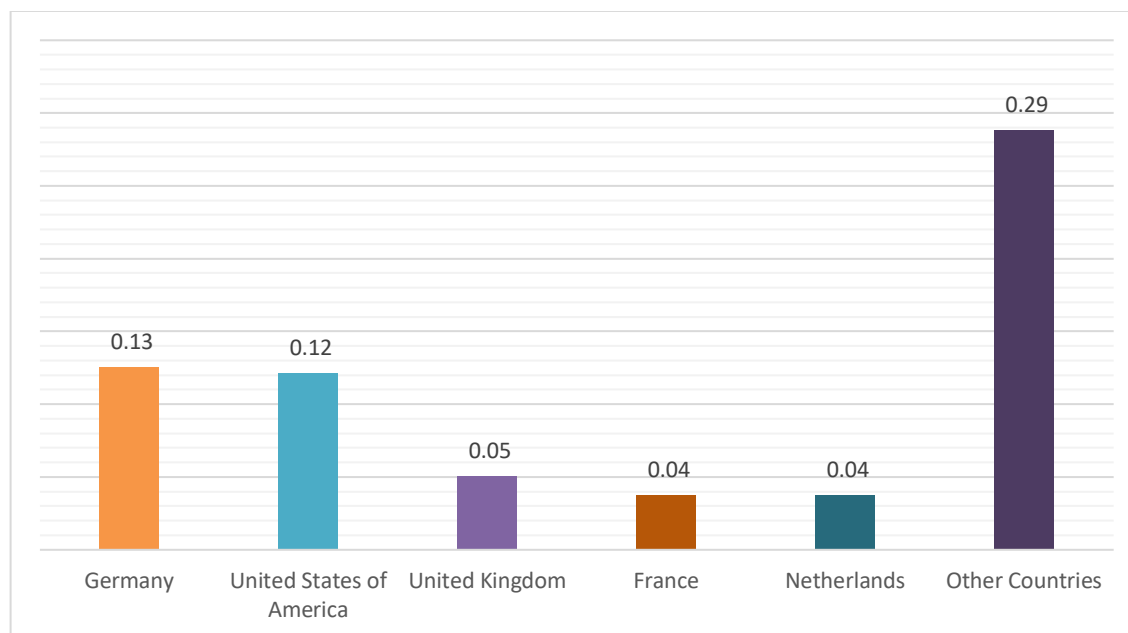


Source: Trade Map

³ HS Code: 42, Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)

Pakistan’s export partners of leather goods are provided in the following bar diagram.

Figure 3: Pakistan’s Export Partner in 2018 (amount in US\$ Billion)



Source: Trade Map

2.6 Financing

Financing is easily available. All the financial institutions have their branches in the cluster. At the time of business startup; entrepreneurs rely on their own investment. To fulfil working capital needs preference is given to “Export Refinance Financing” based short-term loans, which are provided by State Bank of Pakistan through commercial banks at very nominal rates. Informal credit is also available in the form of credit on the purchase of raw materials or services by the raw material suppliers.

2.7 Human Resource Management

Most firms prefer those individuals who have received some sort of formal training. Currently training facilities are being offered in garment stitching, pattern making and screen-printing by Vocational Training Institute (VTI), Sialkot and Leather Product Development Institute (LPDI), Sialkot.

2.8 SWOT Analysis

Strengths

- Strong and dynamic linkages in international markets due to long history of exports
- Entrepreneurial culture directed towards exports
- Flexibility in production runs with short lead times

- Skilled workforce
- Strong product mix
- Strong vendor network
- Good entrepreneurial skills
- Strong logistics infrastructure
- Sialkot dry port
- Sialkot international airport
- Availability of training institutes for latest technology based manufacturing.

Weaknesses

- Small sized companies with weak management skills and structures
- Intra-market price competition
- High power prices
- No internationally accredited testing laboratory
- Limited product innovation
- Limited distribution channels
- No branding

Opportunities

- Emerging middle class in domestic market
- Better trade access in EU & USA (under GSP scheme)
- Attitude of end consumers changing towards health & fitness (domestic and international)
- Removal of subsidies by competing countries due to obligations under WTO
- Untapped potential markets of South America, Far East, Africa and Eastern Europe

Threats

- Domestic/international political situation
- Imposition of social, environmental, technical & compliance barriers to trade by importing countries
- Licensing requirements by international producers of raw materials (especially in sportswear)
- Issues related to IPRs

3 Institutional Setup

3.1 Entrepreneurs' Associations

Pakistan Gloves Manufactures & Exporters Association (PGMEA)

Address: PGMEA Building, Kashmir road, Sialkot
 Tel: (+92) 52 4272 959, 4279 870
 Email: pgmea@brain.net.pk

Pakistan Leather Garments Manufactures & Exporters Association (PLGMEA)

Address: BASF Building, Main Defense Road, Sialkot - Pakistan
 Tel: (+92) 52 3254401-3
 Email: plgmeaskt@gmail.com

Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA)

Address: Oberoi building, Paris Road, Sialkot
 Tel: (+92) 52 4592 683
 Email: prgmea_sialkot@yahoo.com

Sialkot Chamber of Commerce & Industry (SCCI)

Address: SCCI Building, Paris Road, Sialkot
 Tel: (+92) 52 4261 881-3
 Web: www.scci.com.pk

3.2 Support Institutions

Regional Business Center (RBC) – Small & Medium Enterprises Development Authority (SMEDA)

Address: SCCI Building, Paris Road, Sialkot
 Tel: (+92) 52 4261 881-3
 Web: www.smeda.org.pk
 Email: rbc-sialkot@gmail.com

Trade Development Authority of Pakistan (TDAP)

Address: Paris Road, Sialkot
 Tel: (+92) 52 9250 081
 Web: www.tdap.org.pk

Foundation Institute of Technology (FIT)

Address: Pakki Kotli, Daska Road, Sialkot



Tel: (+92) 52 3557815

Website: www.fauji.org.pk

Leather Product Development Institute (LPDI), Sialkot

Address: Allama Iqbal Town Defense Road, Sialkot

Tel: (+92) 52 3550590, 3551847

4 Major Issues and Problems

- Soft and long-term loans are required to build cost saving high-tech new manufacturing units.
- Low capacity of branding is killing profits of leather goods industry. There is no recognized international brand of leather goods from Pakistan although major brands buy their products from Sialkot. There is severe need of specialized branding training for local exporters are required.
- Overall, Sialkot has best infrastructure comparative to other sister cities with major exports. A state of the art leather goods testing and production diversification center needs to be established in the city
- Joint working groups are required to bring latest technologies into Pakistan. TDAP assistance is required to send more delegations of high priced leather goods manufacturers to visit industrial units in china, Turkey, Italy, & France.
- A large number of HR is formally trained by FIT/VTI/LPDI etc. but still there are huge gaps in HR development. Formal training of mid-tier management is highly required to enhance their efficiency.

5 Investment Opportunities in Cluster

The growing market both at domestic and international levels offers many lucrative investment opportunities to the investors. Following are some potential projects with good rate of return.

- Leather Shoes Manufacturing Units
- Leather Bags and Accessories Manufacturing Units
- Leather Upholstery
- Leather Socks Manufacturing
- Retail Chain of Leather Goods in Pakistan

