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## A STUDY ON COMMERCIAL VIABILITY OF TANNERIES IN KERALA

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### ABSTRACT

*Tanning is an old process having a history equal to the first civilization. It is the process of converting bovine and goat hides and skins to leather by using tannic acid. The process of tanning of putrescible animals to a commercial product opens many economical benefits to the country. India is having sixth position in production of tanneries with an average production of 51 million bovine and 128 million goat skins and hides. The export of tannery products from India is around 5.7 million.*

*In India Tamilnadu possesses first place in number of tanneries with 40% of total tanneries in India. In south India after Tamilnadu Andhra Pradesh come in the second place and Karnataka in the third. Unfortunately Kerala do not possess any notable tannery units. The amazing factor is Kerala is the state from where other states are collecting the hides and skins for the process of tanning. The question of why then Kerala is not interested in such a lucrative business is the point of discussion in this paper.*

*The study intends to explore the commercial viability of tannery units in the state of Kerala. The state is having sufficient raw materials for the process however lagging behind to start the units due to certain hurdles. Detailed discussions about these hindrances are discussed through the paper. The future prospects of tannery business in Kerala and the financial contribution will also be discussed through this paper.*

**KEYWORDS:** *Tanneries – Tanning – Leather Business – Bovine hides and skins – Goat and sheep hides and skins – State Economy – National Economy- Social and Economical benefits*

## Introduction

Tanning is the process of converting raw bovine and goat hide and skins to utilizable leather form. In India the process of tanning started from the first century itself and eventually the process become more feasible through sophisticated technologies. At present in India leather is mainly used to produce garments, footwear, vehicle accessories, interior accessories, stationery products etc... India contributes 13% of the total world leather market.

Though this industry is more environmental pollution industry, the economical and social benefits promising by the industry cannot be ignored. Thousands of employment opportunities, billions of rupees economic contribution, export income of millions of rupees etc... cannot be neglected while discussing the tannery industry.

In India, south India contributes around half of the total tanneries in the country. Tamilnadu contributes around 40-45%, Andhra Pradesh contributes around 1-2% and Karnataka contributes around 1%. When these states give remarkable contribution to the economy, the state of Kerala is stuck in zero. Kerala is the state having highest number of bovine slaughtering houses and even having good number of goat slaughtering house. These houses give tremendous quantum of raw hide and skins which are the main raw material for tanneries. But these materials are transported to various other states.

As per the opinion of economical experts, tannery is a very lucrative business in south India, however entrepreneurs from Kerala is not showing much interest in it. The Estonia to overcome the hurdles is possible in the state, but not trying for the same. The following data will speak the panoramic views of the commercial viability of tannery in Kerala and also the hurdles to overcome to start the same.

## Objectives of the study

- Ω To find the commercial feasibility of tannery units in Kerala.
- Ω To study the hurdles to start the tannery units in Kerala.
- Ω To study the SWOT analysis of tannery.
- Ω To study the value creation analysis of tannery.
- Ω To identify the economical and social benefits of tanneries.

## Research Methodology

The research design for this study is descriptive. The study is designed to understand the commercial viability of tanneries in the state of Kerala. Primary data were collected through a structured questionnaire however secondary data were extensively used to create a frame work for the study.

Authentic tools such SWOT analysis and value chain analysis are used to extrapolate variables and to reach in conclusions. The sample size for the study is 50 slaughters in Kerala state and also 4 tannery units from Karnataka and Tamilnadu.

**Data Analysis**

There are basically two types of skin and hides available in the state of Kerala.

1. Cattle skins and hides.
2. Goat skins and hides.

Majority of the market deals with the cattle skins and hides and rest by the goat. Around 70% goes to cattle hides and skins and the remaining is for goat skins.

The area of operation of raw material dealers mainly depends on the raw material availability and transport facilities. A general study of tanning industry in Kerala shows that the total number of dealers has their area of operation within a radius of 10 kms. Though there is no structured tanning industry in Kerala, at present there are 11 market centers in the state of Kerala dealing in raw hides and skins.

These market centers are identified and located in consultation with raw material dealers. As per the records there are less than fifty raw material dealers engaged in the trading of raw hides and skins in the state. All the market centers have moderate number of raw material dealers. The volume of business transacted by the raw material dealers in the state is expressed in the annual availability of number of pieces of hides and skins in various markets. The study shows that the largest volume of business of hides and skins during the period 2010-11 is in the market center of Thirur in Malappuram district with share is 19.65% of the total annual availability. The consumption rate of meat is significantly high in the Malappuram district and animals are brought from other areas. Thrissur is in the second place with a share of 15.27% and Thalassery 12.30% of the total annual availability in the state. 52.78% of the business activities are spread over the remaining eight centers in the state.

The raw material dealers procure raw hides and skins mainly from slaughter houses. Government regulations stipulate that legal procurement of raw hides and skins can be effected only from authorized slaughter houses. 51% of total quantity of raw hides and skins is procured from local district slaughter house while 47% of the total quantity is collected from nearby district slaughter houses. This is due to the reason that raw material dealers are concentrated only in such district of the state of Kerala. They have to depend on own district supply as well as nearby district supply of raw material.

The selling price of hides and skins are fixed on the basis of grade, lot and quality of raw materials. Trends of demand from tanneries and also the trends in leather trade at international level are the other factors affecting the price of hides and skins. Hides are transacted on weight basis while skins are on piece basis. The breakthrough of the selling price of ready skin and hides is given below:-

**Table No: 01**

**Components of selling price**

Sl No	Cost Item	% to SP
1	Material	48
2	Curing charges	2
3	Employee cost	4
4	Transportation cost	3
5	Overhead cost	10
6	Total cost	67
7	Profit	33
8	Selling Price	100.00

*Source: Calculated on the basis of primary data*

The table shows that, there are basically five types of costs coming for the process of tanning. The material cost is the high contribution towards the total cost. The curing cost includes all processing cost of tanning. This means the cost for purification of raw hides and skins. The overhead cost is the indirect cost incurred for the smooth running of the business. Though the cost is little high the profit is also reasonable. 33% profit is not at all bad while compared to other manufacturing units in Kerala.

### **General Problems of Tanning industry in Kerala**

The tanning industry in Kerala is suffering from a lot of hurdles. Important among them are given below:-

- Lack of raw materials
- Quality of the available raw materials
- Exploitation of the Middlemen
- Lack of needed Facility
- Environmental Pollution
- Lack of structures Financial Assistance
- Non – availability of suitable technology
- Negative attitude of peoples.
- Problems in export
- Low Profit Margin
- Lack of skilled man power
- Inadequate structured market

The hurdles seemed to be the hurdles. Whereas the tanning industry is trying to overcome all those obstacles by adopting various strategic plans.

### **SWOT Analysis**

SWOT analysis is a strategic modus operandi used by an organization to identify the Strengths, Weaknesses, Opportunities, and Threats related to a project or business. SWOT analysis of leather industry in the state of Kerala is based on the information obtained from the data collected.

### **STRENGTHS**

- Stability of business in Kerala as well as in outside states.
- Manpower development and marketing.
- Easy availability of raw materials.
- Presence of apt technologies in the field.
- Demand exists from tourists of Kerala.
- Availability of cheaper labor.
- Highly potential export markets.
- Industrial - Friendly Government policies.
- Tax incentives on industry by Government.
- Well-established linkages with buyers.
- Lower level of machinery usage.
- Government initiatives to boost investment in various industries in the state.

### **WEAKNESSES**

- Exploitation by the middle man.
- Pioneering marketing strategy is not available.
- Environmental Pollution.
- A smaller amount of organized producers.
- Lack of sophisticated technological advancement.
- Lack of proper training to employees causes low labor productivity.
- Lack of modern finishing amenities for leather.
- Difficulties in assessing the quality of tanning activity.

### **OPPORTUNITIES**

- Profuse scope of leather products to other States and Countries.
- There is lot of scope for diversification into other products like leather garments, goods etc.
- Growing international and domestic markets.
- Local markets can be better utilized by brand and image building.
- Organized enterprises can go for direct export.
- Original designs can be introduced for pleasing to the eye market.

### **THREATS**

- Difficulty in obtaining bank loans resulting in high cost of private borrowing.
- Limited scope for mobilizing funds as most of them are from private segments.
- Non- tariff barriers.
- Major part of the industry is unorganized.
- Entry of multinational companies to the domestic market.
- Stiff competition from other countries.
- Cheaper alternative products of inferior materials are posing tough competition.

The SWOT analysis clearly exhibits the future prospects of the tanning industry in Kerala.

### **Value Chain Analysis**

The value chain analysis is a representation of the interrelated chain of activities that are required to be undertaken to bring the finished leather product to the doorsteps of the customers. The profit margin that an organization earns depends on how effectively the value chain has been managed. The leather industry utilizes the byproducts of slaughter houses and transforms the raw material into various types of leather and manufactured end products. The leather production consumption chain has three processing stages, each requiring different combinations of materials, inputs, labor and capital. The first stage is the recovery of raw materials that has direct links with animal production activities. Hides and skins are recovered from dairy, draught animals or animals from slaughter houses. The second stage is leather tanning and finishing, which involves capital intensive operations. The third stage is the production of leather products, which is a labour intensive activity. These three processing stages are linked to key commercial components of the chain, such as the marketing of intermediate inputs, components and end products, trade and consumption. The various inputs to the chain without which the chain cannot operate competitively are qualified labour, design and art centers, components production, access to chemicals, technical and administrative support institutions, research and development, training and a set of adequate policies.

The potential scenarios of the Leather diligence in the country are very heartening and dazzling which in spin assist Kerala State to garner the reimbursement of the better prospects of the industry. Future outlook for production and exports, the sector's discernment of the leather industry based on the survey of 50 firms has observed that the key factors restraining the growth of firms in the leather industry were lack of raw materials, capital, high cost, lack of skilled employees, competition from imports and high employee cost.

In macro level, the key constraints of the leather industry particularly in its shift to a high value chain segment is quality of raw materials, absence of an institutional mechanism for design inability of Indian producers to build the brand despite a huge domestic markets and technology gaps. However, given the responsiveness of this sector to the policy initiatives as illustrated by the study, it is possible to be optimistic about the future prospects of this sector.

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