



# State of the Sector Report on Philippine Leathergoods 2004

**December 2004**  
**Pearl2 Project**



The State of the Sector Report-Philippine Leathergoods is one of a series of State of the Sector Reports published by Pearl2 Project for 2004. This report also updates the one prepared last year.

Pearl2 is a project funded by the Canadian International Development Agency, and jointly managed by the British Columbia Innovation Council and the British Columbia Institute of Technology.

Pearl2 is a five-year initiative (2002-2007) designed to support the development of small and medium enterprises throughout the Philippines. It aims to help create meaningful jobs for both men and women through the strengthening of Business Support Organizations (BSOs) and Investment Promotion Agencies (IPAs).

This report uses the definition provided by the Department of Trade and Industry (DTI) for micro, small and medium enterprises. Micro firms are companies with assets totaling below Php3 million. Small enterprises are those with total assets of Php3 million to Php15 million, while medium enterprises have assets ranging from Php15 million to Php100 million.

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**Pearl2 Project**  
**Technical Paper #8 “State of the Sector Report - Philippine**  
**Leathergoods”**  
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# Contents

1. Background .....	1
Methodology .....	1
Limitations .....	2
Acknowledgements .....	3
2. Executive Summary .....	5
3. Overview .....	9
Product Coverage .....	9
Industry Background .....	10
Industry Coverage .....	10
Market Segments for Leathergoods .....	12
World Market for Leathergoods .....	13
<i>Chart 1: World Imports of Leather and Leathergoods by Country, 2002</i>	
<i>Chart 2: World Exports of Leather and Leathergoods by Country, 2002</i>	
<i>Chart 3: World Exports of Leather and Leathergoods, 1998-2002</i>	
Exports of Leathergoods .....	15
<i>Chart 4: Philippine Exports of Leathergoods by Country, 2003</i>	
<i>Chart 5: Philippine Exports of Leathergoods by Product, 2003</i>	
<i>Chart 6: Philippine Exports of Leathergoods, 1999-2003</i>	
<i>Chart 7: Philippine Exports of Leathergoods to the US, 1999-2003</i>	
<i>Chart 8: Philippine Classified Exports of Leathergoods to the US, by Major Product Line, 1999-2003</i>	
4. Sectoral Profile .....	19
<i>Date of Establishment, Company Setup, Ownership and Management, Facilities, Product Lines, Employment, Subcontractors, Sourcing of Materials, Mode of Production and Operations, Capacity Utilization, Quality Control, Product Development, Market Coverage, Export Markets, Competitors, Sales, Market Access, Finance, Source of Assistance</i>	

5. Value Chain Analysis .....	33
Structure of the Industry .....	33
Process Flow .....	34
Key Findings from the Value Chain Analysis .....	36
The Leathergoods Sector Value Chain Diagram .....	37
The Leathergoods Sector Value Chain Table .....	40
6. Needs Assessment .....	51
Inbound Logistics .....	51
Operations .....	52
Outbound Logistics .....	53
Marketing and Sales .....	53
7. Areas for Intervention .....	55
Annexes .....	67
Annex 1: The Value Chain Analysis .....	69
Annex 2: Handbags and Belts Classification .....	71
Annex 3: Travelgoods Classification .....	72
Annex 4: Leather and Non-Leather Gloves Classification ..	73
Annex 5: Consigned Gloves Classification .....	74
Annex 6: Leathergoods Imports and Exports .....	75
<i>Table 1: World Imports of Leather and Leathergoods by Country, 2002</i>	
<i>Table 2: World Exports of Leather and Leathergoods by Country, 2002</i>	
<i>Table 3: World Exports of Leather and Leathergoods, 1998-2002</i>	
<i>Table 4: Philippine Exports of Leathergoods by Country, 2003</i>	
<i>Table 5: Philippine Exports of Leathergoods, 1999 to 2003</i>	
<i>Table 6: Philippine Exports of Leathergoods by Country, 1999 to 2003</i>	
<i>Table 7: Philippine Exports of Leathergoods to the US, 1999 to 2003</i>	
<i>Table 8: Philippine Exports of Leathergoods to Canada, 1999 to 2003</i>	
<i>Table 9: Philippine Exports of Leathergoods by Product Category, 1999 to 2003</i>	
Annex 7: Company Profile Survey Form .....	81
Annex 8: Leathergoods Production Process .....	88

# Acronyms

APLEM	Association of Philippine Leathergoods Exporters and Manufacturers
BIR	Bureau of Internal Revenue
BSO	Business Support Organization
CBI	Coördinatie van Brusselse Instellingen
Cebu FAME	Cebu Fashion Accessories Manufacturers and Exporters Foundation of the Philippines
CITC	Cottage Industry Technology Center
CITEM	Center for International Trade Expositions and Missions
DAP	Development Academy of the Philippines
DOF	Department of Finance
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
EC	European Commission
EU	European Union
FGDs	Focus group discussions
FIDA	Fiber Development Authority
ITC	International Trade Center
LVA	Local Value Added
NCR	National Capital Region
NSO	National Statistics Office
PFA	Philippine Footwear Academy
TAP	Tanners Association of the Philippines
TESDA	Technical Education and Skills Development Authority
VAT	Value Added Tax

# 1 Background

The leathergoods industry was identified by the Pearl2 Project, in coordination with the Department of Trade and Industry, as one of the areas for assistance under the Project's Sectoral Enhancement component. Production of leathergoods is among the sectors that use unique local designs and have positive employment generation capabilities in the country.

This study was undertaken by Pearl2 to determine how the Project can effectively assist the leathergoods sector. It is an update of a report completed last year that identified the needs of the sector and the possible areas for assistance. In addition, this report also updates the baseline information on the industry.

## Methodology

Pearl2 engaged a consultant, assisted by two research assistants, to complete this report. The researchers used primary and secondary sources of information. Primary research, through a survey and focus group discussions (FGDs), was conducted among

members of the Association of Philippine Leathergoods Exporters and Manufacturers (APLEM). Key industry personalities were also interviewed. The secondary sources of data include statistics and reports from government agencies such as the Department of Trade and Industry (DTI) and the National Statistics Office (NSO).

This report uses the value chain model developed by Dr. Michael Porter of the Harvard Business School to analyze industry activities. (See Annex 1 for a background on the Value Chain Analysis.) Based on the value chain analysis, the needs of the industry were assessed covering the sector's primary activities – inbound logistics, operations, outbound logistics, marketing and sales, and service. Areas for intervention to assist the leathergoods sector were then proposed.

## Limitations

The survey conducted for this report is limited to the members of APLEM. A total of thirteen firms responded to the survey, or about sixty five percent (65%) of APLEM's membership. Other primary data obtained on the sector were also derived from the focused group discussions conducted among APLEM members. The report focuses on the leathergoods manufacturers, and only briefly touches on the backwards linkages of the sector such as the tanning and fiber suppliers.

The value chain analysis used in this report is based on the primary and support activities of the producers. It does not consider the external value chains of suppliers and buyers. In addition, financial data were not considered in the value chain analysis as these would be hard to obtain and reconcile on an industry level.

## Acknowledgements

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- Ms. Ma. Teresita Jocson-Agoncillo, Ms. Rosarito Carrillo and Ms. Ana Loreto Misa Quigley for drafting the State of the Sector Report on Philippine Leathergoods 2004;
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- Mr. Joel Rodriguez of the Philippine International Trading Corporation (PITC) and brand manager for wearables;
- Ms. Graciela Mendoza of the Bureau of Export Trade Promotions (BETP), product manager for leathergoods;
- Ms. Edna Cruz, President of APLEM, as well as the other officers and members of the association for their cooperation in providing data for this report.



# 2 Executive Summary

Philippine leathersgoods are produced from two major types of materials, leather and local fibers. The manufacturers' product mix consists of a wide array of bags, belts, wallets and gloves in various designs.

Based on data from the Department of Trade and Industry (DTI), the leathersgoods industry is composed of around a thousand registered firms. These include both direct export-manufacturing companies as well as subcontractors. The industry provides direct and indirect employment to more than 40,000 workers throughout the country. Majority of the players in the industry are small to medium in size. There are a few large companies, most of which operate in the free trade zones of the country.

Leathersgoods producers cater to different market segments that are categorized mainly by the price and quality of merchandise purchased. In year 2002, the world market for leathersgoods stood at about US\$63.78 billion.\* The figure includes all forms and kinds of leather manufactures from traditional handbags and belts to

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\* World Imports of leather and leathersgoods, 2002, ITC, Geneva, Switzerland

upholstery and garment items. The United States (including Puerto Rico and Virgin Islands) top the list of importers of leathergoods, accounting for 33% of the global market in 2002, or US\$20.93 billion. Hong Kong, Italy and Japan are the other major markets. On the supply side China remains the major source with a 25% share (US\$16.1 billion) of the world's exports in 2002.

Philippine exports of leathergoods amounted to US\$141.57 million in 2003. The US remains the industry's major market, accounting for around 77% of the sector's sales abroad. Traditionally, the major items exported by the Philippines to the US consist of travel goods and gloves. Over the past few years, exports of the leathergoods industry have not performed well. From the years 1999 to 2003, exports declined considerably, averaging a negative growth of about 9.85% yearly.

The backward linkages of the leathergoods value chain face significant concerns in terms of the supply of raw materials. Local supplies of local leather and hides are inadequate for the industry's needs. There is also a scarcity of indigenous fibers utilized by manufacturers. In addition, the research and development activities (R&D) into the materials used by the industry have been limited. Most of the industry's suppliers and subcontractors, moreover, lack the skills, resources and technology to improve the quality of their work.

Most local leathergoods producers have not upgraded their production facilities, clear evidence of the sluggish industry-level use of modern technology. The application of formal and updated plant layouts and industrial engineering methods is also limited.

The workers' skills levels, moreover, are behind global standards. These affect productivity and, consequently, the cost structure of producers. Overall, the industry requires intensive training programs to upgrade manufacturing proficiency.

The sector as a whole lacks a strategy for competing in the global market. There is no coherent marketing program based on reliable information. The industry has to find the niche for its products and undertake the appropriate market development activities to enable it to arrest the past years' decline in exports.



# 3 Overview

## Product Coverage

The Harmonized System and Philippine Standard Commodity Classification classify leathersgoods according to size and function. These include handbags, wallets and belts, and travel goods. The latter includes golf bags, suitcases and gloves. (Please see Annexes 2 to 5 for for more details.) The materials used for the smaller items (handbags, belts and bags) are mostly leather hides with indigenous fibers. The big-ticket items such as suitcases, golf bags and gloves are mostly made from leather hides in combination with synthetic and woven fabrics.

The products of the leathersgoods industry are dictated by current fashion trends. Forecasts of seasonal changes directly affect the product collection. The production of leathersgoods is generally made according to two major seasons, Spring/Summer and Fall/Winter. Travel goods that would include any item bigger than a ladies' handbag such as computer, golf and shopping bags, suitcases, and gloves usually conform to a traditional look adaptable

to both spring/summer and fall/winter use. The smaller items such as handbags, belts and wallets, on the other hand, necessarily hew to the latest fashion trends. Trends in design and styles can be influenced by those taking place in the garments and footwear lines.

## Industry Background

Traditionally, leathergoods were an offshoot of the footwear industry, i.e., excess hides from the manufacture of shoes were used to make small pouches to hold coins. Over time, excess leather hides were further made into other functional items as purses, wallets and bags. By the 19th and 20th centuries, the evolution of leathergoods into distinct functional forms signaled the expansion of the sector to other products such as golf and computer bags, as well as gloves.

Today, leathergoods refer to a range of functional items that follow fashion trends. Aside from their basic use of holding various personal items, leathergoods also serve as clothing accents. With the local manufacturers' incorporation of indigenous fibers and materials into their product designs, producers broadened their product lines and also became more innovative in terms of design.

## Industry Coverage

Based on data from the Department of Trade and Industry (DTI), the Philippine leathergoods industry comprises over 1,000 registered manufacturers and subcontractors. Manufacturers represent those producing for both the local and export markets. Firms are generally micro to medium in size and are mostly family

owned enterprises. Some of the larger firms, around 75 in number, operate from the export processing zones (Pampanga, Cavite, Cebu) with foreign direct investments. These firms produce mostly travel goods, suitcases, and computer bags and gloves. Among the investors are Japanese, American, Korean and Chinese groups. A few of these firms are also engaged in the production of sports shoes and sporting bags and accessories.

The industry employs over 40,000 direct and indirect workers in the country. The larger firms are found in the export processing zones. Majority of the small to medium-size factories are concentrated in the National Capital Region (NCR) and are spread out over various areas. Most are found, however, in Marikina, Taytay, Paranaque, Makati, Manila and Quezon City. The output from these areas represents about 45% of the industry total. Marikina City has the most number of leathergoods firms at 70 enterprises, or 15% of all manufacturers in the NCR. This comes as no surprise as Marikina is also home to the footwear sector which also uses leather as its main raw material. The benefits of sharing production resources (human and technological) between the two industries thus explain the proliferation of leathergoods producers in the city.

The main Business Support Organization (BSO) for the leathergoods industry is the Association of Philippine Leathergoods Exporters and Manufacturers (APLEM). As of 2004, the group has 20 members.

## Market Segments for Leathergoods

The market segmentation of leathergoods is defined by the quality, brand name and price of the product, and covers from the low to the high end.

The high-end category consists mainly of branded merchandise in distinct design labels from the United States and Europe. Prices of this class of products start at around US\$175. Some design labels are priced on the retail market at as high as US\$8,000 to US\$10,000.00. Such merchandise are normally sold in stand-alone boutiques and famous department stores abroad such as Louis Vuitton, Gold Pfeil, Escada, Furla, Coach, Ferragamo and Bally.

Generally, the high-end brand names have a separate line for the upper middle and middle mid-range markets. These are retailed at \$150.00 to US\$400.00. Both the high-end and midrange segments are characterized by the use of pure leather hides as the base material.

Items for the low-end market are usually in the range of US\$30 to US\$200 on retail. The base materials would usually include a combination of leather and indigenous fibers, as well as synthetic (manmade) fabrics. At the farthest end of the market spectrum are items priced at at US\$2 to US\$29. These are mostly made from synthetic fabrics or synthetic leather.

In recent years, the Philippine local leathergoods sector has turned out quality items under distinct Filipino brand names such as Fino, Alfa, Leatherwear, Manel's and Spencer. These local brands cater to the low to middle segments of the Philippine market, with

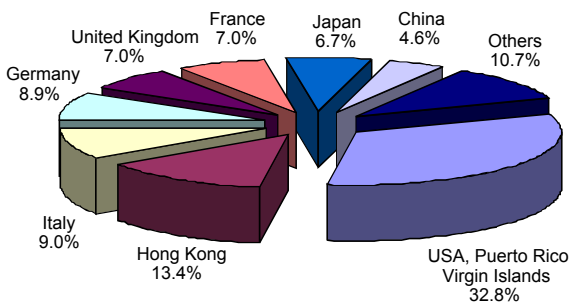
prices of most items ranging from US\$7 to US\$200 each. These brands have been tremendously successful among consumers as the quality of the merchandise appeals to the middle to high end segments as an alternative to the imported products.

Competition in the low end of the local leathergoods market has intensified in recent years due to the substantial importation of low-priced items from China, Taiwan and Thailand. Products from these countries are made primarily of synthetic materials and are priced as low as US\$1.50 to US\$10 each.

### World Market for Leathergoods

World imports of leathergoods products were valued at US\$63.78 billion in 2002. The United States (including Puerto Rico and the Virgin Islands) remains the major market, with imports valued at US\$20.9 billion, or 33% of total global imports in 2002. This figure includes the importation of processed and finished leather hides. Other major markets are Hong Kong (13.4%), Italy (9%) and Germany (8.9%). Chart 1 below provides an overview of the top eight importers of leather and leathergoods in 2002.

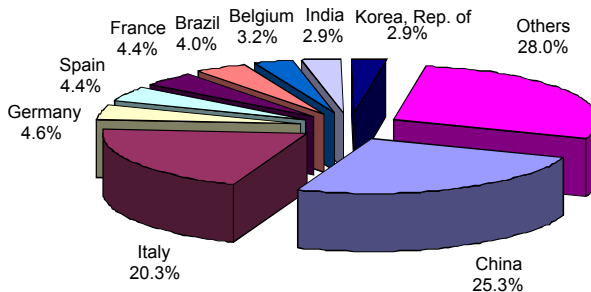
**Chart 1**  
**World Imports of Leather and Leathergoods by Country, 2002**



Source: ITC, Geneva

China and Italy are the two major exporting countries of both leather and leathergoods manufactures. In 2002, China exported US\$16.2 billion worth of leathergoods items, representing 25% of total world exports for the year. Italy had a 20% share of the world market with exports of US\$12.94 billion. Other exporters with significant market shares were Germany (4.6%), Spain (4.4%), France (4.4%) and Brazil (4%). Please refer to Chart 2 below for details.

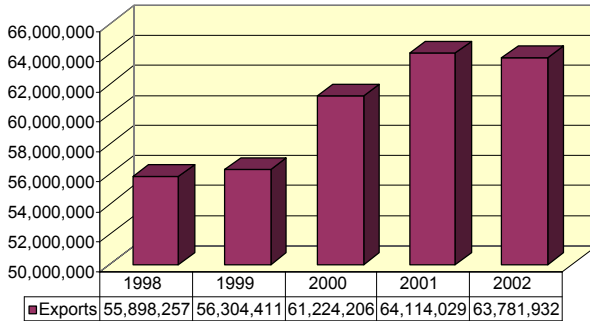
**Chart 2**  
**World Exports of Leather and Leathergoods by Country, 2002**



Source: ITC, Geneva

The buying patterns of the global market can be seen in Chart 3 on the next page, which shows a general uptrend in world exports of leather and leathergoods for the five-year period 1998-2002. Total global exports of leather and leathergoods manufacture peaked in year 2001 at US\$64.11 billion. The market dipped a slight 0.52% the following year. Overall, global exports of leather and leathergoods averaged a 3.4% yearly growth for the period.

**Chart 3**  
**World Exports of Leather and Leathergoods, 1998-2002**  
**(in US '000)**

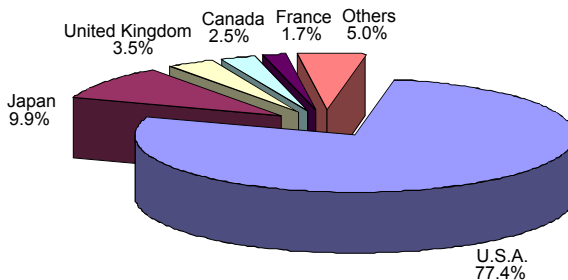


Source: ITC, Geneva

### Exports of Leathergoods

Philippine exports of leathergoods were valued at US\$141 million in 2003. The United States remains the industry’s primary market, accounting for US\$109 million or 77% of total Philippine leathergoods exports for the same year. Other major markets include Japan (9.9%), the United Kingdom (3.5%) and Canada (2.5%). Please refer to Chart 4 below.

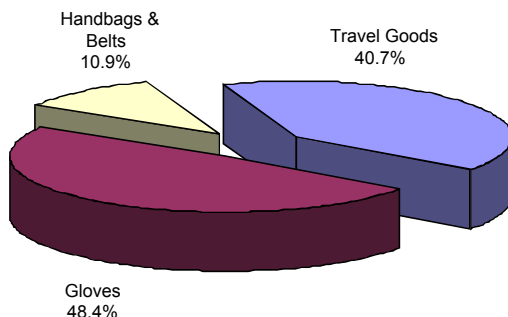
**Chart 4**  
**Philippine Exports of Leathergoods by Country, 2003**



Source: Department of Trade and Industry

By product classification, Philippine exports of gloves and travel goods generated 89% of total exports in 2003. Handbags, belts and wallets contributed only 11% of the total. It would be safe to presume that the firms operating as Foreign Direct Investments (FDI) within the export processing zones in the country produce most of these items. Please refer to Chart 5 below for leathergoods exports by product.

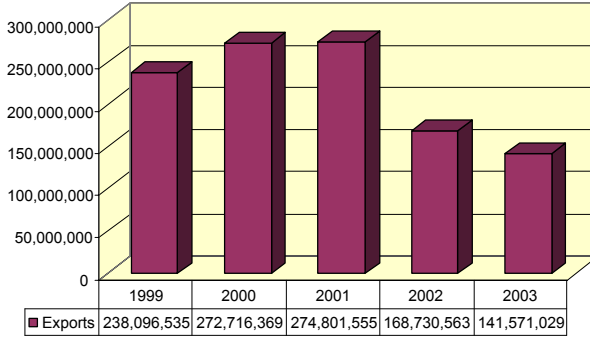
**Chart 5**  
**Philippine Exports of Leathergoods by Product, 2003**



Source: Department of Trade and Industry

Exports of local leathergoods have been declining for the past few years. During the period 1999-2003, exports of the industry peaked in the year 2001 when these reached US\$274.8 million. From then on, exports dropped over the next two years at a rapid pace, -38.6% in 2002 and -16.1% in 2003. The declines in the last two years pulled down the industry and exports averaged a -9.9% yearly decrease from 1999 to 2003. See Chart 6 on the next page for details.

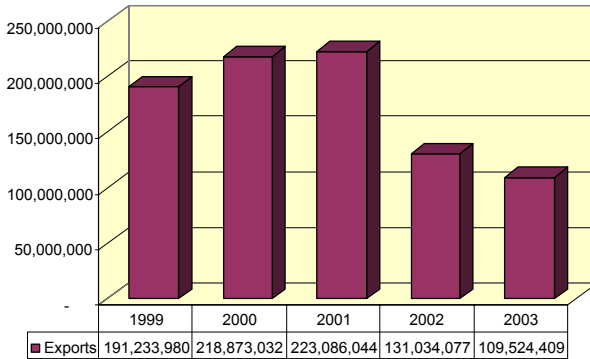
**Chart 6**  
**Philippine Exports of Leathergoods, 1999-2003**  
**(in US \$)**



Source: Department of Trade and Industry

Exports of leathergoods to the US market fell to US\$109 million in 2003. Over the period 1999-2003, the value of shipments the US averaged a decline of -10% annually. See Chart 7 below.

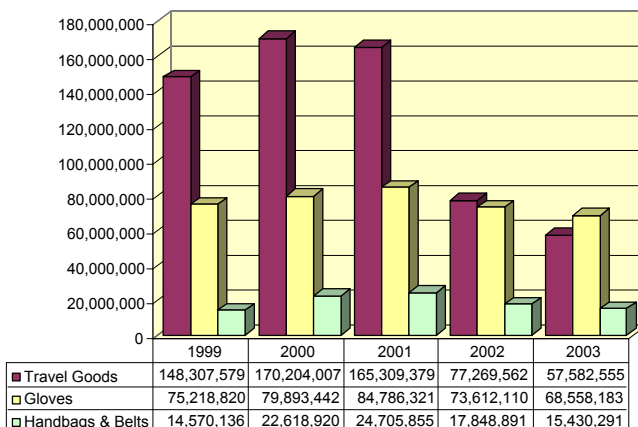
**Chart 7**  
**Philippine Exports of Leathergoods to the US, 1999-2003**  
**(in US \$)**



Source: National Statistics Office

Chart 8 below shows the export performance of the major leathergoods product lines covering the five-year period 1999-2003. Exports of travel goods suffered the most severe decline in the last few years.

**Chart 8**  
**Philippine Exports of Leathergoods to the US, by Major Product Line, 1999-2003**  
**(in US \$)**



Source: National Statistics Office

For further details on the graphs and charts provided in this section, please see Annex 6.

# 4 Sectoral Profile

A survey was conducted among the members of APLEM to update the profile of the industry. Thirteen of the 20 members of the association responded to survey, representing a response rate of 65%. The sample survey questionnaire is provided in Annex 7.

The key findings from the survey are presented in this section. It should be noted that some queries had multiple responses from the survey participants. In these cases, the total responses would be more than the number of respondents. Where appropriate, the findings from last year's survey are also presented.

## ***Date of Establishment***

A good percentage of the companies surveyed (69%) were established from 1990 to 1999, with most of the companies set up around 1993. Some 31% were established during the period 1980 to 1989.

### ***Company Setup***

More than half of the respondents are considered small in size (54%), around 39% are medium-scale, and the rest (8%) are micro enterprises. There were no large-size firms among the survey participants. Majority of the companies (85%) are registered as corporations while 15% are registered as single proprietors.

These findings are not significantly different from last year's survey. Then, half of respondents were small-size firms, a third were medium while 17% were micro enterprises. About 89% of firms surveyed last year were corporations.

### ***Ownership and Management***

For the sole proprietorships, half are owned by men and the other half by women. All owners are college graduates, with half also finishing a post-graduate degree. For the corporations, slightly more than half (54%) of the Chairs are women, 27% are men, and the rest gave no answer. About 64% of the corporate Chairs have college diplomas, with 18% also having post-graduate degrees. There is an equal proportion of males (46%) and females (46%) occupying the position of President among the companies surveyed. Almost all company Presidents have a college degree, with 23% also completing post graduate courses. The other management positions are likewise equally distributed between male and female managers.

Last year, about two-thirds of business owners were women and more than half (56%) of were company Presidents were also female.

### ***Facilities***

Majority or 85% of respondents have facilities of over 250 square meters. The rest operate in areas of between 100 to 250 square meters. Over half of the respondents (54%) rent their business and production premises while 46% own their facilities. Some 54% of surveyed firms have their premises in a commercial area, while 31% operate from residential areas. Only 15% are located in export processing zones.

### ***Product lines***

Most companies produce more than one product line. Of the entire group surveyed, 62% manufacture a major product line and other side items. Only 38% or five companies specialize in one product line. Handbags constitute the bulk of production, with 85% of respondents into handbag manufacture. Some 31% also produce small leathersgoods while 23% manufacture corporate giveaways. Other types of leathersgoods produced are travel goods (15%); briefcases (15%), other bags (8%); leather gloves (15%) and belts (15%).

Aside from leathersgoods, 8% of surveyed firms also produce other wearable products such as fashion accessories. Around 15% have also ventured into housewares and handicrafts

In last year's survey, a large majority (83%) of respondents also had multiple product lines. Handbags were also the leading product line manufactured among surveyed firms then.

### ***Employment***

The respondents employ a total of 1,167 workers. The women outnumber men at a ratio of 1.5 to 1. Production workers make up 74% of the total workforce, and production supervisors, 5%. The rest of the workforce is distributed among quality control, 5%; technical work (research and development), 5%; marketing, 5%; office and administrative work, 6%.

Women are the majority in most of the various major functional areas of operations. In production, they comprise more than half (57%) of the total workers; in quality control, 83%; and in the marketing and office/administrative functions, 81% and 70% of workers, respectively.

The average number of workers per company is 90. A little less than half (46%) have from one to 30 production workers, 31% have 31 to 60 workers, and 23% have at least 61 workers and above.

The wages of 46% of the respondents are within minimum wage range required by law – an average of Php281 to Php300 pesos daily. Some 23% of the companies surveyed are located outside Metro Manila. These companies pay their workers an average Php200 to Php280 per day, still within range for minimum wage stipulated for the regions they operate in.

Last year, 18 respondents reported a total of 1,383 workers. Female workers comprised about two-thirds of the workforce. Most workers (86%) were in production. Women similarly outnumbered men in all the areas of operations.

### ***Subcontractors***

Most of the companies surveyed (62%) use the services of subcontractors. The remaining 38% rely mainly on their in-house production capabilities. Of those that subcontract operations, 63% are small-size; 25%, medium-size; and 13%, micro-size. About half of companies that employ subcontractors outsource 30% to 69% of their work, while three companies (38%) outsource from 5% up to 30% of their. Only one company (12%) subcontracts as much as 70% of its work.

Among those that utilize subcontractors, majority (88%) used the services of subcontractors to augment their production capacities. These firms subcontract all aspects of operations as follows: pre-production work, 25%; production, 62%; and finishing, 25%.

The companies that outsource work use only a few subcontractors. Half of them use only five or fewer subcontractors within a year, while the other half use from six to 10 subcontractors in any given year. Some 75% of the firms that outsource work use subcontractors who employ up to 50 workers. The remaining 25% use subcontractors that employ over a hundred workers.

By gender, 50% of the companies indicated that the subcontractors have workers that are predominantly female. The rest did give any indication of the gender of their subcontractors' workforce.

Half of those that outsource work use subcontractors based in the province of their business while 38% use subcontractors from within the region. Only 12% of those that outsource operations have subcontractors located nationwide.

On the support given to subcontractors, companies ranked equipment and tools as their first priority, followed by skills training. Other forms of assistance given include product development and credit financing.

The manufacturers' biggest problem with their subcontractors, on the other hand, is the quality of work. Other issues concern delivery dates and reliability.

In last year's report, two-thirds of the surveyed firms outsourced some of their production. Relatively fewer subcontractors were also used by respondents, with 58% using five or fewer subcontractors in a year.

### ***Sourcing of Materials***

Majority of leathergoods companies use a combination of both local and imported materials. A good proportion of the surveyed participants (62%) are fiber-based manufacturers, hence, majority of the materials they use are locally sourced. About 8% use exclusively local raw materials, 15% use mainly imported materials, while 8% use an equal proportion of local and imported materials.

More than a third (38%) of the surveyed companies rely on the open market for their raw material needs. On the other hand, 31% of the company respondents depend on their own raw material sources. About 31% rely on both the open market and on their own sources.

Among the major local raw materials used are leather (used by 62% of firms), lining (54%), natural fibers (46%) and PVC leatherette (38%). Local indigenous woven fibers are sourced from the Bicol region, Mindanao (Davao and General Santos), Visayas

(Bohol, Cebu, and Aklan) through traders in Manila or weaving enterprises in provinces. Imported materials include leather, accessories and fabric lining. Leather is imported from Europe (54%), Asia (46%) and New Zealand (8%).

Respondents ranked the problems associated with raw materials in the following order: price, quality, delivery of materials, and availability.

Last year, most respondents (56%) also used mainly local materials. Two-thirds relied on both the open market and their own sources for their material needs. Europe and Asia were also the primary sources of imported leather.

### ***Mode of Production and Operations***

Production operations for 69% of the respondents are semi-mechanized; these are manual for the remaining 31%. The other processes of the firms surveyed are mainly manual, as follows: materials handling (85%), quality control (92%) and packaging (92%). In last year's survey, 83% of respondents reported semi-mechanized production processes.

### ***Capacity Utilization***

All respondents reported underutilized capacity during the time of the survey. Some 62% gave varying rates of capacity utilization ranging from 50% to 90%. The rest gave no answer.

About 38% of the firms reported operating at 80% capacity. Only one respondent had a 90% utilization rate.

For those that operated below maximum capacity, the reasons cited are, in the order of importance: manpower limitations, lack of raw materials, inadequate space and equipment limitations.

In terms of production output, nearly half of the respondents (46%) have a production turnout of between 60,000 to 120,000 pieces per year. For 23% of the companies, the average output is 15,000 to 40,000 pieces per year. For the remaining 15% of the firms, average output is 300,000 to 500,000 pieces.

In last year's report, one-third of respondents operated at full capacity when they were surveyed. The rest were operating below maximum capacity. The reasons cited for their low usage rate included machine limitations, lack of space and raw materials shortage.

### ***Quality Control***

All the firms have a quality control system in place at various stages. Nearly half of the respondents (46%) have specific personnel assigned to each production stage. Some 15% rely on outside testing facilities. The rest indicated that while they have specific personnel assigned on line, they also use their internal facilities and equipment and/or follow a standard procedure for quality assurance.

Quality control problems are prevalent with both raw materials and in production, as reported by 62% of respondents. Some 15% cited quality issues with their raw materials only; an identical proportion had quality control problems only in their production process.

### ***Product development***

Some 46% of the firms undertake product design and development activities in-house, while 15% use external design services. About 31% use a combination of both internal and external capabilities for product design and development. A large majority of the surveyed companies (85%) have internal product research and development facilities.

The industry obtains product research information from various sources. Majority of the companies (77%) obtain information from buyers, 69% from trade fair participation and observations, an identical proportion from publications, and 54% from product designers. More than half of the respondents (54 %) believe that they do not have enough information to assist them in undertaking product research and development. The other 46% found their current sources of information to be sufficient. Most companies (85%) rely on their buyers' specifications for their product designs.

Last year, 92% of surveyed companies reported using in-house capabilities for product development. All the firms based their product designs on the specifications of their buyers.

### ***Market Coverage***

Almost half of the leathergoods firms (46%) distribute their products to both the domestic and foreign markets. Production for about 46% of the companies is geared to exports, with only 8% catering mainly to the local market. Of the surveyed companies, 38% target the middle segment of the market, and an identical

proportion caters to the middle to high-end range. About 23% sell mainly to the high-end market. About 46% of firms concentrate their marketing activities in Metro Manila while 7% sell both to Metro Manila and Metro Cebu.

In last year's survey, 56% sell to both the foreign and local markets. Some 39% were exclusively into exports while 5% supply only local buyers. All respondents then targeted the midrange segment. Two-thirds of the firms also sell to the high-end market while half also service low-end buyers.

### ***Export Markets***

The surveyed companies serve three main export markets: Europe, the United States and Asia. About 92% of the companies market their products to Europe, specifically to the southern countries in the region. Some 77% sell to the United States, and the same proportion export to Japan. Other export markets include other countries in Asia (38%), Canada (23%), Australia (23%) and Middle East (8%).

Most respondents (30%) in last year's survey exported mainly to the Asia/Middle East region. About 22% sold to Europe while 20% exported to the United States.

### ***Competitors***

Almost all the respondents (92%) identified China as their leading competitor. Other competitor countries in the international market include Thailand (31%), Vietnam (23%), India (8%), Hong Kong (8%), Korea (8%) and Madagascar (8%).

The surveyed companies listed several factors that contribute to China's competitive edge in the global market including lower labor costs, high level of technology used and government support that enables manufacturers to offer lower-priced leathersgoods. Thailand, whose leathersgoods industry is well developed, can offer low-priced, high quality leathersgoods due to their use of high technology and the availability of base materials. Vietnam, which is an emerging competitor, has embroidery or handwork and accessories as its competitive advantage. The area of strength for India, Hong Kong and Korea, on the other hand, is the supply base for both raw materials and accessories used.

About half (52%) of respondents last year also indicated China as their main competitor. Other competing countries cited were Thailand (16%), India (8%), Pakistan (4%) and Indonesia (4%).

### ***Sales***

Majority of the survey respondents or 92% cover export market for the year 2003. Six firms (50%) posted exports of US\$300,000 and below. Of these, two firms (16.7%) had export sales of below US\$ 50,000.00; another two firms had sales of US\$50,001 to US\$100,000; and the last two companies had sales of US\$100,001 to US\$300,000.

Only 8% of the respondents had export orders of from US\$300,001 to US\$500,000. About 33% exported from US\$500,001 to US\$1 million. Only one company (8%) had export sales in excess of US\$1 million.

All the respondents provided data on their domestic sales for 2003, although the results are diverse. For two of the firms (29%), local revenues were below Php1 million. The remaining respondents were distributed one each (14%) under five other revenue brackets: (i) Php1 million to Php3 million; (ii) Php3 million to Php5 million; (iii) Php10 million to Php20 million; (iv) Php25 million to Php30 million; and (v) Php30 million to Php50 million.

Last year, export levels of respondents were more modest, with 24% receiving export orders of US\$50,000 and below. Another 24% had foreign sales of US\$500,001 to US\$1 million. Exports exceeded US\$1 million for only 5% of the firms surveyed. The rest exported between US\$50,000 and US\$500,000 worth of products.

For local sales in last year's survey, 20% sold more than Php50 million, another 20% had sales of between Php30 million and Php40 million, while 10% sold between Php25 million and Php30 million. Local sales for the rest were Php10 million and below.

### ***Market Access***

Generally, the industry develops its export business through participation in trade fairs, as indicated by 77% of respondents. However, 77% of surveyed firms also get buyers through their own contacts. Other means employed to develop overseas markets include referrals (46%), business missions (23%), and other sources (8%) such as the Internet.

Among the trade shows that respondents have attended are the Manila FAME Market Week organized by the Department of Trade and Industry, and foreign ones including Chibi Dmue & MIPEL (Italy), Bijorca (France), the Fashion Access Edition of the Asia-Pacific Leather Fair and the Hong Kong Fashion Week (Hong Kong), Sources (USA), and Magic Show (USA).

The trade fairs are also used by majority (77%) of surveyed firms as a means of promoting their products. About 46% use brochures and catalogues. An identical proportion relies on the Internet and Websites. Business missions are used as a means of promotion by 23% of respondents.

The survey participants use a variety of distribution channels. More than two-thirds (69%), mostly those that export, market their products through traders. Some 46% of the companies sell their products in department stores (46%) and through agents (46%). Almost one-third of firms (31%) distribute their products through boutiques. Other marketing channels used include retail stores (23%) and direct selling (39%).

### ***Finance***

The surveyed firms use more than one source of funds to finance their operations. While majority of the participants (85%) use their own funds, 69% also obtain bank credit to finance their operations. Around 31% augment their funds with financing from private lenders. Other sources of funds include down payment from buyers and supplier's credit or extended terms of payment.

The operating budget of respondents is generally spent as follows: 19% for administrative and overhead expenses, 11% for research and development, 14% for marketing, and over half or 55% for production.

### ***Source of Assistance***

Some 77% of companies have not received assistance from a donor agency, while 84% said they have not received support from any government office. For those firms that obtained external assistance, among the groups that assisted them were Philexport (2002), CIDA (2003), and CBI of Netherlands (1996).

# 5 Value Chain Analysis

## Structure of the Industry

Most manufacturers covered in this report are small and medium-size companies. They manufacture products geared mostly for the Spring-Summer collections of the export market. There are two base materials used in the industry, animal leather and indigenous woven fibers. Animal leather includes cow, goat, snakeskin and crocodile leather. The widely used indigenous woven fibers are abaca, raffia, and buntal.

The primary backward linkage of the leathergoods sector is the local tanning industry. This sector consists of 70 tanneries, majority of which are small to medium-size facilities located in Meycauyan, Bulacan province. The secondary supply chain covers the suppliers of indigenous fibers – farmer-producers and intermediate processors. The volume of supply relies on climatic conditions prevailing in various parts of the country where the fibers are grown. These are normally found in the Bicol region, in Eastern Visayas, specifically Leyte and Samar, and Mindanao.

Subcontractors and suppliers of components used by manufacturers also form part of the supply chain of the leathergoods sector.

The manufacture of leathergoods is labor intensive and employs skilled workers specializing in various stages of pre-production and production. These include designers, pattern makers, weavers, and sewers. In other countries, the production process entails the use of sophisticated precision machines such as die cutting, splitting, skiving, flatbed, zigzag, cylindrical, gluing and folding machines. In the Philippines, the small and medium-size firms producing mostly handbags, belts and related accessories are not geared to using such equipment. Production is usually manual or semi-mechanized.

Leathergood products are either exported to key markets abroad or sold locally, usually in boutiques, stand-alone stores in shopping malls under a brand name, and through company accounts ordered as corporate gifts and giveaways.

### **The Leathergoods Process Flow**

The leathergoods value chain begins with the development of a design collection usually dictated by season and functionality. The manufacturer-exporter starts with product development – the exploration of materials and accessories applicable to current color and fashion trends.

In their product development, some companies undertake computerized design work. Others contract the services of foreign design consultants, who may be part of their buyers' design team. Other firms rely on designs specified by their buyers.

The export orders received are either contract manufacturing agreements or direct orders from buyers. Under a contract manufacturing agreement, the base material, normally leather, is consigned to the producer. If an order emanates from the exporters' own design collection, the exporter sources all materials required. With direct export sales, manufacturers generally use locally produced leather unless the buyer demands leather of a higher quality. In this situation, the exporter imports leather in the required specifications.

Product development for direct export orders usually takes longer. The initial prototype is developed and sent to the buyer for comments. Further adjustments on the design are made prior to the actual sourcing of materials. Concurrently, the manufacturer also sources the components needed to produce the export order.

The actual production process is usually done in-house. Manufacturers normally undertake 60% to 70% of the production, using their own facilities and workers. They usually maintain a pool of in-house workers that does the cutting and pattern making. Subcontractors are used mainly to assemble parts of the product. The cut parts are sent to the subcontractors for splitting, sewing, skiving, stitching and edging, after which finishing and final packing are done in-house.

A few leathergoods firms with direct foreign investments, especially those located in export processing zones, undertake all stages of production from product development to production, quality inspection and shipping in-house.

Please see Annex 8 for a diagram of the leathergoods production process.

## The Leathergoods Value Chain Diagram

The value chain diagram for leathergoods is shown on the next page. The diagram applies to the leathergoods industry as a whole, and was based on research, materials and interviews with key industry personalities.

## Key Findings from the Value Chain Analysis

The main problem of the leathergoods sector is the limited supply of both quality leather and woven fibers, the base materials of the industry. The tanning industry is hard pressed to supply the sufficient raw hides of the quality required by the leathergoods industry due to the following factors:

1. Indiscriminate animal husbandry practices of the cattle industry, resulting to scars and other damages on the hide surface;
2. Poor flaying techniques or skin take-off during post-slaughtering of the cattle, which cause further hide damage and holes;
3. Poor hide preservation and salting after flaying, which affects the preservation of the hide.

The limited supply of good quality local hides forces some producers to import their needs.

The problem with the supply of local fibers – in terms of both quantity and quality – is also rooted in agriculture. The post-harvest stages of drying and dyeing of the fibers (prior to weaving) are characterized by a lack of mechanization and the use of

## The Leathergoods Sector Value Chain Diagram

<b>FIRM INFRASTRUCTURE</b>	General management, planning, financing, accounting, labor relations, government affairs				
<b>HUMAN RESOURCE MANAGEMENT</b>	<ul style="list-style-type: none"> <li>In-house training on material sourcing</li> <li>Development of materials with fiber suppliers</li> <li>Training In product development</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment &amp; training in production processes</li> <li>Maintaining a core of knowledgeable workers</li> <li>Training of quality inspectors</li> </ul>	<ul style="list-style-type: none"> <li>Training on distribution network for retailers</li> <li>In-house training on export documentation</li> </ul>	<ul style="list-style-type: none"> <li>Training in marketing and sales</li> <li>Trade fair participation training</li> <li>In-house training in buyer relations</li> <li>Debriefing/seminar on results of trade fair participation</li> </ul>	<ul style="list-style-type: none"> <li>On the job training for sales clerks in retail stores</li> <li>Training in inventory and sales management, customer relations and accounting procedures</li> </ul>
<b>TECHNOLOGY DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>Supplier information system</li> <li>Design of inventory-material management</li> <li>Accounting system</li> <li>Manual product design by in-house and external designer</li> </ul>	<ul style="list-style-type: none"> <li>Qualification system for sub-contractors and production workers</li> <li>Standardization of production processes and systems</li> <li>Design of assembly line</li> <li>In-house quality testing procedures</li> <li>Accounting system for production</li> <li>Product development and R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>Order processing system</li> <li>Accounting-Buyer delivery system</li> <li>Design of warehousing</li> <li>Design distribution schedule</li> </ul>	<ul style="list-style-type: none"> <li>Qualification system for forwarders</li> <li>Accounting-Buyer payment system</li> <li>Buyer information system</li> <li>Feedback of buyers and agents through Website</li> </ul>	<ul style="list-style-type: none"> <li>Accounting-Buyer payment system</li> <li>Monitoring system of inventory, orders/reorders</li> <li>Buyer/market information and communication system</li> </ul>
<b>PROCUREMENT</b>	<ul style="list-style-type: none"> <li>Identification of reliable suppliers of base materials, components and subcontractors</li> <li>Sampling of materials</li> <li>Price negotiation</li> <li>Grading, inspection and testing of materials and components</li> </ul>	<ul style="list-style-type: none"> <li>Accurate cutting of materials according to specs</li> <li>Order cutting</li> <li>Dyes and tools</li> <li>Factory and office supplies</li> </ul>	<ul style="list-style-type: none"> <li>Packaging materials and cartons</li> <li>Delivery services to stores</li> <li>On-line information system with local retail outlets</li> </ul>	<ul style="list-style-type: none"> <li>Information-gathering on trade fairs</li> <li>Purchase of exhibition props and materials</li> <li>Negotiations for shipping, courier service</li> <li>Canvassing of transportation services</li> </ul>	<ul style="list-style-type: none"> <li>Point of sales collaterals/materials</li> <li>Transportation service</li> </ul>
	<ul style="list-style-type: none"> <li>Inbound material sourcing</li> <li>Materials/parts picking/delivery</li> <li>Inbound inspection</li> <li>Inbound receiving</li> <li>Inventory/material management</li> <li>Storing and warehousing</li> </ul>	<ul style="list-style-type: none"> <li>Scheduling production work</li> <li>Scheduling of sub-contractors</li> <li>Equipment/tools maintenance</li> <li>Materials/parts distribution</li> <li>Component fabrication</li> <li>Assembly of cut parts</li> <li>Monitoring production</li> <li>Quality inspection/testing</li> <li>Reworking of rejects</li> <li>Packaging of finished goods</li> </ul>	<ul style="list-style-type: none"> <li>Delivery/collection of finished goods from subcontractors</li> <li>Warehouse control</li> <li>Order processing</li> <li>Scheduling of shipments to buyers</li> <li>Inspection/delivery of goods</li> <li>Billing/collection of payment</li> </ul>	<ul style="list-style-type: none"> <li>Trade fair participation</li> <li>Niche marketing</li> <li>Product pricing</li> <li>Quotations to buyers</li> <li>Promotions</li> <li>Retail store display</li> <li>Networking with buyers</li> <li>Monitoring key accounts</li> <li>Branding</li> </ul>	<ul style="list-style-type: none"> <li>Customer relations</li> </ul>
	INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING & SALES	SERVICE

M A R G I N S M A R G I N S

inappropriate technologies. There are at present no available equipment to dry the fibers mechanically. The gatherers and processors are reduced to sun-drying, which inhibits the ample supply of fibers for weaving, especially during the rainy season.

Also, there is a lack of technology in the dyeing of fibers to achieve color fastness, reproducibility and consistency of colors. Furthermore, the potentials of weaving intricate designs remain undeveloped as weavers are limited to the basic 45-inch to 90-inch looms, while the market requires a width of 90 to 120 inches. Hence, local weavers are able to produce only the most basic designs. The weaving of indigenous fibers and fabrics with complicated designs results in a long waiting time and delivery of the material to the manufacturer.

Besides the lack of raw fiber supply, farmers and fiber processors are also servicing the demand of competitor countries like Korea, China, which import direct from the Philippines. The situation further constrains the supply of fibers for local leathergoods producers.

The proper storage of fibers is also a primary concern of exporters and processors, as some fibers can only be dyed prior to weaving and warehousing. The storage conditions and practices also affect the quality of the fibers. Improperly storage and handling lead to molds and other related problems.

Other components and accessories used by leathergoods firms are mostly imported since the locally fabricated accessories are usually of low quality and come in very limited selections. The importations are done by individual firms, and not under any consolidated bulk-buying system.

Although the local leathersgoods industry's competitive edge lies in product design, manufacturers lack the ability to forecast colors and trends for succeeding seasons and rely primarily on their buyer's directions for orders at hand. Product development also lacks consideration of the technical aspects of design, principally the manufacturability of the product.

On the shop floor, productivity is hampered by the workers' lack of skills and use of outmoded technology in the different phases of production. Improvements in the area of factory layout and preventive machine maintenance are also needed. Generally, productivity needs to be increased significantly in the production process.

The industry lacks sufficient information on the local market, including the prevailing distribution channels. Access to export markets and obtaining orders are done individually by firms, as there is no cohesive marketing and promotional effort for the leathersgoods industry to project a strong country image on the global front. Trade fairs are the primary means of developing the foreign market, but the cost of participation to these events is high. Promotional materials used by firms are also insufficient.

The value chain table for the leathersgoods industry is found on pages 40 to 49. These tables present more details on the findings of the value chain, together with some concerns and recommendations to address the issues facing the industry.

### The Leathergoods Value Chain Table

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Human Resource Management</b>		
The art of weaving indigenous fiber among local weavers remains undeveloped. Weaving of complicated designs takes twice as long as basic weaving. There is also a diminishing number of weavers in the country.	This situation has adverse effects on the competitiveness of manufacturers in terms of product development, production and delivery of fashionable product design items.	Create “WEAVE” – Weaving Enterprise Assistance Venture – a Technical Development Center on Weaving tasked to develop new weaving techniques and conduct technical training of local weavers in key areas. In line with this, develop as well a weaving training program that will build up knowledge among weavers on the extensive use of fibers and their skills on interweaving different fibers.
<b>Technology Development</b>		
Technological innovations which could expand the production of quality fibers are inadequate.	Lack of supply of good quality fiber affects the competitive edge of the sector.	A joint integrated program between the private sector and the national government (Department of Agriculture, Fiber Development Authority-FIDA, DTI) and local government units on the development of fiber supplies should be implemented. This will ensure consistent volume and quality of fiber material from all pre-identified sources.

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development (con't)</b>		
There is insufficient development of technology in weaving. The looms are basic and limited to 45-inch width, while the market requires materials up to 60 inches wide.	The lack of development programs for weaving threatens the growth of the industry.	An integrated fiber-weaving development program is proposed as part of the WEAVE program mentioned earlier. This should encompass an integrated process of procurement and technology development related to the production of fiber. This should be focused on fiber-abundant regions such as Bicol and on areas with good supply potential such as Bohol, Leyte, as well as Mindanao.
The leathersgoods industry suffers from the suppliers' lack of appropriate dyeing and finishing techniques, which at present are performed manually.	The present lack of woven materials in updated colors restrains product development.	Propose a study by DTI, in coordination with FIDA and DOST, on the properties of raw materials to determine whether dyeing can be allowed before or after weaving. This will lead to more flexible usage of materials by manufacturers.
There is an absence of updated technology and mechanized drying facilities, which leads most suppliers to rely on the weather for drying of fibers.	Heavy reliance on natural drying of fibers adversely affects the quality and consistency of woven fibers made into finished goods geared for the export market. Post-delivery problems such as molds may arise.	Implement a technical program on drying process for fibers by DTI in coordination with DOST to promote mechanized drying among fiber suppliers.
Lack of testing centers for development of raw materials.	Inadequate testing facilities for raw materials hamper the product design and manufacturing processes.	Study the feasibility of a common testing facility for base materials for the industry. This could be done with the support of government and a funding institution.

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development (con't)</b>		
<p>The industry is weak in projecting fashion colors and trends that could enable them to develop base materials in partnership with their support Industries.</p>	<p>Aptitude in design forecast is a competitive advantage on which the industry is currently missing out.</p>	<p>The industry should undergo a consultancy program on merchandise development, color and fashion forecasting, and merchandise research. These activities should be coordinated with trade fairs and business missions.</p> <p>The industry needs to link up with an international agency to organize regular design forums on trends and color forecasting. Not only APLEM but other fashion industries will benefit from these forums.</p> <p>Subscription by APLEM to a color and texture forecast publication from an international color authority is also recommended.</p>
<p>The quality of leather produced by some local tanneries is inconsistent.</p>	<p>Inconsistency in leather hides supply directly affects the front end of the leathergoods supply base.</p>	<p>Consolidate findings on local leather suppliers, and create a ranking list in terms of quality and consistency on actual delivered materials.</p> <p>APLEM should link up with the Tanners Association of the Philippines (TAP) on requirements of the industry for leather quality, specifications (trends and colors), and timely delivery.</p>

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development (con't)</b>		
		TAP should create a technical team among its members to improve on production quality systems and share know-how in improving leather materials.
There is only a small pool of tanneries in Meycauayan, Bulacan that can provide quality finished leather to the leathergoods and footwear sectors.	This situation results in insufficient supply of local leather in the desired quality and specifications.	A technical assistance program is recommended, possibly funded by government or a donor agency, to expand the baseline tanning sector and contribute to the present pool of reliable tanneries.
<b>Procurement</b>		
Prices of woven fibers escalate during seasonal peak demand.	The high prices of materials add to the final product cost, which affects the industry's competitiveness.	Firms need to undertake advanced planning and development of samples to enable companies to buy materials during off-peak season.
Lack of basic infrastructure in the availability of base raw materials, namely animal hides and indigenous fibers.	The industry tends to import raw or finished hides as locally available hides are of poor quality and limited supply. This adds to materials cost. Inconsistent supply of local fibers hampers the production capabilities of firms.	<p>The industry should work closely to devise a consolidated import-buying scheme of raw semi-finished hides/crust that can be finished by the local tanning group.</p> <p>The industry should coordinate with both local and national government units to initiate cooperative farming programs in regions to expand areas planted to local fibers.</p>

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Procurement (con't)</b>		
The export of woven fibers in mats to competitor countries like Korea and China is increasing.	This situation contributes to the short supply of fibers and subsequently, a diminishing competitive edge for the industry.	Firms should work through APLEM to monitor exports of woven fibers and prepare policy research papers on the adverse effects of these on the industry. APLEM should coordinate with government on the appropriate course of action to minimize the negative effects of woven fiber exports on the industry.
The industry relies on outsourcing the procurement of raw fibers on a small pool of suppliers in the provinces.	This practice is unable to ensure sufficient fiber supply from processors and weavers. Weavers give priority to the orders of importers from competitor-countries as the volume bought by local manufacturers is limited to the orders on hand.	The industry should explore the possibility of a consolidated buying scheme for raw fibers to ensure ample supply.  Fibers that can be dyed after weaving should be made.
Pricing of leather suppliers varies, especially in the application of Value Added Tax (VAT).	Inconsistent pricing of leather affects product costing and production planning adversely.	The industry should consult BIR on the matter of VAT payments on transactions or purchases of raw materials by exporters and obtain implementing guidelines/memorandum order on VAT Zero-Rated purchase of exporters.
The imported accessories and components used by the industry are expensive.	High cost of components used affects the final cost of product and contributes to the uncompetitive position of the industry.	Industry should explore the possibility of consolidated import buying through an agent-importer or common bonded warehouse facility.

INBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Procurement (con't)</b>		
		Advocate tariff reform with government to reduce import taxes on accessories.
Lack of a support industry on leathergoods accessories.  Available accessories such as snaps and zippers come in limited selections and are of poor quality.	Low-quality accessories lead to poor product quality.	The government should study the feasibility of promoting investments in the local production of accessories used by the leathergoods sector.  The industry should also develop strong linkages with Cebu-based accessories manufacturers.
OPERATIONS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Human Resource Management</b>		
There is a lack of skilled workers available to the leathergoods industry.	Lack of workers with sufficient skills results in low productivity.	Create linkages with the garments industry for the possibility of tapping skilled garments sewers to migrate to bag making.  Implement and support training for productivity-based output, most especially during off-peak production season. Industry should coordinate with government, specifically TESDA and DTI, and the Footwear sector to dovetail existing programs on productivity.
Lack of orientation of workers to understand and develop increased productivity.	Workers' recognition and understanding of the reasons for their low productivity can facilitate further training.	The industry should tie up with government and other agencies such as DTI, TESDA and DAP on conducting a series of productivity orientation workshops for their workers and managers.

OPERATIONS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Human Resource Management (con't)</b>		
Workers lack accurate training in the cutting and pre-production processes specific to the type of materials that they use (animal hides and fibers).	Inadequate workers' skills in cutting and pre-production processes result in low output and high wastage of materials.	The industry should tap existing training programs by government agencies. The TESDA can provide seminars on cutting procedures for leather-based materials. FIDA can provide training programs on the composition and cutting techniques of fibers.
There is a lack of workers' training in factory re-laying and the use and maintenance of specialized machines such as those for stamping and skiving.	Productivity and efficiency at the shop floor are affected due to lack of proper production planning process.	The industry should initiate pocket or short-term training programs on factory re-laying and machine maintenance with the assistance of government. Foreign agencies can be tapped for grants to bring in foreign consultants specializing in production management.
<b>Technology Development</b>		
Most of the leathergoods factories have not adopted the basic principles of industrial engineering within their production set-up.	Productivity and efficiency at the shop floor is not fully maximized, thereby affecting profit margins.	The industry and government should continue interventions made in the past, including those under a seven-year technical assistance grant from the EU that was focused on production efficiency. This could be expanded to companies that did not receive such assistance, and should also allow for the monitoring of recipients of the technical assistance.

OPERATIONS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development (con't)</b>		
		This new program could be spearheaded by DTI-CITEM to promote product complementation through factory visits and the exchange of production-system knowledge among industry players.
Industry appears reluctant to re-invest in machineries, as most of them are not aware of the latest machines and tools used in major competitor-countries.	Machineries used at the shop floor remain outdated and there is a lack of maintenance programs for specialized machines.	Devise an information dissemination campaign program to update the industry on the latest technological developments in competitor countries.  A program in machine re-tooling should be implemented at the shop floor to enhance competitiveness.
There is a lack of in-house research and product development skills.	The inability of some manufacturers to engage in extensive product development forces them to rely mainly on buyers' designs and specifications. This could hamper the use of the Local Value Added (LVA) component in exports.	Expand leathergoods product development programs in technical schools such as the NMYC and the Philippine Footwear Academy (PFA). These programs should also be reviewed to incorporate the needs of the industry.
Local designers are not keen on the technical design-aspect of leathergoods.	Manufacturers have to work with inappropriate designs due to designers' lack of understanding of technical aspects of the product.	Develop a core group of local designers for the leathergoods sector to develop designs that reflect not only an awareness of the fashion trends but also an extensive knowledge of the technical functions of leathergoods.

OUTBOUND LOGISTICS		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development</b>		
The distribution of leathergoods products in the local market is weak such that only a few local brands are visible.	The industry is not able to tap the potential of the domestic market for leathergoods. At present, local buyers purchase leathergoods retailed from other countries such as China, Malaysia, Thailand and Indonesia.	<p>Study the present distribution channels of leathergoods for the local market. Identify which parts of the system can be improved or modified to expand access to domestic buyers.</p> <p>Establish a common marketing facility among APLEM members that will sell to particular market segments (low end, midrange and high end) and niches while taking into account the distinct price, quality and design preferences of each.</p> <p>Explore the use of a direct selling scheme to promote local brands.</p>
MARKETING AND SALES		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development</b>		
There are a few strong local brands in the domestic market that are sold in retail shops. These brands have strong export potential.	Local brands with the potential to compete in the global market need to be marketed effectively.	A strategy for the development of a brand image for Philippine leathergoods should be developed. A market research study that shall eventually be the basis of a cohesive marketing program for the industry is proposed. This study will take into account updated data from government agencies (BETP) and as well as information from other sources.

MARKETING AND SALES		
FINDINGS	CONCERNS	RECOMMENDATIONS
<b>Technology Development (con't)</b>		
The industry lacks a common Website which could be used by potential buyers to access vital information on products and manufacturers.	International buyers do not have sufficient awareness of the local leathergoods industry.	Develop an industry Website that features the Philippine leathergoods industry and market information. This could also serve as a vehicle for promotion of the Philippine leathergoods industry to international buyers.
Leathergoods manufacturers usually undertake trade promotional activities individually, as opposed to participating in marketing activities under a sector initiative.	Individual promotional efforts are not economical and may lead to unhealthy competition among manufacturers.	Develop an integrated promotional program that focuses on the export/local marketing needs of the industry as a whole and prevent cut-throat price competition among producers. APLEM can organize its members for more collaborative participation in international trade fairs and trade selling missions.
<b>Procurement</b>		
International trade fair participation remains the main means to access the export market. However, the industry's participation is limited by the high cost of attendance and lack of information on the appropriate fairs to attend.	Lack of knowledge of the appropriate trade fairs to attend and limited resources hamper the development of the export market for leathergoods.	Optimize the resources used by the industry in trade fair participation. Based on the marketing program proposed earlier, define the priority trade fairs that the industry should attend on a per-region basis. APLEM should obtain further information on these trade fairs for dissemination to members. Members should work closely in pooling their resources for trade fair attendance.



# 6 Needs Assessment

The value chain analysis of the leathersgoods sector identified some of the industry's issues and needs, as follows:

## Inbound Logistics

- There is a need to ensure availability of good quality raw hides, whether local or imported, at competitive prices;
- The quality and reproducibility of local finished leather should be improved through an integrated technical assistance program focusing on post-slaughtering, raw hide preservation and the finishing techniques of tanned leather.
- The cost of imported components and accessories needs to be reduced through a consolidated import buying scheme by industry members, either by tapping importer-agents or using a common bonded warehouse facility.
- An integrated fiber and weaving technology program focusing on mechanization of plant harvesting, fiber extraction, drying and dyeing is necessary to ensure supply of woven fibers.

- A training program for local weavers is needed to upgrade and modernize their skills.
- Research on the nature and properties of raw materials and fibers used by the leathergoods sector should be undertaken and sustained.
- The establishment of a testing facility for the industry's base materials – fiber and leather – is necessary to ensure compliance with the standards of the export market.
- There is need for the leathergoods industry to develop linkages with other trade associations such as CEBU FAME to enable them to undertake consolidated sourcing of accessories.
- There is a need to expand the present industry database of both locally based and overseas suppliers.

## Operations

- The industry needs to link with the footwear sector to implement joint training programs at the footwear academy on workers' productivity, the cutting of leather, sewing and other basic skills common to both industries.
- A merchandise and product development program that focuses on trends, color forecasting and the technical aspects of bag making should be explored.
- Firms need to investigate and research on the latest technological developments and specialized machines for the industry. In addition, the industry should also benchmark the technology used by more advanced leathergoods industries abroad.

- There is a need to initiate sourcing of latest equipment and technology for the leather and leathersgoods industry. A possible venue is a trade fair focused on materials and technology.
- A program focusing on skills training to improve workers' production efficiency and skills in handling specific machines is needed to enhance the the leathersgoods sector's export capability.
- A core group of designers knowledgeable in the technology of bag making should be established.
- Productivity and efficiency needs to be enhanced in various areas of operations such as pre-production, cutting, sample making, sewing and finishing by instituting industrial engineering methods, coupled with workers' training
- Factory layouts and process flows among manufacturers need to be improved.
- A program to upgrade workers' skills in machine maintenance is needed.

### Outbound Logistics

- There is a need to study the present local distribution setup and identify gaps in the market channels for leathersgoods to expand access to the domestic market.

### Marketing and Sales

- Industry members need to intensify their marketing and promotional activities in international trade fairs to generate export sales, obtain information on trends, competitor products and potential markets.

- There is a need to define a more focused and cohesive marketing program to strengthen the position and image of Philippine leathergoods on the export market.
- Market information for the leathergoods industry should be systematically gathered, stored and processed to use as input in developing an industry-level marketing strategy.
- There is a need to develop the Website of APLEM to increase buyer awareness of Philippine leathergoods and generate online business linkages.
- An indepth study on the local market for leathergoods focusing on midrange products as well as young and trendy items needs to be undertaken to explore and tap the potential of these niches.
- The leathergoods sector needs to research and tap other export markets, aside from the ones it already serves, to increase volume of orders.

# Areas for Intervention

Based on an analysis of the needs of the industry, several measures are recommended in this section to assist in the sector's development.

## **1. Initiate an Integrated Cattle and Carabao Livestock and Post-Slaughtering Development Program**

To address the supply problem of quality raw hides, an integrated program to upgrade basic animal husbandry practices should be initiated to improve the size and overall health of the cattle raised. This will ensure large-size and relatively flawless raw hides. Improvements in the post-slaughtering process of cattle should also be addressed to minimize, if not eliminate, further damage to the hides.

An earlier intervention by the European Commission (1991-1997) recommended a nationwide hides improvement program, specifically the government's institutionalization among abattoirs of methods in slaughtering, post-slaughtering or skin flay/take-

off and hide preservation to ensure the quality of the raw hides. Given the findings and recommendations of this earlier program, advocacy is needed to work for the legislation to institute the parameters in cattle farming and slaughtering, and the preparation of animal hides. Such legislation will ensure uniformity of post-slaughtering methods and adherence to required standards.

Foreign investments in hog and cattle raising should also be encouraged. These will augment the food requirements of Filipino consumers as well as improve the yield of leather for both the leathergoods and footwear sectors. This intervention could be done with assistance from the Department of Trade and Industry, the Department of Agriculture, and the Department of Science and Technology.

## **2. Develop a Consolidated Program to Import Raw Hides and Skins for the Sector**

As a stop-gap measure, the shortage of good quality local raw hides can be addressed by imports from countries known to have a far more developed cattle and leather industry than the Philippines. These include India, South America, and Pakistan, which have quality pre-processed raw hides. Such a sourcing mode will be advantageous to the leathergoods industry as it means a faster turnaround of finished leather for use as their orders change according to the requirements of each buying season.

This organized importation will require strong advocacy efforts by all interrelated sectors such as the footwear, leathergoods and tanning industries in lobbying for government support through the Department of Finance for a special green lane at the Bureau of Customs to facilitate the entry of imported raw hides. In addition, the consolidation of orders will reduce administrative costs.

### 3. Initiate an Integrated Technical Program for the Tanning Industry

At present, only 6% or 9% of the 70 tanneries in Meycauayan, Bulacan are considered reliable suppliers of finished leather for the leathergoods industry. Some years ago, these select tanneries were direct recipients of the EC technical assistance program for tanning that covered an extensive period of seven years. It is recommended that a sequel of this EC program be encouraged to expand the base of reliable tanners that can fill the needs of both the leathergoods and footwear sectors. A two-pronged approach is required, as follows:

- a. A new set of core-group companies to receive in-factory technical upgrade consultancy for process tanning will be identified. Hands-on training of workers and the introduction of new technology on environmental processes are required.
- b. An intermediate technical assistance program to sustain and upgrade the capabilities of the previous core group will also be undertaken. Technical assistance in the area of skills upgrading, environmental concerns, finishing techniques and marketing are proposed.

A re-run of the integrated technical assistance program for the entire tanning sector can be made possible by soliciting the support of government and donor agencies.

### 4. Initiate an Integrated and Cooperative-Based Fiber and Weaving Development Program

An integrated program focusing on technology development to mechanize all stages of fiber processing from plant harvesting, fiber extraction and decorticating, to drying and dyeing, will boost the supply of fibers significantly.

Although technology to decorticate fibers is available, led by the DOST, this needs to be upgraded and its use, widely promoted at the municipal and barangay levels nationwide. Technology in sun drying, kiln drying and dyeing should also be updated and actively promoted. As such, the proposed technology upgrading program should include the mechanization of the stages of fiber processing and the institutionalization of standards in the drying and dyeing stages.

The weaving component of this upgrading program, on the other hand, should focus on the enhancement of weaving skills, the development of larger looms, and overall product development, specifically the introduction of more intricate weaving patterns. Mechanization of weaving could also be undertaken through the formation of cooperatives in the provinces where weavers are concentrated.

The proposed cooperative could form part of the Weaving Enterprise Assistance Venture or “WEAVE” Center in each municipality. The WEAVE Center could assist in channeling micro-lending financing to weaving cooperatives for operating capital.

Given the scale of the program, the industry should work for government assistance at both the national and local levels. This will require a cross-section of the Department of Trade and Industry to coordinate and implement the program, the Department of Science and Technology to develop the technologies used, and the local government units to establish linkages with cooperatives and serve as a conduit between the private sector and government agencies. The involvement of Quedan Corporation, a quasi-government agency tasked to provide financing for agriculture-

based industries, can also be explored. Quedan Corporation used to be under the auspices of the Department of Agriculture and is now under the supervision of the Office of the President of the Philippines.

### **5. Initiate a Joint-Venture Project between Local and Foreign Farms in Fiber Development**

Once the interventions specified in recommendation #4 are in place, the government and industry should encourage foreign direct investments in fiber technology production. It is recommended that indigenous fiber growers link up with foreign groups that can infuse capital through a joint-venture arrangement to increase the production and yield of the needed fibers. For example, this could initially be undertaken through a contract growing arrangement for abaca, which is exported in bails as material for cordage. As both parties to the contract growing arrangement become more experienced, a joint venture could be established. With the assistance of government or donor agencies, a study on the feasibility of such tie-ups could be undertaken. Part of the study's agenda is to identify the areas for potential investments in fiber development.

### **6. Implement an Integrated Technical Assistance Program for the Leathergoods Industry**

An upgrade of the leathergoods industry's skills and export capabilities is imperative to improve its competitiveness. This could be done under an integrated technical assistance program focusing on the following areas:

- Skills upgrading focused on transferring the necessary skills for specific operations and productivity enhancement;
- Production efficiency through the application of industrial engineering methods at the shop floor;
- Technicians' training in machine maintenance;
- Product development for a core group of designers to include technical inputs on leathergoods making for efficient commercial production of product concepts and designs;
- Product development focused on in-house training of owners and designers in fashion, trends and color forecasting;
- With the services of foreign design consultants, the development of collections as preparation for participation in specific trade fairs.

A technology support program to facilitate the acquisition of updated equipment and tools should be initiated. The program mechanics are as follows:

- Survey the needs of firms in terms of machines and tools;
- Provide assistance through technical consultancy focused on specialized machines for cutting, sewing, skiving, and splitting;
- Ensure machine maintenance and repair programs;
- Improve and systematize warehousing and logistics management techniques;
- Improve design development capabilities; and
- Develop a databank on equipment and tools suppliers.

The sourcing of the necessary tools and equipment could be facilitated by the participation of producers in an international trade fair that features materials and technology geared to the leather and leathergoods sectors.

## 7. Initiate an Integrated Export Marketing Plan for the Sector

A consolidated marketing program for the leathergoods sector must be initiated with the following objectives:

- a. To maximize marketing efforts and resources, unlike the companies' marketing individually,
- b. To establish a product image for leathergoods made in the Philippines,
- c. To strengthen the industry's foothold in key markets such as the US, Japan, Europe and Asia; while spearheading the penetration of new markets, and
- d. To increase export sales.

The Department of Trade and Industry can spearhead the development of this plan through its attached agencies such as CITEM. Participation in international trade fairs should be sustained so that the industry is able to project strong presence in specific key markets. Other programs could be undertaken parallel to the trade fairs such as accessories and materials sourcing, sourcing of updated technologies and machines, and market research on competitor's products and positions.

Market expansion can also be undertaken through carefully planned business missions to relatively new target markets. The target markets could be developed with the help of the foreign trade offices of the Department of Trade and Industry. The business missions could also tap contract manufacturing arrangements and the franchising of foreign brands in the country.

The program should also include the strengthening of local leathergoods brands ready for export-branding promotions. Assistance can be provided for training in export marketing, the development of appropriate marketing collaterals, and product packaging. Government and foreign funding can be tapped for support for this activity.

To support the proposed marketing program, the development and use of innovative promotional tools such as online Websites is recommended. APLEM should establish a Website to enable foreign buyers to access information on the industry, and its products and services. The Website can be linked to an industry database to ensure that information can easily be updated and retrieved.

## **8. Establish Satellite Testing Facility for Base Materials**

To ensure compliance with the quality standards of the export market, a testing facility for base materials such as woven fibers and leather is imperative. This could be set up at the compound of the Cottage Industry Technology Center (CITC) in Marikina where the Philippine Footwear Academy is already in place. The CITC compound is also accessible to tanneries in Meycauayan, Bulacan.

Although there is a facility for testing leather at the DOST, it is not used because it is too far from the tanners in Meycauayan, Bulacan. A program with the primary objective of setting up the facility and augment existing equipment could be initiated focusing on the following key areas:

- a. Obtain information on the latest equipment appropriate for testing both fiber and leather through technical consultants from the leather/tanning and fiber industries.

- b. Survey existing testing equipment owned by DOST and assess its machine condition and efficiency.
- c. Prepare an inventory of equipment required to include available and serviceable ones that will measure flexibility, salinity, moisture content, strength, size and other essential testing parameters.
- d. Facilitate the purchase of equipment from suppliers abroad through a duty-free importation scheme.
- e. Facilitate a technicians' training program for preventive maintenance and repairs in cooperation with the suppliers. If possible, training could be provided at the factory of the equipment supplier.

This program requires collaborative efforts from the DTI, DOST, DOF covering the following:

- a. The Bureau of Product Standards under the DTI to provide the implementing guidelines for the standards of the base materials.
- b. The CITC to provide the venue for the testing center for leather and fiber and provide management of the center. The center could be self-liquidating as fees will be charged for use of the equipment.
- c. The Department of Science and Technology would be instrumental in setting up the satellite facility by providing some of their serviceable equipment, as well as technicians to be assigned to the testing center at the CITC compound to monitor equipment maintenance.
- d. The Bureau of Customs under the DOF to facilitate tax and duty-free importation of the equipment.

A Memorandum of Agreement in this regard should be forged between all government agencies concerned to enable the smooth implementation of the program.

## 9. Initiate Consolidated Import Sourcing of Materials and Accessories

Although import tariffs on accessories and materials will eventually be applied zero-rated valuation over the years 2005 to 2008, manufacturers are at present hard pressed to bring down the cost of doing business to be more competitive in the export market. Sourcing through a common bonded warehouse facility or a local importer/agent could be explored for the tax and duty-free importation of accessories that are indirectly re-exported. The leathergoods industry can link with other trade associations such as Cebu FAME to source and consolidate the individual manufacturers' requirements. Jointly, they can undertake sourcing during an international trade fair where the focus is on materials, accessories, components and technology. This scheme will require a mechanism for estimation of materials requirements of the producers, coordination of delivery dates and canvassing of suppliers.

## 10. Collaborate with the Philippine Footwear Federation Inc. for a Comprehensive Worker Training Program

Because the skills required by the leathergoods sector are similar to those needed in footwear production, the base materials being the same, it will be advantageous for the sector to collaborate with the footwear industry in implementing commonly needed training programs at the Philippine Footwear Academy.

The workers could be trained year-round in the following areas of concern:

- leather cutting and basics of pattern making;
- sewing, skiving and splitting;

- machine maintenance and repair;
- warehousing and logistics management; and
- product design and development.

A review and revision of the present curriculum at the academy may be necessary to adapt this to the production operations and requirements of the leathersgoods sector. Specialized equipment in the production of leathersgoods should also be available at the academy for the transfer of specific skills.

## II. Expand and Explore the Local Market for Leathersgoods

Leathersgoods exporters should tap the potential of the growing local market. It is recommended that a study on domestic distribution channel as well as the possible niches in the market be undertaken. A target market for low-end products could be tapped through a direct selling distribution scheme, which proved successful for the footwear industry's promotion of local brands. The expansion of the leathersgoods industry into the domestic market could be undertaken through the following:

- a. Set up a marketing company among manufacturers to tap existing chains of local boutiques, retail shops or even to establish their own store in popular shopping malls. This marketing company could also launch direct marketing distribution and operations for value-for-money leathersgoods products.
- b. Bring together a core group of producers that will work on the development of a local leathersgoods brand. This will include a promotional strategy for both direct selling and retail selling.

- c. Establish a databank for up-to-date information on market trends, and fashion, pricing and related data. The databank could be managed by the marketing company.

## 12. Strengthen Private-Sector Initiatives to Develop the Leathergoods Sector

APLEM is operating without a professional secretariat. Because of this lack of structure and administrative mechanism, the value of a trade association to its members is not fully realized. The association can easily expand membership by including firms in the whole value chain as auxiliary members, such as material (tanning and fiber) suppliers, and components and equipment vendors. Following its recent re-organization, the trade association should direct initiatives to instituting a full-time secretariat. Assistance from the government and donor agencies could help APLEM build its management systems and operating procedures. With the appropriate personnel and training, the association can work on developing and improving the services offered to member firms.

# Annexes



## Annex 1: The Value Chain Analysis

### ***The Value Chain Concept***

Value chain analysis is a method of identifying and understanding the various activities of an organization that provide value to its products or services and the linkages among such activities. It is used to determine which aspects of a firm's operation can be enhanced, and where to reduce costs, optimize resource use, or even reconfigure the entire chain of operations for better performance. The end result of this effort is increased product or service value, lower costs of operation, or both.

A value chain covers two sets of activities. The first refers to the primary activities of a firm and consists of inbound logistics, operations, outbound logistics, marketing and sales, and service. These are the activities that organizations engage in to produce a product or service.

The second set covers support activities that indirectly contribute to the firm's operations. These include the organization's infrastructure, human resource management, technology development and procurement.

All these activities are interconnected and work in a process that can be structured into a value chain diagram. A firm's value chain can also be linked with external chains such as those of its suppliers or buyers.

### ***Value Chain Analysis in Sectoral Enhancement***

An adaptation of the generic value chain described in Dr. Michael Porter's book *Competitive Advantage* was used to analyze the structure and performance of industries or sectors covered in Pearl2's Sectoral Enhancement program. Originally, the value chain was designed for company-level evaluation. For the Pearl2 project, however, it is used to develop a framework for understanding how a particular industry operates, with the objective of determining the needs of that sector. On the basis of such a needs assessment, it is possible to identify areas where appropriate assistance can be provided.

Basically, work with all the sectors covered by the program included: (i) designing the value chain diagram, (ii) developing a value chain table, (iii) describing the main components of the value chain, and (iv) analyzing the flow of the chain to identify issues and problems and possible courses of action. Such an assessment brings to the surface the needs of the sector for closer evaluation. The value chain analysis focused primarily on producers which are members of

the Business Support Organization identified for the sector. The analyses are not by any means comprehensive and do not involve any cost estimates for the chain or a comparison of the value chain of a similar industry or with similar features in other countries or regions. Due to time and resource constraints, no references were made to external value chains.

Reference: Michael E. Porter, "Chapter 2: The Value Chain and Competitive Advantage," *Competitive Advantage* (New York: Simon & Schuster, 1985), pp. 33-61.

## Annex 2: Handbags and Belts Classification

HS CODE	PSCC	DESCRIPTION
4202.21	831.11-00	Handbags, whether or not with shoulder strap (including those without handle) with outer surface of leather or composition leather or of patent leather
4202.22	831.12-01	Handbags, whether or not with shoulder strap (including those without handle) with outer surface of plastic sheeting
4202.22	831.12-02	Handbags, whether or not with strap (including those without handle) with other surface of textile materials
4202.29	831.19-00	Other handbags, whether or not with shoulder strap (including those without handle)
4202.31	831.91-01	Articles of a kind normally carried in the pocket or handbag with outer surface of the leather, of composition leather, or of patent leather
4202.32	831.91-02	Articles of a kind normally carried in the pocket or handbag, with outer surface of plastic sheeting or of textile materials
4202.39	831.91-09	Articles of a kind normally carried in the pocket or handbag, of other materials
4202.30	848.13-00	Belts or bandoliers of leather or composition leather
3926.20	848.21-04	Belts of plastics
9601.90	899.11-02	Handbags, of shell
4602.10	899.71-02	Handbags, wallets, purses, and similar articles of vegetable plating materials (i.e. bamboo, rattan, reed, Rushes, raffia, etc.)
4602.90	899.71-22	Handbags, wallets, purses, and similar articles, made directly to shape from plating materials (except of vegetable materials)

Source: Department of Trade and Industry

## Annex 3: Travelgoods Classification

HS CODE	PSCC	DESCRIPTION
4202.11	831.21-00	Trunks, suitcases, vanity cases, executive cases, school satchels and similar containers, with outer surface of leather or composition leather or of patent leather
4202.12	831.22-00	Trunks, suitcases, vanity cases, executive cases, school satchels and similar containers, with outer surface of textile materials
4202.12	831.22-01	Trunks, suitcases, vanity cases, executive cases, school satchels and similar containers, with outer surface of plastics
4202.12	831.22-02	Trunks, suitcases, vanity cases, executive cases, brief cases, school satchels and similar containers, with outer surface of textile materials
4202.19	831.29-03	Trunks, suitcases, vanity cases, executive cases, school satchels and similar containers, of wood
4202.19	831.29-09	Trunks, suitcases, vanity cases, executive cases, school satchels and similar containers, with outer surface of other materials
9605.00	831.30-00	Travel sets for personal toilet, sewing/shoe/clothes cleaning
4202.31	831.99-01	Shopping bags of leather or composition leather, or of patent leather
4202.32	831.99-02	Golf bags and other sports bag of leather or composition leather, or of patent leather
4202.91	831.99-09	Other articles of subgroup 831.9 with outer surface of leather, composition leather, or of patent leather, n.e.s.
4202.92	831.99-11	Shopping bags, of plastic sheeting or of textile materials
4202.92	831.99-12	Golf bags and either sports bag of plastic sheeting or of textile materials
4202.92	831.99-19	Other articles of subgroup 831.9 with outer surface of plastic sheeting or of textile materials, n.e.s.
4202.99	831.99-29	Other articles of subgroup 831.9, n.e.s.

Source: Department of Trade and Industry

## Annex 4: Leather and Non-Leather Gloves Classification

HS CODE	PSCC	DESCRIPTION
6216.00	846.14-00	Gloves, mittens, and mitts, of textile fabrics, not knitted or crocheted (other than those for babies)
6216.00	846.14-01	Gloves, mittens, and mitts, of cotton, not knitted or crocheted (other than those for babies)
6216.00	846.14-02	Gloves, mittens, and mitts, of other textile materials, not knitted or crocheted (other than those for babies)
6216.00	846.14-09	Gloves, mittens, and mitts, of wool and other textile materials, not knitted/crocheted
6116.10	846.91-00	Gloves, knitted/crocheted, impregnated, coated/covered with plastic/rubber
6116.91	849.92-01	Other gloves, mittens, and mitts, knitted or crocheted, of wool or fine animal hair
6116.92	846.92-02	Other gloves, mittens, and mitts, knitted or crocheted, of cotton
6116.93	846.92-03	Other gloves, mittens, and mitts, knitted or crocheted, of synthetic fiber
6116.99	846.92-09	Other gloves, mittens, and mitts, knitted or crocheted, of other textile materials
4203.29	848.12-01	Working gloves, of leather or composition leather
4203.29	848.92-09	Gloves, mittens, and mitts, not designed for use in sports, of leather or composition leather
4203.21	894.77-00	Gloves, mittens, and mitts, especially designed for use in sports
4203.21	894.77-01	Baseball and softball gloves
4203.21	897.77-02	Boxing gloves
4203.21	894.77-09	Gloves, mittens and mitts, especially designed for use in sports, n.e.s.
4303.10	848.3102	Gloves wholly of furskin

Source: Department of Trade and Industry

## Annex 5: Consigned Gloves Classification

HS CODE	PSCC	DESCRIPTION
Various	931.02-02	Gloves and mittens, of leather, manufactured from materials on consignment basis
Various	931.02-03	Gloves and mittens, of other than leather, manufactured from materials on consignment basis

Source: Department of Trade and Industry

## Annex 6: Leathergoods Imports and Exports

**Table 1**  
**World Imports of Leather and Leathergoods by Country, 2002**  
**(in US\$ '000)**

Country	Import Value	% Share
USA, Puerto Rico, US Virgin Islands	20,930,420	32.8
Hong Kong	8,517,831	13.4
Italy	5,750,595	9.0
Germany	5,678,359	8.9
United Kingdom	4,461,108	7.0
France	4,444,479	7.0
Japan	4,252,672	6.7
China	2,922,981	4.6
Others	6,823,487	10.7
<b>TOTAL</b>	<b>63,781,932</b>	<b>100.0</b>

Source of data: ITC, Geneva

**Table 2**  
**World Exports of Leather and Leathergoods by Country, 2002**  
**(in US\$ '000)**

Country	Export Value	% Share
China	16,160,702	25.3
Italy	12,942,283	20.3
Germany	2,916,415	4.6
Spain	2,806,026	4.4
France	2,777,324	4.4
Brazil	2,563,985	4.0
Belgium	2,045,030	3.2
India	1,877,787	2.9
Korea Rep.	1,828,856	2.9
Others	17,863,524	28.0
<b>TOTAL</b>	<b>63,781,932</b>	<b>100.0</b>

Source of data: ITC, Geneva

**Table 3**  
**World Exports of Leather and Leathergoods, 1998-2002**  
**(in US\$ '000)**

Year	Export Value	Growth Rate (%)
1998	55,898,257	-
1999	56,304,411	0.7
2000	61,224,206	8.7
2001	64,114,029	4.7
2002	63,781,932	-0.5
Average Growth Rate		3.4

Source of data: ITC, Geneva

**Table 4**  
**Philippine Exports of Leathergoods by Country, 2003**  
**(in US\$)**

Country	Export Value	% Share
USA	109,524,409	77.4
Japan	14,062,947	9.9
United Kingdom	4984075	3.5
Canada	3,521,306	2.5
France	2,381,792	1.7
Others	7,096,500	5.0
TOTAL	141,571,029	100.0

Source of data: Department of Trade and Industry

**Table 5**  
**Philippine Exports of Leathergoods, 1999 to 2003**

Year	Value (US\$)	Growth Rate (%)
1999	238,096,535	-
2000	272,716,369	14.5
2001	274,801,555	0.8
2002	168,730,563	-38.6
2003	141,571,029	-16.1
Average Growth Rate		-9.9

Source of data: Department of Trade and Industry

**Table 6**  
**Philippine Exports of Leathergoods by Country, 1999 to 2003**  
**(in US\$)**

Country	1999	2000	2001	2002	2003	Average Growth Rate (%)
U.S.A.	191,233	218,873	223,086	131,034	109,524	-10.3
Japan	18,632	20,231	22,612	17,699	14,062	-5.5
United Kingdom	4,719	7,207	6,195	5,349	4,984	4.6
Canada	5,362	6,700	6,218	3,791	3,521	-7.1
France	1,838	1,883	1,877	3,041	2,381	10.6
Others	16,309	17,820	14,811	7,813	7,096	-16.0
TOTAL	238,096	272,716	274,801	168,730	141,571	-9.8

Source: National Statistics Office (NSO)

**Table 7**  
**Philippine Exports of Leathergoods to the US, 1999 to 2003**  
**(in US\$)**

Year	Export Value	Growth Rate (%)
1999	191,233,980	-
2000	218,873,032	14.4
2001	223,086,044	1.9
2002	131,034,077	-41.2
2003	109,524,409	-16.4
Average Growth Rate		-10.3

Source: National Statistics Office (NSO)

**Table 8**  
**Philippine Exports of Leathergoods to Canada, 1999 to 2003**  
**(in US\$)**

Year	Export Value	Growth Rate (%)
1999	5,362,031	-
2000	6,700,620	24.9
2001	6,218,581	-7.1
2002	3,791,712	-39.0
2003	3,521,306	-7.1
Average Growth Rate		-7.1

Source: National Statistics Office (NSO)

**Table 9**  
**Philippine Exports of Leathergoods by Product Category,**  
**1999 to 2003**  
**(in US\$)**

Country	1999	2000	2001	2002	2003	Average Growth Rate (%)
Travel Goods	148,307,579	170,204,007	165,309,379	77,269,562	57,582,555	-16.7
Gloves	75,218,820	79,893,442	84,786,321	73,612,110	68,558,183	-1.9
Handbags & Belts	14,570,136	22,618,920	24,705,855	17,848,891	15,430,291	5.7
TOTAL	238,096,535	272,716,369	274,801,555	168,730,563	141,571,029	-9.8

Source: Department of Trade and Industry (DTI)



Management				
Name of President: _____			Gender: _____	
Highest Educational Attainment: _____				
Other management positions (pls. indicate position and number of managers by gender)				
	Position	Male	Female	Total
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
Business Premises				
Size in sq. m. (pls. check)		Ownership: (pls. check)		Venue: (pls. check)
_____ Less than 100		_____ Owned		_____ Residence
_____ 100 to 250		_____ Rented		_____ Commercial
_____ Over 250				
Products				
	Product Lines			% of total sales
	_____			_____
	_____			_____
	_____			_____
	_____			_____
	_____			_____
Employment (in-house employees)				
	Type of work	Male	Female	Total
	Production, supervisory	_____	_____	_____
	Production, workers	_____	_____	_____
	Quality control staff	_____	_____	_____
	Technical/R & D	_____	_____	_____
	Marketing	_____	_____	_____
	Office/administrative	_____	_____	_____
	Total	_____	_____	_____
	Average wage rate of workers	_____	_____	_____
Subcontractors				
Does your company subcontract work? (pls. check) _____ Yes _____ No				
If yes, what percentage of work is subcontracted? _____%				

Subcontractors (con't)		
If yes, reasons for subcontracting (pls. check appropriate item):		
• To address need for additional capacity vis-à-vis in-house capacity/ services	<input type="checkbox"/> Pre-production	<input type="checkbox"/> Finishing
	<input type="checkbox"/> Production	<input type="checkbox"/> Others
• In-house set-up is limited, as such always requires out-sourcing of services	<input type="checkbox"/> Pre-production	<input type="checkbox"/> Finishing
	<input type="checkbox"/> Production	<input type="checkbox"/> Others
If yes, number of subcontractors/companies used in a year: <input type="text"/>		
If yes, average number of workers of subcontractors: <input type="text"/>		
If yes, is majority of subcontractors male or female?	<input type="checkbox"/> Male	<input type="checkbox"/> Female
	<input type="checkbox"/> Not sure	
Geographic location of subcontractors: (pls. check)	<input type="checkbox"/> Within province	<input type="checkbox"/> Within island group
	<input type="checkbox"/> Within region	<input type="checkbox"/> Nationwide
Support provided to subcontractors (pls. rank order of importance with 1 being most important)	<input type="checkbox"/> Credit/financing	<input type="checkbox"/> Skills training
	<input type="checkbox"/> Equipment/tools	Others (pls. specify)
	<input type="checkbox"/> Product development	
Common problems with subcontractors (pls. rank in order of importance with 1 being most important)	<input type="checkbox"/> Quality of work	<input type="checkbox"/> Reliability
	<input type="checkbox"/> Delivery date	Others (pls. specify)
<b>Raw Materials Used (include Packaging)</b>		
Major raw materials/ packaging materials	Local or Imported	Location of Supplier
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>



Product Development			
Source of product dev't (pls. check)	<input type="checkbox"/>	Internal capabilities	<input type="checkbox"/> External parties
Sources of information for product development (pls. check)	<input type="checkbox"/>	Buyers	<input type="checkbox"/> Internet
	<input type="checkbox"/>	Trade fairs	<input type="checkbox"/> Designers
	<input type="checkbox"/>	Publications	Others (pls. specify)
Is your present information enough for product development?	<input type="checkbox"/>	Yes	<input type="checkbox"/> No
Do you have internal R&D facilities?	<input type="checkbox"/>	Yes	<input type="checkbox"/> No
Do you design concepts based on buyers' specifications?	<input type="checkbox"/>	Yes	<input type="checkbox"/> No
Market			
Proportion of market sales (%)	Exports		<input type="checkbox"/> %
	Local sales		<input type="checkbox"/> %
If exporting, please indicate major regions or countries exported to and the proportion of exports to each area to your total exports	Region/Country		% of total exports
	United States		<input type="checkbox"/> %
	Canada		<input type="checkbox"/> %
	Europe		<input type="checkbox"/> %
	Middle East		<input type="checkbox"/> %
	Japan		<input type="checkbox"/> %
	Australia		<input type="checkbox"/> %
	Other Asia		<input type="checkbox"/> %
	Others (pls. specify)		<input type="checkbox"/> %
	For domestic sales, please indicate regions where sales are made and proportion to total local sales	Region/City	
Metro Manila		<input type="checkbox"/> %	
Others:		<input type="checkbox"/> %	
Market Segments Targeted (pls. check)	<input type="checkbox"/>	High end	<input type="checkbox"/> Middle <input type="checkbox"/> Low end
Sources of foreign buyers (if applicable, pls. check appropriate items)	<input type="checkbox"/>	Own contacts	<input type="checkbox"/> Trade fairs
	<input type="checkbox"/>	Business missions	<input type="checkbox"/> Referrals
	Others: (pls. specify)		
_____			
_____			

<b>Market (con't)</b>		
	_____ Brochures/ catalogs	_____ Website/ Internet
Trade Promotion Activities (pls. check appropriate items)	_____ Trade fairs	_____ Business missions
	Others: (pls. specify)	
What countries are you targeting for your expansion?		
Competitors (pls. indicate countries that compete with your products and their main strength as competitors)	Country _____ _____ _____ _____ _____	Strength as competitor _____ _____ _____ _____ _____
How do you think can the threat of competition be minimized?		
<b>Sales</b>		
Exports (please indicate the range by checking in the appropriate area)		2003
Under US\$ 50,000		_____
US\$ 50,001 to US\$ 100,000		_____
US\$ 100,001 to US\$ 300,000		_____
US\$ 300,001 to US\$ 500,000		_____
US\$ 500,001 to US\$ 1,000,000		_____
US\$ 1,000,001 to US\$ 3,000,000		_____
US\$ 3,000,001 to US\$ 5,000,000		_____
Over US\$ 5,000,000		_____
Local Sales (please indicate the range by checking in the appropriate area)		2003
Under PhP1 million		_____
More than PhP1 million to PhP3 million		_____
More than PhP3 million to PhP5 million		_____
More than PhP5 million to PhP10 million		_____
More than PhP10 million to PhP15 million		_____
More than PhP15 million to PhP20 million		_____
More than PhP20 million to PhP25 million		_____
More than PhP25 million to PhP30 million		_____
More than PhP30 million to PhP50 million		_____
More than PhP50 million to PhP70 million		_____
More than PhP70 million to PhP100 million		_____
More than PhP100 million to PhP200 million		_____
More than PhP200 million		_____

Distribution			
	_____ Department stores	_____ Traders	
Distribution Channels (pls. indicate your major marketing and distribution channels)	_____ Boutiques	_____ Direct selling	
	_____ Own store	Others (pls. specify)	
Finance			
Budget Allocation (in %)	Expense Administrative and overhead Research and development Marketing Production Others		%
Sources of Funds for Production	_____ Own funds	_____ Private lenders	
	_____ Credit line with bank	Others (pls. specify)	
Have you received any assistance from any donor group?		_____ Yes	_____ No
If yes, pls. specify the donor group and year assistance was received	Donor Group	Type of Assistance (grant, technical, marketing, others)	Year
Have you received any assistance from any government agency?		_____ Yes	_____ No
If yes, pls. specify the agency and year assistance was received	Government Agency	Type of Assistance (grant, technical, marketing, others)	Year
Additional Comments			

Accomplished by:

Date:

\_\_\_\_\_

*Thank you for your cooperation, please be assured  
that your responses will be kept in strictest confidence.*

# Annex 8: Leathergoods Production Process

