

ALFA Oration -2008

Raw To Finish My Learning in Leather, Life ,Management and Entrepreneurship

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Leather to India ,is an ancient business ; India has been exporting leather and leather products now for a few centuries .It employs a large number of people and can boast of a large number of domestic entrepreneurs spread over the south ,north ,east and western parts of the country ;it is also an industry that has consistently received funding and fiscal support from the Central and State governments over a long period.

One would therefore expect India to be the home of the global giants of this industry particularly when software exports which started barely a couple of decades ago have enabled India to boast of quite a few global billionaires/leaders in this area.

How many leather industries in India today can lay the claim to global scale ?Let alone that- how many millionaires has this Industry created compared to its younger cousin the IT industry ?When software businesses have consistently shown growth and profits how many in the Leather industry can lay claim to such a history of performance ?

Why is it that over 70% of a graduating class in Leather technology is deserting this industry and chooses to get employed by the IT industry? What kind of a judgment does that reflect about the futures of these two industries?

Why is it that even after several decades of being in existence that one cannot find even one leather industry from India listed in the stock exchanges of India leave alone that of the world [compared to the Indian IT industry which enjoys the trust of global investors having listed in NASDAQ?]

Why, ladies and gentlemen, why, why, why?

We do have great raw material –one that the world evidently needs as buyers flock here. We have tanning skills that are respected; making skills that are improving day by day and even skills to design; we also have enviable entrepreneurship one that is absent in many other industries; we work very hard and long hours; what is more we have shiploads of patience and endurance and an ability to suffer and not lose hope always optimistic that one sudden day there will be deliverance and we too will get our just rewards!

This is a great package of strengths! How do we build on it to make the world recognize the Indian Leather industry to be the Global leader it deserves to be?

This is a question that has intrigued me for the last several years .Like many of you I too entered this industry as a maker of uppers and later moved to full shoes as well while trying out an investment in leather garments; and even attempting ,wrongly in hindsight ,for we had no strength to do so ,finished leather exports !

We found every thing difficult ;buying raw material , avoiding rejections and write offs ,attracting and retaining skilled employees , meeting buyer's requirements of quality ,pricing and delivery deadlines all at the same time ;we did have a lead over the rest of the industry for a period of time in terms of quality but soon the rest of the industry caught up with us ;and the premium we enjoyed disappeared ! The name of the game was and I understand it continues to be cost efficiency but this is just not easy as we have no control over any thing –be it the prices at which we buy raw material or the salaries we pay to our employees or the prices at which we sell or what we deem to be quality! Competition is severe –to buy, to sell and to attract and retain skilled employees! Buyers negotiate prices quoting a quality level and later send technicians to your factory who are under pressure from their factories back in Europe to enforce far higher standards!

What I could never figure out was and still is –why is finished leather of perfectly saleable quality rejected because of what the buyer terms “unacceptable defects”? Why is such an artificial standard imposed on us –and why are we so powerless that we accept it?

I have been in the factories of our customers in Europe where the Head of the company stands in the production line rejecting some of our upper supply on grounds of defect marks while down the line where I am standing some thing even worse is getting passed and made in to shoes and sold!!! So, is this not a big farce? Does the ultimate consumer really care or know what a defect is? Will she really not buy a shoe with such defects? Is not leather being a natural product supposed to have such defects? If it does not, is this natural?

Now, these artificial standards alone have caused all of us crores, yes, crores of rupees of write offs –for what will we do with that material which is finished to this buyer's requirements?

How many thousands of crores worth of such so called “unsalable” material we will have India wide?

Is this not a “national waste “of phenomenal magnitude? Should we as an Industry accept such meaningless standards when they are economically so destructive?

Will we not be doing the environment a service if we find ways to use such leather?

What it all boils down to is that we in this industry do not have much power or influence over how we do our business.

Why is this so?

We seem to operate in an Industry which caters to basic necessities as well as to luxuries which is a strength; however entry barriers are low and barriers to success high as this industry is open to global competition

There is very little that any one of us offer or do that is unique or different from what others do elsewhere in the country or the globe.

It should be evident to any one that we operate in a commodity market; though we add value what we sell still remains a commodity where price is the major determinant of sale or purchase and quality and availability are not major differentiators.

Commodity markets have the advantage that they are large and global ;the disadvantage is that one cannot be a fringe player like we are –one needs global scale of operations to influence price and availability .Look at the example of diamonds – diamonds when it comes down to analysis are a commodity ;one company controls the global diamond industry by monopolizing the sources of supply ;when demand falls –they hold back supply to hold prices and advertise to stimulate demand .when demand rises they increase the supply and make money.

Many of you readily identify that even in the Indian Leather industry some intelligent entrepreneurs who had the advantage of scale monopolized the supply of Buff Calf leather of course taking huge risks in the process still successful when viewed over a period of time.

One does need such scale to operate successfully in commodities; I have operated in other industries such as castor, rice, shellac where we added value to a commodity to differentiate ourselves from others. Regardless of the fact that you do value add to a commodity ,fringe players in any commodity supply chain get “squeezed” by either end. When prices raise the supplier of the raw material makes money and your cost of input goes up; when prices fall, your buyer benefits and your profits fall.

Two other rules to succeed in a commodity market –are

i] one should occupy the entire value chain from raw material to ultimate Branded finished product that is retailed –so that you capture the margins in the entire value chain; and you control thus your input costs ,availability and delivery times and also create and influence ultimate demand

You would note that this is what large companies do in the case of Poly ester starting from even petroleum to polyester granule production, making the yarn, fabrics and even retailing; others are attempting some thing similar in the case of petrol and diesel.

ii] One influences both government policy and regulation, fiscal and otherwise

The long and short of it is that one needs to be a large player to succeed in a typical commodities market.

What if one is not? Do we have any options? Any approaches that work?

Fortunately there are options and some that have recently opened up.

I am sure that all of you are aware that there is a long value chain in Leather; it starts with raw leather to which value addition can take it to the wet blue stage; and further value addition moves it to finished leather; to which one can add further value to make it a garment or leather good or an upper to a shoe; which in turn requires value addition through Design and Branding and lastly to retail

In this long value chain the closer you are to the final consumer the greater is your influence over demand ,pricing and quality specifications and sourcing ;if you own the Brand you control design and if you design you influence the other elements of price ,demand and quality specifications.

We all recognize that in our industry those who own the Brand and Design take the Lion's share of profits the whole chain offers.

As of now we are at the bottom end of the value chain where we have in reality very little influence over demand, pricing and what sells for quality; we are unable to sell what we have; we are forced to sell what others decide they want.

The best way for you to create a demand for what you have is to control Branding and Design yourself; and take over the marketing of what you produce to the ultimate consumer.

Okay –you have heard this before –are you not thinking that I am too small –Branding is for big boys; one needs loads of money to Brand and advertise.

Is that so? Is that really so?

If that is so think about who is succeeding nowadays by creating new Brands, advertising them on television?

Look around you –what do you see?

Sakthi masala, Idhayam Gingelly oil, Franch oil, Arokya 4.5% milk, Porna rice Bran oil Power soap, Z talc, deodorant, Gold Winner, Saravana Bhavan, thalappakattu biriyani And so on

Which of these is a typical MNC? The hotel Brand I am happy to say is a homegrown company started by a man of humble beginnings which today is a multinational.

Who started the other Brands which are obviously successful?

All by people like you and me; no, by people with even lesser means; not always with great education and not much business exposure

So, now tell me, do you need to be a big company to Brand and market?

Do note that each of these is basically a commodity-be it milk, masala or cooking oil; So each of these entrepreneurs have turned an ordinary commodity in to a

successful growing Brand and in doing so they have done some thing worth while noting.

They have looked at the consumer closely –understood what is important to her or him and focused on building that as their Brand differentiator and communicating that to the consumer!

This is not rocket science, is it?

Luckily for us the fast growing Indian economy offers us the opportunity to start this in our country which we know well, where we understand the consumer and his/her lifestyle, the way they think very well thus minimizing the risks in Branding and Designing; needless for me to point out the new shopping malls that are now in the planning stage and some in operation already offer the retail shelves.

The large numbers of young people who come out of colleges and get employed in IT and other fields, both men and women have money in their pocket; they are double income families and are no longer satisfied with what a tired current older generation shoe store can offer them; they want to look beyond and often do so in their quest for new fashion!

Is it not possible for you to create some thing unique, innovative and Indian for them?

Do these western designed products suit Indian conditions? Are our leathers which are tanned using technologies that are largely western in origin suitable for our conditions?

Ours is a hot, dusty country with high humidity and a really wet monsoon?

Can we create footwear that is dust resistant? Or easily washable? Remember, today there are shirts Brands that offer crease resistance.

In our country we need to constantly remove our footwear before we enter a clean home, office or a place of worship; this is unlike the west where such a need is not known.

How do we accommodate this in our designs? Is there not scope to do so?

Can't we make summer ware in leather for our young men and women who roar around in newly designed hot Indian motor bikes? Leather that breathes and is super absorbent in sweat!

Every time I buy a new car my wife steps in and bans leather upholstery on the reason that it is hot and makes her sweat if she sits on it. Why should this be so?

Is it not because we deliberately made our leathers warm since they were designed for the western climate?

So, Ladies and Gentlemen, is there not scope to think differently and design, position, Brand and market products that are more suitable for the Indian market?

When you do so –what prevents you from using leather as a natural product to its full advantage?

Does a scratch or a scar make leather unattractive to the consumer? Can it be turned on its head and made your key selling point? To a young consumer who likes to wear stone washed jeans or even torn jeans?

Remember what is attractive or fashion and what is non attractive and non-fashion is a state of mind and can be influenced by marketing

Or else why would the beetle design of Volkswagen sell in such large quantities? An other wise ugly design, great marketing by Volkswagen created the huge demand for it.

So what you have in plenty in India and what you make is not defective and unsalable; you have to know where and how to market it; and it is not expensive for today others do not want it; or they do not know that they want it!

There is another surprising almost non-believable example of how marketing ,dedicated and sustained marketing can change how people view things ; it used to be that consumers in Tamilnadu never bought any thing new in the Tamil month of Aadi –say between 15th July to 15th August ! For this was seen to be an inauspicious month ! Shops in TN suffered from a big fall in business !Until some one thought of actively promoting sale in the month of Aadi providing huge discounts and heavily advertising the fact ! Soon many others joined in –and today consumers anticipate and buy in Aadi and this month has now become one for which the retailers buy and stock after which they discount and promote !

So what consumers avoided with fear they look forward to eagerly and enjoy the huge shopping opportunities ;so what would have been a punishment has now become a rewarding event !

What made it so –an idea followed by determined marketing ,sustained marketing !Who did it ! MNCs? No , normal ,regular shopkeepers who you would not normally credit with great marketing savvy !

So how do you set about marketing ?By now you would know that you need an innovative idea –but that is not enough ;that cannot stand in isolation !

Many of you would tell me that you have created washable leathers and there are no buyers ! I am aware that you innovate a lot and that you are creative !

Innovation that is not consumer relevant will not succeed ! Nor will an innovative idea market itself ! Further marketing is not a one off phenomenon !

You have five simple steps but you need to be earnest ,serious and sincere about them to succeed !

1.As I said earlier you watch consumers ,how they live ,eat ,sleep ,work ,travel ,read ,write, relate to others and so on

2.You identify deep down desires – a desire is not some thing the consumer just likes –it is much more than that ; it is a deeply felt need ;one that is very important

to the consumer ;one that is close to their heart ;one for which they would be willing to give a lot ,say pay a lot of money if money is your yardstick or go to great lengths to satisfy .

Grooming is an important need that is personal to many people; they like to think they are presentable and socially acceptable; if possible more than acceptable; for every one would like to be liked, respected.

Examples of products /Brands that come to mind are say, products that prevent falling hair[when hair starts falling people are desperate] , anti-pimple creams [again some thing the typical teen ager is very uncomfortable about is pimples] Robert Chesebrough's Vaseline in the below zero ,windy ,dry climate of North America ,the Madurai bus service of TVS a few decades ago when the citizens longed for clean ,economical means of transportation.

Fortunately products made of leather fall in the category of those that are “personal” to the user ; any thing that is personal to the user by definition is of high value to him/her ;for it affects how they look and feel and let me tell you ,nothing else is more important to them.

For the same reason they would choose such products/brands with great care; hence it is difficult to gain acceptance but once you do it definitely is a good sign for your business; you are doing some thing right.

Do note that if the need you choose to serve is not that important to the consumer it would be difficult to sell or get good pricing

3.The most important step ,one that will stay lifelong with you is –**that you dedicate yourself ,your life to finding solutions to fulfill this desire of the consumer** for ever and ever ,always improving.

This in other words is the purpose why you have started your business and why you persist with it ;it is often called the Mission of your business

Profit you will note will flow by itself if you do what you do ever better and better ; for you are delivering a benefit that is close to the consumer one that he or she values –and you keep improving on your benefit delivery –the consumer is bound to reward you for it by paying the price for what you offer

For example –lets take the example fairness creams in the Indian market; they are dedicated to making the user fairer than he or she is ; in early days fairness creams only had a whitening pigment in a vanishing cream base ;on application the white pigment covered the face of the user and made her look say fair or white; in a few years they came up with sunscreens as they understood like the consumers did that exposure to sunlight darkened skin; in a further few years they discovered new ingredients that were absorbed by skin and stopped the formation of melanin the pigment responsible for skin darkening ;today they have catalysts that improve the action of this ingredient and the next generation of sun screens which are better than the earlier ones is in the offing

So ,you see the Brand is dedicated to making user fairer than she is at any point of time ;the Brand's singular purpose is this ;all its effort is towards

understanding the ever evolving needs of fairness ;and harnessing available technology to solve the issue

So the Brand continues to deliver ever improving benefits to the consumer ;the consumer understands it and is willing pay better and better prices ;such Brands grow fast and make good money all because they are totally dedicated to their cause

You will understand that this will be a lifelong purpose –one that will continue for the next few centuries; the format of benefit delivery could vary; it might involve say surgery at some point of time; but the Brand’s purpose will remain the same

4. Not only that as the fourth step you will actively seek the help of every one and any one in your quest to finding ever better solutions to fulfill that consumer desire

For no one can do business alone ; one needs the support of many –employees ,investors ,associates and so on

People would contribute greatly if they are “inspired” ;to be inspired is to go beyond money; People who are inspired find serving a cause by itself the greatest motivator

If you as the business leader –the Brand champion in other words –is passionate about what you do –if your cause inspires you so much that it is bigger than you others would recognize it ;the cause is so important to you ,that you do not mind asking for and accepting help ;when you do that others whose help you request will understand you “trust” them –to help you ,to serve the cause to contribute their very best ;that because you seek help you have no ego and that you do value their ability and commitment to your cause

This in turn motivates them to help ;the more you accept and acknowledge their contribution to you cause the more committed they become to your cause [this of course is well known to many of us]

Such trust is a very powerful weapon you will note in harnessing the total efforts of your team to the cause you are dedicated to.

5. The last and final step is to **Stay the course** in doing the above .never faltering; always confident that if you **have clarity of purpose and consistency of purpose** **Victory is bound to be yours eventually.**

So ,ladies and gentlemen –to my mind the formula for success in your business is the same as the formula for success in life for any one in any field.-which is

To find a worthwhile cause and to lose yourself in it

If you dedicate yourself to doing some great good to some one for ever and ever – that some one will support you for ever and ever in return –so that they continue to get the benefit of what you deliver

This is what Brands help you do –they help you connect emotionally with the user-and give you the purpose of your business which in reality is the route and means of making profits and growing your business

So ,to summarize

1. staying in a commodity business is no way to build a great and successful business unless you have scale
2. The growing domestic market provides you the opportunity to position yourself at the Branding ,Designing end of your business
3. This will give you greater control over your destiny -‘you have plenty of places ,factories ,tanneries to source what you want
4. Branding is not difficult or risky ;does not need big monies ;it needs clear understanding of a deeply felt desire that you find interesting enough for you to spend the rest of your life fun in doing