

# Implementing Business Development Services in Chennai Leather Cluster



**Executed by:**

Entrepreneurship  
Development  
Institute of India  
Ahmedabad, Gujarat

**Supported under:**

MSME Financing & Development Project (MSMEFDP)



# BDS Market Development Plan



Fig. : A Schematic Presentation of the BDS Market Development Plan



## Director's Message

There have been certain radical changes on the Indian industrial turf demanding noticeable response from all quarters to benefit the Small Scale Sector industry. The new rules of managing competition demand a step-by-step strategy to not just sustain but also excel. It is encouraging to note that the Government, realizing this need, has come forward with a huge support infrastructure. An important aspect of this is subsidized business development services consultancy and counseling services to small industry owners so that they can implement right decisions and access right facilities. EDI with decades of experience in entrepreneurship and cluster development appreciates and endorses the role of business development services.

There needs to be awareness among entrepreneurs about Business Development Service Providers (BDSPs) as they play a significant role in propelling small industry owners towards success. On the flip side, however, the cadre of BDSPs needs to command contemporary knowledge on business related areas so as to facilitate Growth and Performance Improvement for existing small entrepreneurs.

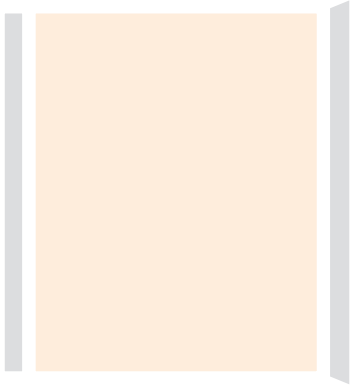
By executing this project successfully, EDI has attempted to impart a winning edge to SMEs by making available expert business development services and by parading a focused approach to strengthen the market of business development services.

I think as we talk about heralding the 'Knowledge Economy', it is time that our entrepreneurs value the significance of awareness, right skills and attitude in business. Research studies, sensitization and awareness workshops and capacity building programmes which will be undertaken by BDSPs, and the initiatives which in turn would be implemented by them will certainly turnaround the facade of entrepreneurship. Even Industry Association executives and other policy makers have been counseled and trained in a way that they move beyond their role as facilitators and act as business development service providers.

We are aiming high but very soon the time will come when entrepreneurs will engage BDSPs for conceptualizing and developing innovative business ideas.

- Dinesh Awasthi

## Message - SIDBI





## Business Development Services... a Boon for MSMEs

Global economic integration has today become a fact that the entrepreneurs have to live with. The world of multinationals and disappearing boundaries of nations have become irreversible sooths of the Indian business scenario. India's economic boundaries are more international today. While a window of opportunities has opened up for entrepreneurs, smaller firms are likely to come under severe resource pressure, lest they adhere to benchmarks, like, value added products, international quality, competitive prices and appropriate technology.

The MSME Sector plays a vital role in the country's economy. Their contribution in GDP, in creating income and employment generation is worth appreciating. However, the present scenario demands that to burgeon they will have to master the new rules of governing competition.

Under the changed world economic order, many a time MSMEs find it difficult to survive and grow. Increasing market competition, pressure of up-grading technology and hence productivity are all facts that are haunting the sector. Cost based competition is eroding their profit margins. Limited access to institutional finance too, is putting strain on their financial resources. Therefore, in order to solve the problems of MSMEs through provisioning of quality business development services and facilitating institutional credit to the MSMEs, the project entitled

**“Implementing Business Development Services (BDS) in Indian MSME Clusters”**, also known as BDS Market Development Project, was commissioned with the support of the World Bank, Department for International Development (DFID), UK, Kreditanstalt für Wiederaufbau (KfW) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany. Small Industries Development Bank of India (SIDBI) was the implementing agency in this project.

Developing BDS Market and ensuring provisioning of quality BDS to the MSMEs were the main objectives of this project. Attempts were made to address the demand and supply side of the BDS market through adoption of strategic measures. Issues like availability and quality of raw material, technology upgradation, productivity and quality improvement, marketing and export development, improving management practices, adoption of financial discipline, increased access to formal finance etc. were handled prudently.

#### **Defining BDS:**

Business Development Services (BDS) are generally defined as "services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of business development service.... includes an array of business services such as training, consultancy, marketing, information, technology development and transfer, business linkage promotion, etc. both strategic (medium to long term issues that improve performance) and operational (day-to-day issues). BDS are designed to serve individual businesses, as opposed to the larger business community."

(Source: Committee of Donor Agencies for Small Enterprise Development, 2001)

Three types of Business Development Services namely strategic, embedded and generic services were covered under the preview of this project. However, primary attention was paid on strategic BDS as it proved quite effective in addressing major problems of the MSMEs operating in the select MSME clusters in the country. This was considered effective in supporting their growth.

#### **Types of BDS:**

**Generic BDS:** 'Generic' services are basically routine services that are transactional in nature. Examples of such services are consultancy in the areas of tax, labour law, factory inspection, book keeping and accounts etc. These services are generally available easily and at times are available in large quantities.

**Strategic BDS:** 'Strategic' BDS are the services which can significantly impact a firm's operation, capability in one or more functional and management areas. It can help in upgrading value chain of an enterprise. Services targeting areas like technology upgradation, productivity improvement, design, marketing, diversification, brand building, testing, financial linkage, growth, business plan preparation etc. fall in this category.

**Embedded BDS:** 'Embedded' services are generally bundled with some products or services. Services of a machinery supplier who provides BDS like maintenance of machines, technical support, training, after sales service etc. for which the user does not have to pay extra, comes in this category. Training on appropriate use of machines by a machinery supplier, training on checking quality of raw material and its optimal utilization by a raw material supplier, fall in this category.





The BDS market, with its infinite reservoir of expertise holds the potential of refurbishing the MSME sector by addressing their functional and management problems and facilitating their growth in the era of globalisation.

### Project Background

The flexibility, adaptability and potential for employment generation that MSMEs possess, assign them a critical place in the Indian economy. The sector has successfully contributed to employment creation, poverty alleviation and has also addressed regional imbalances. Their contribution to GDP is worth appreciating. Government of India has been taking proactive steps in the direction of strengthening the competency of Indian MSMEs. The Eleventh Five-year plan of the Government focused on the MSME sector for achieving various growth targets. The MSME Act 2006 has been another ambitious step in the direction of creating an enabling environment.

However, one of the lacunae MSMEs face in our country is non-availability of quality Business Development Services (BDS) which affects the performance of firms operating in the cluster. Unlike their large counterparts, MSMEs find it difficult to hire experts in various

functional and managerial areas on a permanent basis due to their limited financial capability. On the other hand they are not aware of the availability of quality BDS in the market. Many of their operational and management problems remain unresolved due to non availability of right kind of BDS. Further, it's been felt that for sustainable growth of a cluster, a well developed BDS market is important.

In the light of this, the Implementing BDS in MSME Cluster project was commissioned in 16 MSME Clusters in the country. It was a part of the SME Financing and Development Project (SME-FDP) supported by the World Bank, DFID, GIZ and KfW. While SIDBI was assigned with the responsibility of implementing the project, Banking Division, Department of Economic Affairs (DEA) of the Ministry of Finance, Government of India was the Nodal Agency for the same. In order to ensure smooth implementation of the project, SIDBI had set up a Project Management Division (PMD) at New Delhi.

In a comprehensive multi-stage selection process EDI was chosen as a Facilitating Agency in this project. The Institute was assigned the responsibility of implementing the project in 4 clusters namely, leather clusters at Kolkata, Santiniketan and Chennai and dyes & chemical cluster at Ahmedabad.



#### **The Aims:**

- Foster BDS market development
- Strengthen access of MSMEs to BDS
- Help make BDS providers in the clusters self-sustainable
- Develop select clusters as 'role models' with strong demonstration effects.

The objective of this Project was to, inter-alia, improve MSME access to finance and market oriented BDS, thereby fostering MSME growth, competitiveness and employment creation. The Project was designed to achieve this objective through a multi-pronged approach that address key bottlenecks to MSME financing, growth and competitiveness through intervention to strengthen BDS market and linking them up with the MSMEs for their sustainable and holistic development.

#### **The Nature of BDS Demand & Supply**

Deficiencies in BDS market in clusters vary in nature. Either the BDS services are not appropriate for the type of MSME or they are not cost-effective, or are unavailable, or not 'packaged' or delivered in the desired manner. Such deficiencies in both demand and supply were addressed by either transaction subsidies or specific interventions, like creating awareness amongst MSMEs improving quality & accessibility of services, new product development and capacity building for BDS providers etc. The outcome was envisioned in terms of improvement of MSME access to market oriented BDS, thereby fostering MSME growth, competitiveness and employment creation.

*The project commenced on 13<sup>th</sup> March, 2009. It envisioned fulfilling the objectives over a period of 32 months from its commencement.*

#### **Action Plan:**

The project was initiated with conducting diagnostic study in select 4 MSMEs clusters. The aim was to assess problems of MSMEs and BDSPs, understand the demand and supply side of the service market, and delineate the scope for improvement.

On completion of the diagnostic study action plans were readied in the clusters. The major focus areas of the action plan were as under;

- Capacity building of BDSPs including financial service providers, improving quality and accessibility of services, new product development etc.- Supply side
- Sensitisation and capacity building of the MSMEs-Demand Side
- Establishing MSME-BDS linkages

Capacity building of BDSPs, improving quality of services, developing new service products etc. were done so that the BDSPs can cater to the increasing requirements of the MSMEs and MSMEs after utilising value added services from the BDSPs could improve their business performance. The objective was to address problems of MSMEs, facilitate their growth and improve their competitiveness through provisioning of value added quality business development services by the BDSPs. The role of the business membership organisations here was to strengthen MSMEs-BDSPs linkages and institutionalizing the development intervention.



## Expected Outcome

The project was expected to lead to:

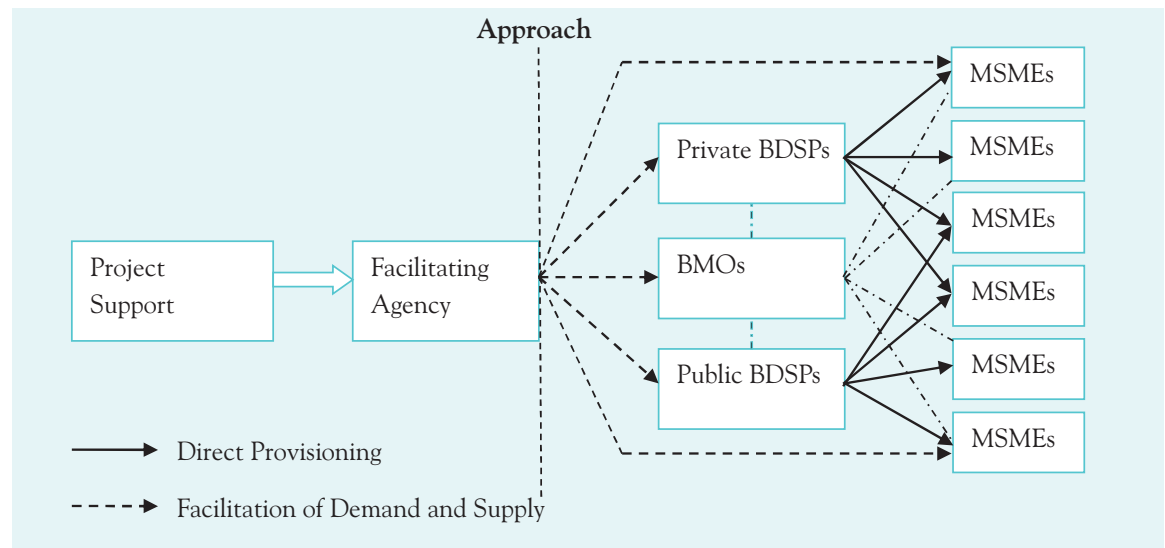
- Induction of new BDSPs and up-scaling of the existing business development services
- Increased BDS usage by MSMEs
- Better packaging of business development services with emphasis on advantages to MSMEs
- Improved access of finance for MSMEs
- Product development
- Quality and service benchmarking
- Preparation of BDS Directory/BDS Data Bank
- International market exposure to entrepreneurs
- Preparation of case studies on 'best practices' / 'role models'
- Sustainability of the BDSPs intervention
- Improved competitiveness, income & employment generation at the firm and cluster level, and
- Local Economic Development (LED)



The following diagram delineates the project, its intervention approach and expected outcome;

It is important to mention here that unlike the traditional approach of BDS intervention in many countries, where primarily reliance was laid on providing direct services to the MSMEs through public BDS or permanently subsidizing their services, here emphasis was laid on BDS market development wherein efforts are made to upgrade quality of existing services, offer value added services, through training of BDSPs, introduce new service products, capacity building of business membership organisations (BMOs), establish MSME-BDS-Institution linkages and increasing demand for BDS amongst MSMEs. Here both private and public BDSPs were assumed to take higher responsibility in terms of providing quality business development services to the MSMEs.

The following diagram delineates this approach of BDS market development.





## The Magic of Leather and the Reasons Behind Turning Around this Sector at Prominent Locations

Leather needs no introduction. It's been there since the time man began evolving – *only the 'kind' varied*. Somewhere hidden in the story of mankind is the story of emergence of leather. Man started using nature to meet his daily requirements and animal skin and hides became a part of his needs. Experiments after experiments led to improved leather from hides and ultimately to fascinating products from treated leather.

Today the sector is beaming with potential and can be quoted as a result-churner when it comes to making a meaningful contribution in the areas of employment, exports and economic growth. The Indian leather industry is spread over sub-sectors and produces a wide range of products. Small artisans to prominent global players render an enviable position to this industry. The country which was a mere exporter of raw materials in 1960s is now known for its value-added products, to a fair extent.



Skill Development Training Programme in Progress

Considering that India is the largest livestock holding country and its contribution is 10% to the global finished leather requirements, one can derive that the scope is immense. The sector needs to become more vibrant in terms of efficiency, quality finishing, design and technology to cater to the untapped Indian market and foreign shores.

*It was felt that all such issues and many others could be addressed and sustainable development of the MSMEs could be induced if the market for Business Development Services (BDS) was improved in these clusters.*

#### At a Glance

- Global imports of leather and leather products is growing at a Compound Annual Growth Rate (CAGR) of 8.77%.
- Major importing countries are USA, Hong Kong, Italy, Germany, France, UK and Japan.
- Major exporting countries are China, Italy, Hong Kong, France, Germany, Brazil, Belgium and India.
- India is the 8<sup>th</sup> largest exporter of leather and leather products and has 3% share in the global market.
- India's export basket:
 

Finished Leather	– 22%
Leather Goods	– 23%
Leather Garments	– 10%
Saddlery & Harness	– 3%
Footwear	– 42%
- Leather industry is among the top 10 export earners in the country.
- It employs more than 2.5 million people.





## Different Hues of Leather... Revisited by the Chennai Leather Cluster

The 1800s saw the emergence of a trading group, in Chennai and nearby districts, that took to exporting hides and skins to Europe for value addition. That was this region's first brush with leather and since then various exploration feats have only enhanced the sector's potential much to its advantage. EI (East India) tanning was introduced by the British in the early 1900s and the first few tanneries were established during this time, manufacturing semi-finished leather for international and domestic market. However, a ban on export of low value added items led the traders to switch over to finished leather and product manufacturing. Government schemes and subsidies only contributed to the growth of this sector in the region.

Today, Chennai and the nearby districts of Tamil Nadu account for about 36 per cent of the Indian leather industry's total exports. Tamil Nadu houses around 650 tanneries and caters to around 6 per cent of the world's supply of finished leather. The clusters in Tamil Nadu are largely located in Chennai and nearby districts, like; Ambur, Ranipet, Vaniambadi, Trichy, Erode and Dindigul. Access to tanneries, port and raw material are factors that perch the cluster at a convenient spot. Hides and skins are procured mainly from slaughter houses in Chennai, carcass

# BDS Project Portal of the Leather Cluster, Chennai



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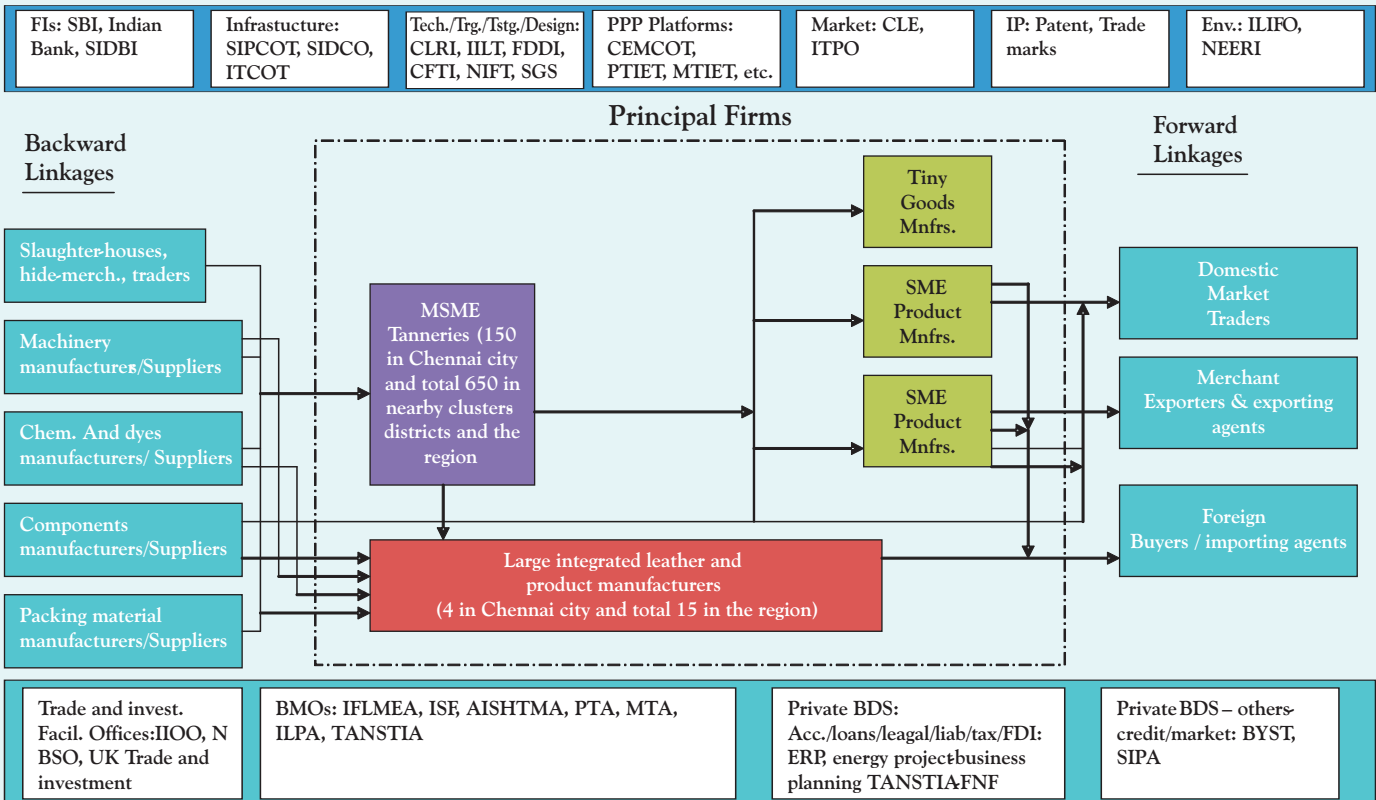
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## Cluster Map

Cluster Map of the Leather Cluster, Chennai delineating Cluster Echo System is presented below. This Cluster Map manifests linkages amongst MSME units, Public and Private BDSPs, support institutions and backward and forward linkage members.



FIs – Financial Institutions; SIPCOT–State Industries Promotion Corporation of Tamil Nadu Limited; SIDCO–Small Industries Development Corporation Limited; ITCOT–Industrial and Technical Consultancy Organisation of Tamilnadu Limited; CLRI–Central Leather Research Institute; IILT–Institute of leather technology; FDDI – Footwear Design and Development Institute; CFTI – Central Footwear Training Institute; NIFT – National Institute of Fashion Technology; SGS – Société Générale de Surveillance; PPP Platform – Public Private Partnership Platform; CLE – Council for Leather Exports; ITPO – India Trade Promotion Organization; IP – Intellectual Property; ILIFO – Indian Leather Industry Foundation; NEERI – The National Environmental Engineering Research Institute; NBSO – Netherlands Business Support Offices; IFLMEA – Indian Finished Leather Manufacturers & Exporters Association; ISF – Indian Shoe Federation; AISHTMA – All India Skin and Hide Tanners Merchants Association; PTA – Pallavaram Tanners Association; MTA – Madhavaram Tanners Association; ILPA – Indian Leather Products Association; TANSTIA – Tamilnadu Small & tiny Industries Association; FDI – Foreign Direct Investment; ERP – Enterprise Resource Planning; TANSTIA-FNF - TFSC (TANSTIA - FNF Service Centre), a collaborative venture between Tamil Nadu Small and Tiny Industries Association (TANSTIA) and Friedrich Naumann Stiftung Foundation (FNST), Germany, was established to render supporting services to Micro, Small and Medium Enterprises.; SIPA – Federation of South Indian Producer Association





The Project Launch Workshop at Chennai

recovery centres established by the Central Leather Research Institute (CLRI) and from traders across the state. Large firms import basic raw material. Machinery, equipment, chemicals and packaging material are sourced from manufacturers and traders in the cluster.

### The Countenance of the BDS Market Before EDI Stepped in....

The BDS market for day-to-day operations, like; taxation and audit, finance, legal services etc. was relatively established. Strategic BDS related to technology transfer, design, testing, and skill upgradation, although available and utilized to some extent by larger firms, was extended through government support institutions at subsidized rates. These services were preferred. There was a certain lack of awareness also about the availability and the

credibility of these services. The market for BDS was rather weak and demand for quality services at commercial rates virtually absent.

Against this backdrop training and institutionalization of the identified BDSPs was taken up with immediate effect. EDI-identified BDSPs were trained in a variety of areas concerning economic and contemporary operation of units in the cluster. They were also imparted information on latest government schemes, incentives and policies so that they could benefit MSMEs. Chennai Leather Cluster was able to institutionalize 67 BDSPs and their profiles were also included in a special directory made for the purpose. 20 BDSPs found place in the Designer's Directory. BDSP Fairs were also organized to bring the MSMEs in direct interaction with BDSPs. The project had a holistic vision primarily because it originated from an indepth research undertaken as a part of diagnostic study of enterprises in the cluster.



Dr. B. K. Naidu, Project Coordinator (Retd. Director Grade Scientist-CLRI) puts it, "There are around 400 leather goods manufacturing units, 180 tanneries and 40000 workers in Chennai. To begin with any intervention, it is first important to know the anomalies and thus EDI first conducted a diagnostic study. The second step was to build trust among this target group by imparting knowledge and conducting awareness programmes on issues like; collateral free loan, energy conservation, pollution control, web site designing, SA 8000, lean manufacturing, skill development, etc. Although EDI's strategy was to cover maximum number of enterprises, only 110 could be covered due to paucity of time as although the project was of 32 months, the actual implementation time was only 18 months."



**The project at a glimpse in the words of Dr. D. Chandramouli, Scientist & Head, Economic Division of Central Leather Research Institute, Chennai**

“I am proud to be associated with this project. Leather industry, as a whole, provides employment to around 25 lac people in the country and Chennai is the hub of all leather related activities. It has a huge potential for value addition. For example you can take 100 rupee worth of raw material and can add 400% value to it. We would, therefore, like to promote this industry. There is a segment for all categories of products. There are buyers who are conscious about not just the contemporary designs but also the conditions under which the products are produced. Therefore, we require to create a social image, provide cleaner and healthier environment, introduce new designs, increase capabilities and capacities, expose the industry to international market, etc.

Secondly, leather industry is a cluster and all involved are interdependent and thus a different approach has to be adopted to promote the industry as one unit. EDI project incorporated many activities for creating a social image. Project of this stature will certainly prepare the SMEs to face the challenges of the emerging market. Under this project issues such as; how to take up cleaner process technology, why to set up effluent treatment plant, how to design and produce market oriented leather goods, etc. have been dealt with.

Like CLRI, most of the laboratories are repositories of knowledge/technology but the need is to exploit this resource. EDI acted as an extended arm of CLRI and because of them we could reach out to entrepreneurs. EDI put in a lot of efforts and sent workers/artisans/tanners from the industry to learn various aspects of flaying, tanning and manufacturing. In the absence of a focussed scheme for leather training, artisan orientation, workers' welfare, etc., The Project provided a platform to workers so that they could strengthen their capacities to face the challenges by making them aware about the latest developments/innovations, exposing them to the real world, sensitizing them to adopt and adapt to new techniques and technologies. Although the project has come to an end, it has enabled them in a way to sustain their growth. However, I do believe that the project could have continued for a little longer period so that more number of entrepreneurs could have been covered.”

**Tackling Issues Headlong**

EDI had a holistic strategy in place to deal with the issues that beset the cluster. Besides dealing with the lacunae in different areas, the Institute also planned programmes to give basic exposure in a variety of areas so that day to day business became easy for entrepreneurs.



Ms. S. Shanthi, Manager (Tech), NSIC conducted one-month training programme on Information Technology for 20 entrepreneurs. She imparted training to small & medium scale leather goods manufacturers on using computer –MS Office, E-governance, using internet for exploring international market, maintaining accounts, preparing power point presentations, etc. Ms. Shanthi said that exposure to these techniques were very useful for them in their routine business operations as earlier they did not even know how to browse.

### Energy Conservation:



Energy efficiency methods were found to be lacking in the cluster leading to wastage of this precious resource. Hence to improve the overall prospects of the cluster, it became necessary to address the issue of energy saving. The approach primarily involved creating awareness about the existence of the problem and the need to rectify it. Programmes were, therefore, conducted on Energy Conservation and ways to capitalize on Govt. of India and SIDBI schemes for Energy Efficiency. 15 units were identified to implement Energy Conservation Measures for a multiplier impact. Besides, an Energy Efficiency Cell with testing, measuring and recording equipments was established in Pallavaram Tanners Effluent Treatment Company Limited – a BMO. For implementing the project in 15 MSMEs, two BDSPs were involved. The BDSPs conducted an Energy Audit, measured performance parameters of major energy consuming equipments, evaluated energy utilization efficiency of major equipments and based on the findings suggested measures to improve Energy Efficiency. The result was reduction in energy cost by 15% to 20%, i.e. almost ₹ 20.25 lac/year. The existing tanning drum was also

improved to enhance energy saving. The idea has been proposed for all 450 tanning drums, which if upgraded, a saving of ₹ 18 crore/annum would be recorded.

What is even more heartening is that sustainability of the measures is also ensured as, the onus of continuity of the task has been taken over by Pallavaram Tanners Industrial Effluent Treatment Company Ltd.

**Mr. N. Ramesh, Managing Director, Keerti Shoes India Pvt. Ltd.** feels that the training component of the project was very useful. As he put it, “Under the project, energy audit was carried out at my unit and the computer aided efficiency measures were also suggested. As against an earlier cost of ₹ 4 to 5 lacs for this software, we now had to pay only ₹ 1 lac. This was very easy for us.

With the help of EDI, Pallavaram Tanners’ Industrial Effluent Treatment Company Ltd. is also extending support of energy efficiency measure equipments to around 120 tanners. At this plant a training programme for 45 tanners on ‘**How To Use These Equipments**’ was also organized. Mr. D. Chandran, Secretary, Pallavaram Tanners’ Association arranged for the services of experts from CLRI & SIDBI who guided the member-tanners on the ways of developing their business. A group of tanners came together, formed a Special Purpose Vehicle and purchased dyes & chemicals from Gujarat in bulk. The benefits were noticeable.



As **Mr. A. R. Senthilkumar of Rathnam Leathers** puts it, “We could buy raw material at 30% to 40% less price. Now, all the 20 member-tanners of SPV have their own website and this has helped us explore new markets for our products.” Mr. Senthilkumar also added that he had sent his employees to various training programmes organized under the project; especially the skill development programmes pertaining to management. Highlighting the benefits that had ensued, he said that the day-to-day operations had become much easier and effective after these training programmes.

While the cost of energy has come down substantially, the cost of production has also registered a reduction, assigning a competitive edge to the cluster.

**Mr. Muneeb Ikram Siddiqui, Chief Manager, NSIC Technical Services Centre** was involved in conducting two training programmes; one, on Energy Efficiency Measures and the other on Information Technology. As Mr. Siddiqui puts it, “NSIC first conducted Energy Audit of a few leather tanneries and analyzed the tanning process, the machinery being used and the systems that the workers had adopted. They identified two-three major areas which could be addressed to save huge amounts of energy. For example; to press leather, entrepreneurs put sheets, one by one, in a pressing machine. The motor of the machine, however, used to be in continuous operation even during the time when the sheets were being changed. In a shift of 9 hours, the motor, although working, was not in use for around 3 hours leading to power wastage.

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Similarly, the entrepreneurs use boiler for generating steam. For generating regular steam they use cold water. Instead if they use solar water heater simultaneously, they would get 80% hot water which would take much less time in generating steam.

Thirdly, in tanneries, the entrepreneurs are used to using local motors for rotating the drums which sometimes lead to accidents due to burning. This also takes more time. Using a branded motor could perhaps solve these problems.

Tanners spend around 12 lacs on energy. With right implementation, they would now save at least 10% of energy being used.

EDI's initiative of establishing an Energy Efficiency Cell at PTIETC and also installing equipments to measure the savings is indeed appreciable. What complemented this initiative is the strategy of imparting training to Association personnel. With this new found skills and knowledge, the Association would now serve the industry better.”

#### Access to Institutional Credit:

The endeavor behind addressing this problem was to promote credit linkages to reduce dependence on informal credit and thus enhance performance of MSME units. To begin with a baseline survey on financial requirements of MSMEs was carried out by involving BDSPs. Information was collected on commercial aspects, promoters of the unit, infrastructure, production capacity, sales targets etc., and based on it a detailed project report was prepared. Simultaneously, entrepreneurs were also enlightened and assisted on matters related to registration of SME, obtaining PAN numbers, obtaining Import-Export codes, machinery quotations, blue print and estimate for civil construction for factory, preparing profit and loss accounts, balance sheets, income tax filing, etc. Entrepreneurs were assisted in preparing loan documents which were submitted to banks. The results were noticeable in the form of immediate sanction of loans for six units (many are under process) up to ₹ 1.88 crore, increase in turnover by 10% to 15%, reduction in the cost of raw materials and enhanced business cycle.



**Mr. Ravindran, a Private Financial Consultant** was rated one of the best business development service providers. He provided consultancy in areas such as; Project Feasibility Studies, Market Research and helped entrepreneurs in dealing with bank formalities. He facilitated six entrepreneurs in acquiring collateral free loan. According to Mr. Ravindran, “Getting finance from nationalized banks is very difficult because the requirement is very high; say 20 lacs to 100 lacs and banks do not fund more than 3 lacs to 5 lacs. Banks wish to extend funding to a large number of entrepreneurs but in small proportions. Secondly, banks easily approve loans for machinery and expect bigger

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promoters' share. Mr. Venkata Subramaniam, owner of M/s Mitra Company, could avail a working capital of ₹ 85 lacs from Indian Overseas Bank within 4 months, M/s. Kirti Exports received ₹ 25 lacs from the State Bank of India and MI Studios was sanctioned ₹ 10 lacs. All are presently doing well and regularly repaying the installments.”

### Obtaining Quality Certification:



*Awareness Programme on SA 8000 progressing in the cluster*

The MSMEs in the cluster were unaware of the codes of conduct mandatory for catering to developed markets of U.K., USA, Germany, Italy, France, Spain etc. The importers in these countries did not prefer imports from the cluster as the products failed to meet international norms of quality. The objective was, therefore, to imbibe a sense of quality consciousness among entrepreneurs so that their acceptance at the global level increased. EDI began by planning awareness workshops to establish the need for SA - 8000 certification. The beneficiary units which were identified, were helped in preparing the documents, undergoing all requisite verifications and certification audit, and in obtaining the SA-8000 certification. The progress was monitored at every stage. This move has encouraged entrepreneurs to display social accountability and has brought in increased productivity, marketability, business prospects, thus

imparting an edge to entrepreneurs over their competitors.

Another effort in the direction of ensuring quality has been to introduce the entrepreneurs to a unique software to maintain perfection at tanneries. Mr. G. Y. Moses, the Vice President of Alpha Systems Pvt. Ltd. was roped in the project as a Business Development Service Provider. The company supplied a software called, 'Total Production Control System' (TPCS) which controls almost all the operations in a tannery. It helps maintain data of raw skin to final leather products. The software helps record the entire process from 'sampling to shipment'. For example; each tannery uses various chemicals at different stages. Many a time to obtain a combination, they mix chemicals. Since the process is done manually, obtaining perfection becomes difficult, leading to wastage and other problems. TPCS guides tanners on mixing of chemicals in right proportion to get just the right result.

As Mr. Moses puts it, “EDI introduced my software to the tanneries. They not only created awareness about the importance of this software but trained the workers also on using it effectively. We were known in the industry but became popular because of EDI.”

### Lean Manufacturing:

The cluster showed scope of enhancing its productivity by adopting lean manufacturing practices. In the absence of such practices, the productivity wasn't getting harnessed to the hilt.



*Skill Development Programme in progress*

The Implementing BDS in the Leather Cluster at Chennai Project, therefore, adopted measures to introduce lean manufacturing practices. The entrepreneurs were initially hesitant in opening up and refused to give a hearing. They perceived EDI and the BDSPs as intruders seeking inside information. However, after umpteen counseling sessions, they were convinced about the benefits and agreed to implementation of lean manufacturing practices. EDI appointed BDSP streamlined the production processes and eliminated bottlenecks, created production and assembly planning to enhance delivery performance. An elaborate assessment of various systems and machines led to optimum utilization of capacities bringing in efficiency and viability. The results were cheering as production increased by 50% to 75% with improved machinery utilization by 65%. The overall operation cost reduced by about 10%. Intervention

was first successfully implemented in four MSMEs and the benefits created a ripple effect motivating other units to join the league.

According to **Mr. A. R. Senthilkumar of Rathnam Leathers**, “We learnt the technique of Lean Manufacturing which ensures less investment and maximum output. The BDSPs, explained how to avoid excess purchase of raw material, reduce wastage, effectively use existing stock, etc. This has benefited us in increasing the overall production. Even smaller entrepreneurs should be given exposure to this technique of inventory control. It is about keeping the factory in order and placing the material appropriately to maximize from the existing resources.”

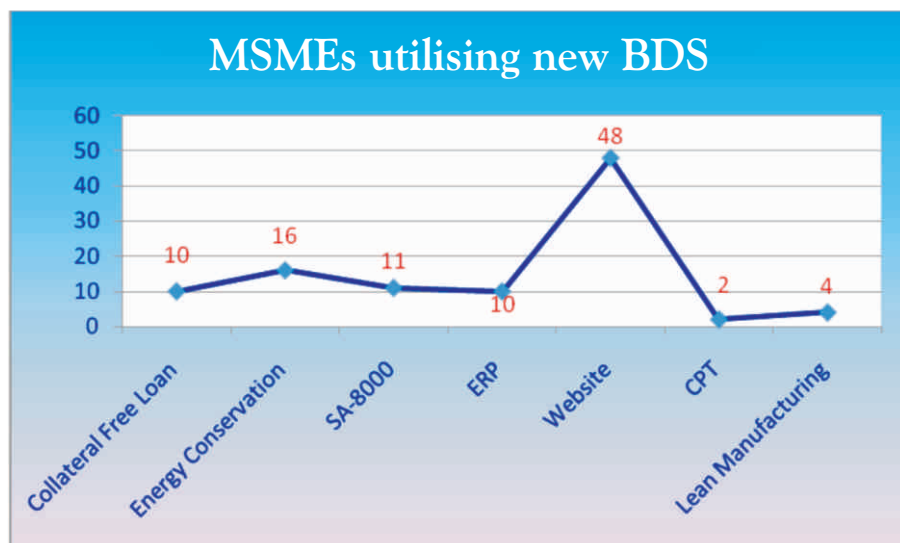
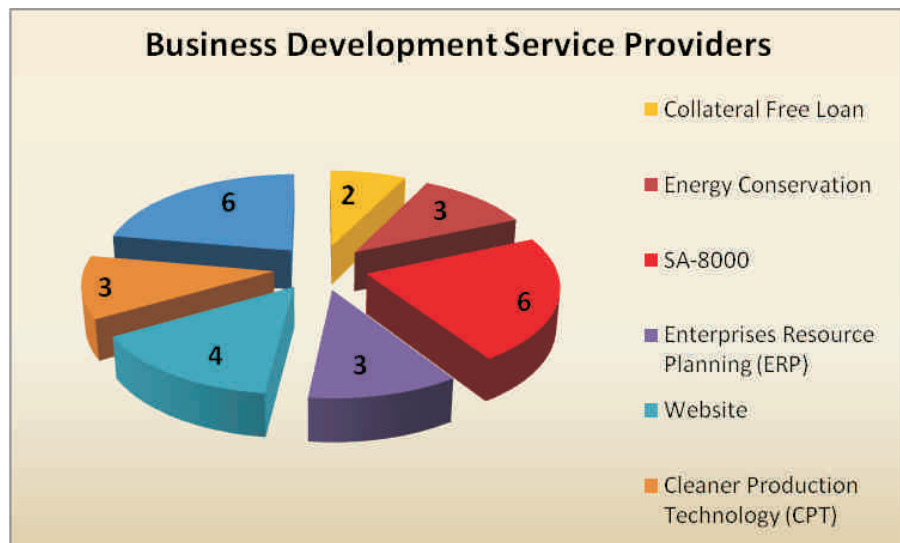


*Implementation of Cleaner Production Technology in MSME units*

### Cleaner Production Technology:

The cluster entrepreneurs were unaware of the existence of technologies that could help them produce without generating effluents beyond the permissible level. Hence the primary goal under this intervention was to demonstrate the existence and use of technologies that not just led to reduction of effluents but also promoted efficiency and viability. To demonstrate, cleaner production technology was first implemented in two tanning units and information on the benefits that ensued at these tanning units were disseminated through programmes and seminars. To implement the process, the BDSP first studied the existing process and suggested technologies to reduce TDS and COD loads in the effluents generated. The entrepreneurs were also suggested use of high performing post tanning auxiliaries and were introduced to measures to eliminate

chemicals, viz; formaldehyde, hexavalent chromium, NPE and extractable chromium. The entrepreneurs also adopted suitable measures for waste water recycling. The results of these implementations were encouraging as the usage of purchased water reduced by 20%, thus bringing down the cost of production that resulted in profits of about ₹ 1.2 lac/annum/unit. A wide range of chemicals could also be recovered and reused, thus saving around ₹ 14.40 lac/annum/unit. These benefits were disseminated to other tanners who came forward to implement the process. Simultaneously, a new viable concept of saltless tanning process was also introduced and it is gradually gaining grounds. The cluster bears a rather conspicuous contemporary outlook and the upbeat mood of entrepreneurs complements this new found image.





### Special Purpose Vehicle for Common Procurement of Raw Material:



One of the solutions identified to boost the prospects of the cluster was to reduce the cost of raw material, thus lending dynamism to the cluster. And, one area which drew attention was the high cost of raw material. The sector being an agglomeration of related enterprises, it was felt that a common platform could be created to help them procure raw materials, like; dyes and chemicals in bulk, thus bringing down the cost incurred by each. However, the task wasn't as easy as it sounded. The entrepreneurs considered this coming together as a threat to their business. It took several counseling sessions to convince them about the radical changes that joint purchases could usher in. The members of Pallavaram Tanners' Association were called upon to conduct such dissemination seminars and counseling sessions. As a next step, a Special Purpose Vehicle was formed in the form of a private limited company in the name of Pallavaram Tannery

Cluster Company Ltd. The operational modalities and other issues were finalized before commencing business. The outcome of this initiative has endorsed the faith of entrepreneurs in this developmental initiative undertaken by EDI. They have experienced a 30% reduction in the cost of dyes and chemicals as the SPV processes orders at ₹250 to 260 per kg as against ₹ 375 to 400 in the local market. As on October 2011, orders were executed to the tune of ₹ 20.80 lac recording a net gain of ₹ 6.24 lac. The intervention has had a replicative effect and has brought many other clusters under the fold of similar interventions. The SPV is also exploring with the Gujarat Narmada Valley Fertilizers Company Ltd. to buy formic acid. This would lead to an earning of ₹ 19 per kg. From catering to ten colours, the SPV has grown to cover 56 colours. The success story of the SPV was covered in major English dailies, like; the Business Line, The Hindu, Indian Leather and Leather News India (CLE).

“One of the major initiatives was to establish a Special Purpose Vehicle (SPV). 15 tanners came together and bought dyes & chemicals from Ahmedabad. This approach brought down the cost tremendously. There are other areas also; like marketing, export, acquiring financial assistance, etc. where formation of SPVs is being explored, as this initiative would directly benefit entrepreneurs. I wish the project continues as most entrepreneurs also desire. I am happy that other clusters, like; Ranepeth, Ambore, Trichy, Vaniambadi have drawn learning from our interventions and are in the process of adopting the measures.”

- **Dr. B. K. Naidu**, Project Coordinator  
(Retd. Director Grade Scientist-CLRI)

The project was successful in giving an evident uplift to the sector. It succeeded in making strategic and operational business development services available to MSMEs. It positively impacted the core areas of enterprise operation and put in place BDSPs in all those areas to ensure sustainability. Some of these areas can be listed as:

- Optimizing sourcing of raw materials and inputs
- Energy saving and environmental compliance facilities / infrastructure
- BMO capacity building
- Training and introducing New BDS Providers and BDS Practices by bridging the gap in the BDS Market.
- Access to financial agencies
- Improving production and productivity through technology upgradation
- Skill development in designing

The Who Does Who Pays (WDWP) Matrix is one of the important instruments used world-wide to indicate the impact of the BDS project intervention. The WDWP Matrix of the Chennai leather cluster before and after project intervention is presented below. The matrix clearly indicates that there has been increase in number of service providers, both private and public, as a result of implementation of the BDS project. It also indicates introduction of new specialized services and service providers and beneficiaries' increasing willingness to share cost of BDS usage.

Type of BDS	Size	Beginning of Project		End of Project	
		Who does	Who pays	Who does	Who pays
Procurement	MSME	AISTHMA	Beneficiary 100%	SPV (newly formed) for common procurement	Beneficiary 100%
Social Compliance SA-8000 Certification	MSME (11 units)	Private BDS for large units	100%	6 PV(O)	50% (SP) 50% (F)
Lean Manufacturing	MSME (4 units)	-	-	6 PV(O) BDSP	70% (SP) 30% (F)
Website Development	MSME (48 units)	PV (O)	100%	4 PV(O) BDSP	70% (SP) 30% (F)
Collateral Free Loans	MSME (10 units)	PV (O)	100% by Beneficiary	2 PV(O)	75% (SP) 25% (F)
Energy Efficiency	MSME (10 units)	-	-	1 PV(O) 2 PUB	70% (SP) 30% (F)
ERP	MSME (3 units)	-	-	3 PV(O)	50% (SP) 50% (F)
Cleaner Production Technology	MSME (2 units)	-	-	3 PV(O)	70% (SP) 30% (F)
Skill Upgradation & Training	MSME Units	MSME-DI DIC	100%(F)	10 PV(O)	70% (SP) 30% (F)
Design Development	MSME Units	CLRI, FDDI, CFTI	100% (F)	3 PUB	70% (SP) 30% (F)

F – Firm, SP – Support from Project, SO – Support from other Source, PUB – Public BDS, PV (O) – Private organized BDS, PV (UO) – Private un-organized BDS



## Achievements at a Glance

- 900 entrepreneurs attended 60 awareness workshops on emerging thematic areas to enhance capacity of MSMEs
- Introduced services of 37 BDSPs in the cluster to execute 101 voucher cost activities
- Developed skills of 400 employees on IT/MIS, TALLY, Management & Advanced and Basic Designs
- Energy Efficiency Measures implemented in 15 MSMEs resulted in 15 to 20 % saving of energy, i.e. approximately ₹ 20.25 lac per year
- Common bulk purchase of dyes and chemicals through Special Purpose Vehicle, i.e., at ₹260/kg as against ₹ 400/kg registered 30% gain. So far ₹ 20.80 lac worth of dyes has been procured and the net gain is close to ₹ 6.24 lac.
- Collateral free loan amounting to ₹ 1.88 crore availed by units. This has resulted in improved working capital cycle, increased credit facility and market expansion.
- 21 MSMEs trained for filing up of application form for IDLS out of which 7 units obtained loan to the tune of ₹ 4 crore and subsidy of ₹ **1.20 crore**.
- Implementation of Lean Manufacturing in units resulted in
  - Increase in production by about 50% to 75%.
  - Improved machinery utilization by 50% to 65%.
  - Reduction in rework level by 12% to 4%.
  - Reduction in overall operation cost by about 10% to 5%.
- Implementation of Enterprises Resource Planning in units has led to
  - Improved Purchase Management
  - Reduction in Inventory
  - Better Decision making
  - Reduction in non-moving items
  - Smooth flow of funds
  - Generation of Quick MIS system
- Adoption of Cleaner Production Technology in tanneries resulted in
  - Reduction in water usage by 20% valued at ₹ **1.12 lac/year/unit**
  - Recovery and re-use of chemicals leading to a saving of ₹ **14.40 lac/year/unit**.
  - Reduction in effluent discharge
  - Cleaner processing technologies developed and demonstrated. These were adopted by many tanneries.
- Certification of SA-8000 in 11 units resulted in
  - Commitment of employer to social accountability
  - Increased productivity and reduced absenteeism.
  - Increased positive response from workforce
  - Increase in safety consciousness
- Development of Website by 48 MSMEs resulted in
  - Publicity profile of companies
  - Increased market enquiry
  - Increased turnover due to enlarged market penetration.
  - Renewal of 70% of units

Cont....

- Intra cluster visits organized, helping MSMEs (First timers) source wet blue leather from Kolkata at ₹ 34/kg as against ₹ 38/kg in the local market. Sourced 30 lac sq.ft. and benefited by ₹ 1.20 crore.
- Introduction of Strategic BDS and BDSPs
  - Formation of **Special Purpose Vehicle (SPV)** viz. PTCCPL for bulk purchase of dyes and chemicals
  - Improvements / modifications in **Pilot Tanning Drum** to save energy with enhanced loading capacity.
  - Establishment of **Energy Efficiency Cell** at Pallavaram Tanners Industrial Effluent Treatment Company Ltd. (PTIETC)
  - Formation of **New Association**; Association of Footwear Components, Accessories and Machinery Manufacturers of India (AFCAMMI), to bridge the Missing link in the cluster
  - Establishment of **Information cum Display Centre** for Components in Central Footwear Training Institute (CFTI)
- Capacity Building of existing BMOs like; Pallavaram Tanners Association (PTA), Pallavaram Tanners Industrial Effluent Treatment Company Ltd. (PTIETC), Indian Shoe Federation (ISF), Madhavaram Leather Finishing Society (MLFS), Association of Footwear Components, Accessories and Machinery Manufacturers of India (AFCAMMI) to keep the BDS Market Development initiative sustainable.



The project envisaged a total facelift of the cluster by concentrating on energy efficiency methods, lean manufacturing practices and cleaner production technology in tanneries. The results were positive and changed the countenance of the cluster. I am glad that sustainability could also be ensured simultaneously and after EDI's exit the trained Business Development Service Providers will carry the torch forward.

Mr. D. M. Parikh, Project Director,  
Leather Cluster, Chennai









