LEATHER GOODS MARKET IN RUSSIA

PRODUCTION IN LEATHER INDUSTRY

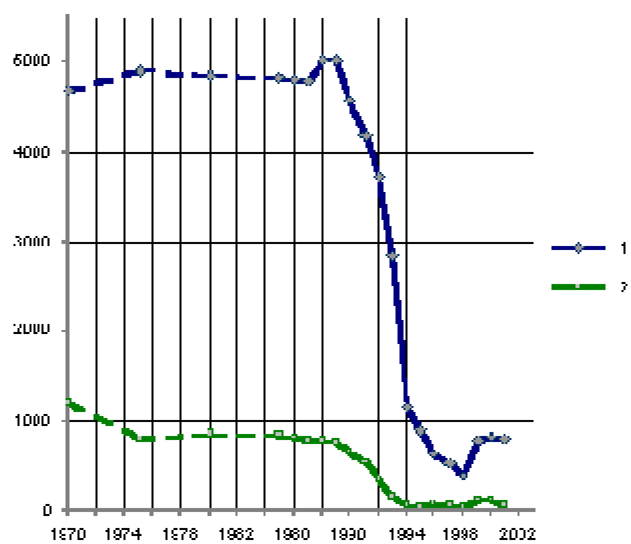
Russia has a wide historical experience in the treatment of animal hides to obtain leather goods; it is traditionally a large-scale producer of natural leather and leather goods.

In the beginning of 1990s, the production of leather goods in Russia has been scaled down. As the USSR disintegrated, part of the enterprises went to near abroad countries; the rest decreased their production dramatically. After that, leather was being mainly exported as rawstock; instead a considerable amount of finished products was being imported. As a matter of fact, entire light industry branches that have been serving the main population's demands were eliminated.

Likewise, the domestic shoe industry was also paralyzed. In the years from 1970 through 1990, shoe production in RSRSF was being maintained at a stable level of 350-380 million shoe pairs per year. In 1990, the production was 385 million pairs; by 1997, it decreased to 33 million.

Fig. 1

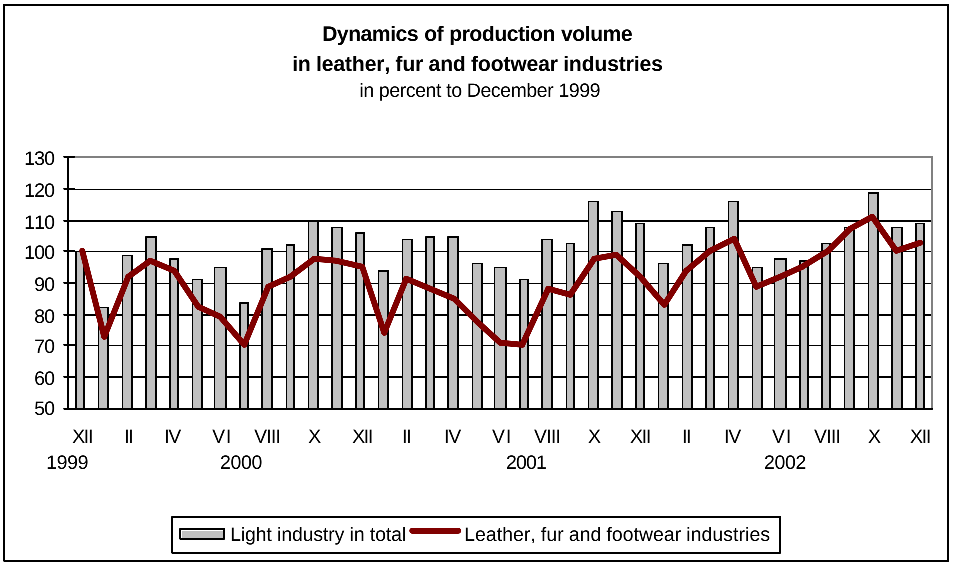
Production of leather goods in Russian Soviet Federative Socialist Republic and in RF, million sq. dm. (1 – chrome leather goods; 2 – yuft leather goods)



Source: Goskomstat

The decline in the production volume of this industry sector, which started in 1991, has ended in 1999. After the crisis in August 1998, domestic leather industry has used the resulting favorable conditions, and the **production volume started to grow**.

Fig. 2



Source: Goskomstat

The increase in the production volume was also facilitated by the fact that the manufacturers restrained the price growth despite the increase in expenses (the manufacturers' price index in light industry was 122.3% in 2000).

However, the import substitution factor and the price containment policy have used up their potential by now. In 2000, the physical production volume index was 120.9%, to become 105% in 2001 and 96.6% in 2002.

The growth in leather industry occurs mainly in the production of **natural leather and footwear**:

Table 1

Industry	**2002, $ million**	**In percent to 2001**
Leather, fur and footwear industries, including:	641	103.0
- Natural leather production	152	**111.5**
- Production of artificial leather and film materials	110	97.4
- Fancy goods industry	31	102.9

- Footwear industry	277	**111.8**

At present, Russia's leather and footwear industry is represented by **50 leather and 220 footwear manufacturers** that belong to different forms of ownership.

Their production capacity is:

Leather manufacturers: 4.4 billion square decimeters,
Footwear manufacturers: 160 million shoe pairs.

The largest natural leather manufacturers

In 2002, ***chrome-tanned leather*** was manufactured at 31 factories; 16 of them produced 93% of the total volume of manufacture. The largest amount of chrome-tanned leather was produced in Tver region ("Ostashkovsky kozhzavod"), Ryazan region ("Russkaya kozha"), and Yaroslavl region ("Khrom" LLC).

Yuft was produced at 15 factories. Seven largest yuft producers made 85% of its total volume; their production volume increased by 75%. The largest yuft producers are located in Kirov region ("Vakhrushi-yuft"), Yaroslavl region ("Rybinsky kozhzavod"), and Nizhniy Novgorod region ("Khromatin" closed joint-stock company).

Leather for shoe bottoms was made at 15 factories; of these, five largest of them produced 72% of the total volume of manufacture. The largest amount of leather for shoe bottoms was produced in Voronezh region ("Shevro").

In total, 1175.9 million sq. dm of ***chrome-tanned leather***, 100.5 million sq. dm of ***yuft***, and 73.8 million sq. dm of ***leather for shoe bottoms*** have been produced in 2002.

Problems faced by domestic manufacturers in the industry

- Shortage of cash reserves
- High wear of production equipment
- Insufficient volume of investments
- Low production profitability
- Poor competitive capability of finished products
- Considerable volume of unofficial production
- Considerable exports of domestic leather rawstock
- Considerable imports of finished products at low prices

RAWSTOCK

Procurement of rawstock in Russia

The rawstock market has some specific features in comparison with other raw materials markets. It is highly dynamic and unsteady; its prices always remain unstable, too. Therefore, unlike other raw materials markets, supply does not increase automatically when the consumers' demand increases.

Before 1998, rawstock was bought up from private traders and farmers by commercial intermediate firms and sold it to rawstock exporting companies. Meat factories, whose share in rawhide production is about 20%, also sold it to exporters or put it on the market on their own. Leather factories used to buy rawstock from intermediate firms, *i.e.*, they did not deal with rawstock producers directly; therefore, they got only 15-20% of rawstock of the poorest grades which had not been claimed for export.

Starting from 1999, both the production of leather and footwear and the demand for quality products started to grow, tanning enterprises supported by regional administrations started to create their own points for collecting and treatment of rawstock. Some regions adopted the appropriate laws and regulations for this purpose.

Despite the reduction in cattle stock, the weakness of processing facilities and the decreasing growth rates of the production of hard and tanned leather, Russian producers still do not depend on imported rawstock.

The production of hard and tanned leather in Russia now focuses on small and joint ventures that have privileged crediting and taxation, as well as customs privileges for the import of technological equipment.

Main rawstock problems

1. *Export of 1st and 2nd grade rawstock*

About 80% of the best leather rawstock, namely, that of the 1st and 2nd grade, is yearly exported abroad by commercial structures, whereas only 20% of low-grade rawstock remains for Russian manufacturers.

2. *Deteriorating rawstock quality*

The rawstock quality deteriorates due to the worsening of stockkeeping and the abrupt increase in the cattle sickness rate (skin gadfly, mange, itch-mite, scab).

3. *Decreasing rawstock amount – livestock reduction*

The population of all types of cattle has decreased dramatically over the past years. The population of cattle has decreased from 57 million heads in 1991 to 27.8 million heads in 2002 and is still decreasing. Stockkeeping has become worse, and the stock sickness rate has increased, which impairs considerably the rawstock quality.

4. Poor rawstock processing

- lack of processing technology;
- lack of adequately qualified professionals;
- obsolete equipment.

For 70-75% slaughtering is carried out at individual farms without adhering to the appropriate technologies of slaughtering, hide removal, and hide curing; this also led to a worsening of the rawstock quality and hence increased the rawstock consumption per unit finished product by 20-25%. Taken together, all these factors have an adverse effect on the amount of procured and produced leather.

5. Unsatisfactory rawstock storage.

Duties for rawstock exports

Starting from 1998, domestic manufacturers have been attempting to limit rawstock exports. As a result, in 1999 the government introduced duties for the entire leather group, including rawstock, semi-products, and finished leather. Export customs duties increase almost annually.

Table 2

RF Government Regulation	Export duty rate:	
	in percent of customs value	**In Euro for 1000 kg**
Dated 12.07.1999, No. 798	10	–
Dated 28.03.2000, No. 269	15	But no less than 105 Euro
Dated 29.12.2000, No. 1024	20	But no less than 150 Euro
Dated 10.07.2001, No. 492	–	500 Euro

As a result of introducing the latest customs duties for raw hides (up to 500 Euro per ton), rawstock exports decreased by 20% as it became unprofitable at the price of 1.6 Euro per kilogram on European markets. The production of finished leather in Russia increased. Simultaneously, the production of leather semiproducts intended for export started to grow fast. Companies dealing in rawstock procurement increased its processing into semiproducts for which customs duties have not been increased.

Nevertheless, Russian tanners demand that exports of rawstock be banned completely.

Exporters and importers turn to investments in Russian industry

Owing to the introduced restrictions on the export of domestic raw materials, exporters started to turn to the processing of raw materials within Russia followed by export of finished products. In fact, in 2000 the major Italian leather company Mastrotgo purchased a leather factory in Bryansk region; a Moscow company dealing with raw materials purchased the Taganrog leather factory; the major raw materials exporter, Zolotoe Runo company, started to invest money in the development of a skinnery in Ioshkar Ola city; the Volen company – a raw materials exporter – has been engaged in raw materials treatment in Russia since 1999.

The introduction of high customs duties for footwear imports made it possible to attract Russian investors and large footwear trade companies, such as the former importers Econica, Palmira, MShoes, etc., to footwear production in Russia. Nowadays, they invest their money in production and in the re-equipment of domestic footwear factories; moreover, they produce footwear from Russian leather.

FOREIGN TRADE TURNOVER IN LEATHER INDUSTRY

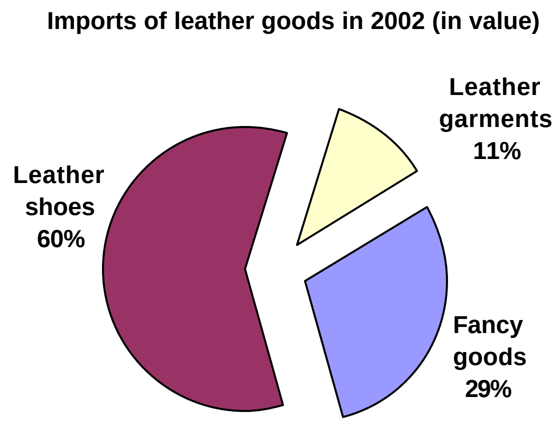
Officially, the import of leather goods to Russia in 2002 in monetary terms (in value) amounted to 207.9 mln. USD. Of this amount, 124.0 mln. USD corresponds to leather footwear, 60.3 mln. USD corresponds to leather fancy goods, and 23.6 mln. USD corresponds to leather garments.

In 2001, the import of leather goods in monetary terms (in value) amounted to 235.7 mln. USD. Thus, the import of leather goods in monetary terms decreased by 12% in just a year. Specifically:

- the import of leather footwear, which constitutes the main share of the imports of leather goods to Russia, decreased by 14%;
- the import of leather garments decreased by 26%;
- the import of leather fancy goods increased by 1.5%.

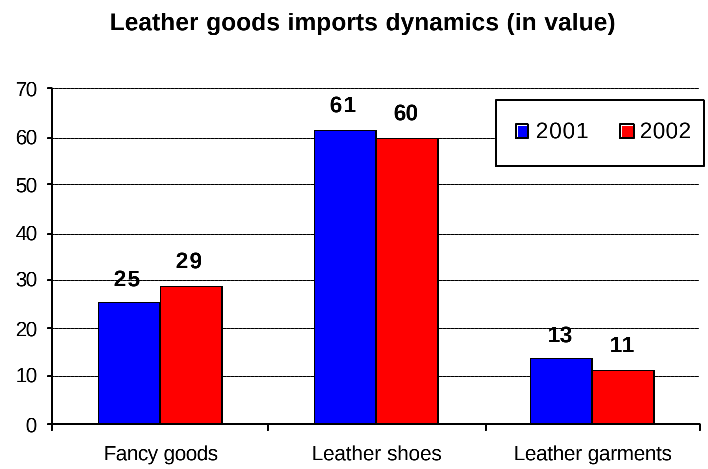
Thus, the share of footwear in the imports of leather goods remained almost the same, whereas the share of leather garments decreased somewhat: from 13% in 2001 to 11% in 2002. On the contrary, the market of imported **fancy goods** grows: from 25% in 2001 to 29% in 2002.

Fig. 3



Source: RF State Customs Committee

Fig. 4



Source: RF State Customs Committee

If the import of leather products is considered in volume rather than in monetary units, the picture is different. In 2002, the imports of leather footwear to Russia have grown by 28% (from 10.0 to 12.8 million pairs of shoes). Thus, while in 2001 the invoice price for one pair of shoes was 14.4 USD, in 2002 it was 9.7 USD, *i.e.*, 1.5 times cheaper.

On the contrary, the average invoice price increased in 2002: from 37.7 to 39.4 thousand USD per ton.

DISTRIBUTION

Operation scheme of Russian distributors

1. Required models are chosen from the European manufacturers' model series and transferred to a manufacturer. In many cases, a customer's agent resides with the manufacturer.

2. **The manufacturer** urgently (from a week to a month) manufactures the required amount of goods and sends it to the client.

3. **Shipment** transfers the goods to Russia and solves all customs, storage and transportation problems. At the output, the client obtains a package of all required documentation.

4. **The Russian distributor** receives the goods and distributes it (wholesale or retail sales). Warehouses are generally attached to sales points. The distributor's markup may be up to 100% of the purchase price.

The scheme of operation of Ranves company (St. Petersburg), official distributor of an Indian manufacturer (leather garments trade):

1. *We are distributors of an Indian factory.*

2. *They send us a range of products: these are either goods of our design or our orders.*

3. *Further, the goods are distributed through sales representatives among clients (stores, shopping centres, sales points).*

4. *The latter sell the goods.*

5. *We analyze which goods sell better; next time, we order such goods.*

6. *Goods ordering is accompanied by prepayment.*

Working with Russian distributors coupled with prepaid ordering appears the most efficient; however, the ordering system in Russia is established very poorly and is undeveloped. Clients frequently make changes to orders. Moreover, it is very difficult for foreign manufacturers to contact particular Russian vendors.

> ➯ Our Russian vendors tried to order goods directly in India in order to obtain goods directly. However, they failed. Though India makes direct deliveries to America and Europe, this is not the case with Russia (Ranves, SPb, official distributor of an Indian manufacturer).

In a case of differed payment the payment itself can be guarantied by few methods: the terms of contract, letter of credit or personal relationships. Each business case must be taken separately and there are no certain formulas. This is why we **recommend** you to get consultation from the foreign trade specialist or the person who has an experience in this area.

The distribution chain includes three main members:

1. Manufacturer
2. Representative (distributor, wholesaler)
3. Client (store, retail trade)

The manufacturer sends goods to a representative at a certain price.

The representative increases the price based on the delivery, storage, and other expenses and also the profit margin the company wants. This is around 20-30% on average. A company may work at a sacrifice for some initial period of time in order to obtain customers.

The mark-up in a store is unpredictable; the final price can be a few times higher than the manufacturer's price:

> "We observed that our neighbors were selling our goods at prices three times higher. The mark-up can be three times higher" (Ranves, SPb, official distributor of an Indian manufacturer).

Distribution in regions

The distribution system for leather goods is arranged in such a way that goods first arrive for sale in central Russia's regions (Moscow, Moscow Region, Saint Petersburg) and then distributed to the other regions.

Such distribution also has to do with fashion: fashionable things in the capital today will become fashionable 1000 km away from it only half a year later. Thus, the remainder of goods is distributed to the regions.

It is Turkish and Chinese manufacturers that quickly react on changes in fashion. The response time, that is, from the beginning of production to the moment the goods begin to be sold in Russia, amounts to 20 days.

Chains

Of the goods considered here, the growth of chains is primarily typical of footwear. The footwear chains are expanding steadily. According to expert estimates, this trend will remain in the coming years.

Large companies have their own distributor chains; they import footwear under their trademarks. These companies include: Econica, Alba, TJ, Ecco, Carlo Pazolini, Salita.

As a rule, large companies have developed dealer and retail chains. However, the number of members in the distribution chain tends to decrease. The franchise approach is developing actively, according to which stores are often forbidden to cooperate with suppliers of other trademarks.

Main distribution problems

For **manufacturers** it is more profitable to supply large batches of products.

On the contrary, for **distributors** it is more preferable to have small parties of goods. Many small distributors are present on the Russian market, but there are no really large distributors.

As a result, distributors show low loyalty to foreign manufacturers; it turn, it is difficult for the latter to control the activities of Russian distributors.

In the case of leather garments and shoes, it is very important for a seller to have all sizes of the goods, that is, from the smallest to the largest. If some size is lacking, it should be delivered from the warehouse in a few hours, in a day as a maximum.

The Russian market often suffers uncivilized forms and methods of competition. In particular, experts named the use of state authorities (for example, OBEP) as one of the most efficient methods for fighting with competitors:

- "There was a well-known company, a good wholesaler… their competitors did away with them quickly by having OBEP (Department for fighting economic crimes) fall upon them. They arrived, started to check documents, and sealed the warehouses. The company waited for the documents to be cleared; everything was fine. When the warehouses were unsealed, all the goods had disappeared. That is how competitors are treated – there is total insecurity in our country" (Platan Vernissage, Moscow, distrubutor).

TRENDS ON THE LEATHER GOODS MARKET IN RUSSIA

Main specific feature is the "greyness" of the leather goods market.

As experts estimate, the "grey" share is **up to 65-70%** of the leather footwear and fancy goods market and about **80%** of the leather garments market.

The market "greyness" lowers the distributors' **expenses** (privileged import, "special" taxes) and the **risks** related to unpredictable demand.

- I think, all countries are involved in this. The import is partially grey, partially not. The share of white import is about 30 percent; the rest is grey because of the high customs duties. As it is now, suppliers transfer a fraction of the goods, certify them, then transfer the rest under that certificate" (Ranves, SPb, official distributor of an Indian manufacturer).

"Grey" import schemes

Historically the following types of import schemes are established:

1. *"Chelnoki" - individuals*

   This scheme is established within last 10 years. "Chelnoki" constitute a considerable share of Russian leather goods distributors ("shuttles" are countless). Last 2-3 years trend: chelnoki are decreasing, trying to exit from "shadow". However, this category is still rather high.

2. *"Cargo transportation"*

   This is an invention of Russian traders which allows them to pay customs duties depending on the weight of goods. The cargo is treated as goods for individuals and is subject to preferential tariff treatment.

   - Example: in the case of footwear, a trader pays 2 dollars per kg (that is one dollar for a shoe pair). In case of normal customs clearance, this amount would be 15% higher + 1.5 Euro per pair.

3. *Humanitarian aid*

   A Russian company makes agreement with a manufacturer to clear the cargo as a humanitarian aid. Such goods are exempt from custom duties.

4. *Clearing goods as a privileged category goods (for example, plasticine)*

   A scheme to decrease the high customs duties: special agreements with customs (bribes, etc.). Expensive goods are cleared as cheap ones, hence the end prices are lower.

5. *Transportation of goods as constituent parts rather than ready goods*

   Goods are cleared as constituent parts at the customs. For example, in the case of garments, it may be ready jackets without buttons.

6. *Changing the country of origin in order to minimize the customs duties.*

   - For example, the label "made in China" can hide western manufacturers, for which it is more profitable to mark their goods as Chinese and indicate a lower price per unit in the customs declaration.

7. *"Wry logistic schemes".*

   - For example, goods are actually manufactured in China but brought to Russia through suppliers in Europe.

RETAIL TRADE

Leather goods retailers usually work with several suppliers simultaneously. As the interviewing of managers of Russian retail stores (N=159) showed, only 25% of them have just one supplier with which they work permanently. About 20% of them have two suppliers and another 20% have three suppliers. 35% of the interviewed sales points have four or more suppliers; 15% of these have ten or more suppliers.

On average, one supplier provides 40% of the total amount of leather goods purchased by a given sales point. For Moscow and St. Petersburg, this fraction is 35-40%, while in Samara and Kazan, it is 40-55%.

Half of suppliers work with sales points under long-term contracts, while the other half purchase goods in single-order format.

Almost half of all suppliers (46%) are wholesalers, one third (33%) are manufacturers, and 17% are distributors (for valid answers, without DK/NA).

As regards the channels for contacting suppliers, there are three strategies that are the most popular and widespread:

1. Suppliers make offers for cooperation (this is most typical of Moscow and St.-Petersburg): 38%;

2. Contacts with suppliers are established at specialized exhibitions: 33%;

3. Suppliers are found through friends: 28%.

Representatives of regional sales points are more inclined to search for suppliers on their own.

More than half of all suppliers of leather goods (53%) are located in Moscow; 12% are in St. Petersburg; 29% are abroad; and only 1% are both in Samara and Kazan (for valid answers, without DK/NA). Representatives of sales points located in regional cities prefer to work with suppliers from Moscow or directly with foreign manufacturers. Local distributor and wholesale chains are developed poorly. It is only in St. Petersburg that rather many local suppliers are available.

In most cases (60%), sellers deliver goods on their own. However, goods are delivered by a supplier in 28% cases and by a transportation company in 13% cases (for valid answers, without DK/NA).

Half of all suppliers work with sales points under the terms of 100% prepayment. One quarter of suppliers allow partial prepayment. In 20% cases, a loan or delay in payment can be granted. In rather rare cases, consignation (4%) and payment after realization (2%) occur (for valid answers, without DK/NA).

The most important factors for choosing a supplier include **acceptable prices** (64%), **fashionable leather assortment of the goods** (53%) and **high quality of goods** (33%). However, such factors as granting of discounts (26%), delay of payment (16%), efficiency of order execution (11%), good personal relations with supplier (11%), and delivery in time are no less important for Russian retailers (for valid answers, without DK/NA).

The most popular advertising actions for the promotion of leather goods in which Russian sales points have participated include:

- Seasonal discounts 56%
- Discounts for volume of purchase 23%
- Advertising in other magazines 13%
- Sampling 12%

- Special trading offers 12%
- Advertising on TV 11%
- Advertising on Radio 8%
- Advertising in magazine “Goods and Prices” 8%

About one-third of sales points (34%) have not taken part in any advertising actions (for valid answers, without DK/NA).

The average trade margin for leather goods amounts to:

- 30% – for leather garments;
- 35% – for leather footwear;
- 40% – for leather fancy goods.

However, in some cases the trade margin can amount to 100-200% of the supplier’s price.

DEMAND AND CONSUMERS

The demand for leather goods depends on:

- the people’s income
- the season
- the climate conditions
- the fashion trends

Seasonal variations of demand for leather goods

The consumption of all types of leather goods has a well-defined seasonal pattern:

Garments

The season of leather garments sales starts in the beginning of August. Its peak is reached in October; after that, there is a small decline until the beginning of February. The leather season ends in the end of May. June and July are characterized by a total lack of leather sales; the demand equals zero.

Footwear

The peak sales of footwear are reached in spring and in the fall. A dramatic decrease in demand occurs in July. Sales strongly depend on the day of week: Monday sales are the smallest. The highest sales are reached on Friday, Saturday, and Sunday.

Fancy goods

Seasonal variations differ depending on the cost of goods. An abrupt decrease in demand for goods from leather substitutes and for inexpensive leather fancy goods is observed in summer. The seasonal variations of demand for expensive categories of goods are insignificant. Experts note that demand is also strongly affected by weather changes. June 2003 is a good example: it was marked with an abrupt decrease in demand for summer fancy goods because of the cold weather.

According to experts, consumers are rather steadily divided into 4 types:

1. "elite"
2. "fashionmongers", i.e., those who follow the fashion
3. "conservatives"
4. "pragmatists"

Main demand problems

- Fashion trends change quickly
- Lack of information about fashion trends
- The actual country of origin of goods often remains unknown for consumers

STANDART, FIT AND STYLE PREFERENCES

Fashion trends

The demand for all kind of leather products depends on fashion tendencies. It's practically impossible to foresee or guess these fashion tendencies. Firms-manufacturers solve this problem by hiring the professional designer tracking modern tendencies. But all this could not furnish any security that purchased or manufactured product will be successfully sold.

- The fashion for women's goods is more dynamic and unexpected, besides that the demand for these goods is higher.
- The fashion for the man's goods varies much less dynamically (in view of the fact that men are more conservative in clothes), therefore models of back 3-5 years can be on sale. Recently the men's fashion becomes more dynamic. Especially it is noticeable in large cities, such as Moscow. Men begin more closely treat with clothes and accessories.

Fashion trends in the **fancy goods** market are not so evident as in the leather goods market. The basic style set the European design-bureaus (Italian, French, etc.).

The majority of Chinese manufacturers copies the models of the European designers and sells it in the Russian market.

By the experts opinion this approach is not favorable always, because the same thing looks completely differently, depending on where it is made (in Europe or China).

Therefore, many Chinese manufacturers of fancy goods have already got the design-bureaus and produce fancy goods under the Chinese brands (for example "Van Lima").

Italian designers define the fashion trends in **footwear** market mostly. One of the fashion trends in the Moscow footwear market is the sport style footwear for youth and elements of "east style" footwear (pointed toes, tight heels).

Main fashion trends on leather **garments** market is defined by Turkish producers. It happens because of predominance of Turkish leather garments (according to experts approximately 80% of the market).

Women's leather garments: The leather garments is not fashionable by default. When choosing garments there are several important factors:

- Individuality (it is preferable the model was not widely spread)
- Quality
- Comfort

Men's garments: the man's leather garments are traditionally more conservative and less dynamic. Till now in the market it's possible to see models of back 3-5 years, in which small over patching are made. This overpatching mainly concerns details.

Theoretically there is no recipe to provide total-lot hit of production in a fashionable trend, at any case there presents a likelihood (probabilistic) element.

Styles

At present time it's impossible to pick out precisely the basic style currents in clothes or footwear. In such megapolis as Moscow all fashions are practically submitted. Basically, Moscow's streets little differ from streets of any other European city.

Last fashion tendencies reach the Moscow audience with some delay which however, is not so great. As for cities on periphery, the further city, the more this delay. On average last tendencies can reach the Russian consumer with delay for 1-1.5 years.

To deliver on the Russian market popular production to consumers it's necessary:

- To segment consumer market and precisely determine a target group (with participation of marketing agency);

- To receive expert's consultations on a fashion trends (the designer or the modeler);

- Before product release to lead on the market testing production for representatives of target group (with participation of marketing agency).

Sizes

The most popular sizes of women's footwear in Russia are 37-38. The most popular sizes of men's footwear in Russia are 42-43.

Source: "Monokl" magazine data, ? 10, October 2003

Table of the size correspondence (Russia, Europe, UK and USA sizes)

Women's goods									
Coats, Dresses, Skirts, Sutes									
Russia	40	42	44	46	48	50	52	54	
Europe	34	36	38	40	42	44	46	48	
England	8	10	12	14	16	18	20	22	
America	8	10	12	14	16	18	20	22	
Pullovers									
Russia	44	46	48	50	52	54	56	58	
Europe	38	40	42	44	46	48	50	52	
England	32	34	36	38	40	42	44	46	
America	10	12	14	16	18	20	22	24	
Footwear									
Russia	23,5	24	24,5	25	25,5	26	26,5	27	27,5
Europe	36,5	37	37,5	38	38,5	39	39,5	40	40,5
England	4	1,5	5	5,5	6	6,5	7	7,5	8,5
America	5,5	6	6,5	7	7,5	8	8,5	9	9,5
Men's goods									
Coats, Sutes, Pants, Pullovers									
Russia		46	48	50	52	54	56	58	
Europe		44	46	48	50	52	54	56	
England		34	35	36	37	38	39	42	
America		34	35	36	37	38	39	42	
Shirts									
Russia	36	37	38	39	41	42	43	44	45
Europe	36	37	38	39	41	42	43	44	45
England	14	14,5	15	15,5	16	16,5	17	17,5	18
America	14	14,5	15	15,5	16	16,5	17	17,5	18
Footwear									
Russia	26	26,5	27	27,5	28	28,5	29		
Europe	39,5	41	42	43	44,5	46	47		
England	6	7	8	9	10	11	12		
America	7	8	9	10	11	12	13		
Children's garments									
Coats, Sutes, Pants, Pullovers									
Russia		30/32	32/34	36/38	38/40	40/42	42		

Europe	height, sm	2 (125)	5 (135)	7 (150)	9 (155)	11 (160)	13 (165)		
England	height dime	4 (43)	6 (48)	8 (55)	10 (58)	12 (60)	14 (62)		
America		4	6	8	10	12	14		

SADDLES AND HARNESS

It's difficult to measure current (given) categories market size, as there is no official statistics.

Saddles and harness are sold in Russia by the shops specified on goods for equestrian sport. As a rule, the assortment of such shops includes also clothes and footwear for riding, various accessories and care of horses' means.

According to experts, there is a need in inexpensive, but qualitative equipment and clothes for equestrian sport currently in the Russian market

Unlike other countries, where people who are going in for equestrian sport, are representatives of the elite and "the top layer" of "middle class", in Russia this kind of sport is not sport only for rich, but is widely practiced by all layers of the population. At the same time occupation of equestrian sport requires quite often considerable expenses.

Riders need either to search for sponsors, or to earn enough money.

Now on the market are represented saddles and harness made in Europe: Germany, Spain, France, Finland, as well as in the countries of near abroad (Belarus). Average prices for saddles, made in Europe, make are about 1000 $, for saddles made in Belarus – from 330 $, the Russian manufacture – from 70 $.

The prices for harness, manufacture of European manufacture prices are represented in the range starting from 50 $ up to 300$. Russian made harness cost about 10 $.

It's possible to mark out the following Russian producers of saddles and harness: ZAO "Sibirskaya kozhgalantereya" (Novosibirsk); AO "Roslegprom" (Chelyabinsk); AOOT "Sheremetyevskaya fabrika shornyh izdeliy" (Tatarstan. Vill. Sheremet'evka); ZAO "Bogorodskiy shveyno-galantereyny kombinat" (Nizhniy Novgorod region, Bogorodsk); (Moscow), Opytniy zavod konno-sportivnogo inventarja (Moscow), TOO "Moskovskiy Kozhevenniy zavod" (Moscow).

Saddles and harness of domestic manufacture are realized mostly for farming needs.

INDIAN LEATHER PRODUCTS ON RUSSIAN MARKET

When entering the Russian market, Indian producers can encounter a number of problems associated with the specifics of the perception of Indian leather goods by wholesalers. Such perception is sometimes based on the experience of working with

Indian manufacturers, but sometimes it originates from prejudice related to goods made in India.

About 40% of managers of Russian retail stores stated they would not buy leather goods made in India anyway. There were 30% such managers among leather garments sellers, 35% among footwear sellers, and 50% among fancy goods sellers!

The respondents had different explanations for their refusal to cooperate with Indian manufacturers; the four most important reasons are:

- absence of information on leather goods made in India – 45% of all rejections;
- bad image of leather goods made in India – 40%;
- poor quality of leather from India – 35%;
- poor sew quality – 35%.

Among other reasons, some sellers named the following:

- manufacture is not focused on fashion;
- poor assortment of goods;
- high prices;
- good relationships with other countries
- low level of transportation.

Thus, experts consider **poor rawstock quality** to be one of the most important drawbacks of Indian leather products:

> *"I have not seen any good Indian product of all they showed me. Their rawstock is not very good; as far as I know, cow is a sacred animal for Indians and they cannot kill cows, so they only have leather of dead animals and thus the leather quality is very poor" (Bonapart, SPb, distributor).*

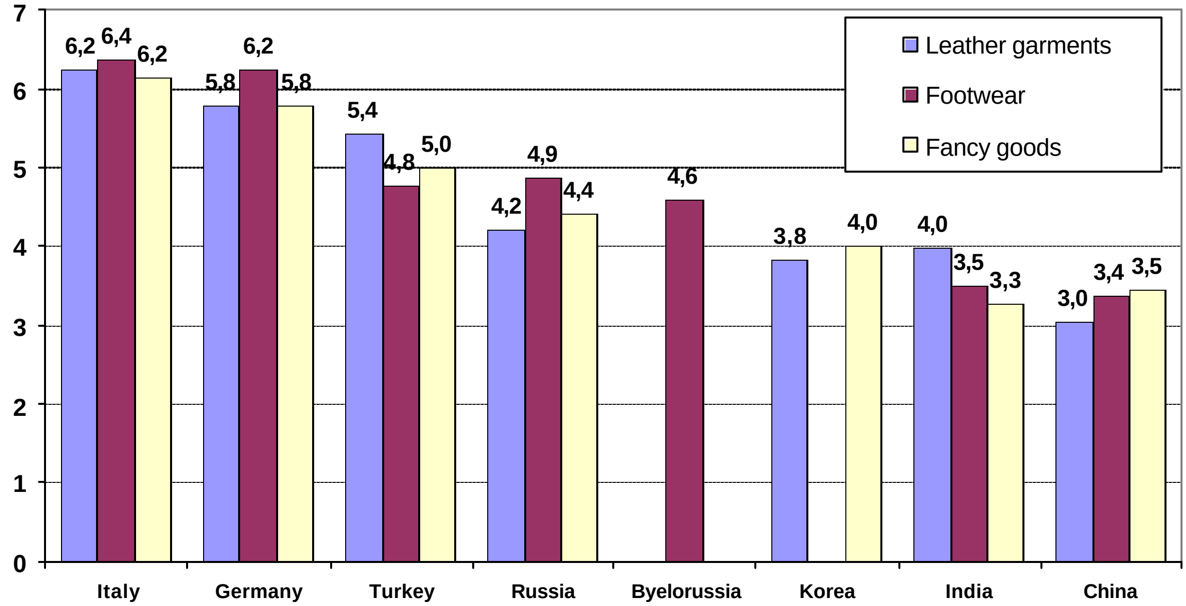
During structured interviews with managers of the stores offering targeted products, they were asked to assess the **quality of leather tanning** for garments, footwear, and fancy goods manufactured in eight countries whose products are abundant on Russian market. The assessment was made using a seven-point scale where 1 stands for *VERY POOR QUALITY* and 7 stands for *VERY HIGH QUALITY*.

Representatives of different sales points assessed the tanning quality of Indian leather rather low, namely, at the same level as Chinese products. The average marks vary from 3.3 (fancy goods) to 4.0 (garments).

This is much lower than the marks for leather tanning in Italy (6.3 on average), Germany (6.0), Turkey (5.1) and Russia (4.5).

Fig. 5

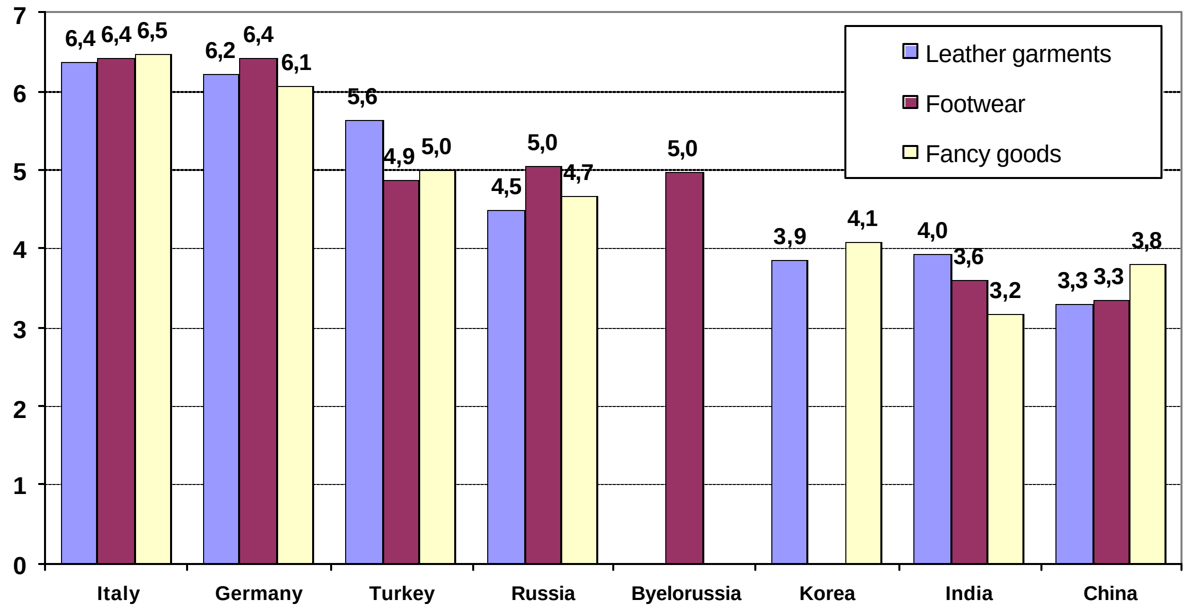
Assessment of <u>leather tanning quality</u> by representatives of retail sales points
(1 – very poor quality, 7 – very high quality)



A similar question was asked about the **sewing quality of leather products** (garments, footwear, and fancy goods) in the same eight countries. As one can see from Fig.6 the situation is almost the same here. Again, India and China share the worst place. The average marks for India vary from 3.2 (fancy goods) to 4.0 (garments).

Fig. 6

Assessment of <u>leather goods sewing quality</u> by representatives of retail sales points
(1 – very poor quality, 7 – very high quality)



The participants of the study noted that, in addition to the low rawstock quality, Indian manufacturers **lack technologies for up-to-date leather treatment** and for creating novel interesting materials of top quality:

- "It is necessary to search incessantly for unusual leather, novel materials, unusual design to which people respond at once, renew the model series so that none else offers similar goods, something new…" (Platan Vernissage, Moscow, distributor).

In this situation, an Indian producer needs to convince distributors that their materials are of high quality. To achieve this, it is necessary to perform personal presentations showing both the products and the materials they are made of. In addition, it is desirable to have a rather wide range of various leather materials.

The somewhat **low level of designers and couture** is the next, rather essential drawback of Indian producers. Many models of Indian goods placed in the market are obsolete and do not meet the current fashion trends. Competition with other manufacturing countries is only possible for those goods which are insensitive to fashion changes: men's garments and footwear, some fancy goods (suitcases, gloves, etc.).

- "Indian's models are terrible. They brought and showed them; however, no one would buy this kind of stuff today" (Bonapart, SPb, distributor);
- "Indian suppliers can only occupy the men's garments segment but never the women's garments segment as their designs are at kindergarten level. Women's garments requires good designers and excellent leather" (ILG, Moscow, distributor);
- "India is the East; they cannot create goods that are needed in Russia. Russia is now facing the West. Here is an example with purses. Previously, a coin pocket for small change was required in a purse, and Indians knew how to make such purses. However, nowadays everyone in Europe uses credit card holders, no one carries small change, so they make

different purses and porte-monnaies: flat, with many different slots and sections (for insurance, driver's license, 2-3 credit cards), but Indians cannot make these things" (Platan Vernissage, Moscow, distributor).

When giving examples of successful designer work, experts spoke of Chinese designers who follow rather quickly all the latest fashion trends and implement them in their products.

Indian producers might be recommended to use individual style (folklore motives) or to work with European style designers.

Experts believe that Indian manufacturers might face the following problems, apart from the problem of overcoming the delusions with respect to the products quality:

- Problems with selling large batches of products. It is economically unprofitable to deliver small batches from India. However, it is rather risky to import large batches, as a given model of footwear, garments or fancy goods can quickly become out of fashion and such goods will be impossible to sell at all.
  - "The sales market is now congested; a drawback of Indian suppliers is that it is very difficult to deliver goods from India. Indians are bound to sell large batches of goods here to be stored in warehouses" (ILG, Moscow, distributor);
  - "Our Indian partner went bankrupt: they used to bring large batches and missed the fashion trends, so goods had been rotting in the warehouse" (ILG, Moscow, distributor);
- It is impossible to deliver goods quickly. The period of assortment renewal in Russian stores ranges from 10 to 20 days. Accordingly, distributors face extremely strict requirements for the manufacture and delivery periods. Experts believe that Indian manufacturers cannot provide such expeditious work.
  - "The delivery of goods should take a night, maximum a day if I am out of some size and I need it to be brought without fail; however, Indians cannot work that fast" (ILG, Moscow, distributor);
- Absence of partners in Russia which can provide consulting about the laws of doing business "in Russian". A considerable share of Russian business works through "grey schemes" and requires special knowledge, skills and experience and, importantly, good relationships in business circles and in state agencies. Therefore, business done by people who do not meet all the requirements noted above will be, most likely, unsuccessful.
  - "The times of amateurs is over: in 1993-95 one could bring and sell anything, but now you have to be a professional to sell successfully. That is why Indians are likely to face problems in this area: they will not be able to find professional partners here, whereas amateurs will soon go bankrupt" (Bonapart, SPb, distributor);
  - "A Russian partner is indispensable for Indians to avoid being cheated" (ILG, Moscow, distributor);
- Possible communication problems when organizing work in partnership due to mentality differences. Russian culture, both related to everyday life and to

business, differs essentially from Indian culture. Our two countries have different historical traditions and different experiences. The differences in mentality and culture as well as in the understanding of what is good and what is bad can affect business considerably.

- "For me, Indians are like aliens from another planet: they think differently, they cannot do business in our ways" (Platan Vernissage, Moscow, distributor);

- "Advice can be given to a new leather garments importer from India: "Stay in India, do not come here!" Our director was ready to encounter Russian mentality from the very beginning so he was not shocked. There is quite a different mentality in India, different ways of life, different business. One has to get used to us Russians" (Ranves, SPb, official distributor of an Indian manufacturer).

- Language barriers. Though today many Russian businessmen know English reasonably well, still the majority prefer to communicate in their native language. Negotiations through an interpreter are considered as an additional difficulty, an obstacle. Moreover, there are situations that some problems need to be solved urgently, say within an hour, and in such case the lack of an interpreter can negatively affect business and inflict losses on both partners.

  - "I do not think we'll be able to come to terms with Indians as we do with Turks: for instance, Turks have even learned Russian in order to work with us and introduced unified documentation; it is easy to work with them because there is no need to explain anything: no misunderstanding arises. However, we did encounter problems with Italy. The language was the first problem: we found an interpreter and she helped us solve all the problems, but then she left and the links were severed, so we lost Italy completely for three months: Italians do not know English. The second problem involves documentation, unified model codes: they write "nera", "moren", whereas we need ?1, ?2, ?3, etc., and it was very difficult to reach understanding with them" (Platan Vernissage, Moscow, distributor).

- The footwear and garments models are not adapted for Russian market. The production of footwear and garments should be ideally adapted for specific consumers. Distributors who had a chance to work with Indian goods often faced the problem that Russian sizes did not match those indicated by Indians. Furthermore, the proportions of the garments itself did not suit Russian citizens.

  - Indian manufacturers do not take the size differences into consideration. Their statures are quite different, so they make models for themselves and produce jackets with short sleeves, some weird trousers, etc. They need to understand Russian sizes well to produce it all the right way, because we have longer arms and legs (Ranves, SPb, official distributor of an Indian manufacturer).

The question: "Under what conditions would you buy leather goods made in India in order to sell them?" received the following answers from representatives of different sales points *(in percent of those who are ready to buy leather goods: N=97)*:

- High quality – 80%;

- Acceptable price – 75%;
- Fashionable models – 65%;
- Credit / Delay of payment – 33%;
- Possibility to supply minimum delivery amount – 25%;
- Fast delivery – 13%;
- For realizations – 7%;
- Relevant information about the product – 4%.