

**JOBS NEWSLETTER**

## *“Four Cs” Spell Success for Footwear and Leather Goods Clusters*

*By Asif U. Ahmed*

Small and medium sized enterprises (SMEs) are a primary target of policies aimed at creating growth and employment in developing countries. JOBS believes that SMEs can play a key role in sustaining economic growth and equitable development in Bangladesh, and its unique Cluster Concept has helped overcome problems related to their size that formerly inhibited their success in this area.

Individual SMEs are unable to capture market opportunities requiring large production quantities, homogeneous standards, and regular supplies. They have difficulty achieving economies of scale in the purchase of inputs such as equipment, raw materials, credit, and consulting services.

The small size of the footwear and leather goods sector of Bangladesh also made the internationalization of training, market intelligence, logistics and technological innovation difficult and hindered the development of a specialized and effective internal division of labor. Narrow profit margins and difficulty collecting accounts receivable prevented the improvement of products or processes.

### **Clusters Conquer Markets**

Footwear Clusters created by JOBS provided solutions for all these problems. Two years after the inauguration of the first Cluster in Mirpur, the effort is recognized as among the most successful of all the steps JOBS has taken to develop the footwear sector. The initiative allowed small footwear and leather goods producers to establish market linkages with large export firms for the first time. Products from remote villages of Bangladesh are now being exported to such highly competitive international markets as Japan and France.

“The Four Cs”—customer-orientation, collective organization, cumulative training, and close monitoring—are the major reasons behind the success of these Clusters.

Clusters are driven by the need to meet customer demand. This customer orientation forces them to learn about their customers’ preferences and obtain the technical assistance from JOBS that enables them to meet those preferences. With guidance from JOBS, Clusters have been able to access new markets and respond to changes in demand. As a result, Clusters are now successfully supplying large export firms.

### **Clusters Lower Costs**

The Clusters’ collective organization results in lower transaction costs than those involved in assisting individual enterprises. Cooperation among the enterprises involved improves their individual efficiency and maximizes their potential through mutual learning. The resulting cumulative capacity of the Clusters helps them to upgrade and ultimately become less dependent on outside support.

The objective of JOBS’ intervention is to develop the capability of groups of firms to generate improvements from inter-firm linkages and increased contact with wider markets. The Cluster Concept was new to the country and needed constant and close initial monitoring to ensure quality, raise market confidence and determine factors for a successful market linkage program. Proper coordination among the entrepreneurs within the Clusters helped to raise their confidence and overcome the problems typical of individual SMEs.

Through Clusters, individual SMEs overcome the difficulties inherent in their size and improve their competitive position. Through horizontal cooperation, enterprises can collectively achieve economies of scale beyond the reach of individual firms. JOBS’ success in developing the Cluster Concept in the country’s footwear and leather industry will continue to spell success long after The JOBS Project has left Bangladesh.

# Shafipur and Bhola Shoe Clusters Solve SME's Finance and Production Problems

The Shafipur Cluster started with four shoe factory owners who needed help with finance and production. They had problems selling on credit and not getting full payment at the time of delivery. Typically they would get only a portion of the accounts receivable, which did not provide them enough capital to fill the next order. This was the normal business practice in Bangladesh, but it left them with no profit.

JOBS arranged for Apex, one of Bangladesh's largest footwear factories, to provide raw materials and a training venue for the Cluster. Participants were trained to operate machines and equipment. In return, the Cluster supplied Apex with quality leather shoes on time. JOBS paid the trainers' honorarium and provided them with a monthly stipend.

## Clusters Cooperate

JOBS' Clusters work like cooperatives: unskilled workers unite and agree to comply with the training criteria. Participants must be over 18, have a basic education, and be willing to learn and work. After training, they work independently or subcontract with the SMEs. The workers have learned valuable technical skills and are assured continued work by their association with SMEs. The SMEs are assured skilled, quality work and timely delivery,

enhancing their image, strengthening their "footing" in the industry, and ensuring their long term sustainability.

In the



The 60 skilled female workers of the Daudkandi Cluster, in association with Surma Footwear, produce hand-made sandals for the French and Italian markets



The Jessore Cluster sells their shoes to domestic markets in the south of Bangladesh.



Representatives of the 85 skilled workers of the Mirpur Cluster accept an export order from Apex Footwear, Ltd. for shoes destined for the South African market. This was JOBS' first leather goods linkage program, begun in 1999.



Leather handbags produced by the Munshiganj Cluster were featured at the prestigious Asia Pacific Leather Fair fashion show in Hong Kong recently. Apex Leathercraft, the Cluster's partner, is the largest leather goods producer in Bangladesh.

Bhola Cluster, individuals contract independently with large producers. Shoes made in Bhola are in demand locally

because they are of better quality and cheaper than those from regional markets such as Dhaka and Chittagong. After recent



Members of The Hazirabag Cluster, one of JOBS' most recently developed Clusters, are trained on mesh upper and full shoe production for footwear destined for Italian and U.S. markets. The 250 workers trained in this Cluster are associated with RMM International.



The Bhola Cluster also markets domestically. To date the 60 workers (80% of them women) have achieved almost \$10,000 worth of sales in the Bhola and Barisal markets.

increases in sales as a result of JOBS' training, the Cluster plans to expand further by constructing another production

unit. It has been so successful that people are now asking JOBS to train their sons.

## Clusters Create Linkages

The Cluster Concept came after discussions with SMEs revealed that they often lacked backward linkages.

Without skilled workers, factories were not able to deliver quality products on time.

Bangladesh's poor reputation as a producer made it difficult to enter export markets. JOBS changed the way the footwear industry worked by providing the needed backward linkages to select SMEs; at the same time, JOBS assisted them in quality control and production.

It's not just about getting the order. SMEs also need to be able to produce quality products at a profit. JOBS provided mid-level management need-based skills training and helped them understand the market by providing consultants to advise them on design, product development, color trends, quality control, and standardization of their products.

Because of JOBS' training and the success of its "Cluster Concept," today the 22 existing footwear companies in Bangladesh are gaining an international reputation for producing cost effective, quality leather shoes for export.

# Clusters at Home Ensure Success Abroad

The JOBS Project's initial foray with its untried, novice leather goods partners into the uncharted territory of international trade fairs was made in the fall of 1999, when six Bangladeshi leather goods companies attended the Footwear and Accessories International Trade Fair in Johannesburg, South Africa. They came home with \$450,000 worth of orders and, perhaps more significantly for their future success, a much better understanding of what would be required to be successful in the promising new markets such fairs promised.

Fortunately, JOBS' work with Clusters had already begun to supply the skilled workers needed to meet the increased demand, fill the new orders on time, and make the kind of product alterations necessary to cater

to niche markets and changes in fashion.

One year later, JOBS' assisted leather goods concerns had attended five more international trade fairs—one more in South Africa, two in Japan, and another in Dubai—and were regularly bringing home orders of up to \$4 million. The Clusters Concept had paid off in the most important, “business-like” fashion, the bottom line.

Footwear Clusters have also paid off domestically, and while the figures involved may be somewhat less dramatic, the long-range consequences for the economic and social well being of

Bangladesh are no less important. The Clusters have been particularly important to the women of Bangladesh; many of JOBS Clusters are comprised entirely or predominantly of women workers.



*ISTF Dubai, May 20001. Apex Leathercraft & Fashion Accessories Co. and Crown Leather Products Ltd. Participated.*

## Credits

### INFORMATION:

Asif U. Ahmed, Chung Lai

### MANAGING EDITOR:

Kathryn Uphaus

### LAYOUT ARTIST:

Md. Abdur Razzak

### PHOTOS:

JOBS Project

**JOBS**  
ASSISTING ENTERPRISES  
TO CREATE EMPLOYMENT

House # 1 A, Road # 23, Gulshan-1, Dhaka-1212  
Tel : 8829037, 8826154, 9885141 Fax : 8826154  
E-mail: info@jobsiris.dhaka-bd.net



Job Opportunities and Business Support (JOBS) is an innovative USAID/ Bangladesh initiative implemented by the IRIS Center at University of Maryland.

