A STRATEGIC SECTOR STUDY on the EGYPTIAN FOOTWEAR and LEATHER INDUSTRY

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In 2001 Egypt initialled an agreement with the EU which among other things specified co-operation in economic development. This is aimed over a period of 12 years at establishing a FTA with EU member states and thereby entering the Euro-Mediterranean free trade zone. For successful integration Egypt needs to upgrade its industrial performance across many sectors. One of the main sectors in the Egyptian economy is the Leather Industry. This consists of processing a natural product, the tanning of leather, to manufacturing goods from it, footwear, personal leather goods and garments. The industry represents about 5% of the total industrial sector of the Country. It employs (together with the textiles sector) about 30% of the Egyptian workforce.

The industry is suffering from cheap imports from the Far East, particularly China, and a lack of success in the highly competitive global export market. Factories are running at 25- 40 % of capacity. The excess capacity so produced presents, in the short term, an opportunity for Egyptian manufacturers to market themselves as sub contractors for international (European) brands rather than trying to become original product marketers. This will bring a lower risk exposure to the global market and allow for the transfer of technical and marketing knowledge by osmosis to the local companies.

With this background in mind this study concentrated on certain tasks:

- A global review of the leather products industry as defined, footwear, personal leather goods and garments
- A local assessment of the present performance of the Egyptian industry sectors
- A benchmarking analysis using competitor countries
- A strategic positioning of the Egyptian industry internationally and SWOT analysis
- A development strategy and action plan for implementation.

It was found globally that the leather products industry is an expanding market year on year. Some sectors expanding more than others. Footwear in particular showing the strongest international growth. There is a trend, well established, of an aging world population with significant markets among older consumers (50 years +), the so-called “grey” market and an emphasis on comfort, quality and the use of leather (as opposed to synthetics).

Manufacturing presently takes place in the East and the marketing in the West due in the main to cost pressures in the west on mature manufacturing industries. Egypt has an advantage here with relatively low wage rates which are competitive on the world stage. The driving force for manufacturers will still be the large markets of Europe, USA and Japan. (Over 85% of the world export market for footwear). With the concentration of manufacturing in the Far East and the Indian sub continent and the ever increasing demands of western consumers for change and variety almost on a monthly basis, proximity to the market place and the ability to provide flexible rapid delivery will be a big advantage in the future. This provides Egypt with an inbuilt competitive advantage. This is not to say China and the Far East will decline but at the very least it provides a wedge for Egyptian products to enter the market place with this advantage. The supply chain concept will metamorphose into a supply circle of smaller, high tech, CAD/CAM, nimble production units, which will work very closely with customers to produce goods in weeks rather than the months it takes at present. The Egyptian industry has a great opportunity to re-organise into a customer friendly sector and leap frog over the more established countries. This opportunity will present itself as the need for sub contractors to replace the declining manufacturing base in Italy, Spain, and France etc.

Egypt has an opportunity to attract FDI with the correct facilitating environment. Among the Middle East countries the World Economic Forum ranks Egypt 9th in their “economic freedom index” after Jordan, Tunisia, Saudi Arabia and Morocco. This position will have to be improved to provide a better business climate.

The local leather products manufacturing industry is clearly divided in two. The majority of products are produced by the informal sector, up to 95% in the footwear sector. That part of the footwear industry which is mechanised and therefore the most likely to export (up to ~5 million pairs, about $75, 000,000) is hampered by low productivity and high overheads due to poor capacity utilisation. This applies also to the personal leather products sub sector. The PLG sub sector tends to be more artisan in nature (even in successful exporting countries) but relies on productivity and keen costing to compete. The Egyptian leather products industry needs to re-structure along the lines of CAD/CAM mentioned above. Owners need to understand *and accept* the realities of dealing internationally – the importance of productivity, modern costing techniques and marketing especially in a business to business (B2B) environment – if they want to succeed.

A further weakness in the local manufacturing environment is the availability of good quality finished leather that is up to international norms. There is no doubt this can be made by tanneries in Egypt. It can probably be made and sold in the Country at less than international prices – a big advantage. However there also exists the old argument between tanners and leather product manufacturers about prices versus quality. And the undoubted incentive tanneries have to export semi processed leather in a sellers market thus starving the local market of the good quality base raw material. For the export process to succeed all players in the supply chain have to work in harmony with the aim to stimulate exports. Other successful exporting countries do this. Egypt has to emulate them.

All of this will not be effective unless there is a committed management in place to supervise the operation from raw materials to conversion into a product and then bringing it to market. The industry lacks the vastly important skill of middle management expertise to manage the conversion, or manufacturing step – supervising the shop floor.

Although there are niche export opportunities available to Egypt to exploit there is of course competition to be overcome. The countries that are of most concern to Egypt are Tunisia, Morocco, Turkey, Spain and Romania. The benchmarking study has revealed the strengths of these countries which allow the Egyptian industry to plan a better offering to the market. As the decline in EU manufacturing continues and the above countries are operating to capacity there will inevitably be market opportunities presented. Egypt must position its leather products manufacturing industry to take advantage of this.

The SWOT analysis revealed major strengths in the Egyptian leather products industry:

- Proximity to Europe
- Trade agreements with EU and USA
- Flexible manufacturing
- Can be low cost based
- Availability of competitive labour

The major weaknesses revolve round antiquated marketing techniques poor costing and pricing practices and the lack of experienced and *knowledgeable* shop floor management.
There are some major opportunities available to the industry:

- Allow the unencumbered importation of raw materials
- Possibility of a safeguard action under WTO rules
- Allow the importation of finished leather duty and tax free
- Government export promotion schemes
- Implement value circles
- Train a cadre of shop floor managers
- Many markets open to exploitation.

The major threats to the industry revolve round the continued encroachment of imports from the Far East, the difficulty in obtaining necessary and vital raw materials and components and the imposition of trade barriers, either official or hidden, in target markets.

The international positioning of the sector, having analysed the critical elements which make up a market's attractiveness and taking into account the sectors strengths and competitive advantages, puts all the Egyptian leather products manufacturing sub sectors in the underachievers' category. This means that the industry has probably reached its consolidated base and from this point onwards there is the opportunity to make significant progress.