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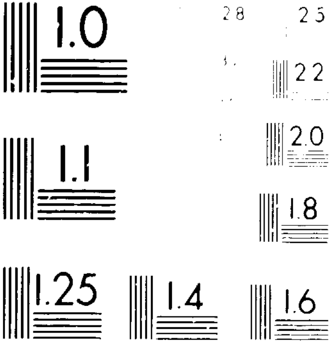

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MARKETING LEATHER AND LEATHER PRODUCTS IN THE UNITED STATES OF AMERICA *

by

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1. Purpose: It has been reported widely that a lack of foreign exchange is a major factor in some developing countries' inability to fully utilize their installed capacity in the leather & leather products industry. One solution to this problem is by increasing the foreign exchange earnings of these sectors by exporting. This study is focused on the United States since the U.S. is the largest actual and potential market for leather and leather products. However some of the exporting strategies and tactics discussed are applicable to other countries as well.

2. Description of the Market

2a. Background. In order to mount a successful marketing campaign in the U.S. or for that matter anywhere it is vital to have a broad understanding of the characteristics underlying the markets one is trying to reach. For the United States these characteristics can be simply stated as size, affluence and diversity.

There are over 230 million people in the U.S. and with the exception of about 5% on the upper end of the income scale and a similar number on the lower end, the remaining population fits into an affluent income classification loosely called middle class. While there is a large range of incomes in this vast group, there is one characteristic which is prevalent throughout: Almost everyone has some portion of their income which can be spent on non-essential purchases.

Another important factor is that over 100 million people, i.e. over forty percent of the population, are employed. This means that there are many families with more than one earner and perhaps more important, a large number of single wage-earners who enjoy limited call on their incomes for essentials.

The third major characteristic of the U.S. market is its diversity. Almost everyone in the U.S. has come from somewhere. This means that there is both a certain amount of nostalgia for the customs and products of their home countries and a curiosity concerning the customs and products of their neighbours' homelands. This diversity means that there is an almost insatiable demand for products which are familiar to one group while being exotic and foreign to another.

2b. <u>Leather Industry Statistics</u>: The three characteristics of size, affluence and diversity translate directly into the market for leather and leather products.

In some respects statistics concerning the U.S. industry portray a misleading picture of actual conditions. While the U.S. is rich in the supply of leather making raw material, it exports most of it. This does not occur because of slack demand in the U.S. On the contrary, U.S. exports of raw materials are more than balanced by its imports of leather and leather products.

In 1982, there were 115.6 million head of cattle in the U.S. 36.6 million of which were slaughtered. Of the 36.6 million hides from these animals 22.6 million were exported.

In contrast to cattle, sheep and lamb population and slaughter in the U.S. have been in a long term decline. In 1982, sheep and lamb population and slaughter were 13 million and 6.3 million respectively. To augment supplies of sheep and lamb in 1982, the U.S. imported 7.2 million pickled pelts and 561 thousand hair sheepskins and cabrettas.

In the leather sector in 1982, the U.S. exported \$279 million and imported \$318 million. The U.S. had a negative trade balance in eight of the last 10 years, but under the circumstances, the U.S. trade performance has been relatively good. U.S. leathers are in good demand where internationally traded products are being produced.

As far as leather products are concerned the picture is very different. Exports from the U.S. are infinitesimal compared with imports. In 1982 imports of shoes and leather products were almost $4.5 billion while exports were only $237 million. Exports of shoes and leather products were slightly more than 5% of imports.

A perspective of the size of the import market can be gotten by the following statistics for 1982: imports of gloves $91 million, baseball gloves $43 million, wearing apparel $252 million, handbags $410 million, luggage and flat goods $439 million, miscellaneous products $164 million and footwear $4.5 billion!

Tables showing specifics of U.S. imports will appear in the sections referring to imports of leather and of leather products. Complete historical and current statistics are available from Trade International Associates.

Certain conclusions can be drawn from the U.S. trade statistics:

1. Ample opportunity has been afforded developing countries to reach U.S. markets for leather and leather products.

2. The market penetration that has been achieved so far implies that these opportunities will be less in the future because

   (a) the demand for leather will decline due to the fact that there will be fewer U.S. manufacturers of leather products;
   (b) in the case of leather products, the level of imported articles have reached import penetration that is close to a reasonable potential. It is hard to imagine, for example, that the footwear manufacturing industry in the U.S. will disappear altogether. It seems logical to assume that there will continue to be some residual of product manufacturing which will best remain in the U.S. Whether this residual will be 5% or 40% depends on the individual product.

3. Nevertheless, in spite of the fact that the major portion of the U.S. market for leather and leather products has already been captured

by imports, a substantial portion of which originate from third world countries, there continues to be markets large enough to be attractive and profitable for many developing countries. A small piece of a very large pie can be satisfying, indeed.

It is impossible to identify the most attractive areas in which a developing country can point their merchandising efforts. Because each of the remaining markets is so large, it is better to conclude that each has potential. It is more important for a developing country to analyze its strengths and potential relative to those of the competition. Then it can target its markets successfully. For some, export of raw material or semi-processed is the best course; for others, components or finished products have the greater potential. The following section points out some of the criteria that a developing country's industry can consider in making its merchandising decisions.

2c. <u>What It Means For Leather & Leather Products</u>: The picture painted by the above statistics tell but part of the story of the size of the U.S. Market. There continues to be a large U.S. manufacturing capacity and above all an ever increasing demand for leather products of all types.

Over the past decade the per capita market for shoes in the U.S. has hovered around 3.5 pairs per capita. This is down from the almost 4 pairs per capita prior to 1972. However, because athletic footwear is not included in the footwear statistics, the total footwear consumed is much larger than the official statistics indicate.

The same holds true for many leather products. Changes in style and manufacturing methods occur much faster than official statistics can measure them. Change and diversity are the important characteristics of the market. The two add up to opportunity for any producers who are knowledgeable and skillful enough to take advantage. Significant quantities of many products can be sold provided they are expertly merchandised.

3. How to Market

3a. Introduction: Trade in leather is much different than trade in leather products. Therefore each will be considered separately.

For leather products, there are two broad channels of trade which will be considered. One which will be called conventional includes the usual means by which goods are imported and sold in the U.S. These are the suitable avenues for products which can be produced on a large scale and mass marketed through many outlets.

The second channel of merchandising which will be called unconventional will deal with appropriate methods of economically introducing relatively small quantities of product which might have a limited demand, and for one reason or another, is unsuitable for the ordinary practices of international trade.

3b. At What Stage of Production to Export: Conventional wisdom usually concludes that development is best served by carrying production to the furthest possible stage prior to export. However, the recent experiences of many developing countries have shown that it is often more profitable, practical and less subject to constraints of various kinds if other stages of production are considered in making an export program. Among the considerations and constraints which should be taken into account are those of foreign exchange, adequacy of technology, style risk, obsolescence and merchandising expertise.

Foreign exchange: In general, as production advances from one stage to another, the likelihood of the need for imported imputs increases. In the case of leather and leather products there are usually none or little amounts of foreign inputs necessary to produce pickled hides or pelts, a larger amount to produce wet blue or crust leathers and a very much larger amount to produce finished leathers, shoes and leather products. A recent study made by one developing country found that the manufacture of footwear required foreign inputs approaching 50% of the value of the product while the production for export of pickled pelts required but 3% in value of foreign inputs.

Consideration of foreign exchange requirements and priorities is extremely important in developing an export program for this sector.

Adequacy of Technology: Technological expertise might not be available for a particular country to compete internationally with established leather and leather product industries like the Italians, Indians and Koreans.

Style Risk: Many leather products are extremely style sensitive and it may be better to let the marketing countries assume the risk.

3c. Exporting Unfinished Leather: For the purposes of this discussion leather includes pickled skins, wet blue, crust and finished leathers.

The following table for the year 1982 breaks down the imports of each type of leather, classified by raw material, into incompletely finished and finished categories.

TABLE 1

U.S. Imports of Leather 1982

Commodity	Value of Imports (U.S.$1,000)	Leather Imports	% of U.S. Consumption by Category	Main Exporting Countries/Market Share of Imports	
Bovine Leather, total	173,780	50.4	18.5	Argentina	52.1
Pickle thin crust	124,453			Canada	10.1
Finished	49,327			U.K.	4.0
Goat & Kid, total	36,541	10.6	*90.0	India	58.5
Pickle thin crust	13,141			Spain	12.1
Finished	23,400			Italy	7.1
Reptile, total	23,919	6.9	*85.0	Argentina	36.3
Pickle thin crust	3,000			France	13.0
Finished	20,919			Japan	9.1
Sheep & Lamb, total	40,875	11.9	57.0	N. Zealand	50.3
Pickle thin crust	35,604			U.K.	16.4
Finished	9,453			France	9.5
Calf & Kip, total	26,713	7.8	52.0	Argentina	28.0
Pickle thin crust	4,500			France	17.0
Finished	22,213			India	14.7
All other categories	42,834	12.4	30.0	Argentina	NR
Pickle thin crust	22,996			R.S.Africa	"
Finished	19,838			India	"

*Est.

Sources: U.S. Dept. of Commerce
Trade International Assn.

Semi-finished leathers, in their various stages of production, have the characteristic of commodities, and like hides and skins have been traded internationally for centuries. There is a well-developed network of collectors, commodity brokers, trading companies and agents who insure the orderly matching of supply and demand for these basic raw materials. There is generally no product differentiation for various markets and the flows of trade follow the normal patterns of commodity trading. (There is one important caveat, however, and that is that there be no artificial trade barriers.)

Customers for raw hides and skins, pickled pelts, wet blue and semi-finished or crust leathers are tanners (finishers included); customers for finished leathers are product manufacturers; customers for products are retailers. It is important to understand this and to understand the differences between the demands of these three groups in order to merchandise successfully.

Tanners need raw materials for processing. In the U.S., tanners need sheep and goat in raw, pickle, wet blue or crust because there is a deficiency in U.S. supplies. U.S. cattlehide tanners are willing to buy wet blue and crust leathers when they are available at prices below their own costs of production.

To insure a consistent source of good quality wet blue or crust leather, the tanner's customer is usually willing to provide technical assistance. This can take the form of sending a qualified technician to supervise the setting up of production to meet the customers' standards. It can also consist of technical personnel from the supplying tannery being sent to learn the operations of the firm in the developed country. Another type of aid is the transmittal of formulas from the developed country buyer to the developing country seller. This latter type of assistance is usually of limited help because operating conditions in the two countries are likely to be far different from each other and the technologies impossible to transfer.

These trade channels are well known in the industry and are the most efficient paths for reaching foreign customers. Lists of traders and merchants can be obtained from the Leather Guide, a Benn

Publication, from UNIDO or from Trade International Associates.

Exporting finished leather is a far different matter. At the finished leather stage there has to be direct communication between the producer of the leather and the product manufacturer. In many respects it is the most difficult stage of manufacturing at which to export. Style, tradition, methods of product manufacturing and other subtle nuances must be accounted for in a successful export program.

There are two cases which clearly illustrate the difficulties in exporting finished leather. The first involves sole leather, the most commodity-like of all finished leathers. Manufacturer preferences are so different in various countries that in spite of the fact that there sometimes is considerable price difference from country to country, very little actual trade takes place. Argentine sole leather is too thin in substance for the U.S. manufacturer; U.S. sole leather has too high a water soluble content for most European shoe makers. U.S. and European shoe manufacturers will not accept the color or texture of Indian sole leather.

The second illustrative case is the triangular trade in garment leather which exists among Argentina, the U.S. and Korea. Argentine cattlehide leather is sold to companies in the U.S. where the leather is finished, inspected and then shipped to Korea. There it is manufactured into garments and returned to the U.S. for retail sales. This seemingly inefficiently procedure exists because finishing in the U.S. provides better control and better assurance that the particular flavor of the market is obtained.

These examples point to difficulties in exporting finished leathers. While it is true that India and Italy have had reasonable success in this area, new entrants should be aware that only the most sophisticated or specialized will succeed and then only when there is closest collaboration between the tanner in the developing country and his customers in the developed country. In the majority of cases the risks of such ventures far outweighs the probable returns.

Product manufacturers buy finished leather for particular items that they manufacture. Fashion and saleability come first, price is secondary. A large shoe manufacturer might have a line of over a hundred different styles utilizing twenty-five or more different leathers. These manufacturers require constant service before and after the adoption of a leather for a particular item.

There is limited opportunity for technology transfer for finished leather from the customer. The product manufacturer, does not have the technology and while he may have the interest, he is likely to be absorbed with so many types of leathers it is difficult for him to expend resources on a single product which might have limited fashion acceptability for the next season.

Therefore there are few examples of the successful merchandising of imported finished leather into the United States. In those instances where success has been achieved, there is a close connection between the foreign producer and the U.S. merchandiser. In most cases this link is difficult to forge between the developing country tanner and the U.S. manufacturer.

There is one outstanding area in which close cooperation has grown between the U.S. manufacturer and his foreign supplier; that is in the area of footwear components. Many of the largest U.S. footwear manufacturers have expended a great deal of effort in developing a manufacturing capacity for lasted uppers in certain developing countries. This makes a good deal of sense because it takes advantage of both lower labor costs for the most labor intensive portion of shoe manufacturing and preferred tarriffs treatment.

This is a recommended area for development for certain developing countries but is subject to very specific constraints: first, the country must have the capacity for finishing leather to internationally accepted standards and second there must be sufficient capacity for volume generation on both sides to make the investment worthwhile.

In the U.S. less than one-third of the $318 million of leather imports in 1982 were imports of finished leathers. (See Table I)

3d. Trade Channels for Leather: Traditionally, tanners from all over the world have been more interested in the technical side of their business than in the merchandising of their product. They have the rather naive notion that if they made a good product, customers would find out about it, become just as excited as they were and become buyers.

Because of this egoistic attitude, tanners have been notoriously poor merchants a link has developed that connects tanners with both their raw material suppliers and their customers. The international merchants have taken the trouble to travel around the world to find places where raw materials are plentiful and relatively inexpensive and other places where the demand exists. As international trade expanded, these international merchants expanded their activities into wet blue and crust leathers.

Since these international traders are essentially commodity oriented and not interested in product differentiation or manufacturing subtleties the trade in wet blue and crust leathers have taken on the characteristics of raw material, commodity, trade. Today we speak of Argentine or Brazilian crust, Sudanese or Nigerian pickled pelts. The actual producer's identity is less important than the geographic origin.

The control by trading companies of a large proportion of international trade is another reason for the difficulties involved in merchandising finished leather internationally. The trading companies, being commodity oriented, do not understand the elements of style, product differentiation and service required by product manufacturers.

Another element in this determination of leather flows is scale. While most importers have no defined limits or minimum order quantities, transaction, freight and customs clearance costs effectively impose minimum economic order quantities in international trade.

These order quantities vary inversely with the price. For example, the minimum import order quantity for reptile or exotic leathers selling for 5 to 15 dollars per square foot can be a few hundred square feet; while the minimum economic order quantity for wet blue split cowhide is no less than a container load.

In recent years there has been more direct participation by tanners in international trade. U.S. tanners have been slow and reluctant followers of this trend. However since 1980, there has been more willingness on their part to join with tanners in developing countries in fostering these efforts. Today there is growing direct contact between tanners of pickled, wet blue and crust leathers in many developing countries with their counterparts in the U.S. This contact usually provides some technical assistance given by the U.S. tanner in exchange for a consistent, high quality and lower priced source of leather that he can produce himself.

It is recommended that tanners and merchants in developing countries who wish to develop exports of unfinished leathers to the U.S. establish contacts with both the international leather merchants and the tanners. Initial contacts can be made through the commercial departments of their embassies or consulates in the U.S. and through international consulting firms like Trade International. It is beneficial to have several competing outlets for their production. In that way the best possible arrangements can be made.

3e. <u>Finished Leather</u>: Elaborating further on the prospects for exporting finished leather to the U.S. requires closer examination of the specific types of finished leather that are being considered. Finished leather takes many forms. It can be the commodity like shoe lining and sole leather; it can be upper leather of various types and it can be specialty leathers for different products like sporting goods, handbags and upholstery. All of these have different characteristics, requirements costs and prospects for exporting to the U.S.

Essentially, there are no intrinsic problems with exporting lining leather or sole leather. Both can be treated much the same as exports of crust leather: the markets are large and divisable to a great extent. If one customer becomes disenchanted, another can be found.

To date, sheep, goat, pig, buffalo and cowhide lining from South American and Asian developing countries have been successfully marketed in the U.S. On the other hand, because of present style requirements of U.S. men's shoes, there is very little export of sole leather into the U.S. If these style requirements change, opportunities will improve and trade will grow.

Exotic leathers of reptile and game animals are also successfully exported to the U.S. from some African, Asian and Central American countries. For these leathers, there is style consistency that enables exporters and users to take advantage of the considerable labor cost advantage in processing these skins at the points of origin.

With the exception of a few large tanners in developed and developing countries who have their own or closlely related warehousing and merchandising organizations in the U.S. there is practically no successful example of importing conventional finished leathers for uppers or specialties into the U.S. This has become item business and a mistake in color or temper or even an overrun results in otherwise fine leather being sold at bargain prices in the discount markets of Singapore and Hong Kong.

There are some leathers, like baseball glove leathers, that do not fall into this style category. However, so much of the production of these staple leather goods has been shifted outside the U.S. that substantial markets no longer exist.

It is our recommendation, that with the exception of lining and exotic leathers, developing countries wishing to export to the U.S. confine these efforts to the exports of other than finished leathers.

4. Exporting Leather Products: It is in this broad area of products that the greatest opportunities for sales and profits lie.

4a. Conventional Marketing: The bulk of the imported leather products that are sold in the U.S. are substitutes for products which used to be made or which continue to be made in the U.S. Essentially these are copies or modifications of accepted styles which can be sold in large volume through mass merchandising outlets.

Often a U.S. manufacturer, jobber or retailer will travel with samples to a number of low labor cost countries. The prospective buyer would ask producers in the different countries he visits to match his samples, using raw materials available to them. (These materials can be imported or domestically available.) The product manufacturer having the best combination of price and quality gets the order.

After the initial sampling, these orders are usually quite substantial because most distribution in the U.S. is through the mass retailers whose demand for product is enormous. Another reason for the emphasis on volume is that initial development costs are high and the importer wants to recover these costs as fast as possible.

It is usually only after several order-shipment cycles that the producer in the developing country becomes knowledgeable enough to approach new customers on his own and to set up a selling organization in the U.S.

TABLE 2

U.S. Imports of Leather Products 1982

	Value of Imports (U.S.$1,000)	% of U.S. Consumption	% of Total Products Imported	Main Exporting Countries/ Market Share	
Non-Rubber Footwear	3,077,408	40.2		China-Taiwan	38.2
				Korea Rep.	18.9
				Italy	12.0
Gloves	90,853	65.0		Phillipines	N.A.
				Hong Kong	N.A.
				China-Taiwan	N.A.
Baseball Gloves	43,418	80.0		Korea	N.A.
				Hong Kong	N.A.
				Taiwan	N.A.
Handbags & Purses	409,624	74.0		Taiwan	N.A.
				Korea	N.A.
				Hong Kong	N.A.
Luggage & Flat Goods	439,096	46.0		Taiwan	N.A.
				Hong Kong	N.A.
				Korea	N.A.
Other Products	163,955	39.0		*	

*Not relevant because of disparity of mix

Source: U.S. Dept. of Commerce
: Trade International

The paths of success for exporters to the U.S. differ according to the type of product, the way the industry is organized and the merchandizing methodology in the U.S.

The manufacture of gloves is highly labor intensive and requires a great deal of care in cutting and stitching. U.S. glove manufacturing began to decline immediately after World War II when there was a large labor cost differential between the U.S. and Europe and suitable hand labor was much more easily available in Italy and France.

U.S. glove manufacturers were aware of their disadvantages and took provision to protect their merchandising position. They sought out countries in the world where labor was as skilled and meticulous as in Europe and very much cheaper. They found Hong Kong and the Philippines where they established plants or entered into long term contractual arrangements for the supply of the products concerned.

Today, over 90% of the dress gloves sold at retail in the U.S. are imported and over 80% of those come from Asia. There is a similar trend in the manufacture of work gloves. In 1982 over 60% were imported - virtually all from Asia. China is the fastest growing supplier of work gloves to the U.S.

Unless there are special conditions prevailing, we do not recommend intensive efforts by new entrants into the glove manufacturing area.

The shift of the manufacturing of baseball gloves from the U.S. followed a different path. The Japanese are as fanatic baseball players as fans as are the Americans and their baseball equipment industry, developed with their tanning capacity in the early 1950s. As Japanese labor costs got higher, the U.S. merchandisers of sporting goods shifted their source of supply to Korea, Taiwan and Hong Kong.

These U.S. sporting goods companies, while maintaining some manufacturing facilities in the U.S. now must be considered as principally importers and middlemen.

Incidentally, a similar situation now existed for the manufacture of baseballs. These are all hand sewn in Haiti but made from U.S. leathers.

The manufacture of these articles of relatively small volume is controlled by a handful of sporting goods companies. These companies have major investments or commitments in a few developing countries. It is difficult for a new entrant to attempt to make major inroads in these products.

Opportunities for exporting the major leather products, footwear, wearing apparel, handbags and other products are much more favorable. Although many of the companies who are major importers of these products are extremely large, none are dominant and no major producing country has advantages that can exclude other participants.

In the U.S. there are over 10,000 shoe retailers, thousands of shoe manufacturers and correspondingly large numbers of retailers and manufacturers of leather garments, business cases, belts and handbags. While most of these do not have the capability individually to import directly, almost all of them have some capacity to take advantage of the opportunities available to them through imported products.

Many of the large manufacturers and retailers have their import divisions whose responsibilities include determining the most advantageous sources in the world for particular products or styles.

For smaller manufacturers and retailers there are agents, complete with technical and design staff, who provide this service to them.

It is interesting to observe the "line-builders" room of a large U.S. shoe manufacturer. Here, the designer display the footwear that they believe will be successfully marketed two or more seasons in the future. They can point to one and say that is best made in Brazil; to another and say the Phillipines, a third and say U.S., a fourth, India.

Similar procedures are followed with other large volume products as well. The importers of handbags and small leather goods have similar procedures.

All of this is evidence that decisions of where to buy and make are made on the basis of knowledge and economic viability. There is no magic. The opportunities are there for developing countries that approach the challenge intelligently and who have the infrastructure and desire to make it work.

There are certain prerequisites that a developing country must have if they are to achieve success in exporting leather products in this conventional manner to the U.S.

1. There must be guidance in selection of the appropriate U.S. partners or customers. Help can be obtained from Consulates or thru international consulting firms like Trade International.

2. The country must allow free or reasonably free access to imported components. No country, particularly a developing country can have a complete range of components to make the variety of product that is interesting to a U.S. importer. If the manufacturer does not have economical access to these components they will suffer a handicap impossible to overcome.

3. The country must have sufficient and economical transportation and public utilities so that production and s pments are dependable and reasonably priced.

4. The country must be hospitable to the technicians and buyers who come to help.

While there have been some notable exceptions - Brazil and Italy in particular - to this conventional pattern of merchandising, it has proven to be very effective. The developing countries who have been most successful in selling to the U.S. have followed this path. Korea, Philippines and India among others, are notable examples.

The conventional channels of trade have several advantages for exporters. Since the styling and designs originate from the buyer the style and obsolescence risks fall completely on the buyer. Also inventory and warehousing costs which are major items are also the buyers' responsibility. This shift in responsibility from seller to buyer is not without cost. The buyer is usually able to claim a major share of the mark up or merchandising profit.

Effective as this conventional approach has proven to be, it is extremely doubtful whether this path can be followed successfully by most of the smaller and lesser developed countries. The scale of production required is too large. Furthermore almost every product which is traded internationally in large volume required a large amount of imported content. This requirement can foil the objective of gaining foreign exchange through exports.

For most countries which do not have presently a strong export performance there are alternate paths for successful exporting.

4b. Unconventional Marketing: For developing countries with severe foreign exchange constraints the conventional means of marketing may not present a practical solution to their problems. In many cases capacities are small scale and technical and management skills are limited. It makes little sense for them to try to compete with sophisticated Korean, Brazilian and Indian factories for the mass U.S. markets.

Nevertheless, there are possible avenues of exporting which can be profitable and which can contribute to foreign currency earnings. The important factors to remember when planning market strategies are the already mentioned size, affluence and diversity.

In terms of the scale of production of many developing countries, there is a comparatively large market for ethnic merchandise in the U.S. Almost every large city contains neighborhoods where there is a concentration of immigrants or second generation immigrants from a particular homeland. There often are shops which specialize in serving this population with ethnic foods and goods of various types. Many of these shops would be receptive to leather goods of many types if they are approached properly.

Very often approaches can be made through immigrant relatives or friends of the producers in the developing country. While this might seem a simplistic approach, it has proven successful in small scale marketing of many other products.

A related merchandising avenue is that of street vendors. Low cost goods are increasingly being sold by street vendors. In major cities, including New York and Washington, D.C., vendors obtain a vendor's license to simply set up a display table along the main streets. The municipal trade office issues licenses for a minimum fee. Anything can be sold this way. Belts and other small leather goods products would be excellent items for vendor sales. Vendors usually purchase products from a distributor and then mark up the price to meet the demand. With virtually no overhead both original seller and vendor realize profits.

There are two other types of retail establishments which are potential customers for specialized leather goods from developing countries. These are specialty shops and hobby-craft stores.

Well educated, affluent suburban shoppers prefer specialty stores housed in enormous malls which sometimes include over 200 individual shops. Some of these stores can be induced to carry specialty leather products of defined origins. These products can be leather garments, footwear, small leather goods and novelties of various sorts.

Special mention should be made of hobby and craft stores. These stores attract adult and juvenile buyers who are interested in many kinds of handicrafts - from the simplest for young children to the complex, sophisticated to satisfy adult tastes. Leather kits of many types enjoy great popularity in these stores.

Another trend in U.S. marketing includes the broad distribution of sales catalogues and mail orders sent to homes. Thousands of free catalogues flood the U.S. residential and office market. Most of these offer very general product lines including clothes, gift items and household effects; small, simple, but good quality leather products--cases for holding collar stays, or table coasters. Simple, unusual gift items would offer potential for developing countries.

Although these unconventional methods of merchandising to the large U.S. market require less capital and less sophisticated manufacturing methods that those required for conventional methods, they are not without pitfalls and problems. Generally they require warehousing faciliites and distribution personnel in the U.S. In this case the style burden, carrying costs and in some cases extra packaging costs fall on the supplier.

There are also costs in reaching the retailers. Most of the wholesale buying for retail outlets such as specialty stores is done during big trade exhibitions held around the country. Here sales representatives display sample products for hundreds of buyers. If leather product producers in developing countries want to reach these markets they must bear the expense of participation in these trade shows.

4c. Footwear Components: There are no reasonably accurate statistics on the U.S. imports of cut, stitch and lasted uppers. However, there is ample industry information that in the last few years this business has grown rapidly to substantial amounts. So far the countries which have taken advantage of this development have fallen into two categories. The first accounting for the largest volume is those countries having a plentiful supply of specific types of leather and refined shoe making skills. Chief among them are India and Brazil.

The second category is composed of countries very close geographically to the U.S. Taking advantage of lower labor rates in neighboring countries like Mexico and the Dominican Republic, U.S. shoe companies have shifted part of their manufacturing operations there.

It is possible even probable that the imported uppers trend will spread to a greater number of countries, however, the same constraints which apply to the manufacture of completed shoes apply to exported lasted uppers as well. This is the hard part, the part requiring the most labor and the greatest variety of components.

5. The Need for Cooperation: Whatever method is chosen for exporting leather products to the U.S. it is likely to prove that the task is too large a project for most individual enterprises in the smaller developing countries. It is important, therefore, that these enterprises cooperate with one another to form a large enough unit to handle the demands of an export program. Adequate financing and management skills are essential ingredients for success, without them the project cannot succeed.

This cooperation can be among firms in the leather and leather products industry or it can be among firms in different industries having similar export objectives and utilizing similar export facilities and marketing outlets.

Above all it is important that the potential exporters from the developing countries have the expert guidance of knowledgeable consultants or advisors in the U.S. The most important ingredient in any exporting program is knowledge. Without it, the program will fail; with it, it will surely succeed. This knowledge will lead to choosing the proper U.S. partners or contacts so that an ongoing business which is both profitable and pleasant will be developed.