



**Functions of buyers' agent in Leather exporting process:**

**A brief analysis on the intermediary in the Leather Industry of Bangladesh**

**Course: Bus 400**

**Subject: Internship Report**

Submitted To

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Subject: Submission of Internship Report

Respected Sir,

I, Sadia Bushra (ID-13104109), am submitting my internship report on “Functions of buyers’ agent in Leather exporting process: A brief analysis on the intermediary in the Leather Industry of Bangladesh”. It was a great learning experience for me while working for a field level company “Leather Export Company Limited” as well as preparing this report under your supervision. I have tried my level best to develop this report with the theoretical knowledge as well as practical experience of working in leather industry. I believe this internship experience will assist me to build a successful career in future.

Hope you will appreciate my effort and will be pleased through the evaluation of the report.

Thank you for all the guidance and your kind cooperation throughout the whole internship period.

Sincerely yours,

Sadia Bushra

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## Acknowledgement

The internship report is the outcome of guidance, direction and support of many people. I am privileged enough to reach the goal with abundant supports and definitely with the blessings of Almighty.

First of all, I would like to show gratitude to Almighty Allah for blessing me to complete my goal.

I would like to express thanks to my academic supervisor Md. Tamzidul Islam, Assistant Professor, BRAC Business School for his boundless encouragement and supportiveness to complete this report.

Then I would like to express gratitude to my organizational Managing Director, Mostafa Ahmed, for guiding me during the internship period and helping me to learn about organization activities and adjusting myself in workplace culture.

Finally thanks to my family and friends for supporting me throughout my graduation period.

I am really honored and fortunate to get immense support from all these persons.

## **Executive Summary**

Intermediaries play an important role in the exchange of goods and services across borders. The main purpose of this report is to conduct a brief analysis on the contributing role of an agents' buyer as intermediary in the leather industry of Bangladesh. It can be also viewed as providing a justification for why there are professionals to facilitating a trade in between the local producers and the international buyers. This report follows qualitative research method and most of the information was collected from secondary sources. A thorough unstructured interview was conducted with two experienced buyers' agents. This brief research shows that buyers' agent performs several roles besides acting as the intermediary. A middleman or agent holds higher reputation in market for selling high quality goods. An agent works like an appraiser who is an expert in leather field. The purpose of conducting business through the agents is due to the intensive that the agents make large investment on relationship marketing to secure interactive relation with foreign buyers. Moreover, agents are skilled experts who have complete expertise in detecting quality of leather. They monitor and manage every step of the consignment on behalf of the foreigner buyers. Through comprehensive and secured financial tool like letter of credit, agents insure the payments from the buyers. These factors are main concerns for buyers' to order from our country. Hence, activities of agents' are the prime source for drawing foreign buyers into our leather industry.

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## Chapter 1: Introduction

The export strategy for Bangladesh leather sector is mostly controlled by the buyers' agents. The agents act as representatives for local leather tanners and tannery owners in foreign countries and engage in fetching orders from foreign firms. For further development in this sector's export value chain, it is crucial to investigate the roles and activities of such buyers' agent companies and validate their existence.

The leather industry of Bangladesh is the second largest industry in exporting market. Recently, the relocation of Hazaribagh to the planned Savar is promising a brighter future in the sector. Billions of dollars is being earned through exporting leather every fiscal year. Bangladesh is relatively small compared to the other big players in the world leather market, but has potential for growth. From fiscal year 2011 to 2013, significant growth has been seen in this sector.

From 2011-2012 fiscal year to 2014-2015 fiscal year, this sector projected astounding growth in exporting leather and leather goods.

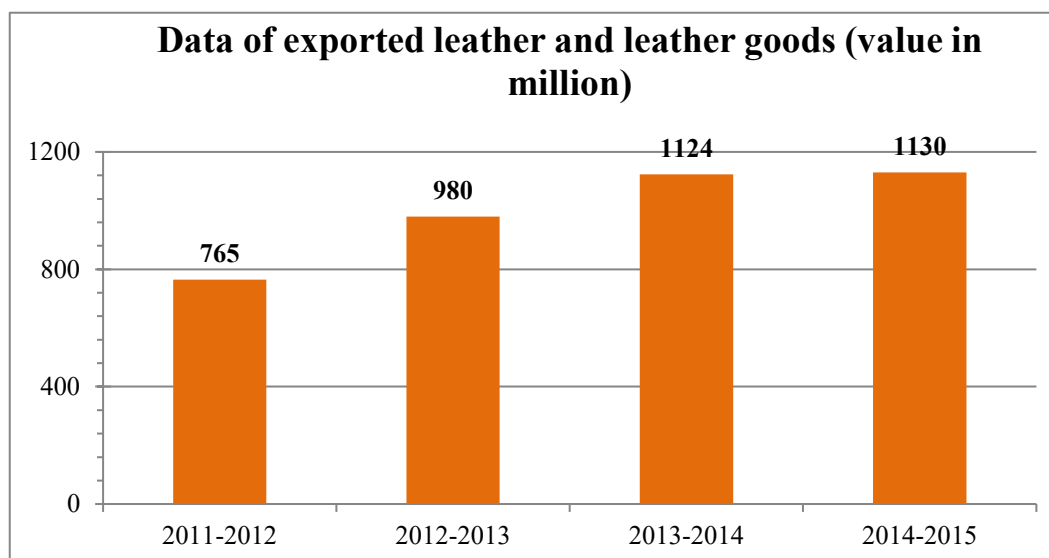


Figure 1.1: Data of exported leather and leather goods (value in million)  
(Reference no. Table 1)

The growth was projected at 17.51% in 2011-2012 fiscal year which continued till 2013-2014 fiscal year at 32.12%. After 2014-2015 fiscal year, growth has been steady in this sector due to relocation process.

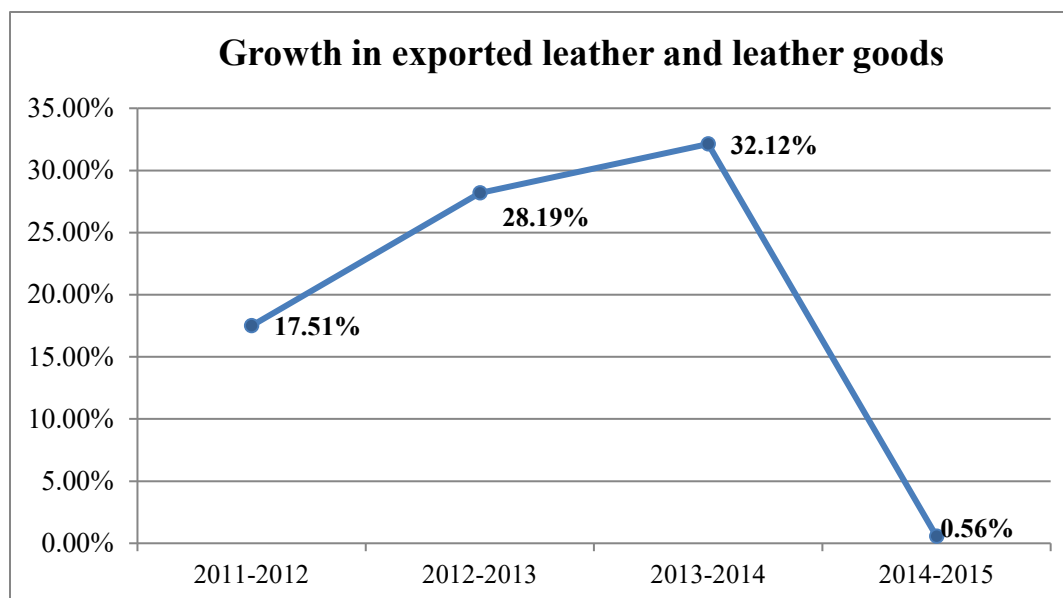


Figure 1.2: Growth in exported leather and leather goods (Reference no. Table 1)

The mechanism of leather industry depends on the activity of the buyers' agents. As the raw materials are being collected and sold to the tannery owners, the final execution of selling the leather to the final buyers is done by the buyers' agents. The agents are the middlemen in this business who links the foreign buyers and tannery owners. The prime role an agent plays are in relationship marketing, cost cutting, securing transaction and quality control. The agents do the promotion of the leather via international trade and establish interpersonal relationship with the buyers. This relationship preserves future possible leather orders. After the buyers choose from the samples of hides, skins & leather, terms of payment and terms of delivery are agreed with the buyers along with other terms and conditions and issue proforma invoice. In turn agents receive export order for raw hides, skins & leather followed by purchase order from the overseas buyer. The terms of payment for export contract are under letter of credit (LC). All legal documentation is managed by the agents. Through letter of credit the final transaction is done which is the most secured way. Finally, the quality of leather is maintained through the agents'



effort which ensures successful consignment and earns the confidence of foreign buyers which ensures lasting relationship with the buyers.

Since the key factors that enable foreign buyers to initiate business with our local tannery owners are the flexibility of communication, clarity of transactions and assurance of quality, the agents are inevitable medium to establish such environment for the buyers. This report considers that it is vital to highlight the importance of such middlemen called buyers' agents in the leather exporting process and briefly analyze their activities which add the final value in our manufactured leather.

### Origin of the report

The report is prepared as a requirement of internship for the successful completion of BBA program of BRAC Business School of BRAC University. I was assigned with Leather Export Company Limited, Jhigatola, for my internship program. I started internship on 25<sup>th</sup> April, 2017 and ended on 20<sup>th</sup> July, 2017. All together it was a three month assignment. The main purpose of this internship program was to give me an opportunity to learn about practical knowledge regarding the leather sector of Bangladesh as well as an experience to cope up with organizational environment.

The report is prepared under the guidance of Mr. Md. Tamzidul Islam, Assistant Professor, BRAC Business School acting as the academic supervisor and Mostafa Ahmed, Managing Director of Leather Export Company limited.

### Purpose

**General Purpose:** The general purpose of this paper is to look through the whole mechanism leather buyers' agents go through and the roles they play from taking order to export the shipment of leather to foreign buyers across border. Needless to say, buyers' agent acts as the intermediary in the supply chain of leather and leather goods exporting process. The complex process of searching international buyers, connecting them with the local producers and final shipment are done through these agents.

**Specific Purpose:**

Specific objectives are-

- How the initial marketing is done through these agents' companies
- Understanding the importance of interpersonal interaction with potential clients
- Analyzing the impact of leather buyers' agent in international business

**Scope**

The main focus of this paper is on the functions of leather buyers' agent in Bangladesh, how they contact with the international potential buyers, how they manage the whole process from taking order from the buyers to leather producing in tanneries, leather inspecting, shipment of consignment on time and successful transaction.

**Methodology**

This project is constructed on secondary research and formal qualitative research. Secondary research was done for understanding how the industry is performing and gaining an empirical overview. The secondary data is collected from journal papers and web pages related to the project.

A formal qualitative research was done through non- structured interviews. The interviews were designed with open-ended questions and were conducted with two buyers' agents who were working actively in the assigned company.

**Limitation**

The Leather Industry of Bangladesh has not being under the focus of much research. Most researches have been done about the hazardous implications of the tanning process. Still the potentiality of this sector was not highlighted much in researches. Some limitations are described as follows:

- No significant research has been done on the supply chain of leather goods in Bangladesh
- The secondary data related to this topic was limited

- As it was not possible to collect any internal information of tanneries, therefore the report is focused on the activities of buyers' agents.
- During this paper was written, the time period was not lengthy enough to completely observe a consignment. Therefore, many findings were established through brief interviews.

## Chapter 2: Industry Overview

Leather industry is one of the most prominent industries of Bangladesh. After the dominating share of garment industry in exporting, leather industry occupies the next position in the economy of Bangladesh. The Government of Bangladesh ranked leather sector second in the export earning sector as one with significant growth and investment potential. The contribution of leather industry has been in boom recently. In 2014-2015 fiscal, leather sector made 1 billion dollar worth of transaction through exporting for the second year in Bangladesh's economy, according to data from the Export Promotion Bureau (Mridha, 2015). Nonetheless, the entire leather sector delivers only 0.5% of the world's leather trade which values 75 billion dollars (Paul, Antunes, Convington, Evans, and Phillips, 2013).

According to Wikipedia, leather is produced by tanning animal rawhide, skin and often cattle hide which is durable and flexible material and can be produced at manufacturing scales reaching from cottage industry to heavy industry ("Leather", n.d.). The first tannery in Bangladesh was set up at Narayanganj by RP Saha in the 1940s. It was later moved to Hazaribag area of Dhaka, which eventually turned into the prime site where presently a large number of tannery units are concentrated. The main raw materials for this industry are cow and buffalo hides and goat and sheep skins. Bangladesh is gifted with generous vegetation reassuring a large livestock population. Farms and fields are not surrounded with leather damaging barbed wired fortification in villages, so the quality of the raw hide and skin is not compromised. According to Hasan (2012), black goatskin of Kushtia of Bangladesh is very renowned for its fine grain structure and flexible strength. The custom of gentle and personalized care of domestic animals in this country also keeps the hide quality significantly high.

About 40% of the supply of hide and skin comes from animals slaughtered during the annual Muslim festival of eid-ul azha (Hasan, 2012). Moreover, meat tops the list in food list in Bangladesh where festivals, wedding ceremonies all are celebrated through consumptions of meat which enables generous supply of hide and skin. After recent steps by the government to imply more value addition in export, the tanning industry got improved. Domestic supply of raw hide and skin has been twice the amount recently. Investments are made in fixing new finishing capacity. Developments like these are motivating more tanneries to produce finished leather on a commercial basis.

Bangladesh Government has established a permanent parliamentary committee for assessing the performance of the sector. Some significant initiatives were adapted for the advancement of this sector. The government has also been assisting the leather industry via monitoring the export market and substantial bank credit.

Most of leather and leather products of Bangladesh are sold abroad in the form of creased leather, finished leather, and footwear (Riyadh, 2016). Germany, Italy, France, Spain, Japan, and China are major leather importer from Bangladesh. Almost 85% of value addition is happened in local production and rest 15% foreign market (Ahamed, n.d.). According to Rahman (2014), low wage level and the ban on exporting wet blue leather helped the industry receive a new thrust in the country.

Producers of leather goods of Bangladesh majorly focus on only manufacturing and exporting. Downstream operations are not handled by these producers. Yet a number of Bangladeshi firms pursued brands as Puma, Pivolinos and Hugo Boss to export from this country shows that there is abundance of possibility for the industry's advancement.

### **Export Performance:**

According to industry insiders, Bangladesh exports only 0.5 percent of the international leather and leather goods market which values 215 billion dollar (Saha, 2015). The industry produces approximately 100-150 million square feet of raw hides and skins of which 85% is exported in crust and finished form (Riyadh, 2016). The rest is used for producing leather goods to supply the domestic market. Bangladesh's export arena has been blessed with the leather industry. Big

economies like China, Japan, Italy, and Germany have been major contributor in importing Bangladeshi leathers. Bangladesh government has been monitoring the export performance for leather industry. The growth in the exporting volume has been astounding from 2011 to 2013 fiscal years.

Table 1. Data of exported leather and leather good (value in million) of 4 consecutive fiscal years

Category	2011-2012	2012-2013	2013-2014	2014-2015
<b>Leather</b>	330.16	399.73	505.54	397.54
<b>Leather products</b>	99.16	161.62	240.09	249.16
<b>Footwear</b>	335.51	419.32	378.54	483.81
<b>Total (leather &amp; products)</b>	765.03	980.67	1124.17	1130.51
<b>Growth</b>	<b>17.51%</b>	<b>28.19%</b>	<b>32.12%</b>	<b>0.56%</b>

Note: Reprinted from Bangladesh's Export of Leather and Leather Products, by The Leather goods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB). Retrieved from [http://lfmeab.org/images/report/LEATHER\\_SECTOR\\_INVESTMENT\\_BROCHURE\\_LFMEAB.pdf](http://lfmeab.org/images/report/LEATHER_SECTOR_INVESTMENT_BROCHURE_LFMEAB.pdf) copyright 2016 by Bangladesh Export Promotion Bureau.

Bangladesh has seen growth over average of 15% in exporting leathers and leather products. The growth in fiscal years 2012-2013 and 2013-2014 was astonishing and promising. In 2014 fiscal year this growth declined significantly. The finished leather except leather goods and leather footwear saw a 21% negative growth in the 2014-15 fiscal year and 30% negative growth during 2015-16 fiscal year according to Bangladesh Export Promotion Bureau (EPB) statistics. This negative growth was claimed due to the delay in relocation process of Hazaribagh tanneries to Savar Tannery Estate. The whole large and complex project of shifting Hazaribagh tanneries to Savar has had adverse effects on whole leather tanning process, claimed the tanners.

Table 2: Major importing countries of Bangladeshi leather and leather products & footwear (values in millions)

<b>Country</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>2014-2015</b>
<b>Germany</b>	72.44	103.53	142.89
<b>China</b>	41.92	172.65	165.6
<b>Japan</b>	123.08	133.27	117.4
<b>U.S.A</b>	33.49	57.59	98.52
<b>Spain</b>	41.96	51.59	60.01
<b>Italy</b>	37.75	38.17	44.4
<b>France</b>	22.88	21.19	25.05
<b>UK</b>	5.98	9.34	15.7
<b>UAE</b>	2.6	3.24	17.51

Note: Reprinted from Major importing countries of Bangladeshi leather and leather products & footwear, by The Leather goods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB). Retrieved from [http://lfmeab.org/images/report/LEATHER\\_SECTOR\\_INVESTMENT\\_BROCHURE\\_LFMEAB.pdf](http://lfmeab.org/images/report/LEATHER_SECTOR_INVESTMENT_BROCHURE_LFMEAB.pdf) copyright 2016 by Bangladesh Export Promotion Bureau.

Nonetheless, the hostile impacts on export of leather products and leather footwear could not cause drastic decline as there are still positive growths in the two sub-sectors (Hossain, 2017).

Internationally Bangladesh exports the 2% of the world leather market. The European Union is the biggest destination for footwear exports where 60% of footwear is being exported followed by Japan with 30%.

### **Tanneries:**

Currently there are about 220 tannery units in Bangladesh and their material is locally available raw hides and skins. Of them 114 are registered with the Directorate of Industries. Among them Janny's footwear limited, Akij footwear limited, Apex Tannery Ltd., Bata Shoe, ABC Leather, Model Trade International, Bengal Leather Complex Ltd., Chowdhury Leather & Com. Ltd., Crescent Tannery Ltd., Helena Enterprise Ltd., H & H Leather Industry Ltd., Kalam Brothers Tannery Ltd., Karim Leathers Limited., Ruma leathers Limited., Dhaka Hide & Skin limited Lexco Limited and Bay tannery are big players. Others are mostly of small and cottage type not under official government list. Around 150 tannery entities were located at Hazaribag of Dhaka. The area was only 50 acres of land popularly known as tannery area. According to the records of the Bangladesh Tanners Association (2016), approximately 3,000 workers are employed in the tanning industry. Alongside there are about 100 qualified technologists including foreign experts who are working in different tanneries. Total capital invested in the tannery industry is estimated at Taka 2.5 billion, of which government and bank financing is about Tk. 1.2 billion (Riyadh, 2016). Over one and half thousand persons are engaged in the process of collecting raw leather and skins and delivering them at tannery units. About one hundred organizations import chemicals for the usage in tannery industry (Bangladesh Tanners association, 2106).

### **Supply chain Structure of Leather Exporting:**

1. Collectors
2. Leather merchants
3. Producers
4. Buyers' agents
5. Foreign Buyers

Entire mechanism of leather market of Bangladesh goes through 4 stages. The first is where raw leathers are being collected by local leather collectors from butchers, cattle owners and other scattered and individual leather providers. The collectors are independent entity with own financial capacity. Collectors mostly buy leathers from concentrated areas as in small villages

from local butchers. They preserve the raw leather by using salt and store them in their personal shed. They then sell their collected raw leather lot to the merchants.

Merchants are those who are bigger entity than collectors and they gather leather from bigger geographical territories. Merchants have their designated storehouse in different locations of Bangladesh i.e. Natore in Rajshahi, Pakoti in Mymensing, Illoidgeanj in Comilla. Merchants sell leather in bulk to tannery owners.

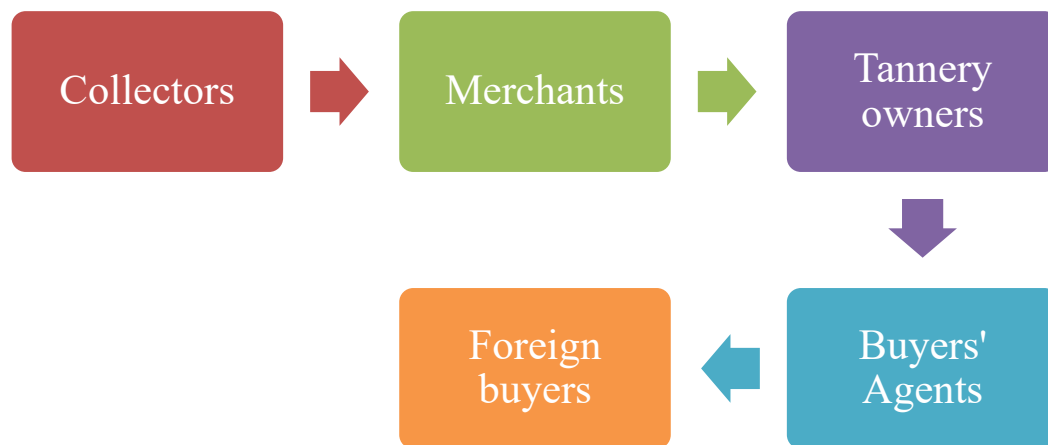


Figure: Supply Chain sequence in the leather sector of Bangladesh

Tannery owners then process the leather by tanning to prevent from rotting. Here leather goes through tanning process and being preserved for exporting.

Fourth stage is where the marketing and exporting happens through agents. When the agent contacts with local tannery owner with demanded consignment, they start processing leather according to the order. The end customer here is the foreign buyers, who are pursued by the buyers' agents.



### **Tax policy on Leather industry:**

According to Zahur (2004), the leather processing industries has three categories of producers; they are- large industries, small/medium size industries and commercial exporters. The large industries with bonded warehouses pay no import duties or value added tax (VAT) (Zahur, 2004). They are not applied for duty draw-back and have to function on a virtual 100 per cent export basis. There are around 6-7 leather tanneries who 60% of the whole Bangladesh leather market. Small/medium size industries pay import duties or VAT on chemical and other items at differing rates. These industries take duty draw-back at pre-fixed rates after each shipment of export is completed.

Leather footwear sector has two categories of exporters, those with bonded warehouses and those with no bonded warehouses. Those with bonded warehouses do not pay import duties or value added tax. According to Duty Exemption and Drawback Office of Bangladesh following the Act 1991, these bonded warehouses are not entitled for duty draw-back but receive a cash incentive of 15 per cent on the export Free on Board (FOB) value of their products. Only 6-7 producers are responsible for 40 per cent of footwear exports. The exporters without bonded warehouse pay all import duties and value added tax (VAT) on duty paid values. They are eligible for duty draw-back and receive 15 per cent cash incentive on the export (FOB) values.

### **Relocation of Hazaribagh:**

The relocation of tanneries in Hazaribagh to the leather industrial park in Savar has almost completed. The progress went slow due to shortage of fund. To relocate the factories and to start production in the new founding total cost was estimated about Taka 6,000 crore. The Ministry of Industries decided to relocate the tannery factories from the capital's Hazaribagh area amidst pressure from the rights group, environmental activists and buyers concerned with its dangerous effects on the public health and environment (Sajib, Hossain and Tanvir, 2016). Established on a 200-acre land in Savar, 155 tannery owners were assigned plots through Bangladesh Small and Cottage Industry Corporation (BSCIC) at the leather industrial park. The 1<sup>st</sup> stage of leather production known as preparatory is going on in almost half of the tanneries.

### **Health Issue:**

Human Rights Watch published a well-informed report in 2012 titled “Toxic Tanneries: The Health Repercussions of Bangladesh’s Hazaribagh Leather” which documents health and safety calamity caused by contacting with tanning chemicals, and limb amputations caused by accidents in dangerous tannery equipment.

This report is based on research conducted by senior researcher Richard Pearshouse of Human Rights Watch in Bangladesh between January and May 2012, and interviews with 134 people, including past and current tannery workers, slum residents, healthcare professionals, workers with nongovernmental organizations (NGOs), trade union and government officials, leather technologists, and chemical suppliers.

According to Pearshouse (2012), many common health problems that tannery workers face such as skin and respiratory diseases result from recurrent exposure to a harmful cocktail of chemicals whilst measuring and mixing them, adding them to leathers in drums, or manipulating hides saturated in them. Some chemicals such as sulfuric acid and sodium sulfide are harmful in short term causing burn tissue, eye membrane, skin, and the respiratory tract. Many complained in their interviews that their tannery did not supply safety equipment such as gloves, masks, boots, and aprons or failed to supply sufficient quantities. Other workers told Human Rights Watch they suffered serious accidents working old and poorly conserved tannery machines for which they had little training (Pearshouse, 2012).

Such alarming issues have always put the leather industry of Bangladesh in a spot for questioning its sustainability. However, the recent relocation of Hazaribagh in a planned area of Savar can reassure the safety of the workers in the tanneries.

## Chapter 3: Organizational Overview

### Origin

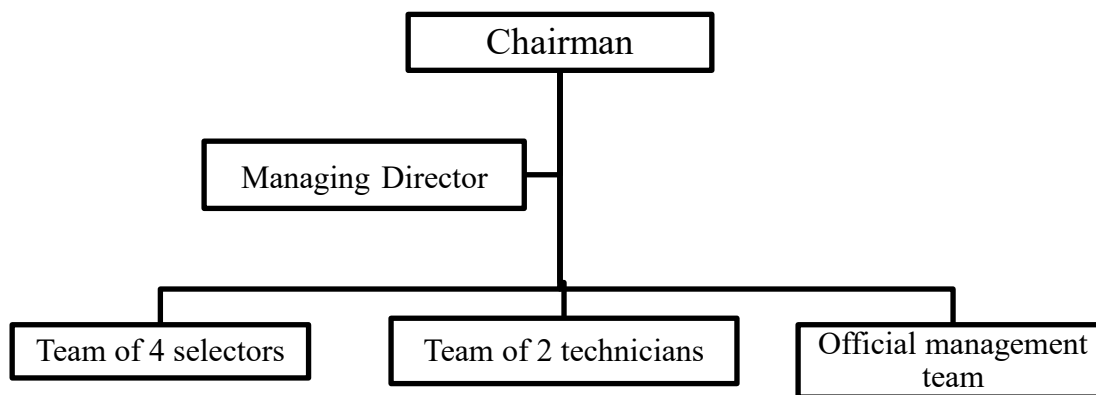
Leather of export was established about 31 years ago for functioning as buyer's agent for hides and skins. The main object is to promote the leather business relation between the foreign buyers and sellers in the leather sector of Bangladesh.

With the untiring efforts of Chairman, Md. Shafiuddin and Managing Director, Sheikh Mostafa Ahmad, Leather Export Company Ltd. has become one of the leading buyers' agent companies in leather sector. This business is the inheritance from their ancestors which earned good reputation and goodwill from both the buyers and the sellers and expanded to its present infrastructure comprising experienced and dedicated personnel from leather trade.

Leather Export Company Ltd. holds the reputation of being the only agent to some major leather firms of foreign countries. Conceria Nuvola Srl of Italy, Join Push International Company of Hong Kong and Hop Ying International Leather Company Ltd. of China are three major clients contributing millions in our exporting income.

### Management

Leather Export Company Limited is a small versatile team consisting of total 15 members working dedicatedly. It follows a standard organizational structure where hierarchy is maintained.



On the top of hierarchy is the chairman. He is also an experienced agent who holds a number of international giant buyers. The managing director is another agent who manages the relationship with the present buyers and maintains regular communication. Managerial team is responsible for maintaining daily organizational activities. A team of prominent and excelled selectors who inspects and ensures the quality of leather is always in move. Their job description entitles them to routinely visit tanneries which are handling the company's consignments. They examine every piece of processed leather that is going to be exported. Two technicians are there to monitor whole production process. They monitor the technical procedures tannery workers follow to operate machineries for tanning leather. A personal lawyer is appointed to manage all formal paper work and legal documents.

### **My Experience:**

From the first day of my internship, I was introduced with the team and was explained each one's responsibilities. I was on the process of understanding and learning every step a big consignment goes through before it is successfully shipped. My responsibilities were as follows:

- Visiting tanneries for inspecting our assigned leather production
- Checking emails from foreign buyers and communication the status of the order
- Organize samples of leathers from different tanneries

At first I was getting familiar with the whole mechanism of the agent team. First few days, I handled minor paper work and got acquainted how each person in the team conducts their duties. After a few days I frequently visited tanneries to learn physically about the leather- how they are graded into categories – “A”, “B”, “C”, “E”, “F” & “G”, what are the dissimilarities among different grades, the texture etc. As I was an intern, there was certain limitation in accessibility. I was granted the access of official email account to update the foreign buyers and keeping touch with local tannery employees.

The most important part of this internship program was to learn how to maintain a friendly business relation with foreign buyers. In the next month I had to assist with a group of buyers from China. The team was of 3 members who were the selectors from the company whose order we were handling that time. We went through day long inspection of every leather piece to

ensure quality and transparency in business. The main application of employing agents in the market is to establish a confident ironclad relation with the international firms and buyers. As Leather Export Company is working as a middleman, the confidence of buyers has to be earned and maintained throughout the consignment is being carried out.

### **Leather Types and Class:**

Leather production in Bangladesh offers a limited array hide and skin. There are 4 types of products with different specification which is frequently demanded and ordered by foreign companies. That are-

1. Full Chrome Cow/Goat Crust Leather. Natural or drum dyed i.e. black, brown, red, yellow etcetera as par the order.
2. Semi Vegetable Cow/Goat Crust. Natural or drum dyed.
3. Full Vegetable Cow/Goat Crust. Natural or drum dyed.
4. Ecological Cow/Goat Crust.

Chrome is a chemical which is used to process the raw hide. Vegetable chemical is a natural chemical which is a different kind of hide processor which is made of chestnut tree extract. Most expensive category of hide is which is processed with ecological chemical which does not contain any chromium or vegetable. It is human friendly.

This leather has two categories of size available-

- Category A- 12 square feet to 25 square feet, full pieces with thickness of 1.1 mm to 1.3 mm
- Category B- 12 square feet to 24 square feet, sides with thickness of 1.2 mm to 1.4 mm

A consignment is ordered on the basis of all specification, size and grading criteria. Grading goes from “A” to “H”. Grade “A” is the finest completed leather piece which has no scar or freckle and smooth, “H” being moderately smooth with mendable scars. Each consignment is distributed

in percentage of desired graded leather since it is very difficult to produce only “A” graded leather. As standard goes, two categories of selection of leather is produced in our country-

- A: A/B/C/D- Selection: 10/20/30/40%; meaning out of total 100 leather pieces, 10 will be “A” graded, 20 will be “B” graded, 30 will be “C” graded and 40 will be “D” graded.
- B: E/F/G/H- Selection: 25/25/25/25%.

The Goat skin from Bangladesh has the biggest reputation with international brands like Gucci, Prada. This goat skin is highest in quality with flawless gloss. Size ranges from 2.5 square feet to 5 square feet with thickness of 0.7 mm to 0.9 mm and/or 4 square feet to 7 square feet with of thickness 0.8/1 mm.

### **Critical Observation and Learning**

Working in the company, gave me a great opportunity to learn many things. My observation and learning are as follows:

- Working environment was very flexible. My supervisor was always helpful.
- A structured chain of command is always maintained.
- It is a versatile experience to observe both manufacturing activities and managerial activities together.
- Working in tanneries needs both mental sharpness and physical aptness.

## Chapter 4: Literature Review

Intermediary traders create time, place and possession value because transactions can be executed at lower cost through them than through direct exchange (Alderson, 1954). According to Bardhan, Mookherjee & Tsumagari (2012), middlemen, like agents carry out a range of functions, including finding quality goods produced by suppliers, financing their essential working capital, and marketing the product. Intermediaries in business may either hold inventories, or act as market makers whose role is to get traders together, without buying and selling within themselves (Gehrig, 1993). Companies that are incapable investing on constantly monitoring the dynamism of its own supply chain mostly contract the work out to intermediaries where the main function of these experts is to ease the burden of handling inbound and outbound consignment along the supply chain for its customers (Hickson, Wirth & Morales, 2006). Biglaiser (1993) presented models where middlemen are agents with expertise that allows them to distinguish high- from low-quality goods, and show how the presence of informed intermediaries helps to amend problems. As in Lucas (1978), agents in the economy differ in their management ability and this 'ability' can be viewed as reflecting instinctive capabilities to supervise workers. Alternatively they may demonstrate technical knowhow, financing and/or marketing skills.

Spulber (1996) stated that one of the most important purposes of market intermediaries is to cut search expenses for the parties they serve and that they generate more worth. Firms hiring the intermediary like agents experience international fixed cost for once that provides indirect access to all markets which allows firms to save on market-specific bilateral fixed costs (Ahn, Khandelwal and Wei, 2010). Rubinstein and Wolinsky (1987) suggested that middlemen may exist because they reduce searching cost and they are more sufficient at searching for buyers and sellers than buyers and sellers themselves. The presence of market intermediaries reduces the costs of the acquirement of information and the transaction costs of negotiating and enforcing contracts (Williamson, 1985).

Business practice encourages both customer and supplier to seek close, collective relationships with each other (Copulsky and Wolf, 1990). The agents in leather industry plays vital role in relationship marketing by creating long lasting relation with foreign buyers. Relationship

marketing is the process of engaging all components in a business as customers, suppliers and other trade important factors into marketing activities (Shani and Chalasani, 1991). This establishes close cooperating relationship with suppliers, customers and other value chain partners of the firm. According to Kalwani and Narayandas (1995), a close, cooperative and interdependent relationship engenders greater value than purely transactions based relationship.

Cross-border transactions carry more risk and uncertainty. In leather exporting process, the buyers' agents use letter of credit as financial tool to secure the payment procedure. Letter of credit is one of the most flexible payment procedures in the business world. Credits are frequently used to effect payment in international sales contracts and are often the means of financing production under such contracts (Gewolb, 1966). Mann (2000) stated that rules governing letters of credit is established on the notion that they provide a highly certain method of payment to a seller of goods. Therefore the law and the terms of the letter of credit make the obligation of the issuer to deliver payment to the seller independent of the purchaser's performance on the underlying contract. Letter of credit has become most trust worthy financial tool to ensure transaction in between two international buyer and seller. Cross-border transactions magnify the concern, because the difficulties of litigating in a distant medium will hamper the manufacturer's efforts to force the distant buyer to pay (Bernstein, 2001). The seller that obtains a letter of credit can rest assured that it will be paid even if the buyer would not pay voluntarily (Dolan, 2007).



## Chapter 5: Results

The interview was based on open-ended unstructured questions aiming to collect information for understanding the mechanism of the agents as intermediary. After extracting definite facts from the qualitative information being collected, results were-

- Retaining customers, influencing repeat purchases, nurturing trust and enabling future marketing are the main concerns of the buyers' agents.
- Tanneries perform their most of the marketing and exporting activity via the agents.
- Relationships between foreign buyers and agents are vital because the promotion of locally produced leather is heavily depended on the agents attending international trade and approaching personally to the foreign clients.
- Relationship marketing is main emphasis of the agents. It forms long-term relationships and focuses on buyers' loyalty. The foreign buyer may be convinced to select our local leather one time but without a strong relationship marketing strategy, they may change their suppliers.
- The market size of Bangladesh leather industry is not sufficient to compete with present international market. Therefore, intensive marketing and strong interpersonal relationship are must to maintain a strong loyal client base.
- Legal documentation has to be maintained delicately with precision by the agents for future insurance.
- Confidence of the foreign buyers drives future business. Constant support from local agents ensures this confidence.
- Agents act as representative for both leather producers and foreign clients.

## Chapter 6: Findings and Analysis

### Findings:

#### **Buyers' Agents as Intermediary and their Role**

Most of the tanneries except 2 to 3 branded tanneries have hired agents for contacting with foreign clients. This is a sign that leather manufacturers still do not see marketing and customer maintenance as core function in their activities. The behavior of most companies is geared towards productivity. After observing the operations of an agent company, it was established that the role of an agent starts from being the middleman from controlling marketing, communication, negotiation, quality control of goods, financing to final exporting. These multi tasks were managed by efficient team working.

Each of these stages bears different challenges and requires specific skills and expertise.

- **Marketing and Sales**

The agents have individual companies with functioning activities. In the leather sector, marketing is done through interpersonal interaction and face to face promotion. The agents here are solely responsible for advertising and inviting potential buyers from foreign countries.

Every year Italy, China, Germany, Japan, and Hong Kong hold large exhibition and trade fair for leather, hides and skin. Deals are done here and all large orders of consignments are initiated through this formal meet ups. Agency companies from Bangladesh send their representative teams with samples gathered from different tanneries. Buyer representatives from foreign gigantic leather goods manufacturers then contact with our local agents if they are impressed with our local leather and hides.

- **Communication and Negotiation**

At the initial stage of ordering consignment, the foreign buyers state their specification, size and the volume of order they expect to be delivered.

The role of agency starts from taking order specification from foreign buyers. Agents contact with tanneries which can produce in time and deliver the consignment as per the buyers demanded. Tanneries which have adequate availability of tanning chemical and machinery capacity to deliver in time are being assigned with the consignment.

Next the negotiation of selling price is done. Buyers initially offer a buying price to the agents. Tannery owners then bargain their desired price and a negotiation is done via the agents. The agency company is 4% commission from the selling/buying price.

- **Formal Documentation and Financing**

After selection of tanneries, the agents' company contacts with the foreign buyers and formal documentation is done. In specific bonds all the specifications from the buyers are documented, the time of delivery, the size of the order, price description, and other crucial information. Two lawyers one from the agency company and one from the foreign buyer company manage this documentation process. Tannery owner, foreign buyer and the agents sign the document insuring the consignment and clarifying each party's obligations and rights.

Letter of credit is issued by the buyers for the payment security of the seller or the tannery owner. This letter of credit is overseen by the agents. The advising bank makes the payment to the agents. The agents then cut their respective commission and transfer the payment to the tannery owner. The issuing of letter of credit guarantees the payment from buyers and mitigates risk taking by sellers.

- **Quality Control**

A group of technicians and selectors from the agency company are sent for routine inspection in the assigned tanneries to check the quality of the produced leather. This

routine inspection is done by this team until the total consignment is completely produced. Due to this constant inspection, quality of leather never gets compromised.

Before the final packaging is done for exporting, a team of foreigner selectors from the buyers' company visits local tanneries that inspect each leather pieces before final delivery. They are accompanied and managed by the agents.

### **Analysis:**

According to Bernard, Grazzi & Tomassi (2010), the choice of export mode depends on destination country characteristics, such as the size of the foreign market, the risk of government instability, the degree of complicity with legal bindings, or the cultural distance to the target country (Felbermayr and Jung, 2011). In general, markets that are smaller and more difficult to access are mostly served through trade intermediaries.

The leather industry of Bangladesh bears some challenges to foreign cliental. The language barrier, market is comparative smaller than competitors, different business culture and most importantly being unable for constant monitoring of quality production due to distance are the key factors that may keep potential buyers away.

Therefore the findings on how the agents are initiating and controlling the business with foreign buyers have greater implication here. This agency company not only playing the role of intermediary, but the most crucial point for selling a product is done. The agents communicate and preserve the relationship with potential customers through relationship marketing.

Relationship marketing is an aspect of customer relationship management that focuses on customer loyalty and long-term customer commitment rather shorter-term goals of one time sales. Through this relationship marketing agents create strong, even emotional, customer connections

The marketing strategy for leather industry is rather not a traditional one. The product here is processed leather and skin. So differentiation in products is not an applicable marketing strategy

here. The availability of chemical and tannery's capacity to complete an assigned order is the key for the tanneries to receive orders. Most importantly, here the agents have the supply of potential customers. Therefore the relationship between tannery owners and agents here play a key role for obtaining customers.

The agents are playing the most vital role in cutting cost and security in financial transactions. As agents keep interpersonal relation with buyers, no additional search cost is needed after one successful consignment.

The agents ensures the quality of leather, in other words, agents play active role in product promotion through ensuring quality and delivering with appropriate leather producers. Moreover, the legal documentation in managed by the agents.

The reason behind the need of agents in this business is that without a middleman, it is challenging to successfully deliver a consignment. Overseas firms may lose confidence easily on local tanneries. Therefore, final transaction may not happen and the local tanneries owners may occur lose. The agents here keep the consistency and constant communication with the buyers and producers to keep the harmony of buyer-seller relationship. Therefore, the dynamics of this organized production and exports is preserved by the functions of these agents.

## **Chapter 7: Recommendations**

1. The buyers' agents are not considered as commercial important person (CIP) by the government yet. If government takes special initiative to recognize them with the status of CIP, business will get more morale boost and exporting process will cause less cost.
2. The contribution of the agents' is recognized only in the marketing process. They have the advantage of analyzing the current need and trend in foreign buyers. Tannery owners should focus on constructing a strong strategic base for their product development where the agents should be included.

3. Government should designate Special Economic Zones (SEZs) dedicated for leather sector producers. The production environment surrounding the SEZ would contribute to higher productivity.

## **Chapter 8: Conclusion**

A leather export agent is an expert in the international leather market who is better able to differentiate the quality of good and aid these leathers in selling to international buyers. Buyers have confidence that an agent will not deceive them by selling a low quality good, because maintaining a good reputation is important for his future profitability.

Success in exporting local produced leather depends on the commitment level of foreign cliental. The buyers' agents work as representative on behalf of these potential foreign buyers and secure their assigned consignment. Therefore, the contribution of such intermediaries called agents is fostering economic activity via enabling exporting. Through establishing strong interpersonal relationship with foreign buyers, the agents preserve a strong and potential customer base and mitigate probable challenges a foreign buyer may face facilitating trade with local tannery owners. Thus, the role of a buyers' agent in leather exporting process is an influential one which acts as the catalyst in entire leather exporting process.

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## Appendix

Sample of unstructured interview questionnaire:

1. What is the present status of relocation of tanneries?
2. How you get contact with buyers, is there any alternative without agents?
3. Payment method carried by agent?
4. How do you maintain quality of leather?
5. Do you negotiate? How much impact do you have on it?
6. Do you have any recommendations?
7. Do you think whole agency process necessary, why?