

Leather Garments



November 2006 US\$445



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LEATHER GARMENTS

Supplier capability in China

EXECUTIVE SUMMARY

Leather garment exports from China have been decreasing over the past couple of years and are expected to continue declining through 2007. In spite of this, the country continues to lead global exports of the product.

According to statistics from the United Nations, China manufacturers captured a 64 percent share of world leather garment exports in 2005. Decreasing overseas shipments, however, are resulting in consolidation of the industry and a shift to other markets and product lines.

In the first eight months of 2006, leather garment exports from the country dropped 24 percent to \$1 billion and 21 percent to 28 million pieces, compared with shipments made in the previous corresponding period. Exports are anticipated to continue falling by at least 10 percent in 2007.

More than 80 percent of the country's leather garment exports are shipped to OEM and ODM buyers, with the balance sold under suppliers' own brands.

Russia is the largest importer of China-made leather garments, purchasing more than 12 million pieces worth \$984 million in 2005. This constitutes about 43 percent of China's total exports in the line.

The US is the second-largest importer with shipments totaling 21 million pieces at a value of \$627 million.

The following are some of the key trends we see in China's leather garments industry:

- The industry is expected to consolidate further within the next two years. Low demand, rising costs and the changing business environment have made it difficult for smaller companies to compete against midsize and large suppliers.

- Many suppliers will implement minimal price increases over the next two years. But companies are expected

to raise prices significantly once the industry stabilizes.

- An increasing number of companies that used to focus on Russia are now expanding to the US and the EU. Stricter regulations in Russia have resulted in declining exports, especially from manufacturers in north China.

- More suppliers are also expanding their product lines. Some companies are offering products made from off-cuts such as leather bags, while others are diversifying into other apparel lines, including denim and knitwear.

This report covers jackets, coats, skirts and pants made of genuine and synthetic leather.

The Products & Prices section in this report details the features and price ranges of leather garments made in China. Trends in material types and finishes are discussed in the R&D/Design section.

The Manufacturing section explains the processes involved in the production of leather garments and how these differ in small and large companies.

The Industry Overview analyzes the country's supplier base, highlighting the key characteristics of small, midsize and large makers.

The majority of leather garment suppliers in China are privately owned and a few are foreign-invested. Reflecting the industry structure, 80 percent of suppliers featured in this report are China-owned and 19 percent are foreign-invested.

Production is concentrated in the provinces of Hebei, Zhejiang, Shandong and Guangdong, which together account for 74 percent of all leather garments exported from China.

The majority of companies in this report are from these main manufacturing centers, with 38 percent from Zhejiang, 16 percent based in Guangdong, 13 percent from Hebei and 12 percent from Shandong.

In this report

- 15 in-depth company profiles
- 62 short company profiles
- 179 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics and charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers.

The selection of suppliers is designed to reflect closely the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth profiles, our research teams visited the manufacturing facilities of each company and interviewed senior executives who discussed their recent performance and provided forecasts for the next 12 months. All other companies in this report were either visited or contacted by phone.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capabilities of each supplier.

All suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry in the next 12 months. The survey was carried out during phone interviews and in-person factory visits. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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Published by Publishers Representatives Limited (on behalf of Trade Media Limited)
P.O. Box 219 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands
c/o 22/F Vita Tower, 29 Wong Chuk Hang Road, Aberdeen, Hong Kong

Printed in Singapore
ISBN 962-8948-22-9

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INDUSTRY OVERVIEW

The leather garments industry in China is in the process of consolidation. Many small companies are expected to stop operations in the next few years as various industry challenges are making it more difficult for them to compete against midsize and large suppliers. In addition, exports are expected to continue their downward slide.

To survive, a number of leather garment manufacturers in China are expanding their markets and diversifying product lines.

China is said to be the largest volume manufacturer of leather garments in the world. It is difficult to obtain the exact number of leather garment makers in the country, but industry estimates reach up to 10,000. The majority of these suppliers are small companies, some of which have only 40 to 50 sewing machines at their workshops.

The fickle nature of the fashion industry has hit makers hard. Demand for leather garments, particularly coats and jackets, peaked a few years back, encouraging many suppliers to join the line. But with fur now leading fashion forecasts this season, a number of these companies are experiencing dwindling sales. Low demand for leather coats and jackets is intensifying competition in an industry with a large supplier base.

In 2005, the industry suffered an 8 percent drop in export volume sales. Exports have continued to fall, going down 21 percent in the first eight months of 2005 compared with the previous corresponding period.

Apart from the large supplier base, Russia's strengthened crackdown on illegal tax and customs practices is another reason for China's dwindling exports. Most leather garment enterprises, particularly those in north China, export to Russia. Many of them ship to the country via Russian companies that charge foreign businessmen certain fees so that the latter do not need to pay high import

taxes. This practice has been causing Russia large tax revenue losses.

The majority of companies that used to focus on Russia are now expanding to the US and the EU, which they believe are more lucrative markets for their businesses. Exports to these markets, however, are also slowing, with consumers preferring fur to leather.

Further, in 2006, the China government reduced the export rebate for finished leather from 13 percent to 8 percent and textiles from 13 percent to 11 percent. Companies engaged in low-value finished leather and textile products now have to speed up their technical innovation to boost their competitiveness.

Because the industry is experiencing such a fluctuating business environment, China's leather garment exports are estimated to continue decreasing though 2007, by at least 10 percent.

Suppliers are diversifying into other product lines in response. More than 50 percent of companies interviewed for this report now have a secondary line to leather garments. A number of these suppliers used to stop production during the off-season. Some of them even close their factories and go on vacation for up to a month.

Some large makers have ventured into the manufacture of other product

Supplier summary

Suppliers surveyed	77
Export sales	\$387.4mn
Export ratio	84%
OEM business	73%
Capacity utilized	79%
Annual R&D spending	\$14.5mn
Full-time employees	31,731

Data: All surveyed suppliers

lines, including leather bags. For instance, Nanhai Yashan, one of the profiled suppliers, began producing leather bags in early 2006. It is now planning to focus on increasing capacity and output of the product in 2007.

Even small and midsize makers have secondary lines to leather garments. Beijing Longfuqi offers knitted garments in the off-season, while Qingdao Yuntian manufactures jeans from January to March each year. The company's peak months are from July to December. Other suppliers also offer small leather goods such as hats and gloves.

Responding to other challenges

Apart from intense competition, labor shortage and rising material costs are major concerns for leather garment makers.

The cost of leather accounts for about 70 percent of product prices. Over the past two years, leather

OEM/ODM partners

Company	Major OEM/ODM customers
Foshan Nanhai Zhenxing	Pelle Pelle, Esprit (US)
Haining Zhanping	Columbia (US)
Liwei	Tesco, Topshop (UK); Armani (Italy)
Nanhai Yashan	Wilsons Leather (US)
Qingdao Qitian	Perry Ellis, J.C. Penney, Andrew Marc, C&A, The Gap (US); MGB Metro, Gerry Webber (Germany)
Stage	Chico's, Wal-Mart (US)
Xinji Sensi	Doshisha (Japan); JHT (South Korea)
Zhejiang Taiqiu	Patricia (Spain); Proximo (Russia); Jessica (UK)
Zhejiang Three Stars	Andrew Marc (US), Mainpol (Germany)
Zhejiang Winsun	BB (Germany), Danier (Canada)

Data: All surveyed suppliers

Beijing Longfuqi Industrial & Trading Co. Ltd

Established in 1992, Beijing Longfuqi is a midsize maker of genuine and synthetic leather coats and jackets, as well as fur garments. Its peak production months are from July to December. During the off-season, the company produces knitted apparel.

OBM orders account for 90 percent of exports. The company markets leather garments under its Elansi, Pretty Pile and Meilirong brands.

Beijing Longfuqi posted 30 percent growth in export sales in 2005. About \$3.5 million worth of leather garments were shipped, mainly to Russia. The company also exports to the EU.

Products

Leather garments account for close to 90 percent of total sales. The company focuses production on midrange leather coats and jackets

The type, quality and amount of leather and fur trimming used in designs determine product prices. Higher-priced garments come in genuine leather and fur and are priced between \$150 and \$200 each. Midrange models with faux fur trimming are from \$80 to \$100. PU leather coats and jackets with faux fur trimming and polyester lining are between \$40 and \$50.

The company sources goat and sheepskin from the provinces of Hebei and Shandong, and genuine and synthetic fur from Shandong and Shanghai. Accessories such as buttons and zippers are purchased in Fujian, Guangdong and Beijing.

Even with increasing material and labor costs, the company will keep its product prices stable in the next six months.

The company has two designers who use Adobe PhotoShop and CorelDraw in product development. It takes them two or three days to prepare a new model. During the peak season, 20 to 30 designs are made in a month, but only 10 go into mass production. About \$50,000 is spent on R&D annually.

Capability

Production checklist

Assembly lines	11
R&D/design staff	2
QC staff	11
Sewing machines	220
Continuous/flowmatic fusing machines	2
Flatbed fusing/pneumatic presses	—
Laser-carving machines	—
Needle detectors	—

Exports by product

Genuine leather jackets & coats	75%
Synthetic leather jackets & coats	25%
Genuine leather pants & skirts	—
Synthetic leather pants & skirts	—

Exports by market

United States	—
European Union	3%
Europe (non-EU)	97%
Middle East/Africa	—
Asia	—
Other	—

Outlook

- **Export prices**
Stay the same
- **Export sales**
Increase more than 20%
- **Production capacity**
Increase 20-50%
- **Expansion plan**
Increase subcontracting
- **Main target market**
Europe (non-EU)
- **Hot product trend**
Use of new types of leather
- **Major challenge**
Labor shortage
- **Efficiency improvement**
Upgrade management systems
- **Capability improvement**
Staff training

Profile

Company facts

Year established	1992
Head office location	Beijing
Business type	Manufacturer: Direct exporter
Ownership	Mainland China
Factory location(s)	Beijing
Total factory area	8,000sqm
Full-time employees	450
Total annual sales (all products)	\$4.0mn
Annual R&D spending	\$0.05mn
R&D % of sales	1.3%
ISO certified	Pending

Sales & output: Leather garments

Annual sales	\$3.5mn
Share of total sales	88%
Annual export sales	\$3.5mn
Total monthly capacity	20,000 pieces
Average monthly output	3,400 pieces
Capacity utilized	17%
Average monthly exports	3,400 pieces
Export ratio	100%
OEM % of exports	10%
ODM % of exports	—

In 2007, Beijing Longfuqi plans to concentrate on fur garments instead of leather apparel because of growing demand for the product.

Manufacturing

The company operates an 8,000sqm factory that houses its executive offices, warehouses for leather, fur and accessories, and workshops for R&D, sample production, cutting, sewing, finishing and packaging.

Before production, six sample makers produce mock-ups using nine sewing machines, three ironing machines and 11 cutting tables.

The cutting section has 44 workers and separate areas for leather, and genuine and synthetic fur. Aside from ironing and cutting tables, it is equipped with a Lastar brand fusing machine from South Korea and automatic cutters.

The two sewing workshops have a total of 11 assembly lines with 25 employees each. A separate team is in charge of ironing semifinished and finished products and fusing fur onto leather garments using a machine from South Korea.

In the finishing workshop, a staff of 22 stitch buttons, and comb, clean and remove extra fur and loose thread.

Five out of 11 inspectors carry out visual and tactile tests on finished products before packing.

Contact details

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Popular export models



Genuine leather jacket

Model	L0042
Minimum order	100 pieces
Packaging type	Polybag and carton
Delivery time	7 days
Indicated price	\$94.00

Description: Men's jacket; sheepskin; T/C lining; imitation silk cotton padding; two interior and four front pockets; standing collar; button closure; sizes 48 to 58; in black and brown



Genuine leather jacket

Model	2521
Minimum order	100 pieces
Packaging type	Polybag and carton
Delivery time	7 days
Indicated price	\$155.00

Description: Men's jacket; sheepskin; sheep fur lining; two slanted pockets; standing collar; zipper closure; sizes 48 to 58; in black and brown



Genuine leather jacket

Model	FR0040
Minimum order	100 pieces
Packaging type	Polybag and carton
Delivery time	7 days
Indicated price	\$86.00

Description: Men's jacket; sheepskin; polyester lining; one interior, one breast and two flap pockets; notch collar; button closure; sizes 48 to 58; in black

PRODUCT GALLERY

Genuine leather jackets & coats



Beijing Longfuqi
(profile page 30)
Model: L0042
Minimum order: 100 pieces
Packaging type: Polybag and carton
Delivery time: 7 days
Indicated price: \$94.00
Description: Men's jacket; sheepskin; T/C lining; imitation silk cotton padding; two interior and four front pockets; standing collar; button closure; sizes 48 to 58; in black and brown



Beijing Longfuqi
(profile page 30)
Model: 2521
Minimum order: 100 pieces
Packaging type: Polybag and carton
Delivery time: 7 days
Indicated price: \$155.00
Description: Men's jacket; sheepskin; sheep fur lining; two slanted pockets; standing collar; zipper closure; sizes 48 to 58; in black and brown



Beijing Longfuqi
(profile page 30)
Model: FR0040
Minimum order: 100 pieces
Packaging type: Polybag and carton
Delivery time: 7 days
Indicated price: \$86.00
Description: Men's jacket; sheepskin; polyester lining; one interior, one breast and two flap pockets; notch collar; button closure; sizes 48 to 58; in black



Changzhou Sanli
(profile page 61)
Model: SL-017
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 30 days
Indicated price: •
Description: Women's jacket; washed sheepskin; two interior pockets; notch collar; button closure; sizes M to XL; in pink



Changzhou Sanli
(profile page 61)
Model: SL-018
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 30 days
Indicated price: •
Description: Women's jacket; washed sheepskin; two patch pockets; notch collar; button closure; sizes M to XL; in black



Changzhou Sanli
(profile page 61)
Model: SL-015
Minimum order: 500 pieces
Packaging type: Polybag
Delivery time: 30 days
Indicated price: •
Description: Men's jacket; lambskin; two side pockets; sports collar; zipper closure; sizes M to XXL; in black

• Information not disclosed

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