



The pristine white leather interior of a Rolls-Royce Ghost.

CREDIT: ROLLS-ROYCE MOTORS

Luxury cars and leathersgoods represent the big hope

With debt piled upon debt, austerity measures, bail-outs, concerns about social unrest and threats to the survival of the euro and even the European Union, no one can pretend the European economy is going through anything other than a crisis. We certainly live in interesting times, but, at least at the luxury end of the market, the leather sector is still enjoying strong demand.

In the course of 2012 so far, tanners in Europe have seen at close quarters some effects of the wider economic challenges the continent is facing at the moment. Will the euro live or die? How many more countries will require bail-outs? What effect on demand for consumer products will growing unemployment and uncertainty have in the second half of the year?

Contemplating these questions would be enough to make anyone's hair turn as white as a hide on its way to becoming upholstery for a luxury car, but herein lies one of the industry's big consolations in Europe. Luxury car brands are enjoying record sales and growth. Enough of them remain strong enough in their commitment to providing their discerning customers with high-end leather interiors for tanners supplying the material to have

had a good year so far. Yes, this has created a problem in many instances for tanners using less luxurious raw material because of the raw material suppliers who have convinced themselves that if tanners will pay top dollar for one kind of material, they will be happy to pay similar amounts for any old hide. Raw material is just a commodity in their eyes. But they are wrong. Some tanners have spent years building up strong relationships with packers and hide and skin traders and continue to spend money on securing access to the best bull hides from southern Germany and Switzerland. Their reward is that big-name car brands and their tier-one suppliers of seating systems source leather from them and they have a well earned share in the current success of the European luxury automotive industry.

Significant advance for leather in cars

A recent research-based report entitled *Leather in the European Auto Industry 2012*, compiled by a specialist London-based business intelligence company, Ims Automotive, has concluded that the use of leather in European car seating is poised for "a further significant advance over the next five years to 2016". This comes after strong growth during the past five years, the report says.

In 2011 leather seating was fitted to just over 19% of European-produced cars. Taking into account seats with a mix of leather and synthetic materials, the total exceeded 25%. The Ims Automotive report says that during the next five years the overall total (leather and mixed leather) will rise to almost 32%.

The producer of the report has told



World Leather that this growth in leather car seats has been driven by “sharp production rises in recent years” among the traditional users of leather in their vehicles. These range from the small-volume producers such as Aston Martin, Bentley and Rolls-Royce to more mainstream German upmarket producers Audi, BMW and Mercedes-Benz. “Despite the occasional blip in the global economy, it is expected that the buoyant market conditions for these producers will continue, driven by steady demand in Europe and rapidly rising exports to other world markets as wealth increases especially for the middle classes.”

Meanwhile, “in an attempt to boost their credentials for quality and differentiation”, volume car producers such as Ford, GM and Volkswagen are tending to fit leather as standard on some of the top-of-the-range variants in their model ranges, as well as offering leather as an option lower down.

In addition, *ims Automotive* says: “On another, maybe more contentious, issue, as cars have become more standardised and bland in their exterior appearances, there has been a clear trend for automotive interiors to move centre-stage in design and specification, which has clearly favoured leather and one or two other materials.”

At the same time, the report’s authors warn that some synthetic materials also appear to have “a promising future” in automotive interiors and they say: “The competitive nature of the latest synthetics compared to leather with regard to a wide range of attributes (cost, performance, properties and so on) needs to be monitored as they reach the motor industry.”

Finally, the company says some tier-one seating suppliers are moving towards vertical integration by making investments in the leather processing sector; it names Lear and JCI as examples and its report goes into these developments in greater detail. “In addition, there are murmurs within the industry that an automotive seating supplier is looking to make a substantial investment in southern Africa,” it says, but will give no further details.

Record sales figures

May 2012 was another in a series of record months for BMW, for example. The group, which also includes Rolls-Royce and Mini, delivered 156,957 vehicles that month (6.4% higher than in the same month last year), giving a cumulative total for the year of 728,029 vehicles (9.1% up on the first five months of 2011).



Niche automotive brands such as Ferrari, Aston Martin, Pagani and Maserati know that leather enhances the luxuriousness of their products.

CREDIT: ASTON MARTIN.

In parallel, Mercedes-Benz delivered 113,136 units during the month of May, an increase of 4% on the figure it recorded in May 2011, itself a record. Since the start of the year, Mercedes-Benz has sold 531,382 vehicles, an increase of 8.4%. This is the first year in which the group has passed the half a million vehicle mark this early.

Another luxury German car brand, Porsche, recorded an increase in sales of 29% for the first quarter of 2012, shipping 30,231 vehicles to customers around the globe. Profits were also up, by 18.4% compared to the first quarter of 2011, and the company invested some of the money in creating 725 new jobs at its various factories.

Now German-owned, but a classic English luxury automotive brand, Bentley, increased its global sales in the first quarter of this year by 46.6%, with 1,759 cars delivered to customers. This growth was led by the emergence of China as Bentley’s largest market in the first quarter with sales in the region up 84.9% (578 cars delivered). The Americas remain a key market for Bentley with sales up by 35.6% (468 cars delivered). In the Middle East sales recovered with an increase of 82.6% (168 cars delivered) and European sales also saw a 34.4%

increase with 207 deliveries. Sales in the UK and Germany remain stable, with 233 cars and 62 cars delivered respectively. All of the cars are made in Europe, though, using leather from European tanners.

A sense for leather

Another German-owned English household name helps set the tone for the place of leather in all this. A special car in the Rolls-Royce Ghost series won admirers at the 2012 Geneva Motor Show in March. The car in question is one of the first examples of a two-tone Rolls-Royce Ghost, a bespoke option offered for the first time this year after two-tone versions of another model, the Phantom, proved popular in 2011.

Visitors to the Rolls-Royce stand in Geneva saw a Ghost painted “infinity black and Cassiopeia silver” with an interior design scheme that “perfectly reflects the two-tone theme”, according to the luxury automotive brand. “Sumptuous black leather frames black stained ash veneer into which steel pinstripes have been carefully crafted,” it explained. “The final luxury touch is lambswool floor mats into which feet are easily lost at the end of a hard day walking the Geneva halls.”

In April, the same brand announced a new idea called the Ghost Six Senses concept, to offer a highly bespoke luxury model of the Ghost that “takes it to a new level of sensory indulgence”, appealing to the senses of sight, taste, touch, sound and smell. The sixth sense is the “sense of surprise and delight” that any driver of one of the cars would encounter.

Leather’s role in this is to appeal principally to the sense of smell. “The finest interior materials create scents that are unique to Rolls-Royce,” the company said on announcing the Six Senses concept. “The rich aroma greeting Ghost Six Senses occupants comes from the most supple natural soft grain leather in enveloping, hand-crafted seats, as well as in the car’s leather headlining, with added hints of the woody spice in the walnut veneer.”

Rolls-Royce is using its highest-quality leather for the idea, leather from European hides tanned in European tanneries that it normally reserves for its Phantom model, which it describes as “the truly sumptuous natural grain leather that has only previously been available in our pinnacle product range”.

As this is a ‘concept car’ idea rather than a production model at the moment, the leather is available in one colour only. But



Regional Commentary: Europe

if the idea takes off, Rolls-Royce has said “the sky’s the limit” with regard to leather colour choices. It has taken an interest in the efforts some tanners have gone to to enhance the natural aroma of leather by adding special scents to their finished leather. “We considered this,” the automotive company has told *World Leather*, “but we’re not sure it’s quite ready for production.”

On announcing the idea, Rolls-Royce chief executive, Torsten Müller-Örtvös, said: “The Ghost Six Senses concept is a luxurious environment designed for the most discerning of individuals. It delights the senses and draws you into somewhere that transcends the interior of a car. The stunning hand-made interior embodies something of the heart and soul of each proud craftsman involved in its creation.”



Colourful, natural, beautiful, ancient... there is still money in high-end European leathers.

CREDIT: FRATELLI PERONI

Buoyant bags

Unfortunately, not every tanner in Europe can supply high-end automotive upholstery leather, and not every end-user market is as buoyant as the luxury car sector seems to be. Nevertheless, there has also been good news, at least on the face of it, for tanners supplying Europe’s luxury leathers goods brands too.

Italian brand Salvatore Ferragamo has published its results for the first quarter of 2012. It achieved sales of €259.6 million for the three-month period, an increase of 23.4% compared to the same quarter in 2011. From this, Ferragamo achieved revenues of €38.2 million, which represents an increase of 39.6% compared to the first quarter last year. Shoes contributed €110.9 million to the total in January-March 2012 and leathers goods and handbags €80 million. These figures represent growth of 26.2% and 24.3% respectively.

On reporting the figures, Ferragamo pointed out that this made eight consecutive quarters with growth above 20%. It was particularly pleased with its retail performance in China, which registered growth of 36% compared to the first quarter last year. But it also pointed to 28% growth in Europe, mainly fuelled by travellers visiting top cities and by Ferragamo’s performance in emerging European markets.

Mulberry has announced its results for the financial year ending March 31 2012.

Over the 12-month period, total revenues increased by 38% to £168.5 million and profits before tax went up by 54% to £36 million. It said its women’s apparel and women’s footwear businesses were the fastest growing categories during the year, but confirmed that leathers goods and accessories remain its core business, with women’s and men’s bags accounting for 77% of group sales. It said it was particularly pleased by the way in which a new women’s bag, the Alexa, had joined the Bayswater, Daria and Lily families as a best-seller.

Production capacity expands

Mulberry opened 14 new stores in the course of the year, in the Netherlands, the US, Korea, Singapore, Thailand and Taiwan, as well as in its home market, the UK. Another major development was that it appointed former Hermès and Louis Vuitton executive Bruno Guillon as its new chief executive in March, with previous incumbent, Godfrey Davis, moving to the role of non-executive chairman. The company also completed an extension project to its factory in the UK, increasing production capacity by 30% and creating 60 new jobs. It has announced that it will build a second factory in Somerset in the south-west of England, doubling its UK production capacity and creating a further 300 jobs.

Similarly, Louis Vuitton is reported to be

planning a new research, development and innovation centre near the city of Angers in western France. French media have said the company has acquired a 15-hectare site near the village of Beaulieu-sur-Layon and that it will locate the new facility there. The reports said the new research, development and innovation site will serve the 17 leathers goods workshops making Louis Vuitton products. Work is expected to begin in 2013 on an initial building that will cover 6,000 square-metres.

Tanneries for vertical integration

Also this spring, parent group LVMH moved to acquire one of France’s leading tanneries, Tanneries Roux, for an undisclosed sum.

Business commentators have suggested that the owner of luxury leathers goods brands such as Loewe and Céline as well as Louis Vuitton, views the acquisition of Tanneries Roux as a way of gaining greater control of its own leather supply chain. Founded in 1803, Tanneries Roux has 120 employees and had a turnover of around €20 million last year. It is based in the town of Romans Sur Isère in south-east France, a traditional hub of leather, leathers goods and high-end footwear manufacture in France, albeit with far fewer producers now than in years past. In 2011, Louis Vuitton opened a workshop in the area.

Tanneries Roux has focused largely on



Boots by Floris van Bommel and bag by Jackson Shoes at the GDS event in March.

CREDIT: MESSE DUESSELDORF (GDS)

the luxury leathersgoods market until now, although it also supplies leather to high-end footwear brands, to watch brands for straps and for luxury cars, yachts and aeroplanes. It works with French raw material and says its production set-up is up to date, enabling a skilled workforce to produce premium quality in leather completely in line with European environmental legislation.

For LVMH, the move follows a series of steps the group has taken in recent years to make the most of the current success of the luxury leathersgoods sector. In 2009 it set up a joint venture with Tannerie Masure in Estaimburg in Belgium to make vegetable-tanned leather for some of its handbags. Other developments have included taking in October 2011 a controlling stake of Heng Long, a Singapore-based tannery producing crocodile leather. In December last year, the group relaunched Moynat, a famous Paris leathersgoods brand, world famous for its leather trunks, but which had closed its store in the Place du Théâtre Français in the French capital in 1976. LVMH has now opened a new Moynat boutique in the iconic Rue Saint Honoré. On the acquisition of Tanneries Roux, Paris-based daily *Le Figaro* quoted an unnamed representative of LVMH senior management as saying: "This acquisition is in keeping with the group's strategy to

gain upstream value for our know-how."

Perhaps more luxury brands will look to acquire tanneries to secure access to this valuable material that is helping them grow their businesses. The global luxury market is forecast to grow by up to 7% in 2012 despite the financial crisis. A study by an Italian foundation released in May showed sales will exceed the €200 billion mark. That's right: this is a €200 billion industry. This includes jewellery and watches as well as leathersgoods, but it shows that leather is more than just desirable; it's an essential part of the

European economy.

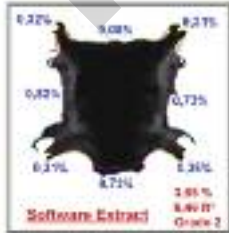
It's a point we have made before, but you simply don't need economists to have an economy, at least not in the same way as you need engineers to build a bridge or tanners to have sumptuous leather upholstery in a luxury car or to have a bag as soft as melted butterscotch that will mould itself to your body and your movement in a naturally customised way. Successful economies encourage companies to make things. Not everyone can be a hedge-fund manager. Not everyone wants to be. ☉



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