



Country Commentary

China's role as a consumer of leather

With two Chinese tanneries taking part in the sixth programme of Tannery of the Year, we are keeping up the tradition of aligning our country commentaries with the tannery reports by dividing the China country commentary into two parts. In the first part, we examined the country's current status as a manufacturer of leather and leather products. In this follow-up we look at China as a consumer of leather and finished products that contain leather.

We reported in the first part of this China commentary (WL Oct/Nov '17) that the total number of tanneries active across the country has fallen from 1,800 six years ago to around 600 now, according to the China Leather Industry Association (CLIA). Industry commentators have since said that the figure is likely to fall further owing to a renewed purge on polluters, particularly in northern provinces, affecting leather manufacturers that have chosen not to (or been unable to) invest enough money in bringing their effluent treatment plants up to the required levels.

Senior people in the leather industry in China don't dispute that the number of manufacturers is going down, but they insist that those that remain are big and becoming bigger and that the total amount of leather they are able to produce (350 million square-feet in the first six months of 2017) is the same as when the number of operators was much higher. Total sales revenues for all large-scale companies in the leather sector, including manufacturers of finished leather, leathergoods and leather shoes, reached \$103.5 billion, according to CLIA figures, in the first six months of 2017, with \$38.4 billion of that total coming from exports.

That means 63% of revenues came from sales in the domestic market and that the Chinese domestic market for leather, leather accessories and leather shoes could be worth as much as \$130 billion per year, not including the huge amount of money Chinese consumers spend on leather products from Italy, France, the UK, Spain, the US and other important international sources. Nor does this take into account the leather being consumed by the new cars Chinese customers are buying. CLIA is optimistic about the future of the domestic market and its optimism is growing.

Shopping patterns and consumer attitudes are changing in China, but it remains an enormously important market for finished leather products. CREDIT: SHUTTERSTOCK





Child-friendly

Honorary CLIA chairman, Su Chaoying, explains that, although it may take some time for it to make a genuine impression on sales of leather products, China's relaxation of its one-child policy is good news for anyone selling goods on the domestic market. This policy came into force in 1979 and stayed in place, albeit with varying degrees of strictness depending on the province, until the start of 2016. Now couples are formally allowed to have two children and, in ten or 20 years' time, Mr Su says, this rise in the numbers of young consumers will bring a boost to the spending power of the Chinese public as a whole. "We'll have many more young people than we have now," he says, "and, in the long term, purchasing power will increase. We know most young people are more interested in sports shoes and leisure shoes and don't care too much about what type of materials manufacturers use to make those products; they focus more on price, fashion and, especially, convenience. It's just my personal opinion, but I think convenience is their top focus. Materials probably come after that."

CLIA secretary general, Chen Zhanguang, makes the point that parents' opinions count too and says manufacturers of leather shoes may see an increase in sales when the number of younger people increases because of parents' preferences. "Parents want their children to wear leather shoes because leather shoes are healthier," he says.

Most of the shoes produced in China these days have synthetic uppers, but in the first half of 2017 Chinese footwear manufacturers made almost 2.3 billion pairs of leather shoes, an increase of 3.2% compared to the same period in 2016. Of these, 330 million pairs went for export, meaning just under 2 billion pairs of leather shoes stayed in China during the six-month period. Asked if this figure is likely to go up, Mr Chen says: "All of us, across the whole of the global leather industry can see that

A quiet shoe and handbag store in Shanghai. With younger Chinese consumers spending up to four hours per day on their smartphones, a large proportion of retail sales have moved online. CREDIT: WTP

demand is not as good as it has been for leather shoes. It's been a poor situation, but perhaps the Chinese domestic market is not so bad, better than other markets maybe."

He points out that not all of the almost 2 billion pairs of Chinese-made leather shoes that came onto the domestic market in the first half of the year went onto people's feet immediately; retailers have had excess inventory in the recent past and it's certainly true that there has been a disparity between production figures and sales figures. However, the shoes, or almost all of them, will sell eventually. Consumption of shoes is on the rise in general in the country, and CLIA's most recent figures suggest consumption of 2.8 pairs per capita per year. That would put the total market size, encompassing all types of shoes, at close to 4 billion pairs per year (not quite all of them made in China, of course). China, therefore, is a very big market for leather footwear, although CLIA has also warned that leather shoes' share of the total may gradually shrink: "People have much more choice now," Su Chaoying says.

The value of speed

Access to the internet, whenever and wherever people want, is making it easier for them to take advantage of the choices available, says Song Xiaowu, senior vice-president of one of China's biggest footwear groups, Belle International. "This has meant a great change for the market in China specifically," he says. Mr Song, who was born in the 1960s, says it's the younger generation of Chinese consumers, those born between the 1980s and 2010, that is driving the change that the internet has made possible. He says consumers now want "everything quick, quick, quick" and seem to value speed more than



Large groups of tourists at the Beijing National Stadium. Travel, personal fulfilment and experiences matter now to Chinese consumers. CREDIT: WTP

anything else. "This is the generation in which people want to travel and show their personalities," he continues, "but they also spend at least four hours a day on their smartphones." He explains that Belle "used to have very heavy penetration", but in the face of double-digit declines in same-store sales in a number of regions in recent years, it has been closing hundreds of outlets a year.

On the face of it, it still has a large retail network with the total number of company-managed footwear retail outlets at more than 13,000 in mainland China and a further 138 in Hong Kong and Macau. Belle also has five main manufacturing bases in Shenzhen, Dongguan, Jianhu, Zigui and Suzhou and together these have the capacity to produce more than 40 million pairs of shoes a year. "Leather shoe sales are not shrinking," Mr Song insists. "Even though health is very important here now and sports are becoming more popular, you often still see some leather, many times in combination with fabric, in sports shoes. And apart from that, Chinese consumers have a preference for leather and, as disposable income goes up, they want to buy leather shoes. Belle has observed that sales of women's leather shoes is still increasing."

A change in the mindset

Trend forecasting provider WGSN agrees that new attitudes among young people are altering the consumer landscape in China. Its senior editor for Asia Pacific, Erica Ng, insists mindsets among Chinese consumers are changing; people are spending more money and are spending more of it (as well as more time) online. But there is also what she calls a growing awareness, especially among younger people, that money is not everything and that the ambition to amass enough money to "have it all" doesn't make sense any more.

"Brands must realise that this is going on," she says, "and make sure their products and their marketing cater to these new trends. The fact is that consumers care less about products than before. It's

more about personal priorities now, experiences and personal fulfilment, shifting towards the immediate value of today instead of the perceived value of tomorrow. Self-expression and individuality are relatively new concepts in China, but they are picking up very quickly, driven by the post-1990s generation. It's really about self-empowerment. In a very controlled society such as China's, self-empowerment, the idea that you don't have to do what society expects of you, is a way for people to take control of what they can at a personal level."

WGSN has done substantial work to try to divide this "experiential" trend, Ms Ng continues. One of the phenomena it is leading to is that the new generation of Chinese consumers focus less on long-term financial planning than their parents. "We see a lot of online micro-loans," she says, which indicates that consumers don't want to wait and save up for what they want; they prefer "instant gratification".

She references a recent study that found that more than a quarter, 27%, of Chinese people aged between 15 and 25 said they are interested in taking a gap year between school and university, a common enough phenomenon in many countries, with young people often using the time to travel and see a bit of the world. "That's a huge shift from the traditional mindset here," Erica Ng says, "away from the traditional Chinese view that you need always to be achieving something. This puts experience above achievement, and that's a big change." One of the consequences of this, she warns, is that brands have to become better story-tellers to capture a share of these consumers' expenditure.

Story-telling appeals to the emotions and this is another area in



Interior of the Audi A4, one of the models that has helped the automotive brand build up its sales figures in China over the course of 2017. CREDIT: AUDI

which WGSN is detecting dramatic change in the way Chinese people shop. Ms Ng says Chinese consumers are now very aware of what's going on around the world in terms of fashion trends and shifts in taste, while still honouring their own traditions and heritage.

All of this applies to leather accessories and other finished products made from leather as much as to other items, she insists. "Products and brands that use leather often have a higher price point," she explains. "But the new consumers are not just looking for good product quality. They are thinking about how those products will make them feel when they pick them up or try them on. Because of this, brands that think carefully about connecting to consumers will have an edge."

Automotive leather opportunities

Automotive production in China in 2016 was 28.1 million vehicles, while sales of cars to Chinese consumers was 28 million. In other words, such was the demand for new cars from drivers that they snapped up just about every vehicle the country's burgeoning automotive production industry produced. Some of the cars coming out of Chinese factories go for export and some of the vehicles on the streets of Chinese cities are imported, but it's still a remarkable mirroring of the supply and demand figures. To focus for a moment on a few brands, Volkswagen sales in China were up 5.2% in the first 11 months of 2017, reaching more than 2.8 million. For its part, Mercedes-Benz delivered almost 2.1 million cars to customers around the world in the first 11 months of 2017, more than its total for the entire year in 2016. Over the 11-month period, the company sold 539,728 cars in China and its sales for the year in the Chinese market reached record levels, 27.3% above the figures for the same months in 2016. Another brand in the Volkswagen group, Audi, spent most of 2017 building its Chinese sales figures back up after a change in its relationship with dealers there dented results in the

early months. By November, its total sales in China were almost 530,000 vehicles, down by 2.1% year on year, but still more than sales in the next two biggest country markets, Germany and the US, combined.

CLIA has made it clear it sees a wonderful opportunity in China for automotive tanners. A recent study the tanning industry body has carried out among its members appears to lend weight to this. "More and more tanners are saying that they want to move their production into automotive leather," says Su Chaoying. "This is certainly a trend we are seeing. They see automotive leather as a growth area and are keen to change at least a part of their production to have a share of it." Chinese consumers love luxury, he explains, and even many of those who cannot afford to buy a genuinely luxury model of car can come a little closer to that experience by insisting on having leather upholstery, or at least split, in the interior of their more mainstream vehicles.

There is, however, more to making the transition to automotive leather than just identifying potential growth. CLIA general secretary, Chen Zhanguang, says the overall technology requirements are different, and that automotive customers are very demanding, that all of the regulations surrounding testing and quality standards are extremely strict and that all of this puts considerable pressure on tanners' margins. "A lot of Chinese tanneries are already doing this work and are gaining a good reputation for automotive leather," he says. "Five years ago, perhaps 5% of all the leather produced in China was going into automotive. Today it is 10%, and major international automotive leather producers have entered the Chinese market." 🌐