



Mainstream shoes are not coming back

Received wisdom in the leather industry is that the price of hides always moves in a cycle from cheap to expensive and back again. Prices reached historically high levels in 2014 and 2015 and shoe companies drastically reduced the volume of leather they were using in their collections. Tanners held tight, believing that these customers would return in the time-honoured way when hide prices came down again. Prices are down. The shoe companies have not come back. The cycle appears to be broken.

A perfect storm hit tanners selling to the mainstream footwear sector in the middle of this decade. Hide prices soared. In 2015, tanners acquired a combined total of, roughly, 275 million hides (lumping together material from bulls, steers and cows) and paid \$18.75 billion for them. Athletic shoe brands and price-conscious mainstream footwear companies refused to pay increased prices for the privilege of using leather in many of the styles in their collections, opting increasingly for synthetic material for their uppers instead.

This reaction came as no surprise to seasoned observers of both the leather and the footwear markets. Hide prices have always gone up and down in a reasonably regular cycle and when the price of leather is high, the shoe industry usually looks for more affordable alternatives. If that's what shoe companies were doing in 2015, it was in keeping with the natural order of things, the usual dynamics of the footwear supply chain. Hide prices would go lower again in due course and the buyers would come back.

The volume of hides, globally, has remained at the same levels, give or take a few million, but their price today is much lower. In 2018, if 275 million hides change hands, they will do so at a cost to tanners of \$8.9 billion at current prices. This means that, compared to three years ago, today's tanners will make a saving on that raw material of almost \$10 billion. Accepting that this is an over-simplification and that chemicals, water, energy and labour costs have all gone in the other direction, it is still a huge difference in price. And long before the market reached this point, those who held fast to their faith in the cycle repeating itself fully expected orders for finished leather from footwear customers to pick up again and steadily climb back to the levels of the years of comparative plenty. They have not, and particularly since the 2018 All China Leather Exhibition in Shanghai at the end of August, a consensus is growing that they are not going to. Not this time.

At Paris Fashion Week in September 2018, fashion designer Adeline Ziliox used the term 'PVC masterpieces' to describe her spring-summer 2019 collection.

IMAGE: GREG ALEXANDER





In spite of lower prices

Following the exhibition, the *World Leather Market Intelligence* section in its *Leather Pipeline* report, published electronically on Tuesdays, included this comment: "Anyone who needed confirmation of what we have all been thinking and talking about for almost a year got that confirmation at ACLE 2018. Leather in shoe manufacturing continues to be in retreat and what has been lost already seems unlikely to come back in 2019. Statements from shoe companies have made it very clear that they have no intention of even considering using more leather in the seasons to come, in spite of lower prices."

Leather is indeed considerably cheaper than it was in 2015 and leather has always been a better substrate to use to construct shoe uppers than the plastics or textiles that brands are choosing instead. Some of those substitute materials can compete with leather on durability, others with its breathability, others with its ability to cope in wet conditions, and they are improving all the time. None, we would say, can offer the whole package anything like as well as leather can. Nor can any compete with leather's beauty and sensuality. Plus, leather's claims to be part of the circular economy are extremely strong because it is made from renewable resources, can make a minimum impact on the environment if manufactured correctly, ages beautifully and can be put to new uses at the end of the useful life of a shoe (or bag or car seat). However, it is possible that pointing all of this out, time after time, is of limited value in the current climate.

"The whole leather value chain is at a crossroads, I would say," observes the chief executive of leather chemicals manufacturer Smit & zoon, Hans van Haarst. "For me, what is happening is really strange. Petrochemical-based materials are favoured over a natural material. Maybe we've not paid enough attention to consumers and brands, but I think it is important for us to keep explaining that leather is a premium, luxury material with excellent properties, that it's a bio-based, natural material and can contribute to the circular economy that we need to establish. But maybe there is a bigger job for us to take on, the job of persuading designers, brands and consumers that leather is the better option. I understand some of the reasons why designers have moved away from leather, but manmade materials have a negative side too. There are some issues with leather production, but nothing that cannot be fixed quite easily; all the technologies and all the approaches we need already exist and there are very good examples of clean practices."

He identifies "aligning" the different players in the leather value chain to combat the negative aspects of the industry's history as a separate challenge.

Win the battle, lose the war

Another commentator, Nicoline van Enter, founder of footwear innovation and education platform *The Footwearists*, who has looked at this situation more from a shoe than from a leather perspective, says the leather industry is correct in presenting its arguments about responsibility and sustainability, but insists that it is in danger of "winning the battle and losing the war" as far as shoe designers, brands and consumers are concerned. She says: "The facts



Nicoline van Enter warns that the leather industry is in danger of winning the battle (over asserting its sustainability credentials) but losing the war (of designers' and consumers' hearts and minds).

IMAGE: STAHL

are true, but they are not getting through and they are not going to win you [the leather industry] any sympathy with consumers. In consumers' minds, they don't want to argue about definitions. Helsinki Fashion Week has decided to ban all leather from its 2019 event. Are the organisers correct to do that? No, of course not. But can you persuade them of that using reason? No." She makes it clear that the biggest factor for many opponents of leather is that the material comes from animals. Whether it is logical or not, she says, it is important to some people in the fashion industry and important to some consumers to have material that is not derived from animals. Or not entirely, at least.

This should provoke interest rather than rejection from tanners, she believes. If substrate made from mushroom or mango lacks the tensile strength to work well in a shoe, she wonders if it could work in combination with leather. "Tanners should think about all kinds of combinations," she urges, "and use the publicity to make leather more popular with consumers and designers."

Dress-down luxury sneaker from Francesco Benigno.

IMAGE: MICAM





Knitted now

It is also true that new production methods, which incorporate as much automation as possible, lend themselves to using materials from which machines can knit the uppers of shoes. Many operators of these new systems have come to regard leather's irregularity of size, shape, thickness and quality as a hindrance. In October 2015, Nike announced that it was working with automotive design company Flex to find "new ways to make shoes". Adidas began a pilot production exercise at its first Speedfactory in December that same year. Six months later, Under Armour opened its highly automated centre for design and manufacturing innovation in Baltimore, the Lighthouse. Just when hide prices soared, in other words, important footwear brands pursued (and then passed on to their manufacturing partners) production methods that made it easier and more appealing than ever for them to bypass leather. The result is that, today, according to Nicoline van Enter, "a niche audience remains for traditional [leather] footwear, but everything else is knitted now".

People in suits

In parallel, contacts in the apparel industry have noted a sharp decline in the sale of suits, with demand falling by an estimated 40% in the last three years. Even in cities such as London that were, until recently, suit strongholds, people are wearing more casual outfits to work. And here too there are comments suggesting that reformed suit-wearers will not come back. "Part of the problem is that many consumers no longer trust people in suits," one clothing brand owner commented. "Reports of unacceptable behaviour by executives, politicians, bankers and so on have put people off."

Even the "niche audience" in the luxury shoe market is, perhaps, being affected by this. Until recently, we may have been entitled to think of this niche audience as being the high-end or luxury shoe market in its entirety; much smaller than the mainstream footwear market, of course, but still reasonably big and very lucrative. In the first half of 2018, one of China's biggest footwear groups, Stella International, was able to command an average price per pair of \$26.10. The most recent figures show that the average pair of shoes made in Italy around the same time was \$43.58. This suggests that there is a 65% premium on high-end Italian shoes compared to more mainstream ones such as Stella's. Here, too, there has been an important and, in some ways unexpected, change, as Ms van Enter explains. She says: "The Asian market is redefining what luxury is. Consumers there like luxury brands, such as Louis Vuitton, Prada and so on, but they also like streetwear and enjoy wearing casual clothing. Luxury brands have a big opportunity in Asia if they can continue to adapt their product offering to those tastes." Most luxury brands with an interest in footwear have already launched (very expensive) sneaker styles to tap into this market.

Plain works well

For the founder of The Footwearists, this phenomenon also offers good possibilities to tanners if they can embrace them correctly. Tanners that have traditionally made plain, athletic leathers have a big opportunity here, she believes, although "a big change in mindset" is probably required for many of them. She continues: "A lot of these tanners say



Shanghai, September 2018. Until very recently, young Chinese professionals dressed quite formally. Now, heaven knows: anything goes.

IMAGE: HARRY CHEN

they have never done luxury. What we are talking about here, though, is a young market that loves sporty, street clothing and is willing to buy very expensive sneakers to go with it. The leathers they use are not complicated. Plain white or plain black works very well; it has an air of cool now. And if you want to approach this audience, the way you present your product is hugely important. A lot of tanners have stands at industry fairs that you can tell have been set up for technical people. Well, for a lot of brands now, it's the designers who make the material buying decisions, so you need to work with designers in mind."

She speaks very highly of the work that Ecco Leather does in this area. Each year, it hosts an event it calls Hot Shop at its tannery in Dongen in the Netherlands. Designers come at the leather manufacturer's invitation and expense and spend a week learning more about leather and sharing some of their ideas of good ways in which to use the material, which, naturally, feeds into Ecco Leather's ideas for product development at the same time as building up relationships with a new generation of exciting designers.

An example she points to of what might come from a more meaningful dialogue between tanners and designers, although not specific to what Ecco Leather has done, involves plain leather again. Many young consumers want custom-colours or custom-printed designs on their shoes. Designers want to satisfy their desires. "It would be hard to



do this with heavily finished leather,” Nicoline van Enter says, “but tanners could create basic leather that could be dyed in-store to match customer requirements.” She explains that this was her first thought when she saw Fratelli Carlessi’s SprayLab idea. The main idea behind SprayLab, from the tanning technology provider’s point of view, was to make it possible for tanners to replicate accurately in pilot exercises the effects of complete scaled-up production runs. “When I saw it, I thought, ‘That looks cool; perhaps it can go into a store,’” she recalls.

Hides go to waste

Hans van Haarst insists that the leather industry can give designers what they need. He says: “Everything is there, or will be in the short or medium term.” There could be difficult days ahead if the leather industry fails to put that message across effectively. If the footwear brands do not start buying leather again in quantities approaching those prior to 2014, hides will accumulate because acquiring them and tanning them will not be economically viable for leather manufacturers. Some reports suggest this is already happening. This in turn will lead to consolidation in the tanning industry, he suggests. “Tanners and suppliers of high-end raw material would remain,” he says, “but others will go to the wall. This may take as much as ten years all told but there will be disruption in the short term too. We would be all right, but I would prefer the other scenario, the one in which we manage to persuade enough designers and brands that leather can add value for them.”

There is a theory emerging from this scenario of hides going to waste that may offer some grounds for optimism. Big packer companies, mostly run by money people, are notorious for paying scant regard to the hide side of their businesses, one or two notable exceptions notwithstanding. However, if the prediction at the beginning of this article comes true and the hide market in 2018 ends up being worth \$10 billion less than it was in 2015, it will be a sore blow for meat companies’ margins and we can be certain that, at that point, the money people will begin to notice. Things may become even more painful for them if, with tanners no longer able to turn an honest dollar from processing the material, it has to go to landfill instead. The hide business is worth multiple billions of dollars because tanners pay to take the hides off packers’ hands. If, instead, the by-product has to be destroyed, no one will pay packers for the privilege. To rub salt into the wound, packers will have to pay environmental services companies to haul the hides away. The money people are not going to like that one little bit.

Allies not adversaries

Take this to its logical conclusion and you can see that, at that point, it would make more sense for the packers just to give the hides to tanners for nothing, or next to nothing. The days of an \$18.75 billion boost to the meat industry’s bottom line will not return, but there is no need for them to pay a landfill penalty fee on top of that. And if hides were as affordable as this (free is very affordable indeed), leather would have a lower price than almost any alternative shoe upper material and be certain to become attractive to mainstream footwear companies once more.

To add to that, brands and designers would, at



Sellers of suits and leather shoes are suffering the same fate as the world goes casual.

IMAGE: MICAM

this juncture, start to lend their considerable weight to the leather industry’s efforts to present the material in a positive light to consumers. Even if the brands were only choosing leather for money reasons, they would not wish to admit that. Suddenly the industry initiatives to win hearts and minds for leather would have powerful new allies. How the tables would have turned. ☹

Perhaps the only way for leather to come back into mainstream footwear will be if packers start giving hides away for free. This may sound far-fetched, but if packers have to pay to dump the by-product, they may decide that giving it to tanners for nothing makes economic sense. IMAGE: MICAM

