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# Jurassic World

In a time long forgotten, in a world far different from the present day, our ancestors scoured the planet in search of supplies for a vibrant and growing community. Their foraging for raw materials resulted in the creation of a community of skilled individuals who could discern opportunities and maximise the possible. Unfortunately, times have certainly changed. The current remaining participants appear to be struggling to identify their role or function in the value chain.

Hansel and Gretel lost their way without having a functioning GPS and ended up in the twilight zone. While some have tried to buck the trend, they are merely treading water before the economic current drags them under. These so-called dinosaurs are now all facing extinction. We could also suggest climate change as a reason but in the US this concept is not currently politically correct.

Today, the well-known attributes of the supply side reflect a consolidated power base, with the potential and opportunity to craft a new platform for a brighter future for supplying raw materials. These are the new 'Titans' of the industry, or perhaps the four horsemen of the apocalypse. At the same time, it is also important to put into perspective the real influence and value of our by-product because, today, it is clearly not financial.

Recent results published by several of the mega-protein corporations plainly demonstrate their ability to improve profitability in the face of historically declining hide values. 2018 will go into the history books as a time when, for certain lower

grade selections, there was greater value in destroying the hide than selling it. Yet, despite these discounted prices, the beef industry had a record year. In jest we say that when buying cattle, the hide is free but this comment is now accurate.

In 2018, packers demonstrated that beef margins are large enough to negate the impact of falling hide prices. This also reflects well on the consumer demand for protein, specifically red meat. While vegetarians and vegans, along with their caravan of sympathisers, would like to disparage the beef industry, the real facts speak for themselves: Beef is what's for dinner.

## Death by oversupply

The hide and leather industries are in a state of transition. We know where we have been, but we appear lost in our search for a place to go. This question is easily answered by the packers and is evidenced by the demand for beef and the fact that we are a second-hand material relegated to an inconsequential position. The hide industry is in denial, not recognising or accepting that 'Rex, the supply king' has died as a result of asphyxiation from exposure to excess supply.

Meanwhile, tanners are searching for the next designer breakthrough or reinvention of leather. We need to focus on the aspects of our raw material that stand alone and are unique. We must accept that we have lost the war with synthetics and should therefore concentrate our resources on consolidating our hold on the luxury market and on products that can leverage the benefits of leather's heavyweight properties.



To put things in perspective, we conservatively estimate that there are around 15% too many hides being produced worldwide. In real numbers this is more than 45 million hides per year or approximately 865,000 hides per week not finding homes in leathergoods. This accumulation is evident in warehouses in South America, North America, Europe and Asia.

Millennials and those from Generation Z who currently occupy sales positions are ill-equipped to comprehend or strategically manage this evolving issue as they have only experienced the “build it and they will come” scenario. This can be alternatively described as: “I have it, you need it, so come and get it”. Unfortunately, this Trumpian-style bluster no longer resonates with tanners as their sourcing options continue to multiply on a daily basis.

Since the early 1970s the hide market has been on an upward trajectory, culminating in hides being worth more than \$100 in 2014. Any sign of weakness was viewed more as an opportunity to be patient than as a change in direction. Each adjustment was merely breathing space ahead of the next upward move. This has now totally transformed.

Leather is no longer an essential and central component of the shoe industry. Automotive and residential use has grown, but this has not been enough to absorb the increasing availability. The shoe leather hide buying season typically begins in October and reaches a peak around February. Tanners looking to meet shipment deadlines to shoe manufacturers will enthusiastically negotiate but in 2019 this annual event is dormant. Side leather buyers appear apathetic in their approach, as they struggle to gain control of their burgeoning inventories.

### **Circling the drain**

So where are prices headed in 2019? Nowhere but down. The spread between steers/heifers and cows will narrow, resulting in big-packer hides reaching the unbelievable range of between \$20 and \$30 per hide. What is the definition of cheap? Without doubt the noise emanating from a parakeet but definitely not hides. Many will argue that our commodity has been underpriced since we reached \$60 per hide. How's that inventory working out for you now? Playing the market for a sustained rebound not seen since 2009 is not a smart or logical strategy.

Circumstances and economic conditions are very different and without a sudden shift that sees the entire female population of China switch to knee-length leather boots, demand for footwear made from animal by-products will not return. Relying too heavily on the automotive and furniture business to absorb supply also demonstrates a lack of mental fortitude.

The good days of the hide market are clearly in the rear-view mirror and the terrain that lies ahead is bumpy and strewn with rotting carcasses. Leather for shoes does not look promising until the third quarter of 2019. Meanwhile, don't expect automotive and furniture to sustain their historical pace during the first six months of the year.

The hide market is circling the drain. This may seem a little crass, but it aptly describes the events of the past six months. Low grades and renderer hides are basically worthless, and

the cow market is approaching a negative value to producers as conversion costs are higher than the present market value of the substrate. The steer and heifer selections are slightly different as this segment retains some interest, mostly from automotive, which is seemingly sufficient to keep values above cost. We will no doubt test this paradigm, especially in relation to wet blue conversion. The hide values of these steers and heifers are fast approaching the cost of bluing.

### **Intervention or reinvention?**

We are entering a brave new world where scientific developments have rendered our respected by-product non-competitive. Reproductive technology provides footwear manufacturers with a multitude of options, with stable prices that allow shoe brands to enjoy predictable margins for an entire season. Leather, like the buggy whip or Conestoga wagon, has become redundant. This is a shift of tectonic proportions that will permanently shake up the hide-processing supply chain. The first victims will be the cow and low-grade accumulators, followed by the second-tier steer and heifer processors.

The hide market has all the characteristics of a theme park with the number one ride 'The Kingda Ka' (the world's tallest roller coaster) offering the greatest thrill while giving the participant an anxiety-filled experience. Unlike the entertainment provided, our hunter-gatherers have an abbreviated geography and remain just in their ever-diminishing caves, drinking beer and watching the TV. Meanwhile, the alpha male T-Rex is roaming the planet, disrupting trade deals and supply lines while gorging on imported luxury.

Our industry needs an intervention. We urgently need to reinvent ourselves.

Remember: plastics are evil and leather is good.

Happy New Year. 🐾

