



Morale among PrimeAsia Vietnam employees is high, with 80% of new recruits finding out about jobs in the tannery by word of mouth.

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PrimeAsia Vietnam

Ba Ria-Vung Tau Province, Vietnam

PrimAsia Vietnam's tannery in Ba Ria-Vung Tau province in the south of the country, set up in response to the desire of athletic and casual footwear brands to make shoes there, has grown steadily over the years and is still expanding now. The most recent expansion project reached a successful conclusion in March 2019. Plans for increasing production further are already in place.

Work on the recently completed project to increase the output of PrimeAsia Vietnam (PAV) began in 2015 and required a total investment of \$40 million, and in bringing it to a successful conclusion in the early part of this year, the company, according to chief executive, Jon Clark, got the timing just right. He explains that, by the third quarter of 2019, customers were clamouring for all

PrimeAsia Vietnam, one of two tanneries the leather manufacturing group operates today, is in a strategic part of the footwear-making world. With some of those companies now starting to increase the volume of leather they want to use, expansion at the tannery and advancements in its use of efficient, safe and innovative tanning technology are ongoing.



Many PAV people have married and formed families. Now, most live locally, a bike-ride away, rather than in the onsite dorm.

6 million square-feet of finished leather per month. But for the increase, the operation would be “over-sold”, he says.

Its technology investments have centred on the policy of buying the best tanning machinery, with factors such as automation and safety high on the list of desired criteria. The set-up is complex, Mr Clark explains, and the equipment PrimeAsia Vietnam invests in has to be able to cope with that. Security of supply is another important consideration. “We insist on doing business with like-minded companies,” he says. “We take these relationships seriously because we know that any manufacturer can only be as successful as its supply chain. We want to work with the best. We have shown that we can achieve continuous improvement in our operations here in Vietnam and manufacture responsibly in terms of all the factors that affect our people and our community.”

Buy-in from workers

Comfort for the workforce of around 1,700 people has been another important consideration in developing the new buildings that were part of the 2015-2019 expansion. These have natural lighting and high ceilings to allow for maximum airflow, providing a pleasant working environment for the people inside. When the working day is done, a new, full-size, all-weather, floodlit football pitch is in frequent use for matches between teams representing different parts of the tannery. “Our people agree with what we are doing at PrimeAsia Vietnam,” Jon Clark says. “Management and supervisory staff turnover is low, currently at 3% per year. We are as interested in ethics and in the way we believe a new person will fit into our existing team as in the skills-set they bring.” He adds that PAV’s relationship with the trade unions representing workers there is “extraordinarily close”; there is a dedicated union office at the site.

Regional director, Gus Karam, points out that this buy-in from the people who work at PAV led to a combined contribution of 1,400 hours of community service in 2018. “This is going up every year by about 15%,” he says. “It includes work in schools, orphanages and

on local environmental projects such as community clean-ups.” PAV chief operating officer, Charly Tsai, explains that around 65% of the workforce at the tannery are people who come from this part of Vietnam or have now established their homes here and have their families here. Many live in Phu My, the closest town, which is five kilometres away. The other 35% came originally from northern or central provinces of Vietnam. “They came because, in the early 2000s, the north and central areas of Vietnam were poor,” Mr Tsai says. “It was easier for people to find a job in the more industrialised south. A lot of the people we have from those areas found a job with us and don’t want to leave. We now have around 180 husband-wife couples working here and most of them met here in the tannery. This has included lots of instances of someone from the north marrying someone from the south. It is still happening, partly because we have a young workforce with more than 40% of people in their twenties or thirties; most weeks we receive an invitation to a wedding.”

One consequence of this is that fewer people now live in the dormitory facilities at PrimeAsia Vietnam than before. Coral Chen, who is part of the senior management team at the tannery, explains that there are now around 300 people in the dormitory compared to a total closer to 1,000 people in early phases of the tannery’s history. Those who now have families have their own homes; she says the company is helping employees find homes, for example, by providing subsidies for rental costs. Back on site, Ms Chen explains that there are special rest areas around the tannery for any women employees who are expecting a baby, with a network of first-aiders at the tannery and medical professionals within easy reach to help them, and any other employee who needs attention, if required. After their babies arrive, female employees are entitled to six months’ maternity leave and to return to their jobs as before when those six months are up. Coral Chen also points out that 80% of PAV’s recruitment is the result of ‘word of mouth’, with current employees frequently asking if relatives and friends can join the payroll.



Onsite kitchen.

Gesture of appreciation

Yes, when Lunar New Year comes, the PrimeAsia Vietnam tannery shuts down for a week and the people from other regions of Vietnam return home for the holiday. This is often when a worker makes the decision not to return to Ba Ria-Vung Tau. When the holiday comes around again in the early part of 2020, PAV will hire buses and pay for its employees to travel home for new year and travel back to work when the celebrations are over. Charly Tsai thinks this will help reduce the staff turnover statistics even further. "It's a gesture of appreciation," he says. Good employee relations brought a direct benefit to PrimeAsia Vietnam in 2014 when political tensions across this part of Asia led to protests and riots against many manufacturers set up through foreign direct investment. There were no damages at the tannery. When, one evening during the tensions, a crowd gathered outside, comprising local people who did not work at PAV, Charly Tsai was able to convince them that the leather manufacturer's only aim is "to help Vietnam and Vietnamese people and grow together". The recollection of Gus Karam of that incident is that the company's own workforce immediately backed Mr Tsai up and the crowd peacefully left the scene. "Charly is one of the most decent, respectful people you could meet and, as a result, everyone respects him." He insists that all aspects of the culture at the company, including the focus on safety, have helped bring this level of loyalty about. "Everyone here is working for their families," Mr Karam says, "and we want to make sure they can continue to do that. That's why we've invested in technology that incorporates safety. We know that the average person operating the machine and following the instructions is not going to come to any harm. The workers see the need for the safety features and I think it's good for morale." With the company's strong reputation for treating people well and making a positive contribution to the local and



Workforce canteen for 1,700 employees.

national economy, former president of Vietnam, Truong Tan Sang, paid a visit to the tannery in 2016. "This gave us a further boost," Mr Karam says. "It was on national television and it made our people proud."

Vietnam's place in the world

Jon Clark says that PrimeAsia has known for a long time how important Vietnam is, and is going to be, for the global footwear brands and factories that buy the group's leather. The beginnings of the Ba Ria-Vung Tau tannery were in 2003. The group saw then the appeal of Vietnam as a centre of production for shoes and other labour-intensive products and set up a finishing plant. In 2008, it completed an initial expansion project and began to process from wet blue. "We could see in 2003 that the sewn-product manufacturing sector would follow available labour," Mr Clark continues, "and we built PAV. Then, five years ago, China's cost structure, in terms of inflation and wages, went from increases of between 5% and 8% per year to rises of 12% to 18% per year. Many shoe factory owners decided it was time to move operations away from China. Indonesia was already maxed out. We realised that we could expand in Vietnam and serve all of south-east Asia from there. That was the driver for the expansion project; we did our own research and listened to our customers who believed it would work." Such is the anticipation of the increase in importance Vietnam will have in the footwear supply chain that, as mentioned, further expansion is already in the pipeline at PAV. Over the next three years, the company intends to increase its capacity there to between 8 million and 10 million square-feet per month. Introducing more automation and upgrading the pigment finishing business will be a big part of this new project, as will continuing to reduce the plant's consumption of energy, increase its levels of recycling and improving waste management. "It will give us added flexibility," Mr Clark says.



After years of the 'knit revolution', leather is back in demand among global athletic footwear brands.

Sports brands love leather again

Leather for casual and athletic footwear accounts for 95% of what PAV does. Customers in the casual group include VF, the parent company of Timberland, Vans and other brands, as well as Wolverine World Wide and Clarks. On the athletic side are major sports brands such as Adidas, Nike, Puma. "These are the core for us," Jon Clark explains. In the autumn of 2019, a time of sombre mood across most of the global leather industry, the PrimeAsia chief executive is enthusiastic and optimistic. "I've been saying for several months that athletic leather is absolutely trending," he explains. "We are gaining market share at the same time that many of our core branded customers are growing. There appears to be a stronger demand for leather in many athletic footwear models that very well could be associated with an over-saturation of knit product in the market. For PrimeAsia it is dramatic and the vast majority of demand from our athletic customers is up, in most cases the growth through the first three quarters of 2019 is double-digit."

He concedes that the same cannot be said for the casual footwear side of the business. Here, leather demand, at least for PrimeAsia, is "flat-to-down". Casual shoe and boot brands appear to him to be more hesitant about the market and about the unknowns of a future that includes widespread concern among people old and young about the environment, trade tensions between the US and China, tension and violence in the Middle East, the UK's relationship with the European Union and a host of other issues. Mr Clark says, "History has shown that the athletic brands are first to embrace a trend. If that holds true this time, other markets will soon trend towards leather too. It won't take long; the supply chain has shrunk and life has become faster for everyone, so there isn't the same time-lag in following these trends as there used to be."

A move away from knitted textile uppers and a return to leather in athletic shoes is a message that may give many in the leather value chain a modicum of hope. What the PrimeAsia chief executive

refers to as the "knit revolution" started in 2012. Sports brands extolled the benefits of shoes that offered wearers a reduction of between 30% and 40% in weight and gave manufacturers a saving of around 50% in labour costs (thanks to the automated processes they could employ to knit a single-piece upper out of fabric and attach it to the soles of shoes) and an 80% reduction in waste. Attracted by these cost reductions and by the shoes' popularity, competitors were quick to follow the pioneers and, with the right equipment in place, they found they could offer similar-looking shoes at lower prices. This proved a big motivator for the global brands to change tack again. To adopt leather again for large parts of their shoe collections was a good way of setting themselves apart. "Everything being the same is not what most global brands want," Jon Clark points out.

If PrimeAsia Vietnam is in the right place at the right time to claim a healthy share of increased production of footwear with leather uppers in general, it is also seeing "a dramatic uptick", to use the chief executive's phrase, in the volume of leather required to supply China-for-China consumption, which is a reference to footwear factories making shoes for Chinese shops and Chinese consumers rather than for export to North America or Europe. Primarily owing to tariff and trade issues, these operations are also consuming leather tanned in Vietnam. Mr Clark points to the considerable closure of tanneries in China "for regulatory issues". He describes Chinese consumers as being "much more aware" now of what's going on in terms of global fashion and says Chinese brands such as Li-Ning and Anta Sports, owner of Fila, as being "right on it, style-wise".

Questions answered

There is no avoiding clear indications across the global industry that these are strange times for leather. Jon Clark says that if, five years ago, you had told him there would be hides going into landfill, unsold and unwanted, albeit on a small scale, he'd have called you crazy. The market has changed and it takes time for people to accept change. He expands on the point: "It's important when we talk to people who use leather and to consumers that buy leather that we make it clear that our leather ticks all the mandatory boxes, that there should be no more questions about the industry working to do the right thing environmentally and no more questions about the leather's origins as the focus on these issues has never been greater. What we need is to create a consumer base that feels good about using leather. Organisations such as the Leather Working Group and Leather Naturally are gaining momentum as they talk about a minimum standard for leather production and start to market leather to consumers, and that's with the participation of less than 1% of the industry. PrimeAsia is very proud to be founding members of both of these important organisations."

Perhaps it is time for certification to go further, he suggests, spanning out to include questions such as social responsibility and expanding traceability of all raw material. "The questions we have to ask ourselves and try to answer will evolve over time," he observes. He describes the task of convincing consumers and brands that leather is good, sustainable, natural, renewable, fair, safe and responsible as being, in some cases, "like breaking down walls", but insists that the way to achieve this is to talk to them, ideally one at a time. There are different initiatives aiming to achieve this in the wider industry now. PrimeAsia's hope is that they will all help leather reach its goal, that "all the umbrellas", as Jon Clark puts it, will soon



Field of dreams. This all-weather, full-size, floodlit football pitch was part of an expansion project that PrimeAsia Vietnam completed in March 2019.



come together to form a single support for the industry's objectives: supplying science-based, accurate, honest information to bolster the stories brands tell the public about the leathers they use in their products and the value this brings to the consumer.

There is negativity around plastic at the moment especially because of widespread coverage of plastic pollution in the oceans and the contribution that synthetic fibres are making to the problem. This shines extra light on leather's qualities and has opened up the way for PrimeAsia to have conversations with brands that even a year ago would have been difficult to conduct. Nothing is straightforward, of course: these are companies that may see, on the one hand, the attractiveness of a material that can help shoes last for years, but their enterprises grow by selling more shoes.

New ideas

Naturalness and uniqueness are other characteristics of each piece of leather that might well form part of brands' stories, but the pragmatic PrimeAsia chief executive has a desire for cross-industry co-operation on developing technology to make more of each hide or side cuttable and usable. He explains: "The quality of hides is becoming worse as the demand for meat grows. There is less going on at farms to mitigate insect damage and the end result is that there are more hides of lower quality. Quality is continuing to deteriorate, which is why we now have low-end material with a value that is less than the cost of processing it and those are the hides that are going into the ground. Commodity leather is one of the greatest threats to the industry. Leather should not be a commodity." Part of the work of PrimeAsia Vietnam is to help the group produce new non-commodity product ranges each year. "Consumer demands change and the brands come up with new ideas," says Gus Karam, "so we must have new ideas to present to the brands. We have a team of line-builders developing four or five leather collections per year. In addition, brands send us a brief, we offer our suggestions and work with them. Our line-builders look carefully at the wider fashion industry and think about how shoes can be part of that story."

One recent development has involved blending natural

characteristics and defects to produce what Mr Clark calls "incorporating the natural characteristics of the animal with something the brands and the factories can utilise and cut". As with all markets, footwear leather has particular requirements that tanners have to keep in mind. One specific issue with footwear clients, Mr Clark says, is a belief that consumers want and need "pair match" from shoe to shoe, which makes the cutting operation even harder.

Everything is in place at the PAV tannery to recycle around 75% of the water the facility uses; this figure will increase to something closer to 85% in a year or two, the group insists. Solid waste is another area in which the tannery's management team believes it is making good progress. Its solid waste disposal in the autumn of 2019 was more than 75% down on the levels of a year earlier. An effective sludge-drying unit has been key to this improvement, but the company wants to go further. It has plans to install a gasification unit at the Vietnamese tannery, which it believes will leave it with only 2% solid waste with the added benefit of energy creation. Other sources of renewable energy at the plant include an enhanced (following the most recent expansion) solar energy plant and waste from Vietnam's rice industry, which burns in a biomass boiler (see technical section for more details).

"All of this shows our commitment to innovation, automation, flexibility, speed, efficiency, science and technology," Jon Clark says. "We have a long list of commitments, to ourselves and to our employees, that we take very seriously. These commitments have measurable traits that are monitored closely." He explains that the leather industry, at least as far as shoe leather is concerned, is being changed by developments taking place in the retail environment, principally those driving brands to offer faster delivery times. This, in turn, is making changes in the leather supply chain necessary. "It used to take us 36 days to make leather," Mr Clark says. "Now it's between 16 and 21 days; the maximum length of time we can take is 21 days. This represents a significant change for our industry and the way we manufacture. We have a 'leather-ready' date that we apply to orders and in the third quarter of 2019 we hit the 'leather-ready' date 98.7% of the time. For our largest customer, we accomplished 98.8% in that same period. Our target is 100% of the time and that's our aim." 🌱