

A parting of the ways

The leather and footwear industries have enjoyed a very long and fruitful relationship. Leather was not only an ideal shoemaking material but also a unique one with a touch, feel, look and evocative scent all of its own; one which greatly added to the appeal of a new pair of shoes. Leather accordingly dominated all footwear market segments up until the early 1980s and the birth of the sports shoe phenomenon. While brands such as Reebok, Nike, adidas and others, initially followed traditional concepts of footwear design by continuing to use leather in their uppers, this soon began to change.

As lifestyles began to alter and the influence of younger segments of society increased, the affinity towards leather became increasingly eroded. A profound change started to take place in the shoe market's use of it, where traditional formality of design and perception of status began to move towards a more unstructured, casual approach and the materials used have gradually become less important to the consumer. This has not happened overnight but over the course of some thirty odd years and yet the leather industry has not reacted other than to complain.

The extent to which this has hit leather producers is significant as can

be shown by comparing the amount of leather used in sports shoes. When this phenomenon first hit the market, sports shoes consumed an estimated 20 million hides annually; today it would barely be one million. Similarly, alternative materials have also overtaken leather as the upper material of choice in many other market sectors such as mainstream ladies fashion and it is steadily losing ground to synthetics right across the shoe industry.

To put this in perspective, each percentage point of market loss equates to three million hides, so the inroads that synthetic materials are making could see the industry's consumption drop from 50% to 35% of total hide output. In real terms this would release around 45 million hides onto the open market or, put another way, nearly as many hides as are currently consumed by the automotive industry. According to a 2017 report conducted by Grand View Research Inc., the global synthetic market is expected to reach \$85 billion by 2025. Footwear in particular is expected to show the fastest increase with an approximated compound annual growth of 9.7% from 2016 to 2025.

We are also living in a time of high consumer spending. Rising incomes, low interest rates combined with quick

fashion changes have boosted consumption significantly. As the footwear sector is still the most important user of leather, this confirms what has become obvious to most people in the industry even if some did not really want to recognise it. The net production and consumption of leather is declining overall because other sectors are cannot compensate adequately for its reduced usage in footwear.

MISSING THE POINT

While the leather industry continues to blame the sports shoe sector for its woes, it rather misses the point as so many other types of footwear are now also being made using synthetic materials. Furthermore, leather is a complex product with long lead times, is never 100% uniform and, due to volatility in the hide market in recent years, has become increasingly problematical for mass producers. With consumers putting no pressure on shoe manufacturers and retailers, there is at present no reason why the situation should be expected to change in the short term or, in many instances, the long term either.

A further twist in the current scenario is that although raw material prices have dropped substantially, there has been no take up by the



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footwear sector and we are now seeing cases of where lack of demand and price levels have gone beyond the point where it is worthwhile to invest in collecting, processing and distributing low end hides. This has come as something of a shock to the leather industry as for centuries it was a given that there would never be a hide destroyed and it would just be a series of ups and downs where you needed, at most, some money and patience to survive the bad times. With current demand for leather compared with present kill levels, that balance is no longer there.

Optimists have been hoping that a sharp correction in prices such as we have now seen would stimulate demand and all would be the same as before. More demand for leather would absorb existing excessive inventories, prices would settle down, demand would grow and so the next cycle would soon begin. This has not happened and there is now insufficient demand to absorb all the hides and splits that are currently being produced. There is now only one way to bring the market into balance again and that means supply has to be restricted.

This is more difficult than it sounds. The beef industry overall is buoyant as improving standards of living across the world increase meat consumption, so there is no reason to reduce slaughter even considering the sharp reduction in the revenue received from the main by-product, namely hides for leather. Globally and, despite all the anti-beef campaigns, there is also still an abundant supply of cattle for years to come. This means that the supply of hides will continue to be reasonably high and prices are likely to remain low both now and for the foreseeable future.

The big question is whether this will encourage footwear producers who have changed to using synthetics to revert to leather. A recent rumour has suggested that some of the major athletic footwear manufacturers are considering putting split leathers back into their real sport footwear because of the low prices and the fact that in real sports many players have begun to miss leather because they do not find the properties they want in the synthetic alternatives they have been

using. If true, it would be a significant boost for leather but, then again, it might well be just a rumour.

LANDSLIDE DECLINE

The passivity of the leather industry in recent years lies behind many of the difficulties it now faces. Most tanners did not anticipate problems or, if they did, why have they done nothing about it? One reason is that the leather industry has been looking at things from the wrong angle. It was too busy worrying about fallout from animal welfare campaigns, anti-beef trends or environmental concerns. Consumers have in fact not been affected to any great extent by any of this and, as remarked earlier, beef consumption has actually risen and more hides are available. One also has to assume that anyone who eats beef is also not averse to wearing leather shoes.

However, the landslide decline of leather in shoes has happened and the leather industry has not really developed any answer to it. Many in the industry still do not appear to appreciate the real crux of the problem as far as the shoe industry is

concerned, which is production costs and the margins a shoe brand can generate using specific materials. They have ignored developments in athletic and casual footwear, the implications of quicker and cheaper production systems that were evolving and the faster-paced changes being made to collections while all the while using less labour.

Volume shoe producers are no longer forced to use leather and anything that is quicker, easier and cheaper to process, that offers more growth potential and better margins will be preferred. Why should they be expected to use leather just because the leather industry wants them to? The assumption that they would start to use more leather once the price fell has been another big mistake and yet there are many tanners who still think this has to happen. They should realise by now that it is all about what determines the ex factory price of a shoe at the factory door and in the shops; not what a shoe is necessarily made of.

The All China Leather Exhibition (ACLE) in early September showed just



Reebok's Flexweave is just one example of new technologies that do not use any leather.

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Unfortunately, whenever discussions take place, it is always the same old complaints that are heard.

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how far things have gone. Not so long ago, leather materials and products would have filled the 92,000 square metre exhibition space. This year, it was primarily about synthetics, cotton, denims, wool and a multitude of 'fake leathers'. Yes, there was a collection of hides, wet blues and crust purveyors but it was more of a sideshow compared to the overwhelming presence of non-leather vendors. Out of approximately 1,100 exhibitors, only some 250 were focusing solely on leather.

The reality of the predicament that the leather industry finds itself in was succinctly stated by the secretary general of the China Leather Industry Association, Chen Zhanguang, when he said that, "Finished leather production for the first six months of 2018 was down 11.4% compared to the previous year." Extrapolating that number for the full year would reflect a reduction of 1.6 million hides for the US alone. Such is the impact that the waning of the footwear sector's support for leather is having on the leather industry.

CHANGING ATTITUDES

September's Lineapelle in Milan showed, as it always does, just how beautiful a product leather can be. While there were no new trends present, high-end fashion, luxury and speciality leathers continue to be appreciated by both consumer and producers with many exhibitors

predominantly busy and taking orders. However, Lineapelle is not where the mass footwear producers go to buy their upper materials and these are the people who represent the vast majority of global footwear production and consequently have the greatest impact on how much leather is used.

Nevertheless, staff from mass retailers and brands, as well as online platforms, were still there. They were there however merely to seek inspiration and ideas, and certainly not with the intention of promoting leather in their business activities. They sell products that offer the best profit from the lowest investment, not the best material. More than ever before, it seems that their only reason for attending is to take inspiration from the creativity and know-how the leather industry still has to offer. From the leather industry's point of view, this is kicking a man when he's down.

They cannot be blamed for doing this however and, because they are the volume users, the leather industry should perhaps try harder to find ways to bring them back on board. Many discussions take place but, unfortunately, what is generally heard are the same complaints that have been heard for so long. Even now when every concern has become a reality, there are still few people really trying to find solutions rather than complaining about what has happened. They really must accept that it is not the footwear industry's 'fault'.

It has merely reacted to commercial realities.

Leather prices started to rise from a fairly low base in July 2009, climbed quickly through 2010, fell back a little in 2011 before continuing to climb to a peak in August 2014. This proved to be the straw that finally broke the camel's back and convinced major footwear brands that they could no longer afford to run the risk of alienating consumers by continual price hikes. The leather industry effectively said that this was the market price of leather and people would have to pay if they wanted to continue using it. The brands said 'no' and there were cheaper alternatives their customers were happy to accept, were easier to process and were not exposed to the same price fluctuations as leather.

Since then, leather prices have fallen to about half of what they were in August 2014. But it is now too late, the leather industry has shot itself in the foot and it will now take a great deal of effort to win back the volume that has been lost. Indeed, with the advanced synthetic materials and shoemaking systems that are now appearing, it is hard to see how it can ever be fully achieved. Things have changed drastically over the past thirty years. The footwear industry has adapted to meet new challenges whereas the leather industry has not and, to all intents and purposes, we may now have reached a parting of the ways. 🍷