

THE 54TH JOHN ARTHUR WILSON MEMORIAL LECTURE

LECTURER INTRODUCED BY SUSAN STEELE

THE VALUE OF LEATHER AS A COMPONENT BRAND “... AND WHAT ARE WE DOING ABOUT IT?”

by

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ABSTRACT

In 1927 John Arthur Wilson stated: “*The entire value of leather lies in its properties, and if these are not clearly defined, trade is hampered.*” Today, improvement in the performance and aesthetic properties of synthetics makes it harder to differentiate between leather and substitute materials and there is a lack of information about leather at point of retail. Erosion of leather identity and challenges to the image of the industry potentially detract from the value of leather as a component material in the mind of consumers. Global brands, and specifically component branding is a rapidly growing segment of marketing today and the suggestion is made that the leather industry carefully consider the potential benefits of marketing leather as a component brand supported by a certification program. There are a number of international organizations addressing some of the immediate challenges facing the industry and some are also involved in various aspects of marketing support of leather. This is encouraging, but it is suggested that the leather industry could benefit from specific coordination of this effort through appropriate structures and should further consider working towards a global component branding strategy for leather with direct marketing to the end consumer. This is not a new call, it echoes previous John Arthur Wilson lectures, but perhaps now the time is right to do something about it.

INTRODUCTION

Leather is a store of “value.” The word leather is one of the first things heard from sales people at point of retail when selling an article made of leather - “This is a leather shoe; this is a leather bag; this is an automobile with leather interior.” The word leather evokes a favourable emotional response in the mind of the consumer. It elicits feelings of aesthetic pleasure, it appeals to the visual, tactile and olfactory senses. The word leather is used to imply value and is intended to transfer to the customer that the article made with leather is durable, luxurious, unique, and desirable. From a marketing viewpoint, “leather” may be classified as a brand. It is more correctly referred to as an ingredient or component brand, as it is not a finished article, but a component of what consumers buy. In marketing language, leather is a “transporter of value” for the final product. The words “made of leather” or a leather logo is often used as a signal of the component brand. The aesthetic properties of natural leather and the durability and performance of well-made leather confirm and reinforce the promise of the brand.

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The question is: “*Who is managing the brand?*”

Thomas Friedman¹ popularized the term “a Flat World” to describe the process of globalization and benefits of free trade and open markets. The world continues to flatten. The constraints of geography are receding. There is an increase in interconnectedness and networks of interdependence thicken. Where things are made, the speed and level with which we communicate, our access to know-how and information, have all changed significantly in the past 20 years. There is a profound increase in global wealth. There are changes in the way consumers view and acquire goods, and the way that articles are sold to customers. Disposable income spent on products that are desired, rather than required, is increasing rapidly. The role of marketing increases. Today, global brands and branding have a large impact on consumer behavior and strongly impact spending decisions.

The leather manufacturing industry has always been globally interconnected and interdependent - at least for the last few centuries. However, globalization has also had an impact on how we do business. Where and how leather is made today, how it is incorporated into products, how it is sold, and how it is viewed by the consumer are all affected. These changes will continue to have a significant impact on how our industry is structured, how it operates, and how we profit from our activities. It is time to review how we sell leather, and to consider the potential benefits of managing “component brand leather” at a global level.

The case for brand management increases when we consider the challenges that our industry faces. Recent advances in synthetics, their properties and the way they are marketed, presents a direct challenge to the very *IDENTITY* of leather. There are also pointed attacks on the *IMAGE* of the industry by activist environmentalist groups and those concerned with animal rights. Information on leather is readily available on the internet, but this is not always representative of our industry and products. We should be concerned how these perceptions impact our products and our industry. Perception directly affects the “value” of leather as a component material.

John Arthur Wilson Lecture (JAW) Series – Historical Perspective on Leather Value

In 1927, Wilson stated as Chair of the newly formed Properties of Leather Committee: “*The entire value of leather lies in its properties, and if these are not clearly defined, trade is hampered.*” This concept was further developed with publication of his 1941 treatise on leather. In the preface to his book Wilson² writes: “*The value of leather in service lies only in its properties, and what the tanner has to sell is essentially only the properties of his leather... and the suitability of its properties for any service that it must render.*” He further pointed out that “*...values of the important properties are variable, and it is the tanner who varies them.*”

Since 1960, there have been 53 lectures in the JAW series. Table 1 lists those papers that have said something about the value of leather from a marketing perspective and spoke to the challenges leather faces and the need for better global coordination in support of leather.

In the 2nd JAW lecture in 1961, Riviere focused on poor raw material quality, high prices, lack of collaboration on issues facing the industry, and questioned the role of professional organizations. He specifically mentioned the potential danger that “plastic shoes” held for the leather industry and advocated that the industry “...*reduce (costs) and fight against substitutes.*” This comment was directed at the perceived dangers the industry felt with the much hyped introduction of Du Pont’s Corfam in the early 1960’s. DuPont had worked diligently for many years to perfect a poromeric material (i.e. porous polymeric) that would breathe, and do so at lower cost to topple the “supremacy of leather” in footwear. Fresh in the minds of the industry was the loss of almost all sole leather markets to synthetic rubber material (e.g. Neolite from Goodyear.) These directed attacks led to much soul searching within the industry and for the first 20 years of JAW lectures half of the presentations had less to do with science and technology and were more focused on defending our products, highlighting the importance of customer requirements and marketing. In 1964 Bare called for more “...*market research as a tool for market planning*” and stated that the industry needed to improve quality, reduce costs and understand competitive weaknesses to survive. In 1970 Naghschi called for a liaison between “*the tanner, the shoe manufacturer, and the consumer...*” to stand together against the “*problems*” in the market. Sykes added to the call for more industry collaboration, specifically to combat threats from artificial substances. He pointed out that other natural product industries (e.g. wool, rubber) had international organizations that supported “*technical, economic, marketing, and promotional activities.*” He called for the leather industry to create an “*International Secretariat*” to provide governance and a supporting role for the leather sector. Perhaps the most specific call for marketing action came from Dominic Meo in 1974 where he said the industry should set up “...*a certification scheme...a Leather Mark... to support marketing claims*” or he warned the industry would continue to be “...*plagued by a constant erosion of confidence.*”

As the Corfam scare subsided, it appeared complacency set in. The industry was less perturbed with further development and introduction of new products such as the microfiber synthetics¹⁴ (e.g. Ultrasuede, Alcantara, etc.) Over the years, these alternatives have steadily improved in aesthetic and performance properties. Developments made in the last decade by the synthetic materials industry provide product designers with real choices that are technically viable and commercially seductive. It is no longer easy to dismiss current

TABLE I
JAW lectures that address product properties,
business strategy and topics on marketing.

Year	JAW Speaker	Title	Synopsis
1961	Marcel Riviere ³	How to protect the leather industry	General industry challenges, including from synthetics, and lack of industry collaboration
1963	Mieth Maeser ⁴	An engineer looks at leather	Properties of leather pertaining to shoe comfort and performance
1964	Bruce Bare ⁵	What can the leather industry expect from marketing research	Importance of marketing research and planning with examples of confrontation of “natural products” with “synthetics”
1966	Harry Bradley ⁶	Properties of shoe leathers and their measurement	Physical characteristics of leather structure and properties imparted to shoe leather
1970	Joseph Naghski ⁷	Leather to meet the needs of the consumer	A call to characterize the properties of leather and collaborate with the shoe manufacturers and consumers in support of leather
1971	Robert Sykes ⁸	Leather research in the seventies: the role of collaborative organizations	A call for industry collaboration in research and marketing, using the “Woolmark” as a suitable model.
1973	Stanley Shuttleworth ⁹	Can the US leather industry survive without research?	A call for more research
1974	Dominic Meo ¹⁰	Leather — romance and opportunity	The need for marketing leather, the importance of standards, and the role of a leather mark
1978	Wilfried Diebschlag ¹¹	A comparative analysis of the comfort of leather and substitute materials, especially for footwear	A comparison of leather versus substitute materials and foot comfort.
1982	Graham Butlin ¹²	A shoe scientist looks at leather: a potpourri of leather’s fascinating properties	Properties of leather and it’s fit with footwear needs
2000	Reg Hankey ¹³	How to be competitive in the new millennium	Business strategy and innovation

developments as just another “Corfam.” Kanigel’s book *Fuax Real*¹⁵ is an excellent documentation of these developments and he clearly outlines some of the challenges faced by leather and the leather industry; he feels the main remaining differentiator being the perceived “natural” origins of leather.

The IDENTITY of Leather

Synthetics are much improved in both aesthetic appeal and performance properties today, and they directly threaten leather end-use markets. Synthetics can be made less dense than leather, are available as strong, lightweight, and breathable materials. Almost all athletic footwear today is made from synthetic materials, while only twenty years ago a good proportion was leather. Modern synthetics match many of properties of leather and in some areas, such as washability, softness, and density, may be superior. Figure 1 is a chart of properties of importance for foot comfort and these are rated

according to the author’s perception of relevant product performance. Similar comparisons would be of interest for other market end-use segments.

For footwear, leather has excellent moisture management properties (wicking and breathability), it is warm in winter and cool in summer, and has the ability to mold to the foot. Well made leather is durable and will age gracefully. These properties are typically only appreciated during use and after lengthy period of wear. These properties used to be reinforced at point of retail, but it is uncertain whether today’s sales staff even understands the benefits or relevance.

Besides uninformed sales staff, incorrect claims and misleading labels add to the confusion. At times it appears that the performance features of synthetics are better understood and promoted. The aggressive marketing approach

Properties of Footwear Materials

Property	Plastic (Vinyl)	Poromeric (Corfam)	Microfiber / Combinations	Leather	Leather with Gore-Tex
Windproof	★ ★ ★	★ ★ ★	★ ★ ★	★ ★ ★	★ ★ ★
Waterproof	★ ★ ★	★ ★ ★	★ ★	★ ★	★ ★ ★
Breathable (WVT)		★	★ ★ ★	★ ★	★ ★
Moisture Mngt		★	★ ★	★ ★ ★	
Temperature Mngt			★ ★	★ ★ ★	★ ★
Mouldable				★ ★ ★	★ ★
Haptic Properties	★	★	★ ★ ★	★ ★ ★	★ ★ ★
Physical Strength	★	★ ★	★ ★ ★	★ ★ ★	★ ★ ★
Durability	★ ★	★ ★	★ ★	★ ★ ★	★ ★ ★
Ageing			★	★ ★ ★	★ ★
Density – Lightness			★ ★ ★	★	★

Ratings:

★ ★ ★ Superior / Exceptional
 ★ ★ Good enough / Can be incorporated
 ★ Fair to Poor
 Poor

Figure 1. Authors viewpoint of relative performance of materials for footwear comfort.

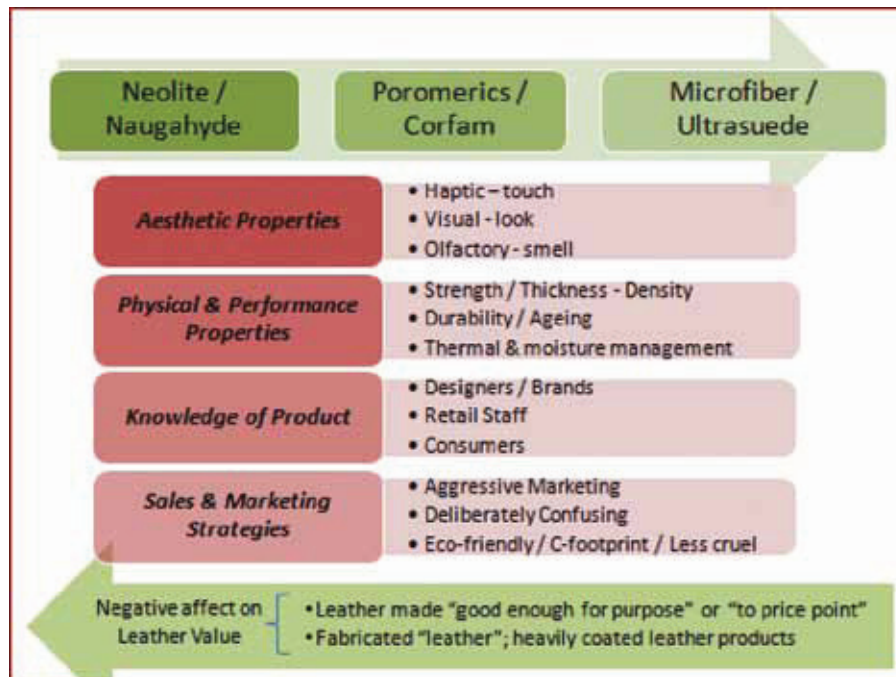


Figure 2. Trend of improving synthetic material properties, and decline in leather.

by manufacturers of synthetics increases the threat of replacement. But at times, the leather industry appears willing to do itself harm. In competition to meet price points, low quality raw materials are substituted for higher end leathers, heavily coated leathers are common, and poorly made leathers all detract from consumer's experience of the leather article (Figure 2).

The perception is that leather as a unique and valued material is under threat at point of retail and during use. There is a lack of differentiation, inaccurate labeling, and general confusion regarding what is, and what is not, leather. At times, even leather experts struggle to identify whether an article is made from leather. Many of us have had experiences with vendors

selling a “leather” bag or shoe where we can see it is not leather, or indeed they promote a real leather bag as something special when it is a heavily coated and looks and feels like plastic. How does this impact the typical consumer who does not know much about leather?

Without a clear *IDENTITY* at point of retail and in the mind of the consumer, the value of leather is diminished.

The IMAGE of the Industry

Attacks on the image of the leather industry from high profile animal rights advocates (e.g. PETA, Stella McCartney, etc.) and environmentalists (e.g. Greenpeace, Blacksmith Institute, etc.) are becoming more aggressive, more direct in their approach, and easily accessed by an online generation. The leather industry struggles to shake an image of a dirty, smelly, polluting industry. One that uses a lot of resources, is a hazardous place to work, uses dangerous chemicals, and involves animal cruelty. Indeed, some tanneries in some regions have poor environmental records, including unsafe practices and misuse of hazardous chemicals. But, the reality is that the majority of the leather industry today is relatively clean, tanneries adequately address effluent and environmental issues, they provide stable jobs, and are good corporate citizens in their communities. The leather industry serves a useful purpose as it re-cycles a meat and milk industry by-product, and it does so sustainably. Is this the consumer viewpoint?

Leather product carbon footprint¹⁶ and how it is measured is a more recent threat. Whether the contribution from the live animal should be included is being studied at present, but it is clear that product footprint is only part of the sustainability story. Leather is durable in use. Consideration of useful lifespan should be included and typically favors leather articles over synthetics. The ability to trace material from source through end-of-life is necessary for a full measure of sustainability. But full traceability in the leather supply chain is a challenge and the story of leather-in-use needs to be told.

Without a positive *IMAGE* of the leather industry, the value of leather is diminished.

Price as a Proxy for Value

Theories on “value” range from the more classical approach (i.e. sum of raw material inputs + labor cost + utility over useful lifespan) to the neo-classical view of market exchange (i.e. price set in the market by demand-supply relationships.) Classical views recognize “exchange value” but suggest that markets do not always factor in all costs related to labor, production, and utility of an article. The price of a product also does not always take into account societal benefits, such as the need to utilize hides that are generated as by-products of another industry; nor the socialized costs, such as the ecological footprint and impact of tannery processes on the

environment. As a result, and in a long and complex supply chain, price paid at each step may not be fully representative of value. To the end-consumer, value is clearly related to perceptions of product quality and the product features valued by the customer – these attributes are subjective and hard to quantify but will to some extent be reflected in the price a customer is willing to pay.

For simplification, we can adopt the neo-classical approach and use price (\$/ft²) as a metric for leather value. Price is easy to understand, it is easy to measure. This allows us to track value over time and calculate the aggregate value of the industry. However, it is necessary in a discussion on markets and component brand value to emphasize:

1. Price in a supply chain is linked to relative power of the business entity in that chain.
2. Successful brands can earn a sustainable “market premium” — a higher price compared to equivalent products or technical replacements.

The price of raw hides and skins is readily available and well publicized. These materials are treated as a commodity and prices are quoted in terms of weight (e.g. \$/lb) or piece (\$/skin.) This information is tracked, published, and pontificated on at length in industry publications. The tanner transforms the raw material to leather and translates the value to an area basis (\$/ft².) But there is no service that publishes prices for finished leather.

An Economic Model for Finished Leather Pricing

The author is not aware of any published study of finished leather pricing or an economic model of the finished leather industry. This would be interesting as there are some intriguing aspects worthy of some consideration.

Basic economic theory has prices set by intersection of supply and demand curves. Some unique features that need to be considered for leather and are depicted in Figures 3 & 4. Hides and skins are a by-product of the meat and milk industry, so supply of hides is disconnected from demand for leather, i.e. inelastic to demand (S_L) (Note: Annual increase in supply is around +1% but is ignored as it is small and non-determinative.) One would therefore expect large swings in price of finished leather as demand changes. Price of finished leather does change with demand, but a lot less than one might expect. Inventory build-up and market speculation in a long supply chain can either dampen or accentuate fluctuation, but stability is understood by considering the impact of substitution. As the demand and price for leather goes up, designers will use substitute materials as functional replacements. These are mainly synthetics, but can include lower grades, coated splits, re-constituted “leather,” etc. as well. When price is more favorable, designers return to leather. This substitution effect

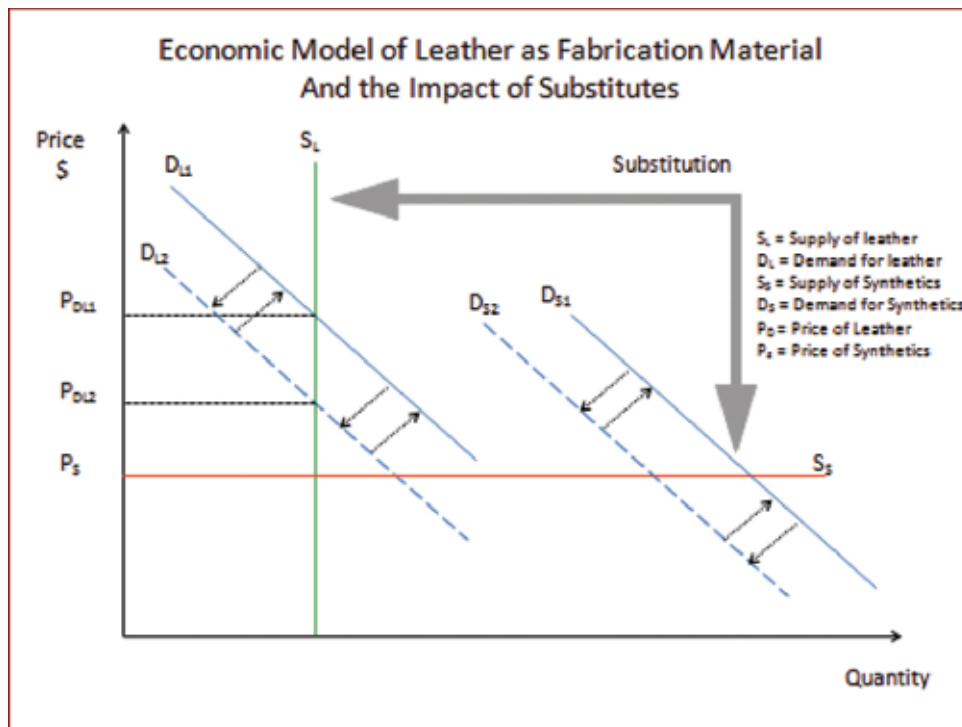


Figure 3. A basic model of finished leather pricing, showing inelastic supply of raw material and impact of limitless substitution by synthetic materials.

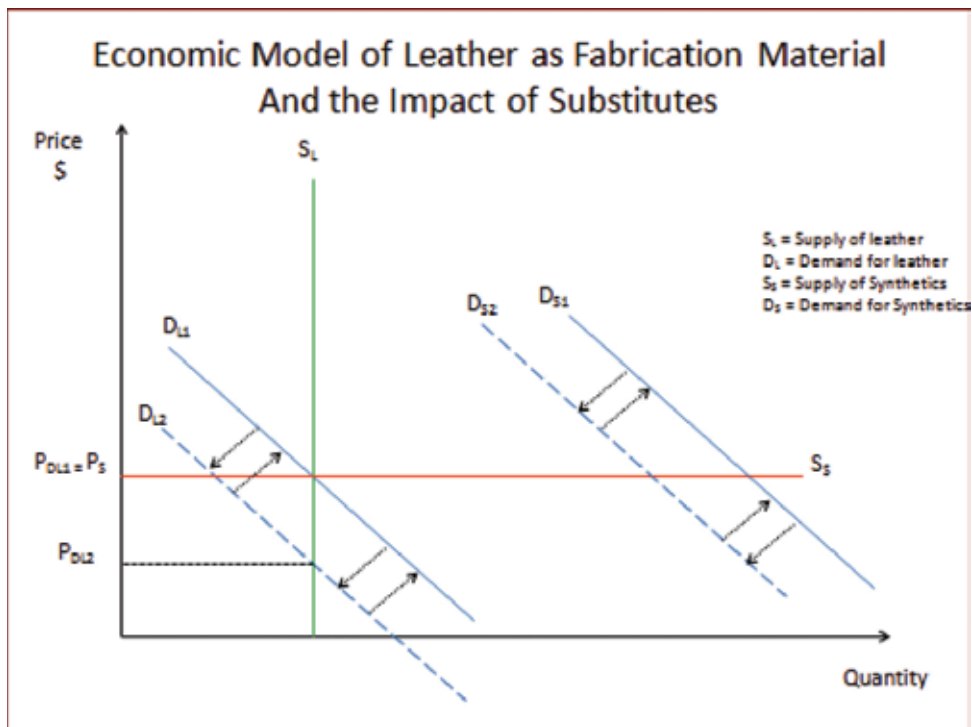


Figure 4. The potential impact on pricing if leather were “perceived” as equivalent or, potentially, of lower value than synthetics.

places a ceiling on finished leather prices. (Note that the supply of synthetics is depicted here as perfectly elastic (S_S); the raw material is readily available and in the medium term production can be readily adapted to demand.)

This is not a rigorous pricing model, but should highlight the peculiarities that come with a non-determining by-product input to supply and the effect of substitution that limits price response to demand. The more leather is perceived to be

similar to synthetics, the more likely it is that the average price of leather will drift closer towards, or below, cheaper synthetic material prices.

The “value” of leather is linked to perceptions of both the functional properties and the aesthetic desirability of the synthetics that serve as substitutes.

Scenario Analysis — What if?

Calculations of the aggregate size and value of the global finished leather industry are useful as it allows us to quantify the impact of a loss or gain to the industry as a result of our ability to impact leather price.

According to FAO statistics¹⁷ for 2010 there are around 330 million bovine hides (average of 19 kg's equivalent wet salted weight yielding an estimated ~44 ft² with split) and around 980 million sheep & goat skins (average of 0.75 kg's dry weight yielding an estimated ~ 6 ft²) that are made into leather. Adding ~10% for pig skins and growth since 2010 one can deduce that this will yield around 22 billion ft² of leather annually. (We use only domesticated animal species, as exotics and fur industry is very small and for various reasons require a separate discussion.) One can further make a reasonable assumption that the average weighted selling price for all raw materials and leather types is around \$2.25 / ft² today. This puts the aggregate value of the global leather manufacturing industry at about \$50 billion.

We have discussed issues of leather IDENTITY and industry IMAGE and suggested that these should be managed as they can negatively impact the value (price) of leather. “What if” leather was perceived as equivalent, or even, less desirable than a synthetic substitute? An aggregate drop of \$1 in the global average selling price of finished leather would drive \$22 billion out of the finished leather industry. This is possible as the innate value of a hide or skin is its alternate use, e.g. as a source of collagen, energy, or even its disposal cost, and the value of a hide or skin is around 50% of leather price.

But the game of “what if” can be played the other way around. If the industry could improve on issues of leather identity, boost the industry image and find ways to drive consumer demand; then what could the value of the industry be? With greater power and control in the supply chain, an average price of \$3.25 / ft² is readily conceivable, especially when we consider the sales price of many of the articles made from leather. This would drive an additional \$22 billion into the finished leather industry to create a \$72 billion market. What would the industry need to do, and how much would need to be invested, to realize an additional aggregate average increase of \$1.00 / ft²?

Finished Leather Prices and Performance Over Time

Sales price of finished leather is specific to a particular type of leather and to the agreed terms of buyer-seller exchange.

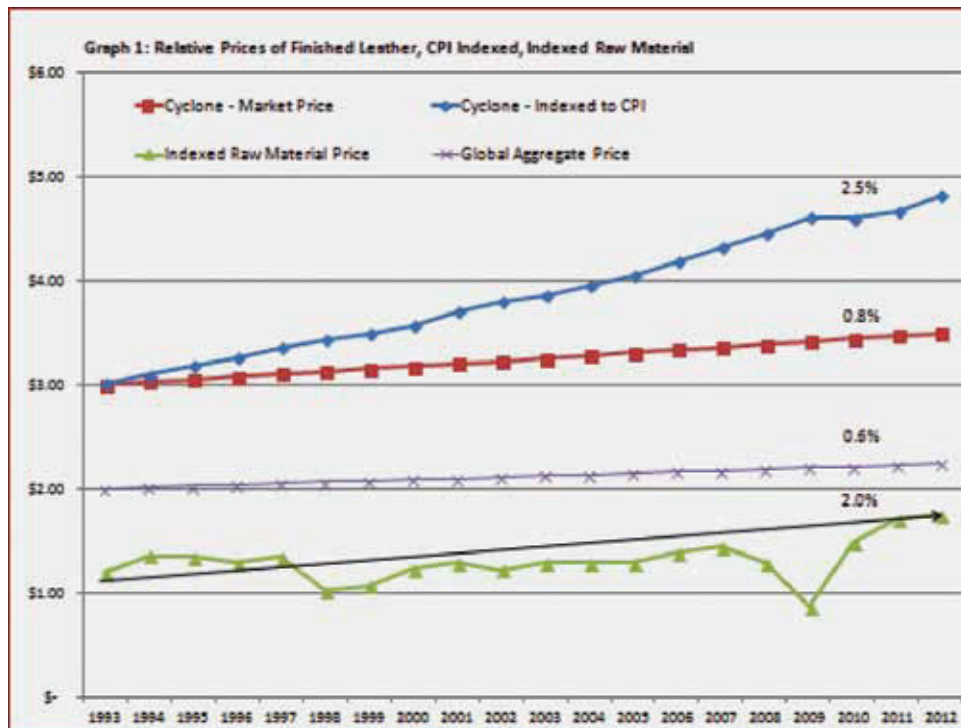
The transaction for finished leather may be considered bespoke, with many different types of leather on offer, most of it made to order. Pricing is typically based on an article specified by the buyer with regard to type, color, thickness, volume, performance properties, etc. Prices are negotiated somewhat secretly, except that buyers will often shop their needs between tanneries. Some tanneries are market leaders in style and fashion and create looks and colors that help set trends; some are followers and copiers of products. Some tanneries try to sell their products based on what the market will bear; others sell on a cost-plus basis. There is no database or reference where one can readily find data about finished leather pricing. In the absence of hard data, we can consider some anecdotal information, (i.e. soft data.)

In the early 1990's the author was working at US Leather Holdings as an International Sales Manager and would sell low end lining leather or split leather for around \$1.00 to \$1.50 / ft². A higher end product like Pfister and Vogel's famous pull-up leather “Cyclone” would sell in volume at around \$3.00 / ft². This range \$1.00 to \$3.00 would have easily covered 80% of finished leather prices worldwide. A rough estimate of an average global price for finished leather at the time would be around \$2.00. An informal poll by the author of people in the industry today puts US lifestyle leathers at around \$3.50/ft². A further question put to people in the industry with a good view of the leather market put estimates of an average global price between \$2.00 to around \$2.50 / ft², (hence the average \$2.25 used previously.)

Graph 1 plots this soft data. We see “Cyclone” prices going from \$3.00 to \$3.50 / ft², representing a cumulative increase of 0.8% per year. Over this period average US CPI¹⁸ has risen 2.5% per year. If prices had kept up with inflation Cyclone would sell for \$4.81 today. The graph also indexes a ratio of actual prices of raw material - using an estimate of 40% raw material input cost for Cyclone in 1993 at \$1.20 / ft². A trend line comparing raw material pricing (e.g. Heavy Texas Steer) over this period indicates a cumulative rise of 2.0% per year. Aggregate average global pricing for finished leather is shown using a number of \$2.00 / ft² for 1993 and \$2.25 for 2012. This represents an annual 0.6% cumulative increase.

It would be nice to evaluate more robust data, but it would appear that raw material, finished leather, and aggregate global leather prices have significantly lagged inflation. Why?

There are a number of factors that affect global pricing and costs of finished leather production over time. Not least of these are raw material prices, labor, chemical, energy, and environmental costs. More difficult to measure are competition and capacity levels, changes in labor cost with relocation of tanning industry, production efficiency, technical advances, substitution of lower grade leathers to make certain articles, and loss of market due to synthetic substitution. Some of these put upward pressure on prices, some keep finished leather prices lower.



Graph 1. Twenty year relative pricing trend of Finished leather (e.g. Cyclone), indexed to CPI, indexed to Raw material prices, and an estimate of Average Aggregate Global Price.

Many reasons can be found to help explain pricing trends, but it does appear that prices for finished leathers are depressed, lag inflation, and as a result, tanner's margins are squeezed.

Is Finished Leather Really a Commodity?

Finished leather is unique. It starts with a wide range of raw materials with distinguishing qualities evident in each hide or skin. Each partially processed pelt, every wetblue, and each crust leather is different. The tanner carefully builds on these inherent properties to create the final leather that is defined by thickness, color, texture, smell, finish & performance properties, etc. The work is done in separate batch processes, and leather is made to order. From marketing basics it would appear that a tanner is doing everything right to maximize margin by segmenting, differentiating, and targeting his customer and markets. But, the tanner appears to be struggling with stagnant commoditized pricing.

Leather is not a commodity, each article is unique, but the OEM's, brands and retailers appear to have greater control over pricing by using threat of substitution. What can the tanner do to gain more control over consumer demand for finished leather and leather's importance in the supply chain?

The Leather Value Chain

Finished leather is not a final product. It is an intermediate in a long supply chain. If we want to consider strategies to raise the price of finished leather, we should better understand the supply chain that delivers that value. Figure 5 is a simple

overview and the red circle identifies those entities that would benefit most from an increase in finished leather prices.

In reality, things are a lot more complex. Figure 6 breaks the chain down further into individual representative business units. For each there are different drivers of value – volume, cost reduction, technology, differentiation, branding, etc.

This breakdown does allow comment on trends. We see consolidation in some areas especially in the raw material sector and in retail where scale of operation brings savings. Another interesting trend is vertical integration. At least one large meat supplier is now integrating up the supply chain to finished leather stage, presumably based on the strategy of “adding value” to a by-product. There are some brands with integrated business down to the tannery or even raw material supply level. Downward vertical integration by the brands appears to be focused on securing supply relationships, ensuring access to quality raw materials, and quality control.

It was mentioned during discussion on value that demand pricing in the supply chain is linked to relative power. The red circles in Figure 6 indicate the commonly held belief that power in the leather value chain rests mainly with the suppliers of raw material at one end and the brands and retailers who design or sell the finished article at the other. A strategic assessment of the drivers of individual business units would be necessary to gain a better picture of the relative power in the value chain and its effect on pricing. Clearly this is complicated,

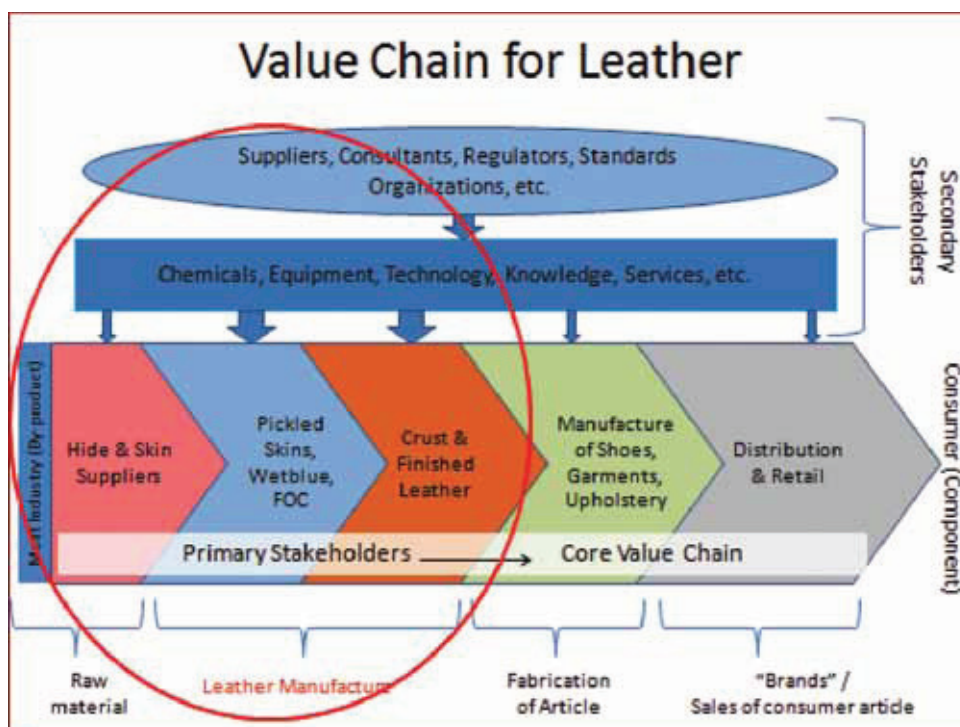


Figure 5. Value Chain for leather industry showing primary and secondary stakeholders.

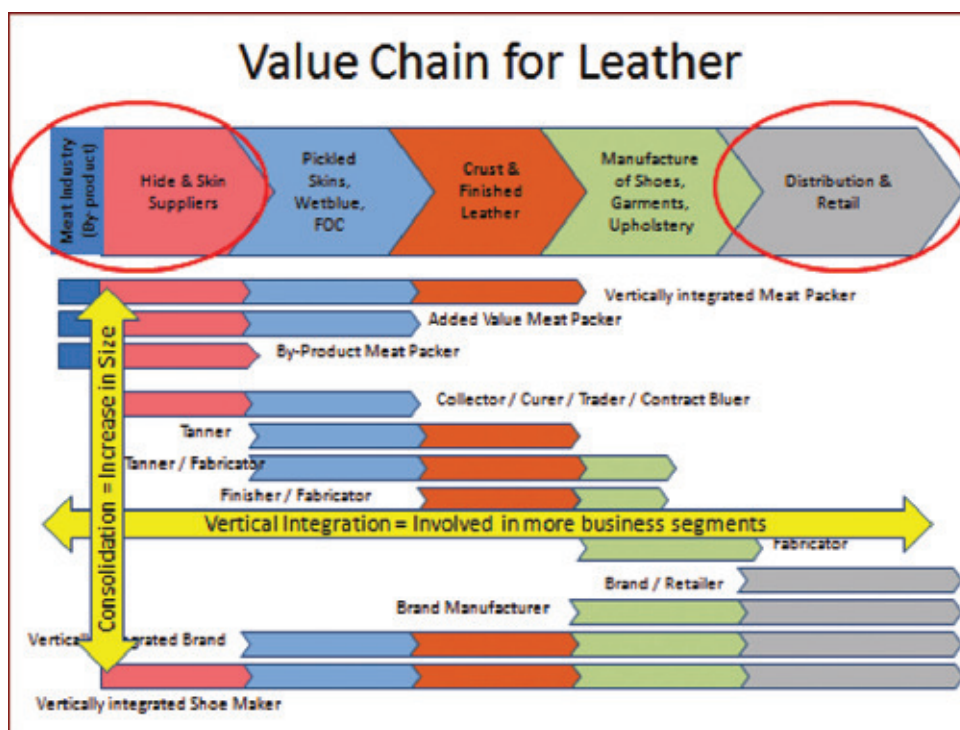


Figure 6. Breakdown of value chain to highlight individual business units and areas of consolidation / integration.

as most business units are small to medium enterprises (SME's) with wide ranging business drivers and philosophies, but it is interesting to consider whether the leather manufacturing sector,

or the various organizations that represent them, could work together on a market strategy that would support higher finished leather price.

Brands and Branding:

In essence a brand is an “idea” that lives in your head – words, images, emotions. It is a promise to the consumer that it will deliver what the consumer is seeking. Branding is the signaling of the “idea.” It is more than just advertising, a logo, a slogan, or a mark. Branding is everything to do with the knowledge and experience about the product or service and the organization that supports and sells it. Branding can include the look, a sound, a smell, or the feel of the product. To last, branding must be honest as a brand can only be as good as the long-term “experience” of the brand. As transporters of value, brands function to:

1. Distinguish or differentiate one good or service from another
2. Imply a guarantee of overall quality
3. Provide confidence in properties and performance
4. Ease identification, determination of origin, and recognition
5. Orientate the consumer – makes decisions easier
6. Ensure transparency and provide product insurance – consumer knows who made it and trusts them

In an information rich environment, the challenges and opportunities for branding are enhanced, but it is important to remember the basic principle that “simple ideas resonate.”¹⁹ For a brand to be successful, it must be differentiated from the competition in the minds of the consumer. This difference

must be relevant. The difference can be based on measurable properties, it should be related to needs, but can be an image or a feeling. Global brands, in tandem with globalization, have become increasingly important since the 1950’s, and for some large companies it is estimated that the value of their brand makes up to 50% of the equity value of the company.

The “Brand Asset Valuator”²⁰ is a useful tool to visualize power of a brand (Figure 7). Brand strength includes the concepts of *differentiation* (what makes your product unique) and *relevance* (does it fill a need.) Brand stature includes *esteem* (is it well regarded) and *knowledge* (how much does the consumer know about the product.) If we apply these concepts to leather as a brand there is no question that for centuries leather was a power brand, high on both strength and stature axes.

So, how does leather stack-up as a brand today? Leather is *relevant* to the articles where it is used (Figure 8) – it performs a useful function – but synthetics have improved in aesthetic and performance properties and the ability to *differentiate* leather from non-leather is becoming more difficult. Leather is still loved by most consumers – *esteem* - but there is a small but growing lobby eager to attack the product, its animal origins, and the industry that makes it. Consumer *knowledge* about leather and its properties is increasingly problematic, with challenges from functional substitutes and confusion at retail.

It appears leather is under threat of losing its position as a power brand.

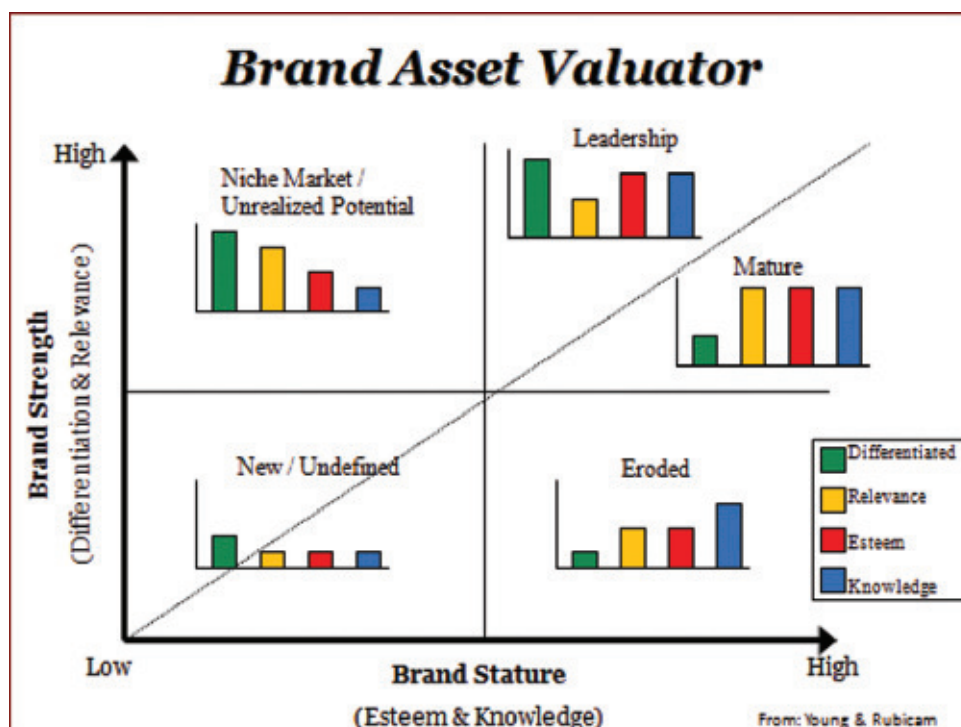


Figure 7. Brand Asset Valuator from consulting firm Young & Rubicam.

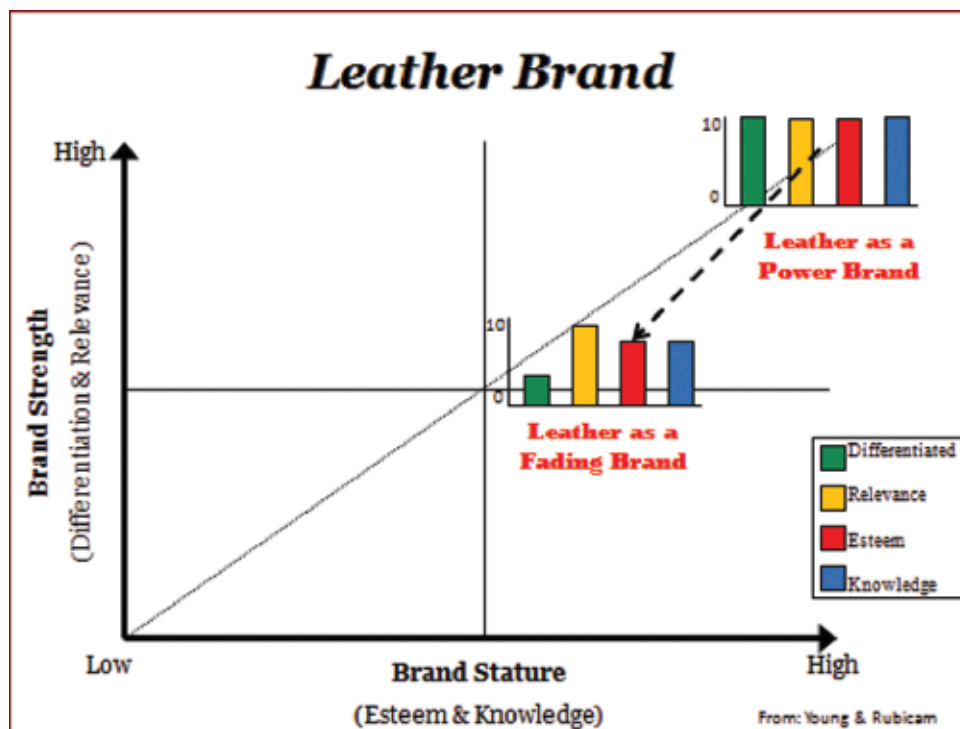


Figure 8. Leather as a diminishing brand.

Component Branding — Synonymous with Ingredient Branding

The use of “Component Branding” as a conscious strategy for taking products to the marketplace is a more recent phenomenon. Since 1990, and especially following the incredible success of the “Intel Inside” campaign, the concept of Component Brands as a marketing strategy is increasingly rapidly. It is one of the fastest growing segments of marketing research today.

The book “Ingredient Branding”²¹ provides a comprehensive overview of the subject. In essence, component branding is strategic brand management of materials, components, parts, or services. Developing a strategy based on component branding is not simple, nor is it easy. It is however very clear that this form of strategic marketing alliance between businesses in a supply chain is on the increase. We see the names or logos of many well known component brands - Intel, Dolby, Stainmaster, Goretex, Splenda, Kevlar, Lycra, Teflon, Woolmark, Recaro, Alcantara, etc. – prominently displayed on packaging or permanently affixed to the merchandise itself. These can be a true mixed-in ingredient (e.g. NutraSweet) or a component of an article (e.g. a Shimano gear.) We know intuitively what a component brand is. If done right, component branding is synergistic, creating a win-win-win for the component supplier, the OEM supplier of the article, and for the consumer. A component brand ensures a higher quality product and a more informed consumer.

With reference to Figure 9, we see the strategic concept of “Pull” used where the component brand is well known or

promoted directly to the end consumer. This helps create consumer demand for the OEM. A “Push” strategy is used where the benefits of a component are directed towards the OEM and is useful if the component brand is not well known by the end consumer. Typically there is a re-balance of power towards the supplier of the component as the synergistic relationship evolves. OEM’s exert a very strong influence and market power over businesses in the supply industry. To share or distribute OEM power is one of the major opportunities offered by implementing a Component Brand strategy for suppliers.

The process of creating a Component Brand can be complex and involves integrated and multi-level marketing with clearly defined roles in the Supply Chain. The message of a component brand is that the product manufacturer and the component supplier are committing themselves to the quality of the product. Leather is a *de facto* component brand. As with any brand it helps the consumer when making a purchase decision to look not only at the product itself – shoe, bag, automobile – but also at the materials used to make the article. Potential benefits of managing leather as a component brand can include a more positive image, increased information about leather, increased awareness by the consumer of leather properties, and increased customer loyalty. Leather clearly has downstream value for loyal consumers, the benefits might not be visible at point of sale, but properties over time, along with human love of “natural things” are drivers of leather value.

The leather manufacturing sector is best positioned to manage leather as a component brand. Tanners know their product best and have vested interest in differentiation of leather as a

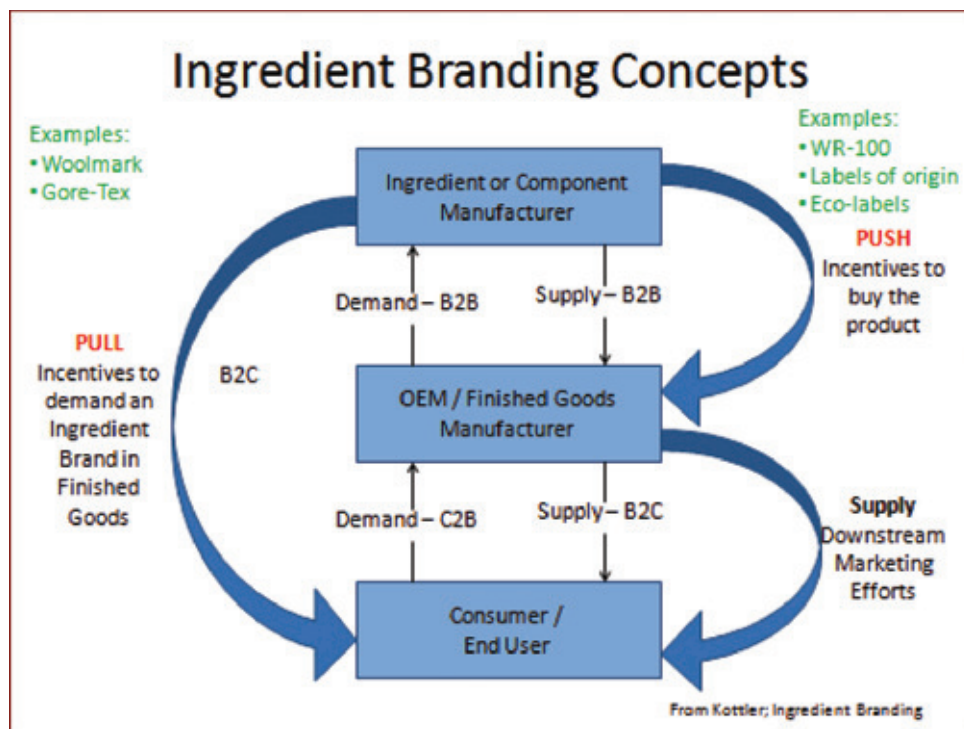


Figure 9. Push and pull strategies employed by Ingredient Branding.

material. It is important to note for others in the supply chain, this is not a win-lose proposition. If done right, all in the value chain will benefit, including the consumer.

It is All About the Consumer

At the core of any marketing effort is of course the end consumer. Modern media makes it easier to communicate directly to end consumers. With rising wealth, rapidly growing consumer markets in developing countries, and increasing demand for “luxury” items, it might appear timing is right to support component branding of leather. But not all consumers and not all markets are the best targets for leather. Fast fashion, discount retailers, and mass markets using low prices, fast supply chains, and engineered obsolescence designed to create the need for more, and more frequent consumption, may not play into the strengths of the leather industry. OEM’s, retailers and brands that set requirements that do not emphasize the best features or attributes of leather, making leather end up looking and performing more like plastic, are also not best for our industry.

“Sustainable consumerism” appears to be a contradiction in terms, but with rising environmental concerns, especially climate change and resource utilization, trends indicate many consumers may be “Re:Thinking consumption”²². Results of an online survey (Figure 10) across developed and developing countries conclude that respondents would pay extra for a more socially and environmentally responsible product. Key to such behavior however is transparency and trust. It should be noted that the number one source of “trust” is a certification

seal or label by an independent party. This was rated higher than media reports, customer reviews, friends or family, and government reports.

A leather label that better defines product properties, consumer expectations of the product, and that relays the sustainability of leather and how it is made could resonate well with an evolving “sustainable consumer.” Growing evidence also shows that as businesses or industries evolve in their measurement and acceptance of sustainable practices, especially more sophisticated levels of practice²³, sustainability no longer is perceived as a burden but becomes a key driver of business success and innovation²⁴.

Leather as a Consumer Brand

There are many examples of efforts by individual tanneries or regional organizations to differentiate leather or leather products using “branding” techniques. These include promotion of individual leather features using tags or labels, promotion of environmental benefits, or country of origin labeling. An example of component branding in a supplier / brand relationship is Pittards and Footjoy. Starting in the 1980’s, technical innovations in golfing glove leather were promoted using labels on articles and co-advertising. Italy is a good example of “place of origin” branding with their trademarks VeraCuoio and VeraPelle²⁵. These marks are used to help to distinguish and add value to Italian leathers. Similarly, the CNC in France²⁶ had a public TV advertising campaign in 2006 to promote use of French leather (“Le cuir, vivez-le.”) Clearly branding is more than a tag or a promotional

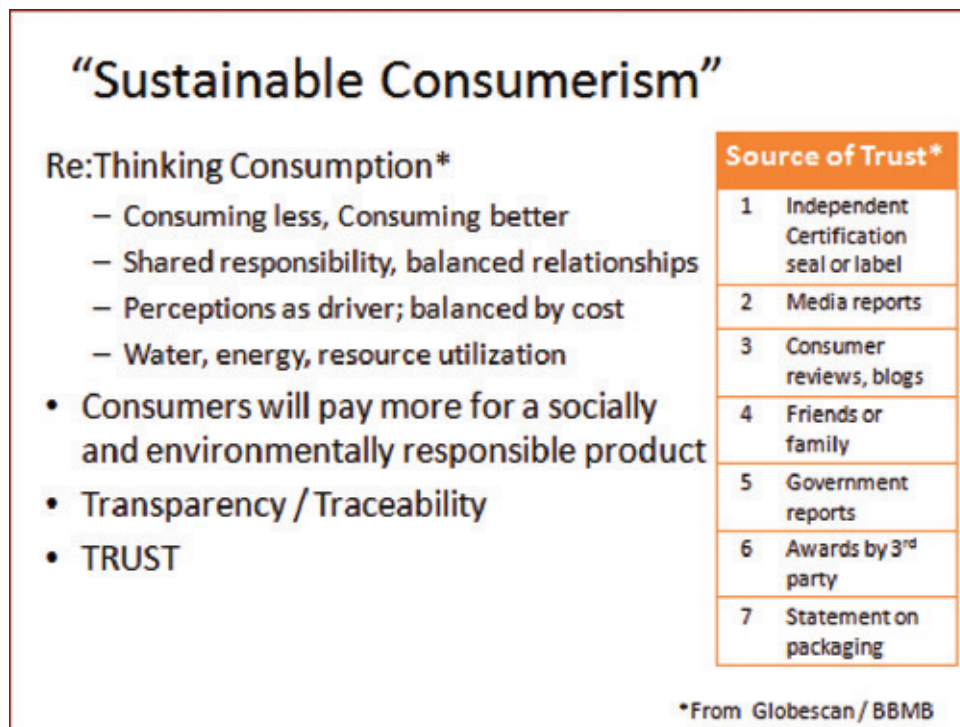


Figure 10. Online survey of consumption behavior.

campaign, but these efforts by industry have helped elevate recognition of certain leathers and their properties.

It is suggested here that leather could benefit from some form of coordinated brand management at global level. Indeed, who are the custodians of leather as a component brand? Who speaks for the industry? Who is responsible for responding to the attacks on leather identity and who is responsible for improving the image and practices of the industry? Who is working to ensure the continued acceptance of leather as a premium or “luxury” component of articles?

Managing Leather as a Consumer Brand:

Over the last 7 years, there has been significant increased interest in addressing various aspects of the challenges facing the global leather industry and a number of international initiatives focused on industry collaboration. We can recount some examples of leadership activity.

1. IULTCS

The International Union of LeatherTechnologists and Chemists Societies²⁷ is the umbrella body of the ALCA and 24 other national technical associations with a prestigious legacy. IULTCS is well known for its biennial global technical Congresses, regional Conferences, and for the development of standard international leather test methods in collaboration with CEN and ISO. Mindful of the growing issues facing the industry and the lack of cohesive industry response, in 2006 the President of the IULTCS Mr. Marc Folachier outlined a need for greater cooperation within the leather industry in a

strategic vision that came to be known as the “Istanbul Initiative” (Figure 11.) This led to expansion of IULTCS objectives and addition of a Research (IUR), Training (IUT) and eventually a Liaison Commission (IUL.) Folachier noted that the majority of tanners are SME’s with great technical skill, but there was a lack of global strategic vision and marketing approach. He therefore proposed an International Leather Forum (ILF) be hosted by the IULTCS to which were invited all the “actors of the leather world” - hide brokers, tanners, chemical & machinery suppliers, OEM brands, consultants and representatives of leather organizations. The meeting was held in Paris in 2007 and designed as a presentation and discussion forum under four major topics - Research, Training, Marketing, and Communication. During this meeting, issues and opportunities facing the industry were openly discussed with the clear call for closer cooperation within the supply chain.²⁸ This gathering and meeting of influential industry minds had a profound effect on many in the industry and a number of industry initiatives can trace their origin, at least in part, to this influential meeting and call for action.

2. ICT

The International Council of Tanners, made up of national leather organizations, has clear vested interest in the success of the leather industry. ICT has traditionally focused more on trade and legal matters affecting the industry, but members were involved in developing the well recognized “leather logo” in the 1970’s. Legal ownership is in the hands of individual national members or in some cases has been given to other organizations, but the international status and use of



Figure 11. The Istanbul Initiative of the IULTCS — 2007.

this brand mark is complicated²⁹. In recent years, the ICT, along with COTANCE as a member, has become a lot more active in addressing a wider range of industry issues.

3. GLCC

The “Global Leather Coordinating Committee” was established as a working group bringing together the three international leather industry organizations (IULTCS, ICT, ICHSLTA³⁰) to work on projects of common interest for the industry. Initial discussions took place with China Leather Industry Association (CLIA) as hosts in September 2010. Further discussions between the organizations followed, and during the first World Leather Conference in Rio de Janeiro in 2011, hosted by ICT, a “Memorandum of Understanding” was issued where the organizations agreed to work together to help improve the “identity of leather and image of the industry.” The GLCC assigns projects to members and since 2011 has had biannual meetings to follow up on progress. Of specific interest for the members is the legal framework for leather, including definitions and standards, trademarks and logos. It has also helped coordinate more rapid response to attacks against the leather industry from external environmentalist groups. Further projects on RSL’s, chromium, carbon footprint, and other industry issues are being addressed by this group. Most importantly, the GLCC is evidence that a wider spectrum of the leather supply chain can work together on issues of common concern and areas of common interest.

4. LWG

The Leather Working Group was formed in 2005 to promote sustainable environmental stewardship practices within the leather industry.³¹ The LWG is structured as a multi-stakeholder group with strong input from brands and retailers. The main focus is an environmental audit and a transparent supply chain. Membership includes approximately 40 brands, 24 supply companies, and 130 tanners. The LWG engages with NGO’s (e.g. Greenpeace, WWF) and solicits input from end-users. The BLC Leather Technology Center act as facilitators and have been the main driving force behind the LWG. It is estimated that more than 20% of the world’s footwear leather currently falls under LWG audit today, (i.e. 10% of total leather produced, ~ 2 billion ft².) The work of the LWG has had a significant and positive impact on how leather is made worldwide.

5. TOTY

Tannery of the Year Awards³² is run by World Leather Magazine to spread a positive message about Corporate Social Responsibility (CSR) and Sustainable Processing with examples from leading tanneries around the world. The awards idea came as a response to the call at the ILF meeting in Paris for greater industry involvement. The awards were started in 2009 and are managed as part of a business model for World Leather. It is a tribute to the industry that traditionally secretive tanneries are now willing to open their

doors and let journalists in to see details of their process, environmental and labor practices, and their impact on local communities. These stories now feature in general public media – radio, television, newspaper – and are spreading a positive message to a wider audience about the good work being done by leaders in our industry.

6. LN!

Leather Naturally has been described as a “grass roots” initiative, it is a movement that is focused on marketing leather as a natural and sustainable material. LN! was founded in 2010 and is structured as a non-profit member group with some of the world’s leading tanners and supply companies as paid up members³³. An initial steering team has evolved to a board of directors and the organization has contracted the services of a leading marketing company, The Brand Union, to help with research and to refine a marketing message. LN! has organized seminars at trade fairs aimed at educating designers about leather. Prof. Mike Redwood is the founder and spokesperson for the group and his enthusiasm, knowledge, and charisma has helped drive progress. A clear marketing message should help position quality leather as a material sought out by designers and consumers alike. It is suggested that demand for natural leather of good quality should help drive perceived value of leather and higher price³⁴.

Identity, Image, Innovation

The organizations listed above are involved in activities that address some of the challenges to leather identity and industry image. There are also some initiatives that demonstrate

willingness by the global industry to work together in innovative ways to market a positive image of the industry and leather as a desirable component brand. Figure 12 summarizes the areas where, in the author’s view, the industry should focus on for continued improvement.

The good thing about “component brand leather” is that it does not have to be created; it exists. The point is that it needs to be managed, and preferably by the leather manufacturing industry that makes it, knows it best, and they should also benefit from greater control of the brand within the supply chain. This could be done with certified labeling, but would require significant global coordination of activities and some investment. But it would seem that consumers who value leather in articles, especially those interested in more sustainable consumption, would pay extra for greater confidence in what they are buying. This can be provided by a certified label that confirms:

- The article is made of leather
- The leather is of good quality
- The raw material was sourced ethically
- The leather was made in an ecologically sound way
- The tannery has ethical labor standards and good community relations
- The leather is free of harmful chemicals



Figure 12. Areas for leather industry improvement.

While there can be any level of complexity behind the way the leather attributes are measured, calculated, and audited, but the communication needs to be simple and the organization behind it trusted. Diamonds, gold, or wool and how they are differentiated at point of sale by a simple metric understood by the consumer, have been discussed as possible examples for leather. Types of leather and its properties, suitability for use, origin and traceability, how it is made, or any other metric, can for example be measured and represented by a simple number, or an easily identifiable symbol or description.

Who would lead such an effort? A number of the organizations listed previously already have in place elements of what could, or should, be included in such a global marketing strategy. It appears that it might just need to be brought together.

CONCLUDING REMARKS

In the 1971 JAW lecture, Robert Sykes called for the creation of an "International Leather Secretariat." This was to mimic the International Wool Secretariat, now called the Woolmark Company.³⁵ The Woolmark brand is one of the most highly valued component brands today and the organization that manages it is involved in addressing industry issues, research and product development, supply chain management, and marketing of wool directly to end consumers.

In the 1974 JAW lecture, Dominic Meo called for a certification scheme and a leather mark to support the marketing efforts of leather. There is a leather logo, but ownership, how it is used, and what it stands for or certifies is not clear.

What is clear is that the OEM's, brands, retailers, and article manufacturers who are all happy to use leather, will not step up and provide the leadership necessary to solve our industry issues or manage leather as a component brand. Global leadership will need to come from the leather manufacturing industry.

The leather industry should listen to the call from Sykes and Meo 40 from years ago, and seriously consider an initiative to coordinate efforts to support a marketing strategy for component brand leather. If it is done right, the manufacturers of leather can enhance the value of leather as a component brand and benefit from a sustained increase in value (\$/ft²) for finished leather. The right strategy could also be a driver for better products and a more sustainable industry.

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