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CHAPTER V

DRAFT REPORT ON THE MARKET FOR GARMENTS AND UPHOLSTERY IN THE LEATHER INDUSTRY.

Introduction

The world-wide demand for aerobic footwear demonstrated the enormous power of multinational promotion and advertising to pull sales through the retail trade. The demand for leather garments and leather upholstery demonstrates the power of unobtrusive but sustained image building to do the same.

This image building was a contrived operation initially but is now rolling along under its own momentum. In neither the leatherwear nor the upholstery sector is there any market leader on whose brand name an effective marketing label can be hung which would establish in the public mind an automatic connection between garments or upholstery and leather and its acceptance as a consumer buying motivation for these products. The only possible candidates might be Loewe for garments and de Sede for furniture, but both have only limited recognition outside of the glossy fashion or interior decoration magazines. For the time being that momentum seems to be all that is needed, but there are signs that the image may need some deliberate polishing.

The market for leather garments

The dynamic growth in the demand for leather clothing was very much a leather industry marketing operation. Leather has always been used for garments but for special applications without any general acceptance - lederhosen in Austria and southern Germany, combat jackets in wartime, police official coats in Germany and France, sleeveless truck drivers' jerkins in Britain. All of these were in effect marginal outlets.

When Dupont launched the poromeric materials at the beginning of the sixties they had identified a 24 million shortfall in hide supplies for the footwear industry. They calculated that a high-priced sophisticated micro-porous synthetic which had many of the characteristics of leather could fill this gap. Their launch coincided with a shoe fashion for patent, where leather's unique plus characteristics were least evident and where PVC finished leathers were already on the market. For shoe manufacturers these poromerics had a number of distinct advantages. They came in continuous rolls, in regular widths and without any surface defects or colour variations and they quickly established themselves as an acceptable material for shoes and handbags.

It soon became clear that the poromerics were not supplementary to upper leather but a substitute that could destroy the market for upper leather in the same way that synthetics had taken over from sole leather, which had dropped from 70-80% utilisation to below 20% within a decade. Leather industry marketing specialists proposed two strategies:

- defensive research into the building into leather the plus points of the poromerics without losing the plus points of leather;
- reorientation of the market for leather from almost total dependence on footwear to one third footwear, one third some other high volume outlet, one third the rest.

The market breakdown at the beginning of the sixties was

footwear	70%	saddlery	2%
leathergoods	15%	chamois	2%
upholstery	5%	mechanical	3%
garments	3%		

Of these markets only garments appeared to offer any chance of volume development. Poromerics threatened the leathergoods market even perhaps more than footwear because their performance specification made them specially suitable. Luggage had already been lost to synthetic fabrics though leather was still holding its own in personal leathergoods. Only clothing could provide the opportunity for both volume and value exploitation.

Garment leather utilised a relatively cheap raw material - sheepskin with the wool on and de-wooled sheep pelts and was divided into five basic markets

- low value heavily pigmented motor cycling nappa
- cheap pigmented nappa for truck drivers' jerkins
- sheepskin with the wool on for country sporting coats
- beaver lamb furskin
- leisurewear nappa and suede with some degree of fashion content, mainly in Italy, Sweden, France and the Netherlands.

The marketing strategy

The campaign focused on expanding the leisurewear sector without any reduction in the others. Suggested targets were one leather garment of any sort - jacket, costume, dress, skirt, trousers, coat, waistcoat, shirt - to every person over the age of 15 every five years or making a start with at least one in their life-time, and at least one garment to every under 15.

The fundamental objective was to convince the free-spending teenage group, who were becoming the fashion leaders, that a leather garment was desirable because it was leather and for this reason the theme emphasised the second skin aspect of leather. Pop groups were encouraged to wear leather gear at all times. The two sections of the motor-cycling fraternity - the macho "Rockers" and the way-out fashion conscious "Mods" - were also targeted. To increase the manufacturing infrastructure, which was small even in those

countries where leatherwear had a higher profile, exhibitions were organised either exclusively for the leather garment trade or as a distinct section of outdoor apparel and leisurewear fairs. Couturier selections in leather were featured at the main international leather fair in Paris. Collections were commissioned from design schools and competitions organised to make the new generation designers aware of leather as an exciting garment material. Leather began to appear in the French and Italian couture collections. Press relations campaigns succeeded in getting extensive coverage in the fashion press, the women's magazines and the national dailies. Tanners and garment manufacturers were persuaded to advertise in the fashion glossies, but advertising coverage was negligible. At retail a handful of specialist shops stocked leatherwear and a primary objective of these press and public relations activities was to force department stores, chain stores, men's and women's wear shops and boutiques to stock leather garments as a standard item. However, the underlying objective was to establish leather as an exciting, ultra-modern, sensual, young material and a reason in itself for buying whatever it was made into.

Within seven years, leather became the top fashion material in the designer collections and the garment leather share of the leather market rose to 14%. In Britain, on the basis of leather production, an estimate of 100 000 garments made in 1961 with a retail value of 2 million had risen to 1,5 million garments with a retail value of 45 million. Between 1967 and 1972, OECD imports of apparel and clothing accessories of leather, of which leather garments were estimated to account for 55% to 60%, rose from \$96,3 million to \$390,1 million; American consumption reached \$129,6 million in 1968 and \$210,2 three years later; German consumption jumped from DM 241 million in 1970 to DM 625 in 1972.

The success of this initial leather industry generated campaign established a springboard for the astonishing leap that the leather garment made in the next 20 years. By 1987 world imports of leather apparel and accessories had reached \$4373,6 million and is still growing. The share of the leather market has moved up to 33% in some countries and footwear has dropped to 40%, so one of the original targets has been reached. It is now feasible to consider that leatherwear will overtake footwear in the leather market split, as upholstery has done in many western countries. Also the consumption target no longer looks Utopian. An analysis by the French garment manufacturers' association indicates that the market share for men's leather garments is currently only about 6% but, from observations in Britain, Italy, Germany, Austria, Spain and France, 40%-60% of the population already possess one leather garment.

(a) Market shares

In 1972, Argentina, Brazil, India, Pakistan and Korea followed after a period of time by the remaining developing countries embarked on a programme of development of their leather and leather product industries designed to add value to their resources of cheap labour and materials.

This programme profoundly influenced the geographical restructuring of both the manufacture of leather garments and the production of garment leather and of the ultimate demand for leatherwear as well as footwear. Garment manufacture started up in countries like Korea and Taiwan where there were existing skills in apparel making and these countries moved upstream into leather production, in principle to secure tighter control over their supply.

Resource-rich countries like India and Pakistan moved downstream into garment manufacture as an extension of their leather making and marketing. In both instances American and European importers, retailers and manufacturers seeking

low-cost but skilled production capacities provided the initiative for these developments and usually the means.

Ultimate consumer markets remained unchanged initially since the initiatives to develop the production facilities originated in these markets.

However, as per capita incomes have risen consumer demand for leatherwear has also grown outside of the traditional areas, but rather more widely spread across the market than the corresponding market for footwear, mainly because a leather garment was and still is seen, particularly but surprisingly at the cheaper end, as something of a long-term investment and not as a seasonal or other periodic replacement. It is also seen as an article specifically of leather and not as a garment which happens to be made of leather. There is therefore a greater motivation for possession. These two factors ensure too that the act of purchase can be spread over a longer period.

These trends and attitudes have led to production and market developments pre- and post-1972 different in detail but similar in outline to the development in the footwear sector.

(b) The pre-1972 market

Up to the end of the sixties the expansion in both garment leather production and leather garment manufacture occurred in the OECD countries, where the ultimate consumer demand was located. Table 5.1 illustrates the extent of the self-sufficiency of the market area. The main producers and manufacturers were the US, Canada and, in Europe, Italy, Spain, France, Britain, Germany, the Netherlands, Belgium, Yugoslavia and the Scandinavians headed by Sweden. Outside of the North American/West European axis, only Hong Kong and Israel, with their long-standing connections with Britain and USA in other apparel sectors, had any prominence. Despite the close and

Table S.1

OECD: imports of apparel and clothing accessories of leather, 1967-1972
(Thousand dollars c.i.f.)

(SITC 841.3)

Importing country	1967	1968	1969	1970	1971	1972	Percentage of total		Index 1972 (1967=100)
							1967	1972	
Total	96,329	121,992	156,839	211,435	271,569	390,119	100.0	100.0	405.0
of which:									
United States (f.o.b)	48,177	61,912	77,885	104,948	111,644	154,012	50.0	39.6	320.0
Germany, Fed. Rep.	7,469	12,520	20,934	32,757	62,990	109,149	7.9	28.0	1,461.4
Netherlands	4,827	5,599	6,767	10,192	16,218	25,248	5.0	6.5	523.1
Switzerland	6,586	7,483	9,056	10,682	15,518	18,727	6.8	4.8	284.3
Sweden	7,107	7,566	7,992	10,523	11,440	13,493	7.4	3.5	190.0
Canada (f.o.b)	5,185	5,471	6,594	9,055	10,900	12,925	5.4	3.3	249.3
United Kingdom	3,693	4,031	5,220	6,003	10,542	14,648	3.8	3.8	396.6
BLEU	1,882	2,277	3,021	4,341	6,319	8,223	2.0	2.1	436.9
Denmark	2,001	2,283	2,672	4,022	4,470	5,237	2.1	1.3	261.8
France	1,637	2,458	4,159	3,851	4,417	6,399	1.7	1.6	390.9
Norway	2,674	3,374	3,147	3,286	4,204	5,582	2.8	1.4	208.8
Austria	1,246	2,570	2,821	2,604	4,033	6,089	1.3	1.6	488.7
Italy	1,637	2,123	3,298	4,610	3,676	3,348	1.7	0.8	204.5
Japan	662	759	1,089	1,837	1,923	2,894	0.7	0.7	437.2
Finland	632	505	858	1,149	1,476	2,143	0.7	0.5	332.1
Ireland	256	317	440	653	748	904	0.2	0.2	353.1
Portugal	305	211	316	229	315	432	0.3	0.1	141.6
Spain	150	151	200	255	258	368	0.1	0.1	245.3
Yugoslavia	11	186	178	260	216	187	-	-	170.0
Iceland	79	90	64	96	165	223	0.1	0.1	282.3
Greece	113	106	128	78	97	75	0.1	-	66.4
Turkey	-	-	-	4	-	-	-	-	-

Source: OECD, Trade by Commodities, Market Summaries, Series C.

Table 5.1 OECD: imports of apparel and clothing accessories
of leather, 1967-1972

growing connection with Germany, Turkey did not make her presence felt until after 1976. In all these countries, increasing production and more rapidly rising imports occurred but a positive production/consumption balance characterised the whole leatherwear area.

In both garment production and imports the US and Germany topped the lists. Between 1969 and 1973 the USA increased domestic production of leather garments from \$118,4 million to \$154 million and consumption from \$129,6 million to \$219,2. Imports rose from \$14,2 million to \$59,2 million and the US received half or nearly half the total world import trade. Germany was Europe's leading manufacturer and importer. Production reached \$76,7 in 1970 and double that two years later. A five-fold increase in imports from \$19,1 to \$113 boosted consumption to \$238,5 from \$92.

(c) Post 1972

After 1972/3 a radical change occurred in the leatherwear industry after hide prices had rocketed following on Argentina's decision to rebuild cattle stocks and to suspend hide exports. A world grain and cattle feed shortage fuelled the situation. The demand for leatherwear continued since it was mainly based on sheep but shoe manufacturers reacted in the traditional manner by switching to cheaper leathers and later to synthetics. In consequence leather in shoe uppers dropped by 15% and, despite the reduced availability, a surplus of hides was generated which could be used for other purposes: leatherwear was the immediate gainer. The Japanese success in splitting hides down to as thin as 0,6 mm without loss of tensile strength gave the essential incentive to utilise these extra hides for garment leather. It enabled the tanner to offer garment manufacturers a thin, flexible, soft leather with a large cutting area, even better than the Iranian sheep pelt. The larger area simplified colour and texture matching of adjacent panels,

which was always a problem when a number of skins had to be utilised for one garment. Even though consumer demand and preference for leather forced shoe manufacturers back on to leather uppers, an increase in the US cattle kill in the run-up to the 1975 peak accommodated the continuing demand for clothing and the renewed demand for shoe leather.

Faced with rising manufacturing costs as well as higher raw material prices, garment manufacturers in USA and Europe, particularly Germany and Britain, turned increasingly to lower cost subcontracted or bought-in manufacture in Korea, Japan, Hong Kong and Turkey. Korean imports of bovine leather went up from 10 million square feet in 1971 to 21 million in 1973 and 90 million the following year and imports of sheep and goat leather from below 1 million square feet in 1972 to 41 million in 1975. In addition, Korea turned to tanning hides for garment nappa leather and her raw hide imports rose from 12 thousand tons in 1971 to 43,6 thousand tons in 1974 and 149,3 thousand tons in 1978. The bovine kill had reached the end of an unprecedented and probably unrepeatable period of growth in 1975, but demand continued unabated despite the rapidly escalating price, which peaked out in 1979 and then crashed. In an address to the International Council of Tanners in 1980, Irving Glass calculated that a reduced output of 6 million hide leather garments equivalent to 4,5 million hides seemed to have been the principal accommodation in leather consumption to the reduced rawstock supply. The Korean tanners were inexperienced in and not equipped for small skin tanning and Korean garment manufacturers took to importing ovine leather from Europe but after bringing sheepskin tanneries on stream Korean tanners bought the whole of the New Zealand pickled lamb pelt supply in 1987 and eventually precipitated a similar crisis in the lamb market that had occurred ten years earlier with hides.

Table 5.2 Korean imports of light leather from sheep and goats

1975	41,0	1979	23,2	1983	35,7
1976	35,3	1980	15,0	1984	58,3
1977	23,5	1981	31,5	1985	61,0
1978	7,3	1982	33,4	1986	67,3
				1987	115,3

Source: FAO.

Korea's entry into manufacturing garment leather from lamb pelts had mixed results. Many overreached themselves in their initial enthusiasm and went out of business. However, with this ability to offer the softer, thinner leather they were able to strengthen their share of the Japanese market from less than half to two-thirds with an increase of 25 million yen in 1988 over 1987.

Turkey is the second biggest exporter of leather garments, reaching 17% of the world market having overhauled Italy in 1986. Her export trade, however, has had a very chequered history. She started at the beginning of the seventies offering low-cost garments made from her extensive sheep and goat stock and by 1974 was the leading exporter just ahead of Korea. From then on her exports declined until the end of the decade when once again they climbed, especially in 1984. In that year they topped exports from South Korea. A new round of joint ventures with a number of German companies and with the biggest garment leather manufacturer in Britain contributed to this second resurgence.

Turkey's garment production, now ranking eighth in the world, has outstripped her raw skin supply and her tanners have had to import raw and

pickled sheep and lambskins from the Soviet Union, the Middle East, New Zealand, Australia and the UK. Her imports of ovine skins increased tenfold between 1984 and 1987. In a further move to ensure supplies Turkish companies have entered into joint ventures with Middle Eastern and North African companies for the manufacture of garment leathers. The leather production capacity will double when the new tannery complex in Tuzla becomes fully operational and this will put further pressure on rawstock supplies.

Turkey effectively exports a considerable number of garments through her tourist trade but in export markets Turkish garments generally have a poor image. Their quality range is higher than Korean garments but the bulk of the export trade is anonymous under European design labels.

Although she has no raw skin base and very little leather production and relies on imported leather, much of it from Europe, Hong Kong has long been a leading leather garment exporter becoming the leader in 1973 and in the top four since then. In 1988 she overtook Italy as the second largest supplier to Japan and hopes to close the gap with Korea because her quality standard is in the middle of the range above the Korean and below the European enabling her to take immediate advantage of the rise in Japanese consumer up-market trends. Since 1983 her exports have trebled from HK\$297,3m to HK\$794,5m in 1988 and have risen a further 57% in 1989, supplying mainly Japan, USA, Germany and Switzerland. She is also a significant importer of leather garments but much of this is entrepot trade from China.

Leather garment production in Pakistan is an extension of her tanning industry and is rapidly catching up finished leather as her most valuable export. Exports soared from US\$7,6m in 1982/83 to US\$103,8m in 1988/89 and increased further at a rate of 42% in the first half of 1989/90. Like Turkey, her large supply of fine grain hair sheepskins provides her with an excellent

base for a good quality production but she is also having to import skins from UK, New Zealand, Australia, China and Africa. In common with all other developing countries with raw hide and skin resources, Pakistan prohibits their export and provides incentives for exports of leather and leather products. Leather garment exporters receive a special 75% income tax rebate.

The major problem facing tanners is the uncertain power supply and tanneries in the north around Lahore frequently have power cuts of more than ten hours. Labour costs are rising and Pakistani producers are now meeting competition from India where labour rates are noticeably lower. Indian garments suedes are superior to Pakistani production but Pakistani nappa leather is better than India's and the industry is trying to promote closer cooperation between the two countries.

Although she has a very large sheep and goat population, India is facing similar shortages of suitable raw materials and is importing skins from New Zealand, Europe, etc. Manufacturers, particularly shoe manufacturers, have repeatedly called on the government to prohibit the export of finished leather. Such a ban officially came into effect on 1 April 1991 when an export quota was to have been imposed though the intended quota was to be based on the high 1989 export figure and therefore generous. Indian leather garment quality is generally lower than Pakistan's in the main types demanded in the market countries yet she is able to export more than half her total exports of leather garments to Germany, which is a quality conscious market. Exports of leatherwear trebled between 1980/81 and 1985/86 from US\$4.5m and then leapt in the next two years to US\$81.6m.

Italy and Spain are also major net exporters but targeted at the top quality end. Despite rising labour and environmental costs, both have been able to maintain a position in international markets and to put up

considerable resistance against cheap imports. Design flair, production quality and product performance have enabled them to double exports between 1982 and 1987 but imports have begun to show signs of a greater share of their home markets.

Italy, like Korea, Hong Kong and Taiwan, relies heavily on imported rawstock to gain access to, for example, the very fine grain red-hair Indian sheepskins. Any restrictions on Indian crust will hurt them, therefore, and the new restrictions on Indian finished leather will be even more painful. Italian firms will either eventually have to switch to finished garment joint ventures or abandon these Indian raw material resources when the finished leather export quota finally runs out.

The Italian industry structure in garment production, as in shoemaking, is centred on a large number of small firms which work closely with tanners and with retailers to produce very individual, excellently designed, versatile, high-quality garments. This gives Italian manufacturers great flexibility to cater rapidly for changes in the market and is one of the reasons why Italian garment as well as shoe and other manufacturers have succeeded against low-cost competition from the Far East.

Spain, like Turkey, Pakistan and India, has a substantial high-grade sheepskin base on which she launched her garment leather and leather garment industries in the sixties and seventies. A very high proportion of her production was exported as tourist purchases and this is still a significant factor in her trade. Direct export values in the eighties have hovered between US\$20m and 26m until they almost doubled in 1987 but still only about one sixth of Italy's exports, yet her production of sheep and goat leather is about three-quarters the Italian production, which gives an indication of the extent of the tourist trade. Her leather quality, garment design and styling

and manufacturing standards are high and a number of Spanish specialist leatherwear firms like Loewe have established an international presence and reputation.

Spanish tanners have made a special feature of double-face using very lightweight lambskins. These have a seasonal fashion orientation with both wool and suede being finished in the latest colours rather than the heavy sporting countryside image of the traditional British sheepskin coat with white wool and light brown suede. A succession of warm winters at the end of the eighties drastically cut sales of double-face garments and caused serious difficulties. However, Spanish garment leather tanners switched into nappa and suede leathers based on their own hair-sheep type skins and on imported lambskins from New Zealand, Britain and France.

The demand for leather garments

The biggest market for leather garments is the European Community followed by the USA. In 1987 the value of EEC net imports was US\$961m, 70% more than the total value of American imports of US\$566m. Imports into Germany alone exceeded those into the USA, which until 1987 had been the standard main international market. France and Britain were in the third and fourth places and other Community members high up in the league table.

The variation in quality is considerable from the lowest grade made from patchwork pieces and heavily wrinkled leather from Australian merino sheep to the finest suedes and nappas. A leather garment now seems to be a standard feature of the European consumer wardrobe. An analysis by the French garment manufacturers' association showed that the market share for men's leather garments in France is annually around 6% and observations in Britain, France, Italy, Spain and Germany indicate that about 60% of the population possesses at least one leather garment.

The import pattern of leather garments into the USA paralleled that of footwear. In 1970 the import penetration was about 20%; by 1976 imports equalled domestic production and by 1987 the import percentage passed the three-quarter mark and now exceeds 80%. Following on the collapse in hide prices in 1979/80 imports dropped from a peak of US\$418m to US\$171m and domestic production also plummeted to the lowest level in 20 years. With the resurgence of production of both ovine and bovine leathers in Korea and the entry of India and Pakistan imports recovered steadily to reach US\$566m in 1987 and then spurred by nearly 50%. Domestic production fluctuated without getting anywhere near the peak years of the mid-seventies when the US hide supply reached its highest level and fringed Western cowboy and similar styling was in fashion, which particularly suited the use of bovine nappas and splits. The fashion trend in the eighties was towards more expensive, softer, lighter-weighting leathers and their high values were reflected in the prices of imports, which suddenly rose from a steady average of \$38-40 per garment to \$49 and \$59 in 1987 and 88.

Japan is rapidly becoming one of the most valuable consumer markets for leather garments and imports are believed to account for 75% of the consumption. Leatherwear has moved away from the very down-market, sleazy image it had and has become a major item of Japanese fashion. Between 1983 and 1988 imports went up six-fold and in 1989 registered a further increase of 25% over the 1988 figure. Korea is the main supplier but the demand, which was almost entirely for black nappa in low to medium grades, has switched to the top end of the range in all the very latest fashionable colours. This provides the opportunity for suppliers of the higher grade garments like Hong Kong whose pricing and styling put them in the medium grade between the cheap bulk end of the market and the top fashion oriented European production. The

marketing system disguises origins because apart from a few designer models, garments are sold under Japanese wholesale or import house or department superstore or chain store labels.

Strategies

Although the origin and structure of the increased demand for leather garments and footwear differed, the two sectors had developed along very similar lines. With footwear the start and the stimulus had been a shift in focus to the down-market canvas sneaker at the expense of the traditional walking shoe; with garments all existing outlets had expanded though at different rates. The standard black nappa jacket in basic styling echoes the standard white polyurethane coated leather trainer at the bottom and bulk end of the consumer market. Market and production patterns have followed the same path. Europe and North America have remained the target areas for both, except that as Japan had no import restrictions on leatherwear as she had on footwear, garment exporters were able to penetrate this market also. World production moved progressively to the low labour-cost countries, whether or not they had raw hide and skin resources, as the cost of labour replaced rawstock availability as the determinant of location of both leather and leather product production.

High cost tanners and garment manufacturers adopted similar strategies to those of the shoe manufacturers. Initially these took the standard form of first switching to or buying in cheaper materials, then to subcontracting the labour-intensive operations such as assembly to offshore units, setting up subsidiaries in the low cost areas or entering into production, marketing or technology transfer joint ventures.

These are strategies for survival financially rather than productively and effectively accelerated the cutback in European and American garment.

making. The footwear experience however demonstrated that such strategies could be an enormously successful spur to the expansion of the sector, without which the footwear market would not have developed so dramatically. With leather garments, the dynamism of market growth was already in place. The demand for leatherwear was growing without the marketing and merchandising initiative provided in the footwear industry by the athletic footwear companies.

Except for the Koreans, leather garment manufacturers throughout the world are relatively small units and the leatherwear sector has still to adopt the pattern of mass production of standard ranges in large units characteristic of other branches of the garment industry.

Manufacturers in the high labour cost countries wanting to hold on to their market share have a number of options available, similar in principle to those adopted for footwear. Each of the broad garment market segments have been maintained and expanded though at different rates, but the dispersed nature of the sector infrastructure has so far not encouraged garment manufacturers to target detailed activity segments as footwear strategists have done.

Garment trade strategies fall into three basic categories with a number of options in each:-

- (a) to compete directly on price
 - by reducing material costs
 - by a faster turn-round of working capital
 - by reducing direct labour costs through rationalisation and/or advanced automation or computerisation
 - by reducing stock costs
- (b) to utilise market proximity

- by quick response techniques
- by rapid and frequent fashion changes, shorter runs and quicker obsolescence
- by emphasis on quality

(c) to establish exclusivity

- by high level product performance
- by differentiation and innovation.

Reducing material costs is not likely to be a valid option against low-cost competition. Utilising lower grades or cheaper materials such as hide splits in place of sheep suedes, East Indian sheep nappas instead of Iranians brings the garment manufacturer into direct competition with the imported product and tends to increase price sensitivity. It often involves sourcing from countries like Pakistan or India who use the same material to make their competing garments. Down grading the quality of the leather is usually counter-productive. Combining leather with fabrics is an effective strategy provided this represents a high fashion feature, as has occurred in the 1990 and 1991 seasons, and not simply a cost saving substitution of panels without any fashion content. More effective utilisation of the raw material, however, through computerised assessment of the leather and pattern fitting combined with laser or water jet cutting could achieve material savings of 3% to 4% according to studies by SATRA Shoe Technology Centre on shoe leather utilisation.

In leather manufacture and in garment making the raw material accounts for about half of the total leather cost or one-third of the total garment cost and absorbs an enormous share of the working capital. Speeding up process times therefore offers considerable opportunities for cost cutting. In the tannery it is governed by fundamental constraints imposed by the need

to achieve full chemical penetration and physical stabilisation of the leather. Process times have come down substantially and new tanning and finishing technologies are reducing them still further. Such new technologies tend to be adopted in high cost countries because these usually have the most technically advanced infrastructure and the cost of financing is generally lower. However, leather making, though capital intensive, is essentially an art and many tanners - the Italians in particular - have increased rather than reduced their labour input and process time in order to impart distinctive performance and character to their leathers even if their tanneries have the most sophisticated equipment.

With leather garment making new technologies are unlikely to make an impact and it will probably remain a sewing machine assembly operation. Even though gluing of seam turnings has long been practised, gluing instead of sewing, which has made considerable progress in shoemaking, does not appear to be an option in leather garment making because of the problem of cleaning.

Rationalisation of production, by means of factory layout, cell working and continuous processing, similar to what is happening in the shoe industry, has led to increased productivity and reduced rejects. Such techniques are applicable to both tanning and garment making.

The one-off nature of garment leather makes marking out and pattern cutting a skilled, slow but critical function not readily subject to mass production. The same problem occurs of course in shoemaking but the smaller pattern sizes of shoe uppers enable the shoemaker to cut the whole shoe from one skin whereas with leather garments three, four or more skins are required for one garment. The application of computer aided designing and manufacturing and computer integrated manufacturing to programming, pattern making, sizing and water jet cutting or laser activated profile clicking have

occurred in the shoe industry particularly in athletic shoe construction out of polyurethane coated splits with a uniform finish. Because of the size, shape and finish, garment leathers do not lend themselves either to CAD/CAM or to multi-layer pattern cutting common utilised with textiles supplied in roll form. In theory, both are possible but the cost of the CAD/CAM systems would have to come down considerably before there is any real likelihood of this occurring or of being a cost effective replacement for normal hand or sewing machine garment assembly.

Computerisation of leather making, however, has reached an advanced stage, helping to reduce labour and process material costs and to eliminate variations in measurement, dosing, timing and process control. Computerisation and the related high productivity will probably eventually eliminate the labour cost advantage of producers in low wage areas and the cost of money could then become the critical factor. The Just in Time technique in production, under which the work in progress and the material needed are "pulled" as required rather than accumulated in advance of the next process, can make significant reductions to the volume of process and partly processed stock in assembly operations like garment manufacture and in chemical and mechanical production such as leather making. Computerisation of stock and process control has stimulated the spread of the Just in Time philosophy especially as retailers and wholesalers have tried to shift the cost of stock holding down the line to manufacturers and manufacturers in turn to producers. However, American tanners and shoe manufacturers have traditionally operated Just in Time raw hide supply and finished leather delivery.

The strength of the garment manufacturers in the market countries is their proximity to the market and the crux of their defence against low-cost imports is to increase the unique fashion element in leather garments and to

some extent even to move away from the total leather look. Consumer replacement of leather garments has tended to be longterm, governed by the "investment" outlook. Certain fashions, such as the distressed look, the combat jacket, the tie-dye and Jungle Suede finishes, the Afghan shaggy sheepskin, can dominate fashion, often commanding high prices and wide margins initially, but, because garment replacement is slow, they persist over several seasons, longer than fashions in other sectors of the garment trade. Production inevitably moves quickly to the lower cost areas. The "stone-washed" fashion has long gone but appears down-market, supplied by imports from South America. The original garment manufacturers exercised none of the control over the marketing through the lower price brackets, as happened in footwear, because none of them had established any presence in the market place like Reebok or Nike to enable them to do this. The main reason, however, was that practically every leather garment fashion is normally a tannery product inspiration and not as is the athletic shoe a garment design in leather.

Leather garments are very traditional in styling which encourages price sensitivity and low-cost manufacture. Bringing leather garments into the normal seasonal cycle of garment marketing, as originally envisaged, will be a fundamental step towards increasing high value market based production. Proximity to the market provides the opportunity to promote quality-based high priced quickly moving fashion garments with an inbuilt obsolescence factor and marketed through the boutique-type total-look retailer chains and the high priced stores using Quick Response to sustain market coverage.

Latest fashions are indicating that top designers have ceased to regard leather as a material for narrow based leisure and outdoor wear and to use it as any other garment material either on its own or in combination. Such a

development can help to lessen the impact of or even divert any attack from animal rights activists. It might also help to combat any reaction against leather garments as a cheap down-market basic product. Some manufacturers are beginning to look on the universal black nappa jacket as a danger to continued leather usage.

Tanners rather than garment manufacturers stimulated the innovations which have led to the successful merchandising of leatherwear by steadily improving product performance and appearance as well as the fashion stimulus mentioned earlier. The development of dry-cleanable leathers enabled suede garments to be cleaned. Hand and then machine washable leathers opened up further marketing potentials. Colour-fast aniline finishes with excellent rub-fastness and later even washability replaced the original heavily pigmented nappas. Improved splitting techniques and dry-drumming led to thinner, flexible leathers suited to the softer styling in high-class leatherwear. Although no technical specification has been promulgated universally, tanners of the European Community have adopted draft performance guidelines (appendix A). With the exception of the tie-dye finish, introduced by the Indians, and the ultra-soft plonge leathers of the Japanese, these fashion and technical improvements have originated in the west and mainly in Europe.

These high performance and fashion oriented leathers are, of course, available to all manufacturers in all locations, unless there are specific import restrictions, but proximity to this leather supply is also an asset for garment manufacturers in the market countries. These can employ a Quick Response, Just in Time, short colour run, last minute finish instruction strategy which on-the-spot tanners can cater for with the help of computerisation. One of the reasons why the Italians have both successfully

resisted import penetration and been amongst the leaders in exports is the close cooperation between designer, tanner, small manufacturer and small specialist retailer to produce a distinctive and individual product.

The key element in this marketing strategy is product labelling and identification, as it is with Reebok, Nike and Timberland in shoe marketing. The Leathermark, Woolmark, Cotton, Silk and similar labels serve the same purpose in the overall industry marketing campaigns, but, of course, are equally valid for high and low cost productions and garments of all origins. The newly formed American Leather Clothing Association launched their ALCA label in 1991 to stimulate leatherwear sales in the US but did not restrict its use to American productions. Over half of the leather garments sold in Japan carry the ALCA label of the All Japan Leather Costume Association, the leading wholesalers' organisation. Such labels not only identify the material of the product and give instructions on care and cleaning but also convey a quality assurance even if they do not guarantee compliance with a performance specification as does the Woolmark.

Individual company labelling is equally important though again no guarantee of origin. In 1991 Le Tanneur, the major French leathersgoods manufacturer with a long history of poster advertising in France, launched its first own-label range of designer men's leatherwear but manufactured in Turkey. Large trading companies like those in Japan have established buying subsidiaries in source countries like Hong Kong and market garments under their own brands. Wholesalers and the larger department stores also follow own-label and house design policies. It is important therefore for manufacturers in the market countries to establish a separate, individual identity through distinctive design and a quality image. The top fashion designers in Europe, USA and Japan all now include leather in their

collections and some, such as Jean Muir in England, have specialised in leatherwear. Such designer labels have helped high cost prêt-à-porter leather specialists like Loewe of Spain and MacDouglas of France to maintain a presence in the market place.

The standard defensive strategy is the political one and Japan's import quotas on footwear show how effective such political defences can be. The European Community and the USA have duties but no other restrictions on leatherwear imports but are losing patience with supplying countries which prohibit access to their rawstock but are seeking additional rawstock from the free market areas. Pressure is growing in America to prohibit exports of raw materials or to impose punitive countervailing duties on imports. In 1990 America succeeded in getting countervailing duties imposed on exports of leather from Argentina on the grounds that restrictions on exports of hides from Argentina were a subsidy. This has reduced Argentinian exports to the States as did the import quotas on Korean footwear earlier in the eighties.

The raw material supply

The size and quality of the raw material supply and the competition for it place an ultimate limit upon the growth of the market for leather garments. An assessment therefore of this factor is necessary to determine whether this market will continue to expand as it has done since 1960 or fluctuate with the ebb and flow of the raw material availability or even start to lose ground to some other market which has generated a novel dynamism.

Sheepskin

Sheepskins provide the main raw material for garment leathers. Their skins are better suited in softness, drape and run than hides and other skins. Their main drawback is their relatively small size, which is the main cause of the small panel construction pattern common in leather garments. It also,

of course, makes certain, in theory at least, that leather garment making will remain labour intensive and this will favour manufacture in countries where labour costs are low and making skills are high.

Sheepskins are of three types:

- from lambs reared primarily for the slaughterhouse meat trade
- from sheep farmed for wool
- from hair sheep kept by the small peasant farmer.

Lambskins from the meat production chain are fine-grained and close-fibred and produce high class suedes and nappas. These originate mainly in New Zealand, Spain, United Kingdom, France, other European countries, USA and Uruguay.

They are fed on rich pastureland and their skins are plump and greasy. Skins of sheep grown for wool are similarly plump and greasy but the grain quality is poor and ribby. Traditionally they have been used either for wool-on sporting casual garments or after fellmongering and dewoolling, mainly in the Mazamet area of France, for shoe linings. In the second half of the eighties when New Zealand pelt prices reached record levels European tanners turned to Australian skins for certain rugged patterned garments or for the distressed look or for conventional garment nappas where the manufacturer could utilise the ribby sections as a pattern feature in the garment. Sources of these skins are Australia, USSR, China, South Africa and some of the South American countries. Hair sheepskins, especially the Iranians, the Indian red-haired persians, the South African Cape skins and the Ethiopian and Arabian sheepskins, have the finest grain quality, a light fibre structure and are thin but strong. The Iranian hair sheepskins are the largest and the top grade. Other smaller and normally lower grade hair skins come mainly from India, Pakistan, the Middle East and Africa. Traditionally most of these were

routed into the shoe trade for linings after vegetable tanning at source. These vegetable tanned East India (EI) persians are made into garment leathers but their colour fastness is suspect.

Of these resources only the wool sheep and lambskin from Europe, New Zealand, Australia and USA are likely to be traded internationally. The largest resource countries - USSR and China - are likely to take up the whole of their supply domestically, though for the moment Russian skins are available.

Because of the higher market potential of wool sheep farming, India, Pakistan, China, Iran and South Africa are increasing their wool sheep proportion either by importing New Zealand or other stock or by cross breeding. This will result in a smaller hairskin share but a larger area yield from the same flock numbers.

Table 5.3 shows that over the past two decades but mainly since 1980 supply has grown by about 20%. India, Pakistan, China, Spain, UK, France, Africa in general outside of South Africa and the Near East in general accounted for practically the whole of this. This rate of growth should continue though more rapidly in the non-traded sector - China, India, Pakistan and Africa - and less rapidly in the tradeable sector - New Zealand, Western Europe, Australia.

The differential in the rates of growth of the tradeable and non-traded supplies has important implications for the future growth of the leather garment sector. Tanners in the latter resource group are now seeking extra supplies from the former resource group. This will lead to added pressure on prices of skins from Europe and Oceania. Though prices of protected hides and skins tend to follow the fluctuations of prices in the non-protected areas, a widening of the relative price balance will tend to accelerate the movement

of leather and garment production from Western Europe to the resource-rich developing countries like India, Pakistan, China and Turkey.

Other rawstock supplies include light hides, calfskins, goatskins, hide splits and pigskins. They are not so exclusively suitable for garment making as the ovine skins though some have certain advantages and they are all subject to demand from other market sectors.

Light bovine hides offer the largest potential volume market with the considerable advantage of providing a large cutting area. However the top end is in demand for upholstery, walking and casual shoes and handbags. Calfskins are not as soft and flexible as sheepskins and the supply is somewhat limited and very much governed by the fashion-oriented demand for prime shoes, handbags and leathersgoods.

Goatskins are small, make excellent suede and nappas with a pronounced grain follicle pattern but they do not have the stretch and drape of sheepskins. They are usually in heavy demand for footwear leather, especially when a glossy look or suede is in fashion.

Hide splits provide relatively large cutting areas but inevitably are in demand only when suede is wanted. Hide split suedes, however, are looser and longer-fibred than either a goat or a sheep suede and so tend to be utilised for lower end productions or when styles like the Western cowboy fringed jacket are the fashion. Competition for splits has increased from the athletic shoe sector where they are used as uncoloured or coloured suede panels or with a polyurethane coating as the main upper material.

Pigskins offer the biggest resource potential. They have a large cutting area and make attractive suedes with excellent abrasion resistance, but they are difficult to clean. Despite several attempts in the USA and elsewhere to

promote pigskin leather, pigskin garments appear not to have found ready consumer acceptance.

The difficulty of skinning the pig and the ability of the butcher to market the skin as meat or as extenders and fillers in meat products put up the price the tanner must pay. Most pigskins come from Eastern Europe, where skinning was compulsory, and China, where pigskin is the main hide and skin resource and is used for all purposes including shoe soling. The Hungarians and to a lesser extent the Yugoslavs have specialised in high quality pigskin garment leather, both nappa and suede, but mainly suede.

The basic inflexibility of the raw hide and skin supply places an ultimate straitjacket upon the whole market for leather. As all sectors of the market are to some extent competing for the total raw material availability, the relative profitability and added value potential both of making leather for different markets and of the leather product theoretically determine the share of the hide supply obtained by each sector. However, the mechanical and technical infrastructure, inertia, tradition and the lack of comparative analysis inhibit a programmed switching of production between markets, where the same rawstock can be utilised for different sectors. The adjustment of the demand for raw hides and skins to the market demands normally takes a number of years. The expansion in hide leather garment production in the seventies took advantage of the growth in the US, European and Australian cattle kill, which reached a peak in 1975 and so did not displace the hide demand for footwear. The two markets remained in place till the end of the decade and both contributed to the steep escalation in raw hide prices which occurred between 1975 and 1979.

The future market for leatherwear

In the early seventies when prices of both skins and wool rocketed, many American garment manufacturers initially withdrew from the market. However, pressure from the retail trade seeking new merchandise forced manufacturers back into the market. The reasons Irving Glass gave for the switch out of hide garment production in 1979 were that the ratio of the cost of leather in the unit of sale of a leather garment was high and the hide price escalation coincided with the buying period for the selling season of 1979, which frightened off the manufacturer and the retailer. In 1979, a more plausible reason was that nappa, which had held the fashion lead for five years, had dropped out of fashion and had been replaced by suede, for which hides were less suitable than sheepskins in garment grades.

Irving Glass suggested that the Koreans, whose production of hide garment leather stopped so abruptly, switched to the Chinese-style quilted jacket in place of leatherwear. These certainly became fashionable just as did the outer-space balloon-like PVC garment but suede garments also remained in fashion. Volume certainly was reduced because there was no reserve of surplus sheepskin stock to make up the gap left by the withdrawal of the hide garment leather supply. Twenty years later in 1990 a slow-down in demand did not extend to the top slice of the leatherwear market.

The demand for leather garments seems to be more fashion sensitive than price sensitive and the future dynamism of leatherwear will depend upon maintaining the consumer and the designer preference for leather. The real danger to leatherwear is that the consumer in USA and in Europe will identify leather with fur. Were this to happen the European and the North American markets could dramatically contract. The anti-fur, anti-meat, anti-leather campaign in the US is sufficiently strong to cause the powerful American meat

industry to react and to start a coordinated defensive offensive in cooperation with the American tanners.

Successful identification of fur and leather would remove one of the main selling points for leatherwear and leave leather as one - and, because of its irregular shape, rather an awkward one - of a number of fabrics for use by the designer and the garment manufacturer.

The trend of leatherwear is in fact moving this way, so the industry may need to mount cooperative campaigns like those for wool and cotton if it wishes to survive.

A more immediate danger is that leather garments may become so identified with the bottom end of the garment market that leather will become non-fashion and cease to be an attraction for the consumer.

The critical factors for the future may well rest upon the expansion of consumer markets outside of Europe, USA and Japan - initially in Korea, India, Pakistan, Hong Kong and South America.

The dynamism of the leather garment sector since 1960 has not come through any fundamental growth in the raw material supply but from upgrading the rentability of the existing raw material. Until the mid-seventies, that up-grading was mainly of the lambskin supply which was a by-product of meat production, i.e. from Britain, New Zealand, France and Spain and which went into protective wear, and of the hair sheepskins from Iran, India and Pakistan which went into shoe linings and of the merino wool-producing sheep mainly from Australia which went into cheap shoe linings.

Both these potential threats appear to be growing though they are still localised and small. On the other hand, the Japanese market for leather moved strongly up-market and prestige stores like Harrods see leatherwear as the natural replacement for their fur departments.

Leather Upholstery

The market structure

Leather has long been a traditional material for men's world official, home and office upholstery - the study, the gentleman's club, the courthouse, parliamentary state rooms, official offices and banqueting rooms and carriages. Its strength, durability and solid appearance gave leather a masculine appeal which made it very suitable for these purposes. Its relatively high cost ensured that it remained in the upper class luxury market. Today its prestigious luxury image is the primary consumer motivation and durability and strength are secondary.

The four leather upholstery segments - domestic furniture, cars, contract furnishing and aircraft - have different characteristics which require individual marketing approaches and targeting.

Domestic furniture

Although leather is one of many competing furnishing materials and in the furniture showroom is often effectively presented in this way, the desirable image of leather which has been so successfully established helps to make it less price sensitive than one would expect. The consumer accepts and is prepared to pay a very considerable price differential although today the price of leather and the extra cost of upholstering in leather compares with many of the other furnishing fabrics being offered.

The critical factor in furniture retailing is the showroom model. The model on the shop floor is not usually sold except at sale time and at stock changes but serves together with the material swatches as the basis upon which the customer order is placed.

In the UK when the demand for domestic leather furniture first escalated in the sixties and seventies under the stimulus of Scandinavian and especially

Danish design leadership, furniture retailers at first chose to present the Leather Look in look-alike synthetics, offering "hide" as an expensive alternative. Without being able to experience the sensual, visual and tactile appeal of leather the customer could only make a decision between synthetic "leather" and more expensive genuine "hide" on price.

Leather furniture marketing therefore in the first instance focused on persuading the furniture manufacturer at least to offer leather as an alternative or preferably that the demand for high priced leather furniture was so strong that it was cost-effective to bring out exclusively leather upholstered ranges. The secondary target was the store furniture buyer, to convince him that the demand would ensure that he could gain the extra mark-up provided he had leather upholstered models in the showroom. The tertiary target was the interior decoration boutique selling exclusive high class furniture to use the designer suite, the upholstered easy chair, the high back buttoned chair in pleated or plain antiqued and plain fashion coloured leather as the focal point of his display.

The demand for leather furniture multiplied in the eighties with the growth in consumer confidence and affluence and the boom in house purchases, all of which influenced furniture buying. The accelerated development of specialist leather furniture stores and chains was both a result of and a contributor to this demand growth. These specialist leather shops concentrated on keenly priced and relatively cheap items based on lower cost imported leather and cut panels from in particular Brazil, which ensured the widening of the consumer market. This initial retail campaign succeeded in establishing leather upholstered furniture as a permanent and central feature of the furniture showroom.

Inspired by the spread of interior design ideas through the women's glossy and the prestige house and garden magazines leather furniture acquired a fashion element which further enhanced the image of leather and stimulated sales.

To cater for this fashion image tanners replaced the traditional pigmented rather stiff leather in standard brown, burgundy and dark green with new ranges in contemporary colours and softer handle. An early example of the new approach was a high gloss, easy clean leather which was particularly suited for the cut and sew panel assembly technique being adopted. This look was superseded by soft matt smooth and textured leathers in clear fashion colours or pastel shades complementing modern home interior decoration styling and colour themes.

The young first-time house buyer and the older family with new property or replacing existing furniture made up the consumer profile. In continental Europe the family setting up home for the first time regards first purchase furniture as a long-term investment and leather upholstery as a natural, desirable and immediate purchase. It is estimated that as many as one third of first-time family home buyers in Germany and Scandinavia buy leather furniture as their initial purchase. In Britain the pattern is markedly different. The immediate furniture purchase is seen as a temporary expediency well down the priority list of a restricted budget and furniture is usually replaced after four years. In the United States the pattern is more like that in Britain than in Germany but the move up-market occurs sooner because both American and imported Italian models are cheaper in relation to incomes than the corresponding ratio of prices to incomes in Europe and especially Britain in these early stages.

The middle-aged relatively affluent consumer sector in the 25 to 44 year old age group, which is the biggest spender on furniture, and the next age group up comprise the most important consumer sector. These two consumer groups have high incomes; they have already catered for their major capital expenses; and their freely available disposable income is the largest.

The campaign to enhance the prominence of leather upholstery in the retail store was so successful that it was not unusual to find whole selling floors filled exclusively with sofas, suites and chairs in leather. Expanded incomes and sales turnovers ensured that this strategy would continue. Polyvinyl chloride upholstery, which had at first been successfully promoted as a reasonably priced genuine alternative to leather in looks and prestige was displaced in Western European and North American markets and retained a foothold only in Eastern Europe.

The market for car upholstery

Leather has also been an established material for car upholstery, originally because it could withstand the exposure to the elements of the open car and later because it was practical, comfortable, readily cleanable and stain resistant. In addition, it had an aesthetic, luxury and prestigious appeal which helped to enhance the image of the driver. As with furniture, it was this attribute which carried the most weight with the end-consumer.

Leather upholstery was standard in the top-of-the-range models and up to the end of the seventies offered as an option in models quite far down the price range. Marketing strategy aims at trying to extend the standard and the option ranges and therefore, as with furniture, targets manufacturers to continue to offer a leather option in down-market models and dealers to order leather upholstered versions for their showroom models. The car dealer is primarily concerned with moving showroom stock and, rather than risk losing

a sale if the customer asks for an option not readily to hand, will become a strong advocate for whatever model is in the showroom. Unlike other options supplying, leather upholstery is a major exercise that has to be fitted into the car assembly time schedule. Until the Japanese abandoned straightforward uniform mass car assembly for personalised production with the help of advanced automation, operator flexibility, robotics and computerisation, European and American car makers were keen to eliminate small variations from the standard and dropped any option that fell below 5% of the production run. As a result of this policy, the number of lower priced models declined markedly and although some have been reinstated leather upholstery is now available in the top-of-the-range, where it is still standard, and as an option in the next price bracket down. Car manufacturers fitting leather upholstery are Rolls Royce, Jaguar, Rover, Jensen, Mercedes, BMW, Audi, Saab, Volvo, Renault, Peugeot, Citroen, Lancia, Ferrari, Maserati, Cadillac, Buick, Toyota, Nissan and Honda. In Rolls Royce the leather utilisation is 98% and in Jaguar 95%. Although leather is standard in only one Cadillac model, traditionally nearly all Cadillac purchasers demand leather and the proportion is over 82%. Volvo's is 20%, a lower than original share after Volvo expanded its model range.

The leather upholstery share of the market has traditionally been higher in Europe than in USA - roughly 10% as against 5%, reflecting the rather different attitude towards the car of Europeans, who have tended to regard it as a luxury, and the Americans, to whom a car is an everyday necessity. As the demographic structure in both continents has changed and the proportion of relatively affluent middle-aged and elderly people grown, sales of the higher priced cars have risen and the leather upholstery proportions in the two areas have merged at about 11%. The Japanese started to fit leather

upholstery in 1978 and the proportion of the total consumption is growing rapidly both in Japan and in Japanese car markets in Europe and USA.

Personalising the car is the manufacturer's strategy to maintain market shares and the Japanese have shown that this can be taken to a high degree of individuality without sacrificing productivity or quality and, by reducing the cost of idle process stock and work in progress, with considerable cost savings which can be passed on to the customer. Leather upholstery provides a means of enhancing the prestige image and providing environmentally acceptable differentiation and individuality.

The model range gives a clear indication of the profile of the consumer - the affluent, the top executives and all who have to project a successful image. For these the extra \$1000 or \$2000 for leather upholstery is not a deterrent. For the manufacturer and the dealer the option is a cost effective operation giving a very high margin of added value and profit as well as a valuable selling point for the high priced car. For environmental reasons status, prestige and recyclability are replacing speed, power and engine size as the promotion arguments. Already in national advertising car manufacturers universally are strongly emphasising the value of the car interior.

Aircraft

Aircraft upholstery is a small but growing market appealing mainly to the top executive. The immediate marketing target is the designer and the manufacturer, promoting both the sales appeal of leather seating and its fire resistance and performance.

Contract furnishing

Contract furnishing is the third largest outlet for leather upholstery and has grown rapidly during and since the sixties with the development of

large commercial corporations and the re-furbishing of new government and other public buildings. In these areas image projection is the key aspect and leather furnishing fits the desired image. Leather upholstery seems to be standard for parliamentary and courtroom seating, for ministerial offices, for boardrooms and executive suites and it is usual for prestige company and hotel reception areas. Originally it was used in airport lounges but here the much improved synthetics have generally taken over.

The immediate marketing targets in this sector are the interior designer, the architect and the specialist manufacturers concentrating on contract work. In government and other public buildings, the design approach is usually traditional though in the Melbourne Centre and concert hall, which aimed at competing with the Sydney Opera House, leather was used for panelling the walling of the whole access area and staircase. With commercial and corporate contract work, the design and product approach, especially in Italy, is far more innovative, moving away from the antiqued padded buttoned look towards using the leather constructionally and capitalising on its intrinsic strength.

Production

In the last decade production of upholstery leather has nearly doubled from approximately 38m square metres in 1980 to approximately 71m square metres in 1989. About 48% of this is for furniture, 30% for cars and 20% for contract furnishing. Figure 5. shows the production of the four main European producers and an estimate for the USA. Other significant producers include Australia, Brazil, Argentina, Sweden, Japan, Thailand and South Africa.

The demand appeared to have peaked at the end of the eighties and the down-turn in the world economic situation in the early nineties seems to have had a further impact on car sales. Car manufacturers are specially promoting

their top-of-the-range models where any credit squeeze is least likely to influence sales.

Italy has overtaken the US as the biggest producer of upholstery leather and now accounts for about 39% of the world total. The bulk of her production is for furniture and a substantial amount is exported to Germany, Japan and USA.

In 1989 the USA had an estimated upholstery leather production of 17m square metres of which 7,3m square metres was used in the home market and 4,4m square metres sold to Japan, 3,3m square metres to Canada and 800 thousand square metres to Germany. Estimated American consumption by the car and the furniture trades was 16,3m square metres of which 5,14m square metres were imported as "other than full grains or grain splits". Some of this leather may have been suede because the fashion for suede upholstery for chairs developed temporarily in the US but most were polyurethane coated splits similar to the leathers used in athletic footwear. These imports came mainly from Italy, Argentina, Germany and the United Kingdom.

Table 5. Imports into USA of Upholstery Leather 1989 million sq.m.

Million sq.m	Full grains or grain splits	Other than full grain
Italy	1,51	0,82
Argentina	0,41	1,53
Germany	0,47	1,05
UK	0,22	0,50

Source: US Trade Statistics 1989.

German upholstery leather peaked in 1983 when her production exceeded that of Italy. For several years her share of the market remained at about

24%, but though still buoyant her production is showing signs of reaching saturation and her market share has halved. Any shortfall in this German production was probably filled by imports from Italy and from Austria, which has long been a supplier of both car and furniture leather to Germany.

Austria's production has grown steadily trebling since 1980. This is divided between furniture and cars. Practically all of the latter leather goes to Germany.

Britain has a long tradition of upholstery leather manufacture particularly for the car trade and she has established markets in Scandinavia, France, Italy, USA, Canada and Japan. Her market share has risen from 5,5% in 1980 to 7,5% in 1989.

Australia and South Africa both have relatively large domestic markets which are more or less captive and capable of being supplied domestically.

Thailand has a long-standing tradition in furniture leather based upon her domestic high quality water buffalo hide and similar hides imported from China. These leathers are often supplied in cut pieces. Thai buffalo leather has been made a feature of the upholstery in the Mercedes. Despite her enormous car output, Japan has largely relied on imports from the US and Europe but some Japanese-made leather is being used in the new top-of-the-range Lexus. The Koreans have begun both to fit leather in their cars and to go into whole hide tanning of upholstery leather but European exporters to Far Eastern markets say that there is no sign of any competition so far from either of these potentially large producers.

A new development is the entry into leather production of the hide market companies responsible for the slaughtering and marketing of the hide. Kontrollhudar International, which is a farmers' cooperative responsible also for the slaughtering and marketing of the hide, is beginning tanning its own

high quality hide production, and Amsterdamsche Huidenclub of Holland has already moved from wet-blueing and crusting to contracted-out tanning and finishing of upholstery leather.

Upholstery leather is normally a whole-hide production but American car manufacturers insist on receiving the leather as pre-cut panels ready for assembly. Skilled cutters are scarce and in some countries receive higher rates for working with leather than with textiles. Concentrating the cutting in the tannery makes the optimal use of the skilled labour force but leaves the tanner with the task of marketing the offcuts. Because the cost of the waste is largely amortised in the price charged to the car manufacturer, American tanners can market these offcuts at attractive prices to small leathergoods manufacturers and this has led to the expansion of this sector of the American leathergoods industry. Marketing upholstery leather in panels is common practice in the furniture trade. In countries like Thailand, India and Brazil presentation of the leather in this way gets round the problem of the hump of the zebu cattle stock.

European tanners generally avoid cut piece marketing to the automobile manufacturer because of the problems with the fastness of the finish and the consequent warranty claims. To ensure thinner leather and levelness and uniformity of colour, American tanners make greater use than the Europeans of full chrome tannages in vinyl and polyurethane finishes. European tanners favour retans or even vegetable tannages for the softer feel, greater absorbency and driving comfort and aniline and semi-aniline finishes for a more natural looking and attractive appearance.

In Britain traditionally upholstery hide tanning and finishing were separated and carried out by different companies. This corporate structure started to change as dressers took over tanneries to obtain greater control

over supplies and tanners moved into finishing to ensure their markets. The growth in wet-blueing by butchers and hide markets in the eighties is again leading to the separation of the two processes especially where production is based upon American hides. In Europe, where chilling is replacing salting, upholstery leather tanners have quickly moved over to chilled green hides, which give higher yields, better grain quality and reduced effluent problems.

Upholstery leathers have to meet sometimes very demanding standards. The most stringent of these are for automobile leathers, for which the individual car manufacturers set their own requirements and which are often formulated from an engineering rather than a leather viewpoint. The specifications cover elongation, tensile strength, finish adhesion, rub fastness, colour fastness, resistance of the finish to sweat, alcohol and acid, light fastness, volatility of oil, fogging at varying temperatures, resistance to heat and sub-zero flexibility. Methods of tests specified vary and are usually DIN or BS methods laid down for engineering industries and never the Standard Methods of the International Union of Leather Technicians' and Chemists' Societies, which are now accepted as ISO Standards. Car manufacturers place importance on different factors. Volvo is very concerned about fogging because of the prevailing weather conditions in Scandinavia; Nissan is not interested in fogging but is interested in softness and flexibility; General Motors has one set of standards for Europe and another for USA; Ford includes infra-red. Many of the leathers which would satisfy American requirements would not meet European levels. In Europe some of the specifications appear to be based on the original British Leyland standard, which is also used for leather supplied for the small specialist car manufacturers.

In furniture, manufacturers tend to leave the question of technical standards to the tanner, as in other sectors of the leather industry, though

technical institutes in various countries have produced quality guidelines covering tensile strength, stitch tear, colour, rub and light fastness, finish adhesion, flexibility and resistance to ageing. The quality standard for upholstery leather and other similar standards produced by the Germans and agreed between the leather industry and the furniture manufacturers was adopted first by COTANCE, the tanners' association of the European Community, and later by the International Council of Tanners as world industry performance guidelines. In Britain, upholstered furniture has to pass statutory flammability tests. Leather upholstery generally provides a high degree of resistance and even gives protection to less resistant fillings and paddings but certain finishes and even tannages reduce the flame resistance or increase the toxic risk. Leather's flammability performance gives it an advantage as upholstery for aircraft seating.

Raw material demand and the future for upholstery leather

Upholstery leather production is based on the quality end of the European, American, Australian and South American hide supply. The potential total of this supply dropped from 83,9m hides in 1980 to 80,3m by the end of the decade but in the same period upholstery leather production in Australia, Austria, Germany, Italy, UK and USA almost doubled from 36m square metres equivalent to about 8m hides to an estimated 66,7m square metres equivalent to about 15,7m hides. These opposite trends indicate that the total hide supply is less important, at least in the short-term, than the product mix within that supply. Splits and the lower hide grades provided the raw material basis for the athletic shoe eruption into leather footwear during the eighties. As upholstery leather utilises the grain split, except at the bottom end of the furniture segment, which also uses the coated leather split, the two leather market sectors could expand simultaneously without in the main

competing for rawstock. The walking shoe segment contracted as the athletic shoe took over more and more of the footwear market and it was the surplus hide stock supply from this segment which upholstery leather was able to absorb.

Between 1990 and 2000 the quality end hide potential is likely to grow by about 4% but do no more than regain the losses incurred during the eighties. The athletic shoe may have reached its share limit of the shoe market and may therefore not expand faster than the rate of any population growth in the main market countries. The success of, for example, Timberland in promoting a new up-market casual and the efforts of tanners and shoe manufacturers to defend the high-priced quality share by product innovation and fast moving fashion indicate that this segment could hold ground and that the demand for raw hides will also at least stabilise and will no longer be available for further expansion in upholstery leather. This will put pressure on this end of the hide supply if there is any growth in demand above the existing per capita consumption. However, because the appeal is to those consumers who are seeking prestige and whose disposable incomes are large, car and top quality furniture upholstery leather is less price sensitive than footwear leathers in the fashion growth segment. Competition between upholstery and footwear for hides is likely to end in favour of upholstery, especially car upholstery where even dramatic rises in hide prices can often be accommodated within option mark-ups and in any case are relatively small against the total price of an expensive car. The gearing of the price of leather to the price of the shoe is far greater.

Increasing the rawstock supply is a major concern. The additional hide supply from Eastern Europe and the Soviet Union in 1990 and 1991 could have considerable potential but it has only become available because the

introduction of the free market economy destroyed the previous planned economy footwear production and a new system has not got under way. When shoe production in Eastern Europe reasserts itself, these additional hides might again be taken up locally. Alternatives to hides for upholstery are few. Goatskins are used for chair seating but their availability is limited and their small size restricts their usage. Pigskins could be a valuable additional resource. The skin size is relatively large if taken off as a whole hide without the scalding usual in Europe and America to remove the bristles. Whole-hide skinning of pigs, however, only occurs in China, the Soviet Union and Eastern Europe where skinning is either subsidised or obligatory. American tanners have tried to develop a market for suede upholstery in furniture and Wolverine has entered this market with pigskin suedes, which is the normal production out of scalded skins. Neither goatskins nor pigskins are likely to add to the upholstery leather hide supply.

The top end of the hide quality throw is about 20% and extending this cut by reducing parasitical, bacteriological and mechanical damage to the hide is a logical strategy. The premiums being paid for undamaged hides provide a considerable incentive but most of the damage occurs on the farm or in transport to the slaughterhouse and the normal meat marketing system makes it difficult for tanners to influence the farmer through commercial means. The depreciation in value and in leather-making area of the European and the American hide through this damage averages 20%. Branding is a major problem especially with American hides and considerable efforts are being made to replace brands by micro inserts not only to identify the beast but to provide continuous health monitoring. Over 80% of the Australian kill comes from Queensland where tick is rampant and only the South Australian hides are

tick-free. The new anti-tick vaccine being developed in Australia could solve this and add over 6 million hides to the top quality supply. Argentinian hides also suffer from tick and such a vaccine could increase the potential here. Brazil has the fastest growing hide resource but a very large proportion of her supply is zebu stock and, though she is trying to improve the breeding stock, Brazilian tanners have to rely on imported Argentinian crust for the bulk of their higher quality leather production. Warble fly used to cause the main damage to European hides but has been eliminated in Scandinavia, UK, Ireland, Holland, Germany, Austria and Switzerland. The farmers in France, which has Western Europe's largest hide supply, and Belgium have so far resisted any attempts to enforce warble fly eradication treatment. The Scandinavian farmers are directly aware of any premiums paid for good hides but their cooperative has still had to launch a "Faultless hide" incentive bonus to eliminate barbed wire, ringworm, horn rake and transmission of disease and infestation in stalls, specifically with upholstery leather in mind. The butchers' cooperatives in Switzerland and Denmark control 60% of the slaughtering and the marketing of hides and therefore have the economic power to force farmers to take action. In Britain the tanners were able to get legislation on warble fly dressing only after they had convinced the National Farmers' Union that infestation caused farmers very considerable losses in meat and milk production.

Although leather upholstery, particularly auto leather upholstery, has certain practical advantages - looks, comfort, sweat absorption, hard wear, easy clean - the demand for it rests very much on its image and the biggest danger to its future will come from any damage to that image. The Scandinavian tanners have argued that non-permeable finishes, even if they are below the 0,15mm limit, destroy one of the main characteristics and selling

points of leather furniture and therefore leather so finished should not carry the Leathermark. Attempts to extend the raw material base by reducing the quality selection can result in image damaging performance. These are within the industry's own competence to counter. More serious is the animal rights campaign, which is especially dangerous because of leather upholstery's luxury profile. The campaign's success against furs shows how vulnerable that profile is.