

The 59th John Arthur Wilson Memorial Lecture

by

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Our industry is in desperate need of collaboration. Our industry is in desperate need of unity. Our industry is in desperate need of like-minded thinking.

As the JAW lecturer, I wanted to mention a couple things about John Arthur Wilson that are extraordinarily pertinent to where we are today. JAW was a chemist, an educator, a businessman, a researcher, an innovator, an author, a leader, and a communicator; traits that we need in the world today. The leaders in the world today have multi-discipline talents and JAW had this talent as well. He used his scientific base and his education to not only create and change our product but also became an entrepreneur to move that product forward, we really could use a gentleman like JAW sitting in this room today.

Yesterday's reality is today's perception for many people and many consumers around the world. And the reason for this due to a general lack of messaging. When many people consider leather today, they consider what the industry was decades ago. The images that come to mind are images of cruel, toxic, polluting, shame, dangerous, poison and waste dumping. In some instances, all of this was true and valid for a period in our industry's history. Looking back to the industrial revolution, it holds true for many industries that now consider themselves "green" today. The reality is that our industry, like many others, has gone through change. Primarily, we've gone through a significant spurt of change in the last two decades. This change was driven by several drivers; First and foremost, we were forced to change by our customers, the people that were using leather and their stakeholders. We went through a period in the 90's where some of the big brands Nike, Reebok, and other athletic guys specifically, were running into some issues with restricted substances and having dangerous and harmful substances in their shoes and their products and there was a series of lawsuits brought forward during that period of the 90's and a higher level of awareness started to take place at that point in time. One of the areas of focus was the leather industry and the specific leathers they were using in their products. Therefore, the last thing that they wanted was negative news in the press and there was a push by these brands, not necessarily the consumer at this point, but by the users of our leather to drive our industry to change.

At the same time, a good number of tanneries in the world really began to understand that change was necessary and embraced environmental stewardship. There are a couple of reasons for

this; the desire to create a level playing field and the positive opportunist this would create. To a certain extent, it was clearly selfish motivation. At that point in time through the 90's specifically, several the bigger tanneries in the world found themselves doing the right thing in the regions they were manufacturing but competing against people around the world doing the wrong things: turning rivers yellow, dumping solids, all of the rest. So really through this drive, through the cooperation with our customers or brands, our hope was to level the playing field and one way, or another force change among the bad actors. We also understood completely in this race to be better, there were opportunities to create market share. Again, selfish motivation. Once we started down this path, we were able to quickly determine there were real efficiencies to gain as we looked to lower our footprint, use less energy, chemicals, water and properly treat our human resources. And last, but not least, it was recognized by some that without change, we would face elimination. And I would say today, for different reasons, we find ourselves in a similar place. We don't face elimination as an industry, but those that participate in our supply chain of leather absolutely need to think about survival if they are not proactively adapting to these changes in the marketplace, primarily the changes the consumer is bringing to the marketplace.

After two decades of change, we have a new image to put forward, truths about what we have done and what we are doing in the industry. These truths include things like clean, changing how we produce, where we produce and what we produce. We have moved towards compliance. We have created much safer environments for our work force. We are more technical than ever thanks in part to the chemical industry, to many of the people in this room. We are modern, we are eco-friendly, we are efficient, and we have a new focus, which is a feel-good focus built on facts and truths. This focus should contribute to changing the perceptions and mindset towards our industry. We want to do the right thing by the communities in which we work and hopefully the payback from that will be welcomed, more importantly it could have the added benefit of getting more people interested in our industry.

The truths of where we are currently being is that most brands, when it comes to leather, source from tanneries that are third party audited. That is a critical point... We also know that we are very much accountable in this new world of awareness to global and regional standards and the continuous upgrading of these

standards and regulations. One of the stories I like to tell starts with the fact that in our China tannery we are up to date and compliant with all regulation. We have all the certificates, up to date third party audits and the various government certifications and approvals. Last year, 2017 in the month of March, we had a group of Chinese Regulators walk into our tannery from a local province and said they wanted to do an inspection. After a bit of conversation, it turned out they wanted to do an inspection because they changed the regulation that morning. They walked into our tannery and this new regulation had everything to do with what was going out of the roof, emission standards, they are up on the roof metering our stacks and they said if we did not figure how to deal with this new standard, you will go on probation next month and then we will shut you down in three months. And here we are thinking we are doing everything right. The moral of the story is \$1.2M later we were able to put the appropriate scrubbers on our stacks on the roof to deal with this regulation. This points out two things - first thing it points out is the rapid change that is taking place based on society, but the second thing it points out is that our supply chain must be robust, healthy, and needs to be able to deal with these sorts of rapid change much better than we have in the past, as a result, we see a lot of consolidation in China. The consolidation is not because a specific tannery is not necessarily any good, in many cases it is because the tannery does not have the funds or access to capital to be able to keep up with the rapid pace of regulation change that is taking place. I would say you could argue both sides of that coin; while we believe in fairness and realistic process, we want to be held accountable for what we do, and we want to have a platform by which we continue to improve both perception and reality.

In addition, we are now part of now a transparent supply chain; and once again this is change. Our customers can know everything we do, what chemicals we use, where our hides come from (down to a singular hide source all the way to finished leather), our customers audit our human rights and many more critical details. And again, I would suggest that is a positive thing. With transparency we can share the truth and put light on our industry. At this point this whole concept of transparency in our industry is extraordinary and very positive. On the chemical side of the business and hide side of the business we are pushing for this same type of transparency, we want to help each other succeed and many of the needed initiatives are in motion.

As discussed, a lot of this change was driven by fear. Fear of regulation, fear of bottom line dollars. It is important to recognize that because ultimately it doesn't matter where the motivation comes from as long as the result works for all of us. There remain a lot of bad actors in our industry and as we talk about our industry I think we do need to hold ourselves accountable. We have to push towards the elimination of people or companies that are trying to get around the system. There are



Jon Clark receiving the John Arthur Wilson Award from David Peters.

a lot of different organizations who have step up, not necessarily to regulate but shine a light on those not doing the right thing in certain regions of the world that have yet to catch up to what the world believes the global standard should be and this is an ongoing process.

Most importantly we have an evolving consumer. The first quote is from a Greek philosopher from 500BC, "Change is the only constant in life." We are seeing this play out in real time right now. Ultimately it is the consumer that is driving this change. We see it in our daily lives. I am sure all of you are looking at Amazon and having next day delivery. And if you are like my wife, thirteen pairs of shoes delivered, and you choose the one you want. It's in our hands. The consumers are driving this change; the way we look at fashion and the way we look at style and the way we purchase. They are driving change towards value and market cost. It does not necessarily mean there is a sweet spot in price, but it does mean they look towards value, a real opportunity for the leather industry. It is also their understanding of quality and how it fits their needs. Someone with a disposable mindset might want a pair of shoes that they know they are going to replace, but someone without that disposable mindset would look for shoes that would last longer or be multipurpose.

Consumers are also driving change regarding social factors. These are the ones getting the play in our industry more than anything else regarding animal welfare, pollution, climate change – these are the hot buttons, the emotional button. There are obviously difficult to deal with. But we can deal with them because it is about messaging. One of the larger changes in regard to the consumer is that we have totally disrupted, as I just pointed out in regard to Zappos, they have totally disrupted our purchasing platforms changing our industry dramatically. We move from brick and mortar, tons of inventory, no worry of

replenishment to basically one time at a time, at once replenishment marketplace. Not only has it disrupted the entire supply chain, it also put the supply chain to a certain degree on pause. So, some of what we see now, is that retail is in the process of having to move their inventories. Moving them from what was massive brick and mortar warehouses and now into small inventory boxes that are now ready to move directly out of warehouses or dropped shipped to consumers. This movement of product is a big change in the industry and a consumer driven initiative.

We also see generational advancements. The difference between the 40+ and the 40 under that are driving habit changes even faster. There is no patience in the world – immediate gratification – moving at lightning speed. The increase across the world, the pace of innovation, the pace of technology advancement and the pace of availability of global information is mind boggling. The staff at our facilities in Vietnam and China used to nap at lunch. We have all seen it with heads down on their desk. Now, mostly these people are on line. What they are literally doing is taking classes on their own time. They don't know it, but that is what they are doing. They understand and are learning about the rest of the world. So, the 21-year-old in China knows exactly what the 21-year-old is doing in New York City, or London or Paris or anywhere else in the world. That is driving changes in our marketplace. It is also a massive opportunity for our marketplace because of the developing country consumers generally in the 40's down wants the same products as the rest of the world. Look at the markets for the shoe industry, the automotive industry, at the percentage of in growth in Asia, it is massive, and it will continue to grow.

Today's mass consumers reflect several traits, I talked about a couple of them. The first one was disposable; purchase.... Use.... Next purchase. Second part of that is they have that "at once" immediately gratification mentality where they will not order something that will arrive 6 months later. We are going through a process of fixing up our house, and the most frustrating purchase is furniture. I am not sure how many of you buy furniture, but it is a nightmare. They present it as if it is available when you order it and you see it six months later. The new generation will not stand for that. The next piece is their value conscience. They kind of understand what they are getting. Why do they understand what they are getting? Because the information is available to them. They can compare, they can track, they can look at their neighbor, they can look at their neighbor that is on another continent and they can figure out where the best value is. Lastly, they are socially aware, much more so than ever before. In the 1970's we had Planet Day where we would pick up the trash off the street and then do it again next year. Today it is very different, everyone is aware, they understand. They don't have the same opinion and very individualist in that sense, but they are aware of what is going on.

Purchase decisions today are not much different of purchase decisions of yesterday: Versatility, comfort, value, convenience. These are the drivers for most people making their purchase decisions. The other part of this is modern dress, look around, there are only 3 or 4 ties in this room. Modern dress has moved to leisure. The workplace is now filled with leisure; whether it is athletic leisure or casual leisure this changes the dynamics of fashion and trend. Sneakers, everyone talks about sneakers. There are a ton of leather sneakers out there but the other part of this is that there are a lot of leather sneakers that exist out there today are what we call "retro sneakers". You think of Adidas Sam Smith Superstar and Nike with the Jordan line they are all leather and retro. Many of the newer developments are easier to push those silhouettes towards non-leather because they fit versatility, comfort, light weight, strong that can be worn with jean, shorts of khaki. In addition, this under 40 age group have a new pattern of spending which is non-conforming. The like different combinations of things, they like customization and tattoos. They want to feel individual, but they shun automobiles sort of speak and run to Uber, sometimes they different habits on what they wear on their feet or carry. In China for instance, the China youth are shunning branded handbags and they want their own non-branded stuff. It means they will still buy a Louis Vuitton if it doesn't have the brand name on it. So, it's really a harder and tougher consumer to figure out as they are all over the map due to their individualism.

Another big change, especially in Asia but also in America and Europe, there is a generational shift. In America and Europe especially, the previous generation grew up in leather. They understood leather, no question about it. They went to work in leather. On weekends they had penny loafers. It was a leather generation and they knew what it was. This new generation is less informed as we pushed this new generation of athletics now into the casual market place. Now there is general lack of understanding. And that is not just in the consumers. Walk into a branded office and start talking to developers. The lack of knowledge compared to 10-20 years ago is astonishing. They don't pick up the education along the way and there is a lack of education on material management and material education at universities today. So, what is happening? So, these brands are hiring engineers, BA's guys that are "well rounded" and they think they are smart enough to be versatile and pick it up. But the brands themselves are not teaching specific leather management. And that is an area we as an industry can help. In China specifically, the kids did not grow up with leather, they grew up with whatever they could find to put on their feet. Now as wealth and consumer spending begin to grow, they are taking their cues from the information they gather, which includes peers and what they see over the information highway.

There is absolutely no question that leather is challenged in this environment. There are a lot of roadblocks when we talk about

regulation, mind set and emotional buying. But some of the other ones are that one of the major drivers for a shift towards synthetics was 4 years ago when the hide market was historically low. The reality of that was that that hide cost forced the utilizers of leather to make changes. No one came blame them for that, it was a business decision, based on the cost of what was happening in the market, a large part of their portfolio that was in leather shoes at the time suddenly became unaffordable to their consumers. It was a very difficult time that can be looked at as a specific place in time that drove significant change away from leather.

Now we are trying to reel it back in and it's not an easy thing to do. The situation is that leather cost structures are all over the place and consumers like level pricing as much as possible. We have raw material adjustments, we have regulation cost adjustments, and we have what's going to be the biggest thing facing us in the next decade, waste management costs, and the disposal of solids. We also don't fit very well with this new consumer purchasing model as our supply chain is very long. We purchase raw material before we even get an order. We have an ocean in the way and we still batch manufacturer which is not in tune with the one at a time mentality. In addition, we must look in the mirror, and understand there is not enough investment in innovation and creation because this time demands innovation and creation. In speaking for myself our budgets in creation have not been large enough. I would ask everyone to look at this internally because it's innovation and technology that is necessary, doing the same thing over and over is not going to help get where we need to be. The other big issue we have with the larger tanners in the world, and these tanners remember are the ones that are compliant and for the most part doing the right thing, is that complexity has dramatically changed. I am sure all of you have seen it in your own orders and business in terms of batch sizing. Manufacturing has absolutely moved to a small batch size. I was talking to someone last night where a customer moved from 60,000 plus batch size to under 1,000 as an average size, that same customer mover from 10 colorways in one of their major products 10 years ago to 76 colorways in the last Spring Season. So again, it is customization trying to fine tune the product that is created to match what the consumer wants. The future for the leather industry is indeed moving away from batch production and towards tanning one hide at a time. I believe we will be tanning or certainly finishing a side at a time vs a batch at a time in our lifetimes. Other changes will need to occur as well; such as suppling cut parts not hides as this will better reduce time and reduce costs.

Another change is the large input of alternative materials. Forget talking about plastics, synthetics and all the emotion, the reality of it is the choices today for a designer to choose a material are wide spread. They are going to knit it, they are going to cut it, no matter what they are going to do to it, there is more choice than ever. We as an industry must reinvent and offer more choice, not

just in decoration like doing a cake, but in the real fiber structure of the leather. We need to disrupt this hide that we get to create something new and something that has not happened and get back to the science that the founder of this lecture embraced.

Another large issue we face is our lack of collective messaging. Unfortunately, some of this is a political issue which it should not be. Our leather message is simple, we talk about the identification of leather or the leather ID; We have a material that is basically a recycled material, replenishable and can be repurposed. Leather is beautiful, and it carries status. Today's leather is sustainable. It is versatile, it is generational, sensual, luxurious and it has the characteristics of performance.

One of the biggest areas of opportunity is we have not figured out how to have a unified voice. Everyone means well, and all have different kind of messages all trying to do the same thing. But they are not the same. We must create consensus as a matter of logistics to create the funding necessary to push back against groups like PETA and many other groups that are messaging terrorists against our industry. They drop a sound bite and it will be all over the world before you know it and before anyone can push back with the real facts.

So logistically it is important to have a unified voice. I would say that it is imperative that we figure out this messaging. By staying quiet and having the mindset that everyone can do their own thing what ultimately goes out is a confused message and a confused message is worse than no message.

We are not the unethical killers that some portray this industry to be. We are not polluters, and I welcome anyone to come into our tanneries and find child labor or find slave labor, it does not exist in today's third party audited tanneries. Today's leather is ethical, responsible, compliant, sustainable and transparent. End of story. We have to get that out in a way that compares and contrasts against the claims that others are making.

In terms of alternative truths specifically synthetics, I was excited to see an article that it was reposted on the US Hide and Skin newsletter yesterday, the article that was in the UK daily mail and it was a push back on plastics and synthetic fibers. An article that is pushing back talking not only about false claims but is talking about the dandruff of fibers that are being introduced into our waste stream through cleaning, lack of repurposing and all these different waste paths. It is a very good and timely article. The reality of it is the synthetic fibers specifically and some of the other materials there is a general lack of transparency. That should be our pet peeve, that should be what we demand. And the transparency would include chemistry, what is it? Do you have a restricted substance policy? What chemicals are you using, how are you using them and why are you using them? The answers are unclear. There are also high

levels of creation waste with short usable life cycles and limited after life options; a lot of questions our industry can ask and a good platform to be offensive.

An interesting note is about non-leather articles and their messaging is that often regardless of if a product uses leather by product or not, the greatest strength in these products is the false labelling by calling it leather. The market footprint of a product must be accountable for the roots, origin of the product. The leather industry in Italy recently concluded how we count the root of our product, the pre-slaughtered animal. It answers how do we count the lifecycle of the animal as we populate the footprint of our leather. We ask the same of alternative materials. The reality of a lot of the alternate materials is like a science fiction movie, when we think about the alternative truths of these synthetics we see things like; cruel, polluting and shame. We should not stand for a world where we see more and more evidence of plastics in the ocean and landfills. While it is positive that more people talk about getting rid of the plastic water bottles the facts are there is still huge percentages of virgin plastics being used today. The concept that most plastic based materials are created from recycled or reclaimed raw material is false advertising and another reason we must move from the defensive to the offensive on how we message.

Synthetics vs leather: Petroleum based, life cycle clarifies issues, general lack of third party verification. Given many comparative recent studies, our industry is way ahead of other material industries and by comparison leather is very honest and straight forward. We have a transparent origin, we have a robust third-party verification –LWG –was created to do that and while everyone doesn't agree on politics or the platform of the LWG the reality provide third party audits intended to raise the creditability of our industry. In addition, we also have chemical management in the LWG and have recently added a new ZDHC third party audits that are beginning to take place. Our industry has a clearly defined and detailed list of banned and restrictive substances that most of the utilizers of leather and the creator of leathers/tanneries agree on and this does not exist in most of other materials that are being produced.

In summary, the challenges are very real...We all feel them, the challenge includes; the general perception of the agenda driven activist, evolving regulation cost and compliance cost, waste management, social trends and the lack of common messaging including agreed upon science-based life cycle and footprint comparisons. We can have the science-based studies, but what we need is the consensus on that science.

No doubt there are these challenges, but I would suggest to you there are equal opportunities. These opportunities need to be explored through continued transparency. Be sure the world knows what we do, be sure the world knows we are responsible.

These challenges should be attacked through opportunities with creation and research and Development. It's not just the tanneries, we must collaborate with our customers to do true R&D research. We need to disrupt and look at the leather fiber itself, and how do change this and deal with this product that we know from a selection standpoint is getting worse and worse. The reality in this country is that most cattle being brought to slaughter today are black angus, which means the hair stays in and the grain is challenged giving the finished leather many selection issues that go along with that. This is a major change driven by the meat demand and a challenge that we must adapt to through technical creation and R&D.

We don't have youth coming into our industry. We have some places doing a great job but in general we need more education and the way to create more education is to have some type of emotional connection to our industry. It has to be a positive emotional connection, not a negative connection. I believe if we do introduce young people into our industry and you allow them to experience what we do, it's a positive. Our environments are good, clean and challenging. It's really easy to make paper clips, or I think it is, and how long is a person that wants to advance in a career want to stay engaged in making a paper clip? Come make leather, there is a different problem every single day. You are never bored, never! It is very easy to engage these guys. We have an internship program that is very successful in our Chinese tannery and we are bringing students in from two universities and our retention rate is fabulous because they do get engaged. I would ask you to join us, bring in youth through an internship or by hiring one young person per year, simply start.

Technology, creating leather that the consumer wants to wear, it is critical as it is ultimately the consumer is going to decide if they are going to wear a leather shoe or not. That is our challenge. We need to create new because these are the trends – leisure, light weight, low bulk. Supply chain collaboration from the front end all the way to the back-end collaboration will lead to new technologies, new innovations. Collaboration, supply chain unity, which is difficult as everyone knows best, but somehow, we need to break down that wall. I don't know how to do it other than to continue to talk about it and try to get the people that I believe could actually have that conversation together. We also need to do a better job on consensus. If we all go on the offensive about our product and we do want to contrast and compare, it is critical that we all speak the same language otherwise we lose creditability. Because someone could say; wait a minute this organization over here said something different, which is it? Then you are back on defense. We need to build this consensus industry wide and this is beginning to happen. We are starting to get consensus on things like foot printing and life cycle analysis that we can put up against our competition on all kinds of materials. We don't need scientific data, we need truths.

Generally messaging – we need to bring our youth in to understand what it is we do, understand our industry. Leather is a blank slate for a lot of the consumers out there. They vast majority of consumers are not thinking of child labor or slave labor, they are just making a choice based on their lifestyle. We need to tell them and show them our product works for their lifestyle and trend. On this note I want to reiterate I do not believe by any means that technology and development are negative, and I think we should welcome innovation and as citizens and consumers I believe we do welcome innovation. We just want to tell a story that is based on facts and the entire story not just pieces of it.

Consumers demand appropriate trend, fashion, fit, feel and performance, end of story. That is the decision maker, they demand it. Brands look to fill these needs with maximum returns and image. Leather is not the right material to use in every application, but we should focus on how to develop and innovate to create products that can be used in wider applications and trends. At the same time, the supply chain needs to figure out how to be faster, nimbler and more consistent.

We can't close our eyes to the actual trends that are taking place. I have had many conversations with people, friends, consumers, that say "I can't believe that leather did not make it into that

sneaker", but it didn't, because our life style trends are lighter, stronger and ultimately interactive. The leather industry must adapt to the changes around us and we must innovate product and process. I would say there has been more innovation in process than there has been in product. There is incredible innovation in efficiency management as we look at automation and the movement of product in tanneries. We need to understand that not only is the consumer changing, not only are appetites changing, but greater society is changing. And what's fast today will only be faster tomorrow. We see it in our electronics and in our communications.

Following the lead of JAW and what he meant to our industry, we need to use every discipline, resource and skill to ensure our honest and transparent by product combines nature, science and technology to remain understood and relevant in this ever-changing world. Attach emotion and by widening our tent, we will be able to create a desire to generationally participate. I would just like to thank the people I have mentioned throughout this speech that I get great strength and great insight from. Some of them are in this room, Simon Yarwood has done an excellent job with his "nothing to hide campaign," Leather Naturally is working hard to move the conversation forward.

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