

QUALITY SINCE 1881

# Hermann Oak Leather Co.



4050 NORTH FIRST STREET • ST. LOUIS, MO. 63147-3493  
holc@hermannoakleather.com • www.hermannoakleather.com  
1-800-325-7950 • (314) 421-1173 • FAX (314) 421-6152

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November 10, 2013

Dear Customer,

This is a letter to describe our new frozen rawhide distribution system. It is also to describe what is happening in the hide market that has caused the recent developments, which is general information for everyone, so please read the last page.

As many of you already know, Tejas rawhide makers are closing up. They made good rawhide, were good people, and serviced the market well. They are closing because of the change going on in the collagen markets.

First, the supply of rawhide. Three months ago, we were planning on exiting this market, as it is quite small, underpriced (given the premium hides we buy), takes three times longer than leather to dry, is very difficult to store and handle dry, and involves quantities that do not fit our wholesale tanning operation. However, we have now decided to stay primarily in the frozen rawhide end, because rawhide for saddle trees feeds our very important custom saddle market.

We have set up two distributors who have the capability to both store in large freezers and distribute in small quantities:

- Bowden Saddle Tree, Anthony, TX, 915-877-1557, Arlen Bowden
- Timberline Saddle Tree, Vernal, Ut, 435-789-8228, Randy Alexander

The rawhide they buy will be in sides, bump-split to give a wet thickness of around 13 oz (around 5.2 mm), and should average 24 square feet wet. We are experimenting with wringing the rawhide, which would make the thickness around 12 oz (around 4.8 mm). They are individually packed in plastic bags and then frozen as a group, so they will not be quite as square as the individually frozen Tejas bundles.

Bill Confer at Tejas did an excellent job in managing each and every side of rawhide, at a most reasonable price. There will be two differences with rawhide you may get from us: hide type and grade.

- We will not be buying all the various types of hides, as we are not next to a packing house and cannot select individual hides. However, as you know, our hides are premium Jumbo Steer hides (no #3s or renderers) from only major U.S. packers. They are mechanically pulled for minimum butcher cuts, and are well cured for quick preservation and strength (the major concern that keeps us tanners up at night).
- The grades will have some variability, like some having brands and holes. We do this to keep the price down (to 50% less than what we would have to charge for our best grade). If someone receives one side at a time, this variability may cause that person to think the distributor is stripping off the better grades, even though the selection is random. On the up side, we will be selecting for minimum butcher cuts for all sides.

These hides will come out of our standard production, meaning they will be well limed and unhaired, well fleshed, well trimmed, and bump split for some levelness. They will be well washed and bated for good sewing and shrinkage, in a process adapted for the saddle tree trade through working with Bowden and Timberline these past few years. They are finally frozen.

Pricing may well be higher than Tejas, in large part because we buy the heaviest and best steer hides available. Also please remember that our distributors have operating costs: shipping costs in bulk to them, large freezers for preservation, energy to run the freezers, accepting orders, packaging into small quantities, and billing small quantities. These are all costs that we would also incur, and a major reason that we were backing away from the business a while ago. While frozen rawhide costs may be a bit higher, we are trying to make them reasonable, and with less hassle than the time and effort required for someone to make their own rawhide.

The other important market is in Taiko drums for our Japanese artist friends. We will be making a line of frozen Double Backs (full hides without the bellies), that should average 36 square feet wet. They will be bump-split to give a wet thickness of around 15 oz (around 6 mm), with a minimum 12 oz (4.8 mm) shoulder. If wringing works, the butt would be around 14 oz (around 5.6 mm), with a minimum 11 oz (4.4 mm) shoulder.

These will be our best grades, so we will have to charge accordingly. Our best grade does not mean perfect. A hide could still have a few small grain defects, though we will work to keep butcher cuts on the flesh to a minimum as these affect strength. In the past, we used only white hides, to give good color as the hair follicles did not show dark. We still had to reject 50%, making it uneconomic.

Most of our hides now come in various shades of black (because of the "Certified Angus" beef market), so this rawhide when dried will now show some of the underlying color of the original animal, meaning it will no longer be perfectly white.

We are offering Drum Grade only in Double Backs in order to give people plenty of area to cut large pieces, while keeping the number of products we make at a reasonable level. We cut off the looser-fibered bellies because this allows them to fit through our machines, although double backs require two men at each operation because of their weight.

These Drum Grade Double Backs will be distributed by:

- Bowden Saddle Tree, Anthony, TX, 915-877-1557, Arlen Bowden

The reason for all these changes in rawhide supply is that "collagen" markets are booming. Collagen (hide fiber) is increasingly going into markets like gelatin (gel capsules for pills, Gummy Bears), dog bones, sausage/hot dog casings, makeup, and pharmaceuticals. It is even being used now as a protein extender in hamburger meat in Europe. There are Mexican companies buying hide trimmings from U.S. packing houses that used to be rendered into oil. It is my understanding that the company that owned Tejas decided they could make more money in these collagen markets (specifically dog bones) than they were in the rawhide market, and with far less hassle.

Lime splits used to go into suede/split leather, but are now in demand as collagen. This is decreasing split availability, and increasing split prices. A lime split from an auto upholstery tanner used to be sold for very little, but now fetches \$18 per hide. Higher split prices in turn are driving up prices for the low-end Cow Hides, as they are the next rung up the ladder.

While you may think that our premium hide market is unaffected, we are. With this higher revenue for lime splits (the "drop credit"), shoe and auto upholstery tanners can afford to pay more for the jumbo hides like we buy (since jumbos when split give thicker, more usable splits). Even though our industry has no such "drop credit," we are now confronted over the past two months with paying a higher premium for the jumbo hides.

These things ripple through entire markets. Though our market may seem upended at the moment, it will eventually work its way to a new equilibrium. While these may seem to be large changes because of the major hide increases this past year, it still pales in comparison to the market in 1979 when hide prices almost tripled and then crashed. We are, in my opinion as stated in our last letter, at a new and long-term level in the hide and leather markets.

On a final note, we regret to inform everyone that Judith MacMorran is no longer working at Hermann Oak. She has provided good customer service these past dozen years, we will miss her and she will miss you. Renee Pinner has been working with Judith this past year, and will assume the position of Customer Service Representative. I would ask that you bear with us and Renee as she gets to know each of you. Lee Rottmann will also be working the phones to make sure that everyone is taken care of. Please

know that most of your individual needs are recorded in our order entry and computer systems.

Regards,

A handwritten signature in black ink that reads "Shep Hermann". The signature is written in a cursive style with a large, stylized 'S' and 'H'.

Shep Hermann