

# Hermann Oak Leather Co.



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SKIRTING  
BRIDLE  
HARNESS  
LATIGO  
STRAP  
CRAFT  
TOOLING  
HOLSTER  
WAISTBELT  
SPLITS

December 1, 2014

Dear Customer,

I live by the motto: Learn from the past, plan for the future, live in the present. And don't confuse the three.

Looking back: Hide prices have increased 70% over the past four years from their pre-recession levels (and our leather as of this coming January will have gone up an average of 31%).

Over a longer term of the past decade, extract prices have increased 100% (doubled). Beamhouse chemicals are up 30%-100%. Acids are up 50%-130%. Fish oils are up 75%, animal oils up 100%, and tallows (for harness) up 250% (think biofuel). Natural gas prices are up 95%, after spiking at more than 500% in 2005 and 2008. Our leather over the past decade has gone up an average of 59%.

The primary driver has been increased demand, with China at its hub. Most raw materials (metals, oil, cement) started going up in 2003. Corn followed in 2006. Beef and hides have been laggards, beef starting its upward journey in 2009 and hides in 2010. As we all know, beef prices this past year have increased like crazy (and hide prices are up just like beef). The general basket of many different non-energy commodities is now 80% over its pre-2003 levels (hides seem to be right in line); include energy and the basket for all commodities is up 180%.

The future: This new price card incorporates the 3% hide surcharge in place this past year plus a 6% increase in Tooling/Strap/Holster/Bridle and \$10 per side in Skirting/Harness, to catch up with our other operating costs. (Every time we have had a normal January increase in recent years, it's been eaten up by higher hide prices.) As mentioned earlier, we had considered taking another surcharge

this past fall, but decided to place it all in January when most of you adjust your prices. These prices will go into effect for orders placed after January 1, and shipments after February 1.

We had also warned about black dye prices in our recent letter, based on a warning from our supplier. It turns out this large increase applies to only one black dye. Because we only use a little of this particular dye, our black costs are not increasing as much as feared.

We have also increased our back premiums psf. We cut our backs quite high, giving narrower backs and larger bellies than other tanners. Our back premiums need to be higher because we trim off more belly. Back premiums should be \$1.70 psf (\$1.45 on the new card) for Tooling/Strap/Holster, and \$2.20 psf (\$1.55 on the new card) for "English" Bridle Leather. Please be advised that we will need to increase to these levels in steps over the coming year or so.

Now for \$.25 and a cup of coffee: We do not foresee additional surcharges this coming year. This is a forecast and not a promise. Yet since we have been trying to give everyone a forecast these past four years, we are sticking our necks out once again.

The present: We are taking these difficult pricing steps because we cannot eat cost increases and stay in business ourselves. It has taken a lot of additional working capital to keep up with these increased costs, and we are most thankful to have an understanding bank. We trust that you all are able to do the same.

We are often asked if people can pass these letters on to their customers. Yes, indeed. That is one of the primary purposes for the information delivered here. Previous letters are now on our website, should anyone wish to look back at those. In tanning leather, understanding why something is happening is the key to managing the process. We try to do the same with our marketplace, and then pass this along to everyone.

Thank you for your business and your continued support of our company and our leather. You make us the company that we are.

Regards,



Shep Hermann