

Leather for Purchase Agreement



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Harley Davidson

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Harley Davidson Motor Company is an American manufacturer of motorcycles based in Milwaukee, Wisconsin. The company sells heavyweight motorcycles designed for cruising on the highway. Harley Davidson motorcycles (popularly known as "Harleys") have a distinctive design and exhaust note. They are especially noted for the tradition of heavy customization that gave rise to the chopper-style of motorcycle.

In addition to the popular "Harley" motorcycles, Harley Davidson sells a variety of clothing to fit in with its brand. Included in this clothing line are leather motorcycle jackets. Harley Davidson needs to purchase the leather from a supplier that meets its quality standards and specifications for leather jackets; the manufactured jackets will then have the Harley Davidson brand printed on them.

Product Information:

The intended use for the leather that Harley Davidson (HD) purchases is to make customized leather jackets for both men and women. For this report, we are using Harley Davidson as the point of contact and focusing on the leather that is provided by Schott, DA ORG and Choice Leather Outfits. When Harley Davidson receives the leather from its suppliers, the logo is embedded into the product at the supplier warehouse. Harley has given permission for the suppliers to use its brand logo provided that they follow the Harley Davidson code of conduct.

When Harley Davidson requests a jacket from its suppliers, the suppliers must provide specifications for the leather in order for Harley Davidson to know exactly what it is getting. The specifications listed are to be met by every supplier, regardless of relationship or dedication to the Harley brand. The specifications for Harley Davidson are as follows (Appendix A):

- Confidentiality
- Accurate statements
- Email, internet, voicemail usage
- Health and safety
- Use of the Harley Davidson trademarks
- Media communications
- The purchase of gifts or entertainment by suppliers for Harley Davidson employees
- Improper payments
- Conflict of interest
- Environmental responsibilities
- Being a good corporate citizen

Once the jackets are ordered, the specifications are kept on file for future orders so Harley Davidson would then only have to refer to a material/shipper number.

There are four classifications of leather: pure aniline, semi aniline, corrected grain, and suede split. Leather can be made from the skin of virtually any animal; however, most leather products come from just four animals—cow, sheep, pig, and goat (leatherresource.com). All skins and hides go through a process called tanning, which is the process to convert the raw hide into leather, through chemical treatment. When dealing with grade of leather, the scales vary from a one to five or from A to E, depending on what the manufacture decides. The farmers that deal with the animals need to be aware of the type of feed they are using on their animals because that will ultimately affect how the skins and hides look when the animal(s) are slaughtered and sold (leatherresource.com).

The current manufacturing of leather is outsourced to companies throughout parts of Asia and Southeastern Asia. Among the countries in Asia and Southeastern Asia, China is the leading manufacturer of leather. The type of leather referred to in this paper is designed specifically for motorcycle jackets. Many of the companies that supply leather for Harley Davidson import their leather from outside the United States due to the lower cost of making and dying it. However, at one point in time, Harley Davidson leather was only produced in the U.S. by the Schott Bros. out of New York City. Schott was the first manufacturer and distributor for Harley Davidson. Schott has continued to supply leather products for the brand; however, Schott now outsources its leather through two main vendors:

- Zhejiang Native Produce & animal
- Sofich (Xiamen) Industrial

Both of these companies are located in China. Harley Davidson also uses D A ORG—for which the suppliers used were not available—and Choice Leather Outfits, which manufactures leather in its own factory, Complete Leather Garments Manufacturing Unit. The company is located in Karachi, Pakistan (About Us).

The supply of leather products can be affected by a number of things in the world. Some examples of environmental events that have an impact on the supply of leather include droughts, floods and famine. As mentioned earlier, leather comes from a number of animals in the world. Whenever there is an environmental emergency that affects these livestock, the supply of leather will be dramatically affected. If the supply is interrupted, the demand will certainly not be met and could cause the price of leather to rise due to the limited number of supply.

Besides environmental emergencies, the overall U.S. Economy has an impact on the supply and demand of leather with regards to business in the United States. When the U.S. Economy is struggling, the overall demand for leather decreases since leather products are still considered luxury items to some and those consumers are not willing to spend money for it. However, when the U.S. Economy starts to recover, leather products are more likely to respond to changes in consumer incomes compared to other items in the market (Aldrich).

Due to confidentiality purposes, the prices of leather exchanged were not available through any of the suppliers or through Harley Davidson. Harley Davidson is a private company and does not allow public access to inside information, especially regarding its dealings with price, demand, and purchasing operations. Besides Harley Davidson, other motorcycle manufacturers that we researched tended to have the same policy regarding prices and their suppliers. For that reason, the current price and forecast prediction for leather motorcycle jackets will not be available.

Leather is a highly sought after product among motorcycle enthusiasts and producers alike. Due to the economic trends of many droughts that plague the countries of Asia and Southeastern Asia, the price of leather has increased (Drought). Moreover, the droughts have caused many suppliers to increase the costs of leather which has an effect on determining its consumers, as well as the quality of that leather. Currently, the price of leather around the world is increasing as the demand increases across the world, and as a result of short supply (Aldrich). Economies around the world are starting to recover from the recession that has plagued them for the past few years. As the world's economy becomes stronger, countries are beginning to purchase more leather products which can be considered luxury items, depending on the item. The price of leather is being driven up not only by droughts in countries, but also by the

continuous growth of the middle class in Asia, particularly in China. Harley Davidson has agreements with many suppliers in the world and if one supplier is unable to meet those specs then another one will fill those needs.

Leather for Harley Davidson is primarily sold at Harley Davidson retailers and online. The demand for leather jackets is based on the demand of each individual store. The minimum and maximum levels of inventory are based solely on that single store and its need for replenishment is monitored and ordered from the Harley Davidson headquarters, which is located in Milwaukee, WI. Harley Davidson has eight manufacturing facilities located across the United States. However, Harley Davidson does not reveal what is being manufactured or stored at these facilities.

Schott Bros is one of the most well-known leather jacket providers to motorcycle manufacturers in the world. It is also one of the largest manufacturers of American-made outerwear in the entire United States. All of its manufacturing is done in a warehouse in New York that is still in operation today. Schott will produce the leather that it receives from its suppliers and custom-make jackets for a number of motorcycle manufactures, including Harley Davidson. The following chart shows the selection and prices that Schott provides to potential buyers of their leather jackets (See Appendix A).

Leather products are usually more expensive than other products due to the fact that, in some countries, they are considered to be luxury items. The production of leather can be expensive to companies because of the price of the cowhides, which provide the leather for motorcycle jackets. For most manufacturers of leather, the cowhides cause consumer prices to be high as a result of the high cost the manufacturers must pay for the cowhides.

Cowhides produced in Europe have the tendency to be more expensive than those produced in other continents. This is because the number of cattle that is located in that particular region is smaller in comparison to the amount of cattle in other leather-producing countries (Aldrich). Another reason that the prices of leather are high is because of tariffs that countries place on the products when being imported. The market for cowhides is considered to be very regulated with both tariffs and some non-tariff barriers.

The global recession has really hurt the supply and demand for leather products. The recession has caused many companies to look at other suppliers who can provide leather for a much cheaper price than what they were previously paying. China has become one of the highest leather producing countries in the entire world because of the prices at which it sells leather. Since labor costs are low in China, companies from all around the world prefer to get their leather from a supplier in China because of the larger quantities that can be purchased at a lower price.

The inventory policy recommendation for Harley Davidson is hard to answer due to the fact that Harley Davidson does not disclose any processes or amount of inventory that is stored at their factories. Currently, leather jackets are purchased by Harley Davidson customers simply buying them at local Harley Davidson Shops or on Harley's official website. Harley Davidson is known mostly for its motorcycles; this suggests that a majority of its inventory would be focused on its motorcycles. However, there must be an adequate amount of leather jackets in inventory to specifically meet demands of Harley Shops located all around the country.

Harley Davidson should have most of its leather jackets ready to be delivered when major bike events are taking place around the country. Large scale biker events draw in thousands of

motorcycle enthusiasts from all around the world. To meet this demand, Harley Davidson should have a minimum of two months of inventory to meet this demand. Though this inventory cost may seem high, the demand for the leather jackets will be there and Harley Davidson must make sure that it is able to supply enough product to meet the demand.

If Harley Davidson does not have the supply to meet the demand, motorcycle riders will go to a competitor to purchase a leather jacket. It is better to have more inventory than less, especially if it comes at the cost of losing customers to major competitors. During the winter season, not many motorcycles are on the roads. Around this time, Harley Davidson should lower its inventory to two weeks' worth of leather jackets. By doing this, Harley Davidson will be able to meet the demand, if there is any at this time, while minimizing its inventory carrying costs.

The role of a buyer is a very involved one, which requires a range of skills. Buyers are often responsible for doing research on products as well as potential suppliers. They also need to be able to make decisions and present findings with information to back up the decision. This function can be especially demanding if one buyer is working on multiple products at the same time. The buyer must be well organized and be skilled in time management.

This report will serve to educate buyers who are interested in purchasing leather to make motorcycle jackets. It will give insight on the type of leather required, different leather suppliers and a general price range. In the future the report will need to be updated as prices change, and as different factors that affect the supply, demand, price and/or inventory of leather come into play, to reflect those changes.

Works Cited

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Appendix A

Cowhide Casual Racer (Black Cherry)	At least \$545
Cowhide Casual Racer (Brown)	At least \$545
Cowhide Casual Racer (Black)	At least \$545
Classic Racer Leather Motorcycle Jacket	At least \$660
Classic Perfecto Steer hide Leather Motorcycle Jacket	At least \$600
One Star Perfecto Leather Motorcycle Jacket	At least \$600
28 inch Fitted Life Racer (Black)	At least \$570
28 inch Fitted Life Racer (Brown)	At least \$570
Casual Weekend Pebbled Cowhide leather Jacket	At least \$565
Classic Schott Racer Leather Motorcycle Jacket in Horsehide	At least \$730
Lightweight Waxy Cowhide Fitted Motorcycle Jacket (Black)	At least \$590
Lightweight Waxy Cowhide Fitted Motorcycle Jacket (Brown)	At least \$590
Classic B-3 Sheepskin Leather Bomber jacket (Brown)	At least \$1,090
Classic B-3 Sheepskin leather Bomber jacket (Ebony)	At least \$1,090
Classic Perfecto Leather Motorcycle Jacket	At least \$660
Single Rider Steer hide Leather Motorcycle jacket	At least \$615
Men's vintage Steer hide Leather Motorcycle Jacket	At least \$850
Classic Racer jacket in Long Sizes	At least \$695
Men's Classic Horsehide Racer Motorcycle jacket with Spread Collar	At least \$725
Double Breasted Military Leather Jacket	At least \$670
A-2 Naked Cowhide leather Flight Jacket	At least \$645
9 Horsehide Perfecto Jacket	At least \$715
Leather Naval jacket	At Least \$715
Multi-pocket Perfecto Leather Motorcycle Jacket	At least \$650

Classic Perfecto Leather Motorcycle Jacket	At least \$698
Easy Rider Striped Leather Motorcycle Jacket	At least \$660
G-1 Leather Flight Jacket	At least \$700
Jeans Style Leather Jacket	At least \$584

(Schott NYC, 2013)