

December 31, 2016

Dear Customer,

It is that time of year when we must all look at our costs, and adjust prices accordingly. We will be needing to increase prices by \$3/side, and \$.15 psf for sides sold by area, for orders placed after February 1 and shipments made after February 28th, 2017. The hide market bottomed out this past summer, and has come back up slightly since then. It shows signs of continuing at this level. Hide grades have been lower than usual this summer and fall, due to the warm winter we had last year (warm winters don't kill bugs, which then cause demodectic mange – pitting – and cattle to scratch on barbed wire). Our other costs are increasing slightly as well.

We continue to invest in new equipment in our plant. These past couple of years have seen five new drums, a new fleshing machine, new boiler, and a new measuring machine. We will shortly be installing a new scudding machine, new buffing machine, a new roller press, and a new computer system (yes, it will be painful, but we will do everything we can so it does not affect you). We will also be redesigning our website, and plan some interesting things that you will hear about later. These additions are meant not only to replace worn-out equipment, but to improve quality, which is Job 1 with us.

Tom Eberle is moving steadily into his job as our new General Manager. He fits our Lean Manufacturing culture like a hand-in-glove, having studied and applied the Deming* quality philosophy in prior positions. He is getting comfortable with our tanning system, which is similar to other vegetable tanning like he has done all his life (starting with Eberle-Westfield Tanning), yet is different in that we still use the old Traditional Tanning system.

Our Traditional Tanning process has its own particular quirks, including a slightly higher cost, reasons no other tanners that I know of use it any more. While a more demanding system, we stay with the older pressed-yard tannage because your feedback tells us the leather has higher density, more body

(especially when split), holds its shape forever, does not increase in weight as much when oiled (saddles don't get as heavy), comes up a better color when oiled, and stays that rich mahogany color under use because it repels dirt better.

On the personal front, I completed all my treatments last fall, and have had clean checkups since. I sincerely appreciate all the outpouring of cards, flowers, plants, and prayers for my dear Robin. Please celebrate with me her wonderful life, and that she has now gone home to a much better place. I've been spending some time in Michigan this summer and fall, recharging. I've also been spending time with my children Missy Pydo and Kati Mawhiney, and my three grandchildren (Missy's two and Kati's newborn). Life is good, and I am abundantly grateful for my many blessings.

We thank you for your business, as well as your friendship. This is a great industry with exceptional people.

Best Regards,

Shep Hermann

* W. Edwards Deming was a management guru who went to Japan in 1947 to consult on rebuilding their country after the war. His advice on using SPC (Statistical Process Control) helped improve quality so much that Japanese products quickly came into demand around the world, leading to the "Japanese Miracle." He was so revered that the Japanese established the Deming Award, given out to this day. Ford adopted his methods in 1980, which saved the company. GM and Chrysler turned him down and ended up bankrupt in 2009. Deming's teachings grew from a focus on quality into general management techniques, stressing leadership over management, and based in large part on Japanese society's cohesiveness and teamwork. His system was eventually re-imported into the United States under Toyota's name of Lean Manufacturing, which is what we at Hermann Oak follow today.

While this sounds hi-falutin, the management philosophy is no different than any of you successful entrepreneurs, as it emphasizes treating people right, quality over cost, and continuous improvement. It's just that old-line companies like us have to relearn what great-grandfather built in the first place.