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THE WORLD RESPOND TO THE RAPID GROWTH OF SOUTH-ASIAN FOOTWEAR SUPPLY

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*This document has been prepared without formal editing. The views presented are not necessary shared by UNIDO.

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LIST OF SYMBOLS AND ABBREVIATIONS

BPO	business process outsourcing
CAD	computer-aided design
CAM	computer-aided manufacturing
CEC	CONFEDERATION EUROPEENNE DE L'INDUSTRIE DE LA CHAUSSURE
China	People's Republic of China
CLE	COUNCIL FOR LEATHER EXPORTS (India)
CLRI	CENTRAL LEATHER RESEARCH INSTITUTE (India)
COTANCE	CONFEDERATION OF NATIONAL ASSOCIATIONS OF TANNERS AND DRESSERS OF THE EUROPEAN COMMUNITY
CTC	CENTRE TECHNIQUE CUIR CHAUSSURE MAROQUINERIE
EU	European Union
FDDI	FOOTWEAR DESIGN DEVELOPMENT INSTITUTE (India)
FDI	foreign direct investment
FOF	feeder-operator-feeder
GDP	gross national product
HK$	the currency of Hong Kong
ICT	information and communication technology
INESCOP	INSTITUTO ESPAÑOL DEL CALZADO Y CONEXAS ASOCIACIÓN DE INVESTIGACIÓN
IPR	intellectual property rights
ISO	INTERNATIONAL STANDARDS ORGANIZATION
ITC	INTERNATIONAL TRADE CENTRE
NIFT	NATIONAL INSTITUTE OF FASHION TECHNOLOGY (India)
OECD	Organization for Economic Co-operation and Development
RMB	(or Yuan) – the currency of China
R&D	research and development
SARS	Severe Acute Respiratory Syndrome
South Korea	Republic of Korea (ROK)
SME	small and medium enterprises
UK	United Kingdom
UN	UNITED NATIONS [ORGANIZATION]
UNIDO	UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATIONS
USA	United States of America
US$	United States dollar
WTO	WORLD TRADE ORGANIZATION
€	Euro – the official currency (in most of EU member states)
billion	refers to 1,000 million = 1 milliard

Mention of the names of firms and commercial products does not imply endorsement by UNIDO.

SUMMARY

The **objective** of the study is, in the area of the footwear industry, to evaluate the continuous growth of the China/Vietnam competition, to assess the situation of the industry in the rest of the World, to come up with possible future scenarios and to propose strategies/actions for enhancing the competitiveness of developing countries.

The bulk of (traditional) footwear production has been delocalized from the industrialized world to developing countries. Beneficiaries of this process are China (60% of world production), other Asian countries (20%), South America (7%), whereas Europe is still keeping 6.5%. At the same time Europe together the USA account for nearly half of the world footwear consumption.

Major players of the "globalized" world are "branded buyers", the "sports giants" and the "discounters", as well as small and medium producers who account for the bulk of the "casualties" in the last 15-20 years.

Strategic advantages of China and Vietnam include cheap labour and low social costs, large installed capacity with large-scale operations, dense clusters with very efficient logistics, unified machinery and support, bulk orders from USA, continuous presence of buyers bringing design and components intelligence. The rest of the world is struggling with its scattered capacities, diverse technologies, smaller orders from EU, strict labour and environmental regulations.

Possible **future scenarios** of the World footwear producing industry and trade may be the characterized as follows:

1 China grows further and the "rest of the World" suffers even more.

2a China curtails growth because of domestic and external constraints like higher domestic demand, diversification, rising material and labour costs, difficulties in the banking sector, anti-dumping threats, human rights issues, worries from major world buyers about over commitment in China, etc.

2b The "rest of the World" restores its competitiveness, through improving its product ranges and higher fashion turnaround, reviewing its marketing approach, making its factories "top of the art" through better technology, improved efficiency, tighter budgeting and stricter quality control.

3 New technologies are found to produce shoes in a more automated and less labour intensive way like the "CEC Custom, Environment and Comfort Made Shoe", "Nike's re-use a shoe" or similar innovations.

INTRODUCTION

This study is the follow-up of the paper presented by *Mr. Anthony Clothier* during the 15th session of the UNIDO Leather Panel in Leon, Mexico in August 2005. The latter dealt with the Chinese shoe industry and its impact on shoe manufacturing (and to a certain extent with marketing/trade) worldwide.

This time the focus is on the response of the world to the massive and increasing supply of shoes from South-East Asia (predominantly from China). The term "world" in this case means the set of following entities:

- Traditional and potential shoe producing countries (and their Governments).
- Industrial sectors and their associations;
- Individual producers (brands owners and/or manufacturing companies).

In other words questions need to be answered, like: **What kind of policies, strategies, recommendations, legal and/or economic measures, actions etc. are being developed, promoted and/or implemented to counterbalance the effect of the import penetration that creates unfavorable competitive conditions.**

In the case of a product such as footwear, there are those who say it is a "low-tech" product and, as such, should be left to countries with low labour costs to produce. Just as water flows to the lowest level, so should footwear production fall to the lowest cost producer. This, to some degree, is theoretically correct. However, this approach ignores the requirement for high skill content, fast response to market requirement, political stability and availability of appropriate materials, infrastructure, marketing support, design and branding.

THE WORLD FOOTWEAR INDUSTRY

Production Statistics

Table 1

World footwear production

	2000	2001	2002	2003	2004
China	6,442	6,628	6,950	7,800	8,800
Asia (excluding China)	2,639	2,644	2,645	2,723	2,833
Middle East	375	369	374	378	357
Eastern Europe	278	340	309	300	278
Western Europe	917	892	815	710	646
South America	815	831	862	892	981
North & Central America	407	319	278	255	302
Africa	194	234	203	192	184
Oceania	12	12	12	10	9
Total	**12,079**	**12,269**	**12,448**	**13,260**	**14,390**

Source: World Footwear Markets 2005. SATRA TECHNOLOGY CENTRE, Kettering, 2006

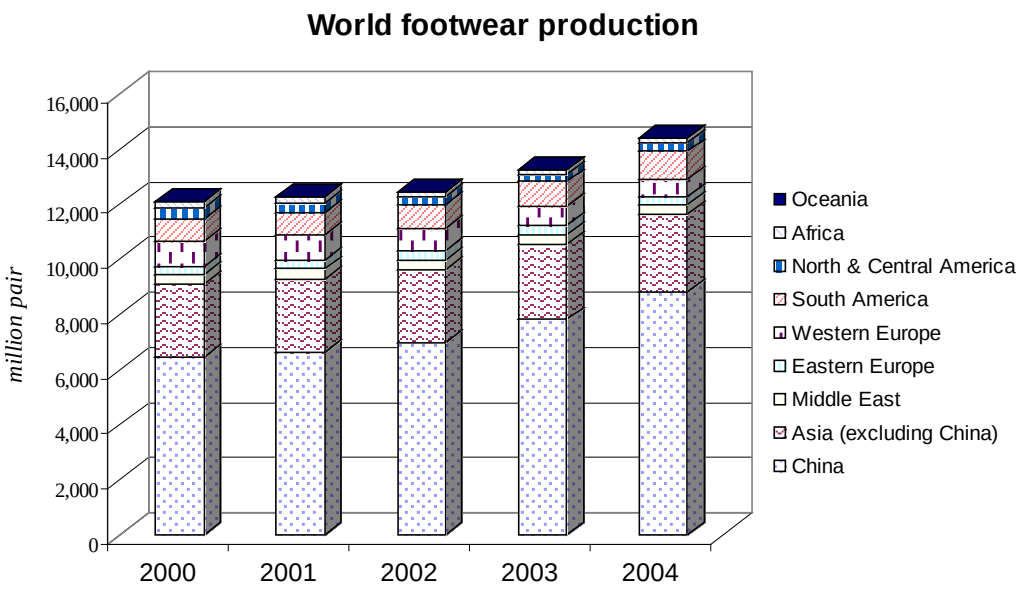

Fig. 1

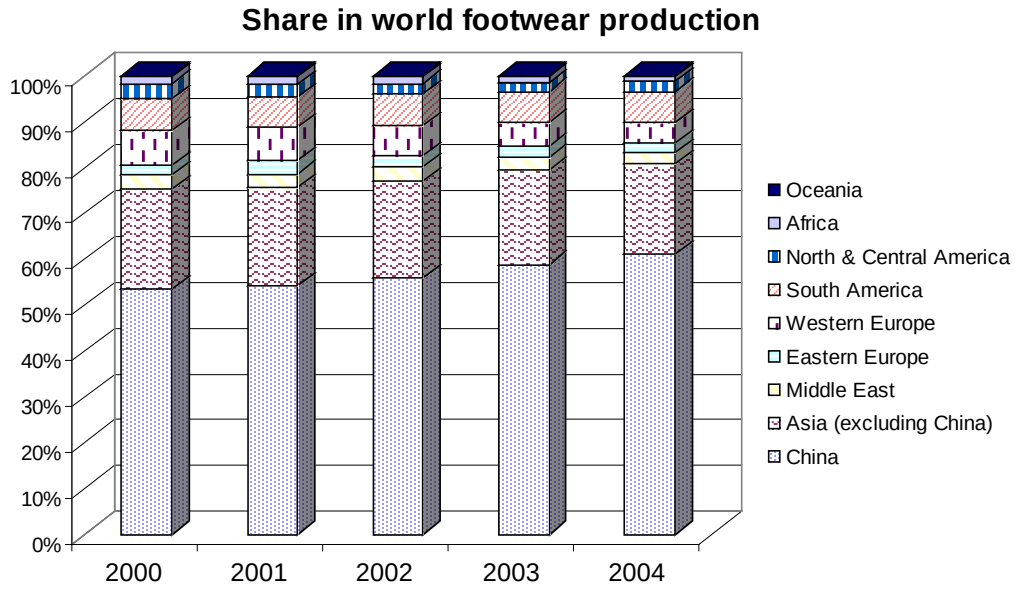

Fig. 2

Table 2

Total production

Year	Shoe production	Population
	million pair	*million*
1999	11,590	5,914
2004	14,390	6,396
2011	15,585	6,870

Top Traders

Table 3

Unit: million pairs

Producers		*Consumers*	
China	8,800	China	2,925
India	*850	USA	2,129
Brazil	750	India	*796
Indonesia	564	Japan	620
Vietnam	445	Brazil	547
Italy	281	Indonesia	484
Thailand	*260	UK	376
Pakistan	*250	Germany	347
Mexico	244	France	346
Turkey	224	Italy	249

*Estimate

Regional Overview

Western Europe

Production fell by 9% to 646 million pairs. Italy was still the leading producer in the region, although production fell by 22 millions pairs (9.0%). There were no increases in production in any of the Western European countries. Production in the UK has fallen to 16 million pairs. Total imports to Western European countries rose by 225 million pairs. Exports increased by 20 million pairs. Italy is the only Western European country that appears in the table of top 10 leading producers (***Table 3***) of footwear. Germany, UK, France, Italy and the Netherlands still appear in the list of top 10 importers. Italy, Spain, Portugal and the Netherlands appear in the list of top 10 exporters and France, Germany and the UK appear in the list of top 10 consumers. China exported over 660 million pairs to the European Union.

Eastern Europe

Statistics for Eastern Europe are very difficult to obtain. Many millions of pairs are "imported" via the unregistered or illegal trade (black market) from China. Many of the larger footwear manufacturers are using the Eastern European countries for producing footwear. Countries such as Romania and Poland are the main source of supply. Italy imported 65 million pairs from Eastern Europe out of which 46.3 million pairs came from Romania.

North and Central America

Footwear production decreased by 8% and imports increased by 6.4%. The USA topped the table of leading importers and is 2nd in the table of leading consumers. Footwear consumption in the USA increased to 7.3 pairs/capita/year.

South America

Brazil is the only country in the area that increased footwear production. Overall production increased by 89 million pairs. Brazil exported 189 million pairs over 212 countries world-wide, with a value of US$ 1,414 billion (9 % less than in 2005), 7,500 factories producing 725 million pairs with 300,000 employees. The interior market consumed 540 millions pairs divided between 3,000 brands. (***Annex 1*** provides detailed information on the Brazilian shoe trade.)

Oceania

Oceania continued to lose domestic production slowly in favour of low cost imports.

Asia

Exports from China increased by over 17% to 5,885 million pairs. The USA was still the main destination with 1,743 million pairs. In total the Asian region increased production by 3.5% and consumption by 0.5%. Production and exports from Vietnam continue to increase, with Western Europe being the main destination. India increased production by an estimated 70 million pairs and exports by 7 million pairs. Instead Pakistan's output dropped massively by 63% (see ***Annex 2***). Indonesia increased production by 50 million pairs and exports by 5 million pairs. Japan saw a 6 million pair drop in production and a 25 million pair increase in imports.

Middle East

Turkey is the largest producer in the Middle East, with a small increase of 6 million pairs. The main export destination is Saudi Arabia. The largest importer is Saudi Arabia with 70 million pairs from China.

Africa

South Africa continued to see a decline in footwear production and a slight increase in imports of 41 million pairs. Tunisia continues to export to Italy especially safety footwear.

Major Asian Exporting Countries

The most obvious trend since the early 1980s has been the movement of footwear production from Japan, then Taiwan and South Korea predominantly to China, as well as to Vietnam, India, Indonesia and Thailand. This has been carried out, virtually exclusively on cost grounds alone. Looking more deeply into the reasons, it can be deduced that this change was predictable. Taiwan and South Korea themselves were chosen because of their, low costs, at the time, and they expanded through their (original equipment manufacture) basis. NIKE was among the first companies that started sourcing in Asia, based on a business plan that *Phil Knight* wrote at university, on the premise that all athletic shoes would be manufactured in the economies of East Asia. As we can see from the map below, it is mostly China now benefiting from this foresight, based on their remarkable economic progresses in the last 15 years: in the early 1990's, it's per capita GDP was just one third of that of Russia, making it one of the poorest countries in the world. Thanks to economic, legal and social reforms introduced by *Deng Xiaoping*, China's economy is now six times larger than that of Russia, where it has shrunk by 20% over the same period.

Fig. 3

This yellow area above represents the China Dongguan area which makes 28% of total world shoe production.

There is no comeback as long as retailers demand low and lower prices and whilst there is still excess capacity all around. Nobody anywhere right now can beat the Chinese and especially with Taiwanese and Hong Kong facilities and the whole support infrastructure that allows for very rapid development, sampling, commercialization for production, flexibility in production for styles and construction and production runs, plus short delivery times. Add to that the low labour cost, low rental, transport, taxes, lasts, moulds and material costs and you have a nearly unbeatable manufacturing set-up, not to mention the duty free zones in which they produce. (***Annex 3*** offers further information on training and development in China and Hong Kong).

The Chinese onslaught on the industry has been huge and the trend will continue for a few more years. (Forecast is that, from today's nearly 59% of worldwide production, China will reach 65% in 2010). But the surge is not limited to footwear. Other industries such as garments (only being held back because of USA industry outcries and in spite of WTO agreements, but it will come again), furniture, stationery, porcelain china, cutlery, household goods, bags and accessories, cigarette gas lighters etc. to a point where the government in China is offering incentives to "low tech" companies willing to relocate from the towns to the countryside to help reduce labour and manufacturing costs. (***Annex 4*** describes the commodity chain analysis related to footwear.)

Fig. 4

China however is just gobbling up everything and we are handing everything to them on a plate including now high-tech industries such as car and aircraft parts manufacturing and maintenance, computers and electronics. (Reputed names like IBM and GM ROVER are now in Chinese hands.)

China

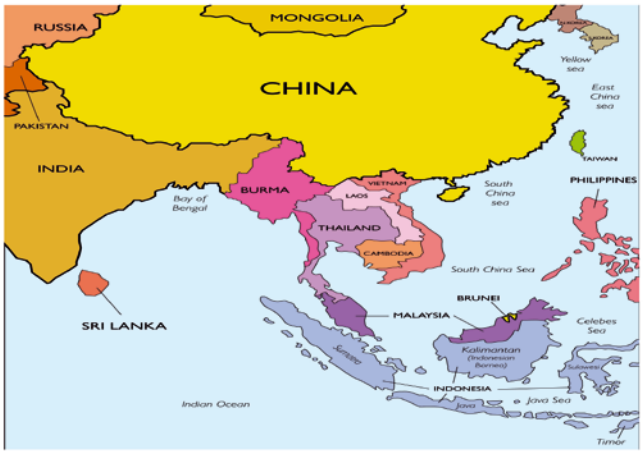

Fig. 5

Table 4

Shoe production in 5 leading provinces in China (2005)

Region	Domestic	Export	Total	Type of shoes
	milliard pairs			
Guangdong (Dongguan, Guangzhou, Shenzhen)	0.80	3.00	3.80	Dress/outdoor for export
Zhejiang (Wenzhou)	1.20	0.20	1.40	Dress shoes for domestic
Fujian (Xiamen, Fuzhou, Putian)	0.40	1.40	1.80	Sport shoes for export
Chengdu	0.50		0.50	Cheap shoes for domestic
Chongquing	0.15		0.15	Cheap shoes for domestic
Total	**3.05**	**4.60**	**7.65**	

Source: EUROSTAT
Note: In 2005 the total output was 7.65 milliard pairs or 58.8% of world production. The estimate for 2009 is 8,908 milliard pairs or equivalent of 61.5%.

The above five regions will move to better quality shoes, whereas the "low-end" will move to rural areas more West, with important work force reserves.

The footwear industry is concentrated in Guangdong and Fujian (cheap shoes and the biggest output), Tianjin (good, modern factories), Zijiang (Wenzhou area, which was before "all shoe", now makes a majority of safety footwear), Laoning (Dalian, Quingdao) and some in Harbin. ***Fig. 6*** represents a map of the regions, more inland, which have been earmarked for "moving" part of the footwear industry in search of available labour force. ***Fig. 7*** shows the geographic distribution of various types of production in China.

Fig. 6

Fig. 7

Why are Chinese/Taiwanese Factories So Successful?

Fig. 8.1
Low labour costs.

Fig. 8.2
Very large factories.

Fig. 8.3
Appropriate technology.

Outstanding logistics (good roads in the Southern costal area); well organized, efficiently operated and highly reliable ports) is another reason for China's success.

Generally Chinese and Taiwanese factory owners do not purchase new technology just to have the latest available, nor is cost reduction a popular buying reason. Instead, the principal buying motivation for most Chinese businessman is to obtain more market share (or secure their existing market).

Vietnam

Vietnam is still growing, but is a far second to China and still has it's limitations in comparison to China with little local infrastructure and support industries, smaller population and labour pool. Nonetheless it is there and fairly viable too.

Production

After Vietnam reached its economical highpoint in 1995 with a GDP growth of 9.54%, it declined to a low of 4.77% in 1999. But since 2000, the economy is back on track and from 2003 it has been at around 7.25% growth average. This result is even more meaningful given the fact that unexpected events took place, such as the Iraq war, the outbreak of SARS, serious droughts and floods which caused heavy damage to many areas of the country. Key industrial products of the country include in order of importance, crude oil, processed seafood, garment/textile and footwear. There are currently more than 400 enterprises in Vietnam engaged in footwear manufacturing and leather tanning, employing

approximately 500,000 workers. As at the end of 2005, the industry has a total production capacity of around 600 million pairs of shoes per year. Footwear manufacturers are located mainly in Ho Chi Minh City, Dong Nai, Binh Duong, Hanoi and Hai Phong.
(***Annex 5*** describes factors facilitating Vietnam to cut into China's footwear market.)

Table 5

Footwear and Leather Product Output in 1998-2003

Unit: Thousand ('000) pairs

Product Category	1998	1999	2000	2001	2002	2003
Shoes and sandals	212,650	240,816	302,800	320,014	360,000	416,644
-- Sport shoes	96,390	108,702	126,470	138,299	189,429	234,802
-- Lady shoes	38,200	43,262	54,710	69,501	71,710	82,423
-- Canvas shoes	34,690	37.,270	34,080	37,786	31,428	28,645
-- Others	43,370	51,582	75,220	76,428	67,433	70,774
Bags and handbags	27,000	28,500	31,300	32,000	33,700	35,000
Tanned leather	10,748	12,570	15,100	17,000	25,000	32,000

Source: VIETNAM LEATHER AND FOOTWEAR ASSOCIATION.

Table 6

Vietnam footwear export by products

Product type	2000		2001		2002		2003	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	million pair	*US$ million*	*million pair*	*US$ million*	*million pair*	*US$ million*	*million pair*	*US$ million*
Sports	116,000	892,64	127,887	1,001,753	179,958	1,392,775	220,322	1,638,025
Lady's	54,71	231,84	64,189	283,942	66,690	262,313	78,681	438,128
Canvas	30,67	155,71	31,582	75,644	27,971	89,166	25,781	56,279
Other	75,22	187,81	68,176	213,817	58,531	88,902	68,196	133,741
Total	276,6	1,468,000	291,834	1,575,157	333,150	1,846,132	392,981	2,266,174

Source: VIETNAM LEATHER AND FOOTWEAR ASSOCIATION.

Export Performance

Over 90% of Vietnam's footwear output is exported. In 2005, Vietnam's footwear and leather product export value reached approximately US$ 3 billion of which sport shoes accounted for around 67%, lady shoes 19.5%, canvas shoes 7%, and slippers and sandals 6%. Footwear is the third biggest export of Vietnam after crude oil, and apparel and textiles. It has experienced a severe loss in its EU exports of late, compensated by an increase in the USA business. (***Annex 6*** provides further information on the influence of the EU dumping claim on the Vietnamese shoe business.)

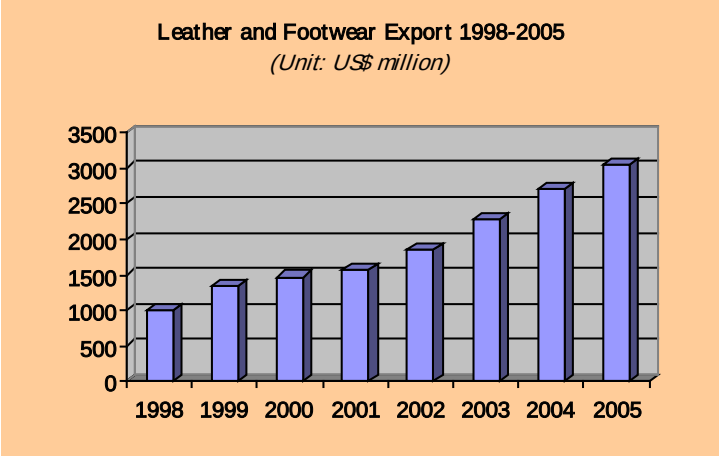

Fig. 9
Source: VIETNAM LEATHER AND FOOTWEAR ASSOCIATION.

Major markets

The EU, which accounted for about 72% of Vietnam's footwear and leather exports in 2002, was expected to remain as the country's main export market. Vietnam's export of footwear to the US has also been increasing rapidly since the entry into force of the Bilateral Trade Agreement between the two countries, compensating for the damage done by the EU anti-dumping measures. In 2005 Vietnam exported US$ 717 million worth of footwear to the US, an increase of 51% over the previous year, bringing it from 10% in 2002 to 22% in 2006. The EU is however still the biggest importer of Vietnam's footwear with 55% in 2006.

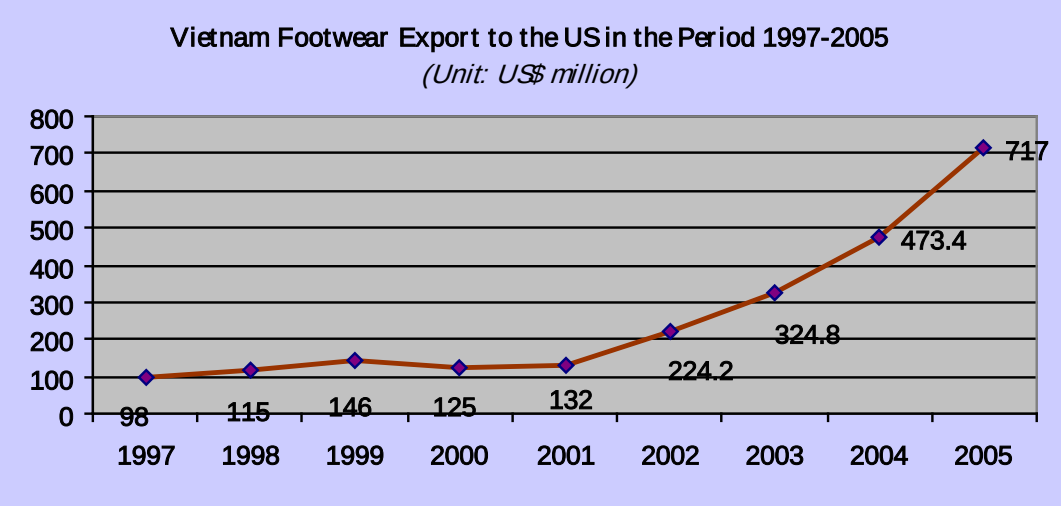

Fig. 10
Source: US CUSTOMS SERVICES

Table 7

Top ten destinations of the Vietnamese shoe export

Rank	Country	2000		2001		2002	2003
		Quantity	Value	Quantity	Value	Value	Value
		'000 pairs	*US$ '000*	*'000 pairs*	*US$ '000*	*US$ '000*	*US$ '000*
1	UK	41,571	221,128	46,989	253,743	312,353	388,278
2	Germany	39,270	208,923	39,557	213,608	249,682	315,723
3	USA	17,082	87,804	21,118	114,037	196,554	282,452
4	Holland	25,931	133,268	29,109	157,188	184,843	215,278
5	France	26,270	139,750	30,782	166,225	178,791	193,931
6	Belgium	30,522	156,875	29,317	158,315	148,875	169,533
7	Italy	17,033	87,552	18,814	101,597	119,139	145,547
8	Spain	7,760	39,890	8,246	44,528	53,284	73,085
9	Japan	15,210	78,180	11,879	64,135	53,920	61,592
10	Sweden	4,433	22,810	4,049	21,868	26,890	38,579

Source: VIETNAM LEATHER AND FOOTWEAR ASSOCIATION.

As in the early hours in China, 95% of the footwear exports are "Private Label", mostly through Taiwanese and South Korean intermediaries. The shoes carry a famous brand (e.g. NIKE, CLARKS), the trade name of a famous chain store (NINE, WEST, K SHOES), or no name at all. The implications of this are that:

- The foreign buyer supplies design and often components, dies, labels etc.
- Investments are made in infrastructure and production workers.
- No investment in design, marketing, inventory, retailing.
- Inability to have contact with customers.
- Lack of training in efficiency and quality.
- No production costs assessment.
- Inability to move to full production.

The big future challenge will be the passage from processing export contracts to full shoe marketing and production. It seems that Vietnam, with the business acumen its entrepreneurs have shown in the past, will in the foreseeable future, because of the absence of a valid tanning industry, try to gradually shift away from sub-contract footwear production (in the same pattern as South Korea has) towards more sophisticated and higher added-value industrial sectors.

India

India is now increasingly identified with the talent potential, information and communication technology (ICT), business process outsourcing (BPO), business schools and manufacturing. Consecutive stable democratic governance, under the wise guidance of the experienced Prime Minister *Manmohan Singh*, has been facilitating all round economic growth and rendered India a country which wants to be one of choice for the investors and the business community. A traditional leather exporting country, its status changed from a country exporting finished leather to finished products, the 8th largest earner of foreign exchange for the country.

General statistics

According to the COUNCIL FOR LEATHER EXPORTS (CLE), Exports during 2005-06 were close to 3 billion. Employs 2.5 million people – mostly women –, has huge social impact.

The country has strength in raw material, trained manpower and modern technology. Other features include

- Second largest footwear producer after China
- 2.06 billion pairs produced in a year
- 15% of the global production is produced in India
- Exported 100 million pairs (2005-2006 fiscal year)
- Contract manufacturers supply to leading global brands
- 644 member producers situated as clusters at Chennai, Ambur, Ranipet, Kanpur, Agra, Mumbai, Delhi and Karnal.

Foreign Direct Investment

India is the most attractive off-shore destinations in the World (***Fig. 11***).

Fig. 11

Monthly Wages

Unskilled: US$ 60-80/month; skilled: US$ 90-120/month
+ Cost of the social security measures: 15-17% of wages;
+ Cost to the company: unskilled: US$ 70-100/month; skilled: US$ 110-140/month.

Footwear and Footwear Components Parks

- One footwear park under the Special Economic Zone in Chennai to house 25 production units with a capacity to produce 250,000 pairs a day is being set up near Chennai.
- Two footwear component parks: one in Chennai with a capacity to house about 20 units each is coming up to tide over the footwear component supply demands.

Footwear Components Joint-Ventures

CONCERIA VIRGINIA, MONDIAL, SUOLIFICIO MALASPINA, TOP FONDI (Italy); FAGUS, LAMMERTZ INDUSTIRENADEL GMBH (Germany); TEXON LTD. (UK), ZAHONERO VIRGILI SL; OBRADOR ADHESIVES INTERNACIONAL SL (Spain); XIE ZHAN MOULDS, DONGGUAN (China).

Design opportunities

Most of the exporters have their own design laboratories. These are buttressed by the CENTRAL LEATHER RESEARCH INSTITUTE (CLRI), the FOOTWEAR DESIGN DEVELOPMENT INSTITUTE (FDDI) and the NATIONAL INSTITUTE OF FASHION TECHNOLOGY (NIFT).

Below a few views of the new Indian factories, not surprisingly near carbon copies of the ones in China, Vietnam, Indonesia and Thailand. (***Annex 7*** deals with sourcing footwear from India by global brands.)

Fig. 12

MAJOR MARKET PLAYERS

In a global world economy, we can distinguish between two "footwear" sectors:

- branded, buyer and sports firms;
- medium- and small-scale enterprises (SMEs).

Branded, buyers and the sports firms

They have the brand protection, the management and the financial resources to defend themselves against Asian competition (*or rather benefit from it*). Most of them will survive, with occasional ups and downs, whatever the global economic situation. **Business is driven by profit margins**, as in all industries and these are getting often really hard to obtain in footwear manufacturing. But the bigger names are well organised and always manage to take care of their bottom line. Actually, by concentrating more on design and retailing (which have respectively around 25% and 50% of the total margins) and moving production to low-cost countries – **they have become the major decision makers in the world shoe market.**

These major players are generally associated with big "captive" factories which production is geared toward world export. These can avail of important technological means and often have control over one or more tanneries, a mould maker and/or component manufacturers. The result is a capacity to reduce costs, organise quality control and benefit of an important flexibility.

Fashion Leaders

A strong sophisticated brand with powerful marketing and public fashion appeal allows them to demand prices which their products do not always necessarily justify but gives them a comfortable margin (HUGO BOSS, MORESCHI, GUCCI, CHANEL, PRADA, MAGNANNI etc.). The high prices here compensate for small runs and the low volume of sales. Production is usually done in exclusive factories in selected Asian and EU countries (names like CHARLES JOURDAN, KELIAN and others recently relocated to China).

Famous and Long Established "Sport" Brands

Brand names such as NIKE, ADIDAS, REEBOK, PUMA, and to a lesser extend NEW BALANCE, SKECHERS, STRIDE RITE, VANNS, PUMA, ELLESSE, LOTTO, FILA, AMERICAN EAGLE, etc. do not manufacture any more and are generally safe because they have the power to 'shop around', keep the best factories in South-East Asia captive and impose the permanent presence of their production managers + their confidentiality, human rights, organizational and production rules. They are mostly very profitable companies and the fact that factories remain faithful to them proves that these also benefit financially from their collaboration. They retail mostly through multi-brand stores but have, in some cases, "Flagship" and "Concept" outlets which allows them direct contact with the consumers.

Buying Houses

Companies like PayLess, NOVI, BROWN SHOES, DECATHLON, FOOT TECH CORPORATION and others work like the branded names above but do develop collection and handle production for several private labels that do not have the means to have an international set-up.

Discounters

Through massive sales, thanks to very competitive pricing (obtained by squeezing costs in factories situated in developing countries and craving for orders) and then retailing through low cost hypermarkets and discount stores. In this case the brand name is of lesser importance: the shoe is just a cheap, often poor quality commodity for low income customers. For these mass discounters, the volume compensates for the small margin on every pair. These organisations do sadly not care much about the factories' profitability, working conditions and survival. (There are always new producers ready to pick up the challenge.)

The "Outdoor" and "Smart Casual"

Enterprises like TIMBERLAND, ECCO, TODS, MEPHISTO, ROCKPORT, etc. do still produce part of their production in EU, partly in South-East Asia, but have successfully expanded into retailing (their own or through franchising). They are very efficient and profitable set-ups, and are giving prove that shoemaking in the world outside of China and/or Vietnam is still a viable option.

The "Bespoke"

For the record, let's mention a few **exclusive but confidential brands** (BERLUTI, GREEN etc.) which are more expanded artisan set-ups, rather than industrial ones.

Small and Medium Shoe Factories

The mostly family-based segment constitutes the balance of the industry outside of the branded "organised" sector. The whole of the Brazilian interior market is probably in this category with a local sale of 540 million pairs over 3,000 brands, the average yearly sales are approximately 180,000 pairs and the daily production around 800 pairs which definitely are medium/small scale units. As compared to the "big ships" mentioned before, which can more easily cope with the "high waves" of the Chinese competition, they are often the (too) small vessels, less prepared for the tough battles ahead. Most recent casualties in the footwear industry are within this mass of small and/or medium producers. Without obviously generalizing, one tends to find similar type of problems with some of these producers, namely:

Lack of Management Skills

Due principally to

- the quasi absence of specific training in shoe factory management and
- the habit of transferring ownership in the second and third generations, to heirs of the founder(s) who do (too) often not possess the technical/managerial capacities to be successful on the long term when faced with the challenges of industrial "globalized" shoe production. In

this context some surprising choices of people for higher management positions could be seen. For instance:

- A managing director whom was the son of the owner and was given the job because he had not succeeded in obtaining a university degree.
- In another case, the director was a commercial graduate with no technical background and insufficient experience in managing a shoe factory.
- A general manager of a prestigious brand was a former captain in the merchant navy or a production director with a background in farming.

Lack of Re-Investment and the Resulting Poor Profitability

This is another result of the family character of the small/medium industry. The owner often concentrates all the powers in his own hands and fails to delegate responsibilities to subordinates, killing thus all initiatives when himself does not initiate them, leading to inefficient management. The resulting lack of financial muscle has always disastrous results because it does not allow indispensable investments in adequate technology, setting up an organised marketing structure, finance production and stocks of finished goods, which is an important factor for attracting customers, less and less interested in keeping large inventories. (Even worse, in many cases, the money some people have made in happier times is too often invested in other, more financially rewarding, sectors like real estate, banking, insurance etc.)

One can add a series of other factors which hamper the drive for change, due to an entrepreneurial system where individualism, a tendency toward short term planning and a strong focus on production-related aspects rather than market innovations, play important roles.

- Insufficient support industry and horizontal integration/cooperation between homogenous firm networks in specific projects where the lack of communication is due to the extreme heterogeneity of the actors in the area.
- Lack of creativity.
- Exaggerated dependence on one single buyer.
- Absence of qualified technical managers and poor operator training.
- Questionable choice of technology and poor preventive maintenance and lack of spare parts.
- Poor shop floor planning and organisation which often results into low productivity.
- Lack of public or private infrastructures able to provide enterprises with real services such as, for example, research and development laboratories.
- Lack of linkage between industry and financial institutions as these do not always provide specific and indispensable services to firms.
- Inadequate commercial service structure, especially for small firms whose dependence on new distribution channels are greatly increasing and seriously affects decision capacity.

POSSIBLE FUTURE OF WORLD INDUSTRY

Based on facts and evaluation of the present situation the possible future of the world footwear (and leather products) trade may be drawn up in form of likely **scenarios**.

SCENARIO 1: China Output Continues to Grow and the World Suffers Even More

With all things remaining equal, the future production of the China industry should still rise further. From 58.8% of total world production, corresponding to 7.65 milliard pairs in 2005 of which 4.6 milliard pairs were exported, the Chinese Footwear industry will be expected to produce 65% of world production in 2010, which will represent 9.5 milliard pairs. It can grow even further and, eventually, become the sole world supplier as is the case in the toy industry.

What is making this scenario possible (but unlikely) is the "ideal" strategic and structural conditions in which the China industry is working now, compared to the conditions in the other developing (and even in industrialized) countries. Some of the differences in working environment are listed in ***Table 8*** below.

Table 8

Operational conditions

China	Rest of the World
Massive and, until now, cheap work force from which to tap, with low "social" cost: **US$ 150/month = US$ 0.75/hour**	Uneven workforce reserves which can be very expensive when one adds social overheads, i.e. **the same US$ 150/month = US$ 1.35/hour**
Already 60 % of world output in dense clusters along the seaside with first class logistics.	Smaller capacities spread over a multitude of single countries with often difficult logistics (i.e. India).
Unified/standard types of machinery and Taiwan's technological support.	Diverse types of machines/equipments and diversified technologies.
Buyers flock in numbers to buy its shoes: they have no marketing and no R&D costs to support.	Has to fight to fill its order books and spends big on research/development.
Mostly US bulk orders.	Smaller, fragmented EU runs.
Buyers bring designs, lasts etc.	Has to care for its own collections.
Is not really hampered by red tapes and ethical issues and benefits from protective political rule with relatively docile workers and low labour unrest.	Has often to follow strict human rights regulations and labour laws.

SCENARIO 2A: China Shares Business with Developing Countries

China has to review its strategy because of internal and external constraints and, in the process, allows developing countries a fairer share of the business in the future.

Experts are of the opinion that the above mentioned 9.5 milliard pairs/year will represent China's so called ***equilibrium point*** and do not expect export to grow further. This scenario will largely depend on whether China will want to diversify its economical and industrial interests under the pressure of serious problems it is facing at home and abroad and which we don't leverage enough. There are still 20% of the total population in China and the Asian region that lives on US$ 1.00/day; 500 million people who have not benefited from the economic boom because of the widening of the urban - rural divide. The current development model has rendered the region over-dependent on export-led manufacturing, resulting in intolerable income gaps and widespread environmental degradation, side effects of policies designed to post the highest possible growth figure every year at every cost. The pressure for change might induce China to review its policies, and slow down the growth of the labour intensive industries in favour or more rewarding and less polluting ones.

Problems that Chinese economy has to face are manifold:

- **Growth of the Chinese internal demand** for consumer goods. Much of its *growth is in infrastructure*: more than building roads and electricity grids (the traditional development aid) lifting poor regions now requires finding better ways to finance rural enterprises, creating non-farm employment and improving living standards. Just like Japan and South Korea in the past, Chinese economic authorities are therefore looking increasingly at industries with higher added value potential, especially now that WTO status has been achieved and organisation of the next Olympic Games gives the country great nationalistic pride.
- *The huge population further inland however, still needs basic start up work.* The high salaries, the increased cost of food and accommodations and now, the government's taxes + benefits + insurances, have forced major manufacturers like the PYI, to relocate at least the sewing lines in areas which are minimum 4 hours away from Zhuhai and Zhongshan. Major development areas are now in Szechwan and Yunnan.
- The economy is still very much *centrally, party and military controlled*. Good to a point, but things can also swing the other way.
- The huge network of *cronies, families and local government's investment* will catch up to them some time in the future.
- Still many *state owned companies* are producing what nobody wants, although this is rapidly changing as private industry takes over.
- **The banking industry is facing major difficulties**, though they are trying to fix this and are now allowing many foreign banks and buyouts of local ones. China (together with the Asian countries) has around US$ 3 trillion foreign money reserves, much of which is lent back to USA or Europe to fund debt-driven consumption (but earning their respective governments near zero interest). Because of weak banking controls and regional mistrust in the local banking systems, most of the money still goes through banks in London and New York, rather than Tokyo, Hong Kong or Singapore thus depriving local banks the funds to broaden their lending to local businesses and consumers. Currently all these Asian countries are exporting capital to OECD countries because they lack the necessary sophistication to allow local investors greater rates of returns on much needed local development projects.
- **Rising prices affecting fob's** leading to
  - *Currency appreciation:* the RMB is now stronger than the HK$.
  - *Material prices are going up.*
  - *Labour costs are rising*: many cities are mandating sizable pay increases for workers and many are pushing out apparel and footwear companies in favour of hi-tech

industries. The average cost of a floor worker in the Guangdong province is now reaching US$ 150-175/month and rising. (1,700 Brazilians are working in Guangdong province as designers, patternmakers and technicians because they earn two to three times more than what they can get in Rio Grande do Sul.)

- **Anti-dumping threats** from Europe and increasing WTO safeguard requests files by countries such as Taiwan, Jordan, Turkey, Russia and some South American countries, to name a few. (***Annex 8*** refers to allegations of China/Vietnam dumping practices and ***Annex 10*** shows how China's power erodes free-trade support in developing countries**.)**
- **Quotas** are imposed on Chinese goods and pushing buyers towards Indo-China.
- **Environment issues**. It should be remembered that the majority of the land available around or nearby the big cities and towns in the coastal areas have been converted into new residential/shopping/entertainment complexes and new manufacturing facilities. Unfortunately these unbelievable developments have put a major strain on existing infrastructures/services and have caused severe deteriorations of the air and water quality, badly infecting rivers and water tables. Local governments are aware of this, but the speed of growth will not slow down. With its past booming industry growth and the resulting toxic rivers, smog, mass migration and serious food shortages, due to global warming, all suggest that its *"grow first, cleanup later"* is out of step with the environmental challenge it is increasingly facing. China is about to surpass the USA as the major culprit for the climate change issue (whereas its per capita ratio for emission of greenhouse gasses is only 1/6 of that of the USA). It is the sheer volume of its population which is having the world pointing the finger at China and accusing it of becoming the world's "bogey-man".
- **Human rights issues** pressure to force manufacturers and local governments to respect workers rights, health and well-being, if only by major brands like NIKE, ADIDAS, REEBOK and a few others. (The majority of buyers, however, do unfortunately not care much about this. Price is the driving force.)
- Rising numbers of **law suits for intellectual property right (IPR) infringements** China produces 40% of the 450 billion counterfeit businesses in the world. Copying in China is not seen as a problem since in its culture it is a sign of respect towards the original work. (***Annex 11*** contains information regarding China and Counterfeiting).
- **Relative low productivity** affecting number of shoe factories. It has been quite common to say that Chinese do not care about factory productivity and, when there is a problem or a production bottleneck, the managers would just throw more workers in to solve the issue. This trend used to be true, encouraged by Chinese authorities policy of rewarding not so much efficiency, as the number of people which had been put to work. But there has been a reaction to this of late: the concept of reduced time lines and increased efficiency is the new key word, because of pressure on profit margins and relative shortage of skilled operators. Recently, the Taiwanese machinery suppliers have also seen the light and you can now start to find the latest computerized cutting and stitching machines in production.
- **Management problems.** Management career oriented students are relatively few because everybody wants money (and they want money now) so there is little strive for a career plan or tomorrow (English is the preferred study field as they believe they can get higher salaries with foreign companies). There is little loyalty to companies, only to money, according to a foreign expert working in China. He claims there is an urgent need for education at school, college and management level to teach loyalty, career planning, professionalism and patience. Many foreign companies have large overheads as they have to bring their own management personnel whom sometimes cannot adjust to Chinese work force because of cultural, ethical and priority differences.

- **Big corporate buyers worry about over-commitment to China**. Major power houses, whose policy it is not to order more than 40% of all their total worldwide sales in one single country, have started to become concerned about the huge size of their operations in China. Hence their efforts to spread around production more evenly and the welcome news in other producing countries:
  - One of NIKE's biggest Chinese suppliers (FENGTAY) has been asked (?) to start a manufacturing plant in South India (managed by China managers).
  - ADIDAS' biggest China partner, APACHE has initiated a 25,000 job project, also in India (close to Chennai) and also with Chinese managers.
  - In addition one can mention the decision from Denmark's ECCO to stop its expansion in China and move additional capacity to its other plants in Indonesia, Thailand etc. The company manufactured 13 million pairs in 2005, including one million in China.
  - Leather goods projects: China TWINKLE and YAMANI transferring overflow production to India (again near Chennai).

SCENARIO 2B: China Curtails Production, Others Increase their Output

This scenario suggests that together with China curtailing its production, the "rest of the world" slowly gets its act together. The European footwear industry is still highly competitive and combative, both on the EU internal market and on global markets.
(***Annex 12*** contains views on the possible development of the Italian shoe trade and
Annex 13 talks about the healthy condition of the European Tanning industry).
However, whilst the EU market is open to imports of an ever increasing number of low-priced shoes, many potential export markets remain virtually closed. The fact that the EU industry is still able to sell about one quarter of all footwear produced to third countries, is mainly due to its considerable competitive strengths in areas such as quality, design and fashion. As long as there are still major EU footwear manufacturing success stories like TODS, GEOX, PRADA, ECCO, LOBB, MORESCHI, BERLUTI, EDWARD GREEN, CROCKETT & JONES, MAGNANNI, to name just a few, there are strong reasons to believe that things can be done to successfully fight back and compete, ideally within production clusters like – among others – Vigevano, Montebelluna, Brenta, S. Joao de Madeira, Porto, Elmansa and Elche areas. After very hard times and ensuing depressive mood within the industry, hope is back for a slow recovery which could start as soon as 2008.

In Asian, South American and African developing countries one has to distinguish between "local factories" struggling with major difficulties and the ones which are lucky to benefit from

- the *support* of a structured foreign buyer, taking care of the marketing;
- the *protection* of the precious off-shore status, giving access to the latest fashion, technical information, materials and components and allows them fast import/export custom clearances.

Which are policies that can be put in place to obtain above mentioned recovery?

Actions on a Country Basis and with Government Support

- Import tariffs/quotas or *anti-dumping taxes*, if considered as temporary protection and slow down measures. (**Annex 9** : EU penalties on Chinese shoes , a lose-lose decision and ***Annex 14*** introduces official Italian aspirations for introducing and/or maintaining anti-dumping measures in the international footwear trade.)
- Keep the political pressure for the re-evaluation of the Chinese currency, which could happen sooner than expected as China just accepted to attempt to reduce its huge trade surplus.

- Competing countries have to become more *user friendly* for developing and manufacturing and make it easy to do business. China does this well. People need a reason to think of doing business in certain places.
- Push design facilities.
- *Maintain low currency exchange rate* (Indonesia did this too late and only when forced by political turmoil).
- Provide *incentives to build efficient factories* providing land, buildings and tax breaks.

Actions on a Regional Basis with the Help of Local Professional Associations

- *Centralize shoe making* in low cost regions with infrastructure i.e. last/outsole making and material and component supplies.
- Develop and encourage *local support industry* to supply the end product manufacturers.
- *Encourage locally owned factories* and not just rely on outside people to build the industry. It is too easy to move on and out, if you are foreigner. This is what happened in Thailand, Indonesia in Asia; as well as in Tunisia and Morocco in North Africa. If you are local, you have to think long term and want to stay in your country.
- Look at *horizontal integration*, so that there are literally dozens of factories and suppliers in one area for a given industry. This is crucial for development and rapidity of manufacturing from start to finish. (This is why India is so limited in its capabilities, though I believe things are changing somewhat, but again with foreign input and ownership which casts a doubt on their capabilities for what is required in large scale footwear manufacturing.) Some public and private policies have given remarkable results in this field: one thinks, for instance, of the specialized Elche district in Spain or the area in the Italian Marche region, where TODS is thriving (in opposition with the surrounding districts, penalized by less integration and lack of sufficient public support policies).
  (Annex 15 provides information on Elche, the "footwear capital" of Spain.)
- Another example, still in Italy, is the Montebelluna district which accounted for 45% of Italian production of basketball shoes, 80% of football/soccer shoes and ice and roller skates. Within Europe Montebelluna produces 75% of ski boots and 65% of the après ski.
  Manufacturing Districts or Clusters
  It is the place where production is the result of a network of relationships between different actors, linked by territorial, cultural and economic commonalities. Development of the district system of production started with the beginning of specialisation processes and the first signs of inter-firm co-operations and network. It is typified by close linkage created between production and distribution and a deep understanding of customers' needs. The process of continuous re-assessment and change is strongly market driven, as production is adjusted to best satisfy demand. Operating cost concerns have, over time, generated an increasing tendency to externalise parts of entire production processes to low-wage countries, mostly in Eastern Europe, while maintaining product design, conception and commercialisation in Montebelluna.

Actions Individual Factories can Undertake

Ingredient 1: *Great Product Range*

- ✓ *Use specialized home products* that utilize indigene hides, textiles, components. Get people thinking about your country again. In addition to women's and men's fashion, become the supplier, for instance, for hi-tech injected Wellington boot business, with relevant international last shapes which are few and far between in China.
- ✓ Since China is set up for very large runs/quantities where quality is often not a major issue, one of the solutions is "*fast fashion*": changing collections at least 4 to 5 times a year with quick deliveries, lots of different styles and very small runs, just like groups

like ZARA **(**Inditex) and HENNES&MAURITZ are doing, with great success (and profits) in garments.

- ✓ Make sure to have a *saleable collection* with the collaboration of a talented designer/stylist. In order to understand the importance of design and product development, it is useful to define the professional profile of the person behind it: a footwear designer and pattern maker. He/she designs and realises prototypes of shoes to be offered to customers, considering fashion renewal needs, specific requirements (technical, economic and marketing) of the manufacturing company he is working for as staff (or free-lance consultant). His/her professional skills should include (but unfortunately too rarely do):
  - skill to engineer and grade the patterns successfully for production;
  - determination of fashion trends and their right interpretation, in order to be transferred into the company context;
  - knowledge of raw materials, accessories-components, their characteristics and proper ways of application to new collections;
  - technique of leather cutting, upper stitching, assembly (making) line;
  - use of CAD/CAM technology;
  - economic characteristics of the footwear company, its competitiveness on the international market.

  Note: If a company does not have an in-house designer, it can get away with having trained personnel who can quickly and accurately duplicate a prototype from a supplied sample, a picture or a drawing (from specialized footwear magazines like ARS SUTORIA among others). In this case all technical development and grading work will need to be given to services, specialized in this kind of sub-contract jobs.

Ingredient 2: *Well Introduced and Dynamic Marketing arm.*

It is difficult to say which of the three elements is more important, but marketing is definitely crucial. An example is a shoe factory in North Africa, which is making very modern and fashionable quality Goodyear-welted shoes, with first class materials and at a very competitive price. People who have seen its collection are all keen to buy the shoes, but because the sales element is cruelly missing, the factory has problems filling its order book.

All the products and resources a company can offer are of little benefit if they can not be communicated to your customer or your customer is unable to get in touch with you. (***Annex 16*** offers a few **marketing tips** to give a company as professional presence as possible, within its financial means).

Ingredient 3: *Good Factory Organisation*

Such factory structure features efficient planning, quality control and high-reactivity capacity. For the technicalities of defining what is needed to reorganize in a factory, UNIDO together with national associations, selected research centres (e.g. SATRA TECHNOLOGY CENTRE from UK, CENTRE TECHNIQUE CUIR CHAUSSURE MAROQUINERIE – CTC in France, INSTITUTO ESPAÑOL DEL CALZADO Y CONEXAS ASOCIACION DE INVESTIGACION **–** INESCOP in Spain) can do a lot in order to help industries in developed and developing countries, suffering from the South-East Asia onslaught.

The idea is, just as the INTERNATIONAL TRADE CENTRE (ITC) proposes an export marketing book**,** to define what is a "top of the art factory" in terms of efficiency of operations, quality of product manufacturing, high production turnaround capability, because there are too many factories where top and medium management do not have at their disposal the necessary references to use the available human resources, machines and equipments to their optimum possibilities.

In practice there are various benchmarks (which can obviously vary from country to country) that characterize factories. The following can be regarded as guidelines that spells out the indispensable best practices to achieve this model manufacturing unit:

Step 1: First and foremost requisite: when, in any given factory, the type of product and its construction has been defined, management has to look early on at adequate technology**,** i.e. what type of work organisation to adopt in the closing room? "Team or group work"? In case of a conveyor, should the choice be an FOF (feeder-operator-feeder) or one with continuous speed? In the lasting and assembly area: trolleys or a flat (or a 2 or 3 level) conveyor? Definitely attention should be paid to the very efficient rink system which gives good results wherever correctly introduced.

Note: The question should always be asked: "Are we using the same production processes for 75 % of your shoes that we used 5 years ago?"

- *Closing room productivity* will be kept as close as possible to 20 pairs/day, per operator which is considered as the entry level to optimum productivity.
- *Procurement* has to secure materials and components of good quality with regular systematic or random quality / conformity tests.
- *Models* are to be put in production only when technically well conceived and developed and, ideally, after a first meeting with dealers and focus groups of customers to get their reactions. Categories should then be made between men's, women's and children's shoes and production processes defined.
- Operating instructions and production processes need *well spelled out and understood* by people involved.
- Production tickets and production advancement forms will be *clear and precise.*
- *Investment* will be made in the best available machinery and equipments (finances allowing) well maintained with spare parts available.
- Departments will be *adequately loaded***.**
- After having made certain they have been well trained, operators will be briefed on a daily basis, regularly supplied with work and will benefit from *close supervision* **:** one supervisor by conveyor or department which allows them to concentrate on their work and does not force them to continuously move away from their place.
- Production buildings will be *clean, well ventilated and lighted* with properly organized working areas.
- *Strict consumption records* will be kept and regularly scrutinized and corrective measures taken in cases of over consumption.
- *Quality control* will be strictly enforced and accompanied by immediate improvement actions in case of malpractice, in order to keep rejects to the 1.5% of total output, which is the benchmark generally accepted in the industry and the average among well organized factories. Crucial in this area is to systematically inspect and assess the customer's claims arriving at the factory, together with the responsible production persons.
- A tight but ***fair discipline*** (possibly) well accepted by operators.
- *Technical supervisory staff will be available* at all times, competent and proud of their job.
- Management will keep a close *look at daily operations*, quality reports and accounting figures and never hesitate to challenge and improve on-going procedures.

Step 2: Having described the concept of *model factory*, the next step will be to elaborate a formal *check list* which will spell out, very precisely, for all departments, what is needed in terms of human resources, organisation and equipments, in order to achieve (and eventually surpass?) above mentioned model. With the help of this check-list, it will be possible to draft a *Code of Excellence* (or *Code of Best Practice*) that will help individual industrialist (or complete sectors) to attain the said model.

Step 3: At this point, countries or footwear associations can *select the candidate factories* demonstrating the capacities and (most of all) the determination to participate in this challenge.

Step 4: When a commitment has been obtained from the management of these pilot factories (A limited number to start with), a *formal contract of excellence* will need to be signed with the concerned MINISTRY OF INDUSTRY (or FOOTWEAR ASSOCIATION) which will define the necessary legal framework, the pre-conditions and the mutual commitments which will allow said companies to achieve the results mentioned in the contract of excellence. (For instance exemption of import duties from the MINISTRY in exchange for promises of investments from the industrialists.)

Step 5: Establish a *road map* and nominate the people from the factories' (and public authority's sides), whom will be in charge of making sure, at regular intervals and in a formalised fashion, that the reality of the results does match the targets which will have been planned, certified and signed upon.

SCENARIO 3: Increased Competitiveness through Technical Innovation

New technologies will be found to produce shoes in a more automated, less labour-intensive way thus allowing industrialised and developing countries outside of South-East Asia to catch up and revive their footwear industries.

CEC-Made-Shoe

The promising EU supported project entitled *"CEC Custom, Environment and Comfort Made Shoe"* (for details see www.cec-made-shoe.com) was launched in October 2004 with duration of 4 years and budget of 20.4 million €.

The challenging breakthrough strategy of CEC-Made-Shoe is the development of radical invocations, which can constitute in the coming years instruments for increasing the competitiveness of the European SME footwear sector. This is possible since for the first time in history a consortium of 52 partners of different disciplines and from other sectors share their research effort based on one comprehensive and radical new view on footwear R&D. The project aims at moving sector from a product centred shoe approach to a human centred approach that is represented by a 3 dimensions of human being:

- *Comfort:* focusing on the foot in all aspects of walking, running and standing'
- *Environment:* societal focusing on 100 % nature friendly materials and process sustainability.
- *Custom:* consumers involvement focusing on style and fashion.

This project is guided by industry partners who want to monitor, test and validate from the industry side, the research activities and results obtained. This project should facilitate quick reaction and delivery to the market, new shoe (product) concepts, materials and processes, by

preference environmentally sustainable. In addition, new sales concept, training and dissemination activities and the overall electronic integration of the supply chain complete this R&D picture.

Along the same line of thoughts, we can mention another user and environment-friendly project which does add credence to this third scenario.

NIKE'S Re-use a Shoe
(*Source:* Footwear Magazine 2/2007)

Fig. 13

Let's face it. NIKE is the penultimate scapegoat of the human rights, American labour, and environmental activist groups in the USA and abroad.
Previous allegations include sweatshop working conditions, toxic and carcinogenic content of their shoes and manufacturing waste, and disregard for the disposal of the millions of short-lifetime shoes it produces every year. But there's always a chance for somebody to turn their sketchy ways around and surprise you. For NIKE, maybe that chance is now.
NIKE's new "Considered" line of shoes is the first one that has included such a blatantly sustainable slant in its pitch. Previous strategies, like their push to reduce PVC use in products, and their Re-use-a-Shoe program to recycle shoe soles into sport surfaces did not ever have the kind of force or commitment behind them to satisfy the environmentalist community.
But **Considered** is different.
Not only does the new line include standard "environmentally conscious" goals like incorporating recycled rubber, and reducing manufacturing wastage, but from the outset, NIKE sets itself up with some very ambitious additional goals.
These shoes will be designed without adhesives of any kind, to reduce the toxic effects on workers in factories, and the environment.
These shoes will be designed for total component disassembly, for easy recycling.
They will source materials within 200 miles of factories in order to reduce fuel consumption.
And wherever possible, strategies like woven lace uppers are used to minimize the need to cut patterns.
In the end, we will have to see whether this latest attempt by NIKE is for real. But it's sure good to see them trying.

RECOMMENDATIONS

To (National) Governments in Emerging Economies

1.1. In countries with young emerging industries, imports should be limited to a 50% share of the local market in terms of pairs in order to create a viable domestic market for shoe manufacturing. This can be done by negotiating reduction of imports, especially through a safeguarding mechanism with China (since Chinese authorities have officially vowed not to hurt industries in developing countries).

1.2. All shoes made in any given country or imported, should have the EU pictogram attached to at least half a pair. This tells the consumer what the shoe is made of, i.e. the nature of upper/lining material and solid soling material.

1.3. All shoes should have a label clearly showing the country of origin in order to try and stop "triangulation", i.e. shoes made in one country and shipped to a second for import into the third in order to avoid duties and dumping charges.

1.4. Consumers in all countries should be protected by law so that they can be assured of goods of merchantable quality and are not cheated by unscrupulous retailers. The same laws should specify an outright ban on sale of second hand footwear which can cause definite health risks.

1.5. The countries' institutes dealing with standards and metrology should have authority to check on shoes entering the territory.

1.6. Reduction to a zero rate of the duties on all raw materials required to be imported for shoe manufacture, as well as on critical basic machinery.

1.7. Financial incentive should be given to a selected group of shoe companies, on a cost-sharing basis, to become development pathfinders.

To Shoe Manufacturing Companies

2.1. **Keeping faith in the future**. The phenomenon of China's trade surplus with the USA quadrupling between 2004 and 2006 has something exceptional and irrational about it and some think that, before long, the market forces will take care of this "bubble" just like they deflated the Internet bubble in the late 1990s and the Japanese and Taiwanese ones two decades ago. The real cause of the global US trade deficit is that Americans spend too much and save too little. This means that they have to import surplus savings from abroad by running a current-account deficit which, as a result, is weakening the US$ and, in turn, hurts economies confronted with the US tumbling currency.

At the same time the Chinese with lots of foreign money at their disposal and facing the simple choice of low-yielding bank accounts or booming stock markets, have pushed the share market up by half this year and 250% in the last two years. (Even housekeepers are reported to be leaving low-paid jobs to play the market.) One in many recent results was that five million new Chinese 'retail' investors have opened brokers' accounts just in the month of April 2007 alone, two-thirds more than in the whole of last year.

> ***Recommendation****: These exceptional economic conditions (and the issues which China has to deal with, mentioned in scenario 2a) will one day have to give and meanwhile, shoe manufacturers, in the West and in developing countries, who feel strong and confident about their product and their market potential, should keep faith in the future and ought to be* ***"digging in"****, be patient and wait for the storm to*

subside. The future is, in any event, going to be a hard and long battle and only the resilient ones will make it.

2.2. **Trim** : while waiting for market conditions to return to a more normal pattern, manufacturers should take the opportunity to re-assess all aspects of their enterprise and reduce the cost of their operation.

***Recommendation**: The buzz word should be: become **"lean and mean"** by cutting unproductive expenses/overheads as well as shedding non-profitable activities. One useful exercise, for instance, is to review the selling prices, then re-cost the shoe to make sure they can still be made at the current price. If the price is too low, then costs have to be cut, not prices increased. If this is not possible then the article should be abandoned.*

2.3. **Ganging together.** It is, unfortunately, a common and natural tendency, in the footwear industry to be overly secretive and try to hide ones "exclusive" collections and so-called manufacturing "secrets".

It has to be asserted once and for all: ***There are VERY few secrets left in shoe manufacturing!***

What will, in final analysis, make the difference in success between two competitors

a) lies in the strengths, enthusiasm and talents of their individual teams (top and middle management, technicians, work and sales force);
b) the degree of determination of top management to reassess its methodology and its willingness to invest in permanently updated technologies and operating methods.

It is therefore absolutely suicidal for so many factory owners to be suspicious of their next door colleague and refuse all of the benefits collaboration and cohesion can bring within an industry sector.

***Recommendations** (not exhaustive):*

- *With support and guidance of the Government and the CHAMBER OF COMMERCE AND INDUSTRY (or similar organization) form an association with several other shoe factories in the region (or several associations, in case there are conflicting interests between members).*
- *With the help of the ASSOCIATION form a buying group in order to import necessary basic materials, insole board, toe puff and counter sheets, grinderies etc.*
- *With quality software management packages (specific for shoe manufacturing/retailing) being out of the financial reach of most small and medium scale factories (starting cost is currently at 100,000 € for the whole set-up + training of staff) it would, once again, be a good initiative to pull together resources and have a group talk with the specialized firms. There is no problem for a number of factories in the same area to have a similar accounting/management computer set-up.*
- *Establish regional linkages with counterparts in neighbouring countries in view of having joint initiatives/lobbying.*
- *In order to allow fast reaction time to customer's requests, try to attract investment in tanning, if procurement of suitable leather is not available, has a prohibitive transit time or is not of the required quality/price. This can be finishing tanneries to start with (processing wet blue leather) to minimise risk and investment.*
- *Establish contacts with machine suppliers associations (e.g. ASSOMAC) for joint visits to LineaPelle and SIMAC or link with research institutes (e.g. CTC,*

SATRA, INESCOP) for keeping up to date with the latest technological developments.

- *Set-up a unified plan for targeting selected common markets and take advantage of existing export promotion schemes specific to the leather industry.*

2.4. **Training and re-training.** As said above, the most valuable asset of a company is the addition of all the skills and potentials of its management and workforce. Continuous training (and re-training) of personnel is therefore a matter of survival.

Recommendations*:*

- *Training in pattern engineering: pattern making, grading by machine and CAD.*
- *Training should also be in costing techniques - material allowances – labour rates.*
- *An important segment of training is shoe factory workshop management: work flow, loading of operators (balancing a production line).*
- *Training of operators: this should be upgraded from the usual machine control level to full speed operation (modern sewing machines, for instance, operate at around 2,000-2,300 stitches/minute).*
- *There is certainly a need to upgrade the skills of senior managers and owners in marketing techniques. The critical areas are : segmentation – positioning – targeting – promotion – distribution.*

  Note*: One will, however, in this last instance, be careful to keep a healthy balance between sound traditional shoemaking and "all-out" marketing: during a visit to a children's factory lately in Novo Hamburgo, a costly investment with young people (without formal footwear background) being purposely put in charge, one could see that the shoes had lots of "fancy" marketing features but were cruelly missing some basic quality requirements which are so important in children shoes (hardly any upper reinforcements and no rigid shanks, for instance)*

2.5. **Quality assessment.** With footwear manufacturing becoming global and shoe consignments being shipped to far distances worldwide, quality issues are going to become increasingly intricate to resolve.

Recommendation*: Review all articles according to criteria of international acceptance: there will definitely be a need to re-engineer/re-design a number of current articles to the standards and features under ISO (for Europe) and ASTM (for USA).*

2.6. **Benchmarking.** This period of turmoil and uncertainty is a crucial time to ascertain one's performance as compared to accepted productivity benchmarks. China experts believe that its shoe industry can be beaten when it comes to productivity expressed in pairs/day/worker (which is somewhere between 5 and 10 pairs on the average, depending on the type of articles.) Productivity in Chinese well equipped shoe factories is normally half or even less than that of shown in leading shoe manufacturing plants in Western Europe (e.g. Italy, Portugal, Spain).

Recommendation*. Each factory is to assess how its numbers compare with the above and make a plan on how, in stages, to reach the minimum level of*

- *5 pairs/operator/day for expensive Blake sewn or Goodyear welted footwear;*
- *10 pairs/operator/day for middle of the range, leather shoes;*
- *15 pairs/operator/day for "low budget" type of footwear and strive for 20 pairs/operator/day.*

2.7. **"Final touch".** Whatever efforts a manufacturer puts into design, marketing and manufacturing, it is always ultimately the end consumer who is going to decide whether he likes the product or not.

> ***Recommendation****: Consumers buy mostly with their eyes and it is therefore crucial to have a very close look at the final cosmetics one can give to the product before shipping it. It is proven fact that a nice deep shine, clean linings, attention to minor details, a crisp bright packing, etc will give the shoe a far better chance to catch the eye of the final customer. There are examples in the market of factories getting up to 20% better margins for identical products as the competition, just by spending additional time in the shoe room/finishing.*

2.8. **ICT development.** There is a need to look at new approaches to do business. ICT was the main factor which helped Finland and Sweden as the only European countries to match the American record productivity growth of 10.4% last year. Perfect mastery of English is in this field a prime requisite: it no coincidence that, more than the Latin part of Europe, the countries where English is the first or second language have fared better in terms of their economy (UK, Ireland, the entire Scandinavia, the Netherlands, Germany, Flanders in Belgium where English has supplanted French as second language).

2.9. **Future trends: brands or "private" designer labels?** When people involved in footwear production/marketing look for something to go by for future trends, they would be well inspired to study what is happening in garment retailing in USA and EU (Garments being traditionally one step ahead of the evolution/revolution when it comes to labour intensive produced products): traditional brands are more popular with a large segment of the young consumers as well as with the wealthy and "happy few", who together constitute around 20% of the market and, on a single sell, are more profitable than mid-range brands. But in USA, at big department stores such as JC PENNEY and MACY'S, private-label lines have been growing three times as fast as wholesale lines. The trend is not limited to the USA. Private-label brands are on the rise in British department stores as well, such as SELFRIDGES and HARRODS, which are expanding their own clothing lines. Design teams work directly with manufacturers to create private-label collections, avoiding the mark-up applied by apparel companies which normally serve as middlemen between retailers and clothing factories. This means higher margins for the department stores, retail chains and buyer's groups.

> ***Recommendation****: It would be only natural to conclude that, for shoe manufacturers, the criteria in their marketing search should be hunting for whatever will allow them to give one (or more) among the major players representing the "final links" to the consumer, the largest possible profit and trying to be part of this buyer's process through negotiating licensing and/or exclusivity agreements, arrangements on fast deliveries, pricing etc.*

2.9. **Link with famous names.** Another possible way future trends could take is what fashion chains such as HENNES and MAURITZ, ZARA and GAP are doing now when launching "celebrity lines" such as "M by Madonna" (H&M), the "Kate Moss" line of clothes for TOP SHOP in the UK, the "Kylie Minogue" swimwear line etc. – all creating hysteria as customers queue for hours to be the first to buy.

> ***Recommendation.*** *It is a fairly safe bet to try to link with a local, regional or even with an international sport, media or entertainment celebrity in one's branding/marketing with the aim of possibly getting the consumer's attention and interest.*

2.10. **Range building/engineering, new technologies and shoe industry prospective.** Come to think of it, what does a Western, average income, educated consumer look for when he buys a pair of shoes? She/he will choose a pair for all the reasons below, but her/his priorities will have her/him arrange these in different orders, depending on whether she/he is more concerned with economy, taste for fashion, need for her/his feet to feel comfortable or satisfaction for acquiring a quality item which she/he can put to a long use and not feel cheated with because of poor quality. Overall, consumers look for the following when buying shoes:

- ***comfort:*** a shoe which can be worn one day, one evening without it hurting the feet;
- ***quality:*** one which is going to last for at least 6 months without wearing out too soon;
- ***style:*** an article which will be adequate because it fits her/his style and clothing;
- ***price:*** a purchase which her/his budget can easily (or reasonably) afford.

None of these motivations, except maybe price, should make this consumer buy a shoe which is manufactured as far away as 10,000 km from the place where she/he lives in. Actually, for somebody who wants comfort, quality or style, she/he is probably better suited with shoes made in Italy, Spain, France, UK or Portugal because that is where

- the best last makers are;
- the most advanced research centres are established developing more hygienic, environmentally friendly, recyclable materials;
- the best designers work who decide fashion trends;
- the best quality lining and upper leathers are tanned and the best sole materials are produced;
- retailers can have fast and multiple deliveries all over the year.

So **pricing** is left as the only single issue which justifies going around the globe for purchases (and probably production capacity since footwear has become a disposable item which people want to change 5, 6 to 7 times a year in USA and Europe, that consume half of the world's production).

Recommendation. *Let us look at the costs which prohibit producing shoes in closer proximity to the consumer markets:*

- *Material cutting. With new laser (and other) automated/computerized cutting techniques (after the original investment in equipment has been made) it is definitely cheaper to cut in an advanced industrial environment rather than transporting materials 10,000 km for the purpose of having the job done (less accurately) on individual swing-arm presses.*
- *Upper assembly. Suitable investments in computerised stitching machines combined with 'non-stitch' assembly techniques and moulding machines, could gradually allow the industry to move away from the traditional "labour intensive" aspect of closing.*
- *Lasting and sole attachments. With the progresses made in computerised and robotic equipments, the labour cost factor advantage might swing back towards modernized shoe-making in the coming years, bringing it closer to the 10% recorded in the tanning industry. (See Scenario 3: The CEC-Made-Shoe).*

Final Comment

The conclusion of the above is that producers in Western countries have probably given up too easily on picking up the challenge from East-Asia imports. The prediction that possible the shoe industry could partly come back to industrialized countries within the next decade do not sound as much of a utopia as one might think. Some examples in Europe (like VAN BOMMEL in the Netherlands and TODS in Italy) and the "CEC-Made-Shoe" project have given some early indications of possible forthcoming shifts. The future will tell whether these are just rear-guard battles or the signs of an evolving industry.

For this scenario to materialize there will be a need for a fresh approach concerning the role of the designer-patternmaker, just like it already (to a large degree) happened in the sport shoe industry and in other areas like architecture where over the last decades the design side of the architect's job description has been giving way to an equal focus on industrial engineering.

The curriculum of the shoe designer-developer could become part of university degree, giving scientific students with an artistic inclination, the option, within industrial engineering, to go through the usual emphasis in mechanics, computer science, material resistance, chemistry – supplemented by an ARS SUTORIA type of design crash course.

The future will depend on how determined the more progressive footwear industrialists will be to take this route. They will want to remember the old adage: **"The height of insanity is doing things the same old way and hoping for a different result."**

Annex 1

The Brazilian Footwear Industry

In the last four decades, Brazil has played a relevant role in the Footwear History. The largest country in Latin America is one of the most outstanding manufacturers of leather articles, holding the third position in the ranking of the largest world producers, and having as well important participation in the share of women's shoes, which combine quality and accessible prices. The shipments abroad have been growing yearly, to over a hundred countries.

Although the concentration of large size companies is located in the state of Rio Grande do Sul, the Brazilian footwear production is gradually being distributed to other centres, located in the Southeast and Northeast regions of the country, being highlighted the interior of the state of São Paulo (cities of Jaú, Franca and Birigui), as well as the emerging states such as Ceará and Bahia. There is also growth in the footwear production in the state of Santa Catarina (region of São João Batista), the neighboring state of Rio Grande do Sul, and in Minas Gerais (region of Nova Serrana).

Nowadays, the Brazilian Footwear park presents over seven thousand industries, which produce approximately 755 million pairs/year, 212 million being destined to exports. The sector is among those generating more jobs in the country. In 2004, around 300 thousand workers operated directly in the industry.

The large variety of raw material, machinery, and component suppliers, allied to the products technology and innovation, makes the Brazilian footwear sector one of the most important in the world. There are over 300 component industries installed in Brazil, more than 400 companies specialize in tanning and leather finishing, processing yearly over 300 million hides, and around a hundred machinery and equipment factories.

It is with this highly capacitated structure that the footwear manufacturers perform the production of Brazilian footwear, presently exported to over 130 countries, with modern concepts of production administration and manufacture management, such as just in time, and other international quality processes. It is a highly specialized industry in every kind of shoes: women's, men's, and children's, besides special shoes, such as orthopaedic and work safety shoes.

Exports destination – The Brazilian footwear export sector structure is one of the most modern in the world. In 2004, 212 million pairs were exported. The marketing strategy involves the presence of Brazilian entrepreneurs in the most important international fairs, such as GDS, in Germany, MICAN, in Italy, Moss Shoes, in Russia, and the Las Vegas Show, in the United States. Latin America has been the target of different initiatives, such as the promotion of show rooms in the major consuming countries, as Argentina, Venezuela, Chile and Colombia.

Due to the speed in obtaining information about the fashion world trends, added to the ease to obtain raw materials to develop the adequate modelling for the buying market, and afterwards the manufacture in series, Brazilian footwear producers have ample conditions to answer to the demand of importers of the most different profiles. Examples are the shoes manufactured for important brands, and North American and European stores, which are already used to see made in Brazil printed on their footwear.

The United States is the principal buyer of Brazilian shoes, with 70% of the exported total. To increase the sales percentage in other countries, particularly of Latin America and the Middle East, the sector has been developing a project so that more companies shall be part of the commercial balance, principally those of small and medium size.

he production diversification is another competitive factor, as the adaptation to the most different collections is very fast. This enables Brazil to produce all kinds of footwear to meet the needs of both the domestic and the foreign markets.

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Annex 2

Pakistan's Leather Goods Export Declines by 63%

By Shahzad Anwar

(*Karachi*) In continuation of preceding months a drastic reduction of 63.34% was recorded in the export of leather garments, leather gloves, and leather footwear in January 2007.

The value of total exports of leather manufactures stood around US$ 20.697 million in January 2007 as against US$ 40.419 million in December 2006. The export of leather garments declined by 61.25% in terms of quantity and 58.02% in value during this period.

The exporters shipped around 31,000 dozen pieces of leather garments worth US$ 16.295 million in January 2007 as compared to this they had exported around 64,000 pieces of leather garments and fetched around US$ 33.389 million in December 2006. Whereas in January 2006 the export of leather garments was recorded around 80,000 pieces of worth US$ 38.816 million.

The exports of leather gloves fell by 70.73% in respect of quantity and 71.77% in term of value. According to latest figures of FEDERAL BUREAU OF STATISTIC (FBS), exporters dispatched around 120,000 dozens of gloves worth US$ 3.909 million in January 2007, contrary to this the exporters had shipped around 151,000 dozens of gloves worth US$ 4.944 million to different destinations in December 2006 and 4,10,000 dozens in January 2006 valued US$ 13.848 million.

Moreover exports of other leather manufacturers also dropped to 87.02% in value and 86.78% in term of quantity in January 2007. The total export of other leather manufacturers stood $0.493 million as against US$ 2.086 million in December 2006 and US$ 3.797 million in January 2006.

In addition the exports of leather footwear nose dived by 23.53% in January 2007, as total exports of leather footwear was recorded at 0.619 million pairs worth US$ 6.127 million, whereas in December 2006 export of leather shoes was 1.307 million pairs fetching around US$ 12.925 million.

"The exports of leather goods have been declining since July 2006 due to high cost of production, but government is meting out step motherly attitude towards leather manufacturing sector," a leading leather garment exporter *Fawad Ejaz* said.

He said that leather manufacturing sector had asked for a relief package including six percent Research & Development facility, restoration of duty draw back rates besides 25% freight subsidy for European countries. It may be noted that in 2005 government was giving 25% freight subsidy to leather manufacturers, which was withdrawn in 2006. According to industry sources China is the main competitor of Pakistani leather garments due to its low production cost even though it imports leather as raw material from Pakistan.

Annex 3

The China – Hong Kong Footwear industry: Training and Development

by Jean Pierre Bidegain

Training

A great number of organizations provide trainings for the Chinese footwear industry, including 20 state-owned institutions that propose a degree in footwear engineering. Almost 2,000 young people are graduated each year. For about ten months, a significant effort is also brought to train draftsmen and designers. Few training schemes exist for production managers and manufacturing unit directors, which results in a very poor knowledge of the production organizations. Very often managers are not even aware of the issues.

Consequently, the function of supervisor is devalued and the people concerned tend to often switch from one company to another which generates organisation changes each time.

As far as stitching room operators are concerned, they are not subjected to the pressures generated by the output rate since they are rather skilful and can't see the relevance of improving their skills since it works this way.

Moreover, in other countries, technicians gather and meet in associations and bodies to talk about their job's development. In China, they are isolated and not kept informed or updated by any trade magazines.

We have already mentioned that manufacturing competencies were poor in the Chinese footwear industry but the capacity to manufacture quality shoes does exist. We should see if the companies' defective management will be able to organize a quality production by respecting both the production objectives in volume and the delivery times.

In the long term, the management's quality, competency and capacity will be one of the Chinese footwear industry's major problems. If these drawbacks do not receive any solutions, the odds are that the output capacity will be affected very quickly and China may loose its dominating place in the sector.

Because of the widespread lack of interest in training, shoe factories don't seem to have any specific training method for the managers in charge of production.

Development

Most of Chinese shoe manufacturers have large new product development departments, mainly composed of people able to create new models. Many companies also resort to computer-aided design systems and, in this field, a significant technology transfer is taking place from international buyers and foreign firms' buying agencies, especially the American and European ones, which often have very highly-advanced computer systems.

The Chinese manufacturers are now able to create or recreate a model in less than 48 hours. They can also develop greater number of new models.

Some buyers, like the Americans, concentrate their orders on a small number of models and opt for mass production and a considerable pressure on price. Some large distribution chains ask for prices within about a cent of a dollar, putting several manufacturers in competition for orders in millions of pairs. On the contrary, many Europeans buyers order many different styles in smaller quantities.

The Chinese companies have calculated the prices on these bases and they vary according to the models ordered by the buyer. Consequently a company which has a complete tailor-made design department invoices US$ 5 dollars/pair, while a company that does not have a creation department and whose buyer order already in production, will be invoiced half the price.

An annual Footwear Design Competition organised by the TRADE DEVELOPMENT COUNCIL together with the FEDERATION OF HONG KONG FOOTWEAR LTD began seven years ago. The event has helped encourage and develop local design talent as well as enhancing the quality of Hong Kong's footwear industry.

For the 2007 design competition held in February, more than 900 entries were submitted in six categories: children's shoes, sports shoes, men's shoes, ladies' boots, ladies' sandals, and ladies' shoes plus three corporate categories.

In addition, there were a number of special awards sponsored by corporations within the shoe and leather industry. The criteria for judging focused on creativity, fashion aesthetics and ease of production.

For the first time in its seven year history, the judging panel awarded two grand prizes for the designs themed "Snow & Ice" by *Ka-Wai Li* and "Raindrop" by *Shiu-Ying Lui*.

Announcing the results of the competition, *Mr Yiu Tang*, chairman of the design competition committee and chairman of the FEDERATION OF HONG KONG FOOTWEAR LTD, said: "Hong Kong's footwear industry, with production in China, has emerged to be a global player.

"Today, of 100 pairs of shoes produced, 60-70 pairs are made in mainland China. The future for Hong Kong's footwear industry relies on improved, fashionable and creative designs and own brand development."

Mr Vincent Fang, legislative council member for wholesale and retail, added that footwear is no longer a necessity but a fashion item. "Designing fashionable styling is the key to Hong Kong industries' future."

"Only with quality and innovative designs and branding can Hong Kong's footwear industry survive, meet the challenges and excel in the international market."

Annex 4

Commodity Chain Analysis: The China Connection

Author: Dr. Jean-Paul Rodrigue – HOFSTRA UNIVERSITY, The Netherlands, 2007

China has become a crucial element in the emergence of global commodity chains. After more than 20 years of export oriented industrialization, China has captured a whole range of manufacturing activities, from the most simple and labour intensive to those with a growing level of sophistication. The footwear commodity chain is a notable example of a mature industry heavily dependant on low production costs and efficient distribution channels. Products tend to be relatively simple and success is commonly based on design, brand name and costs. It is thus a manufacturing sector that has achieved a high level of fragmentation due to globalization. From modest beginnings in the 1980s, footwear manufacturing has boomed in China. It now accounts for about 50% the world's shoe production. A brief commodity chain analysis reveals for this sector the following:

- **Origin and destination**. The Pearl River Delta has become one of the most intensive manufacturing clusters in the world, the outcome of more than two decades of foreign investments (from the mid 1980s), initially in special economic zones like Shenzhen. Mainly due to poor inland transportation, most of the manufacturing activities are clustered in the delta along main road corridors and close to port facilities. The production is exported to the rest of the world. In particular, 95% of the shoes sold in the United States are manufactured in China, which in itself represents a significant commodity chain. The nature of production commonly reveals a "platform" structure where large fashion companies (American, European and Japanese) controlling brand names are subcontracting their production. In many cases, a *brand name designer is directly interacting with a retailer*.

- **Cost function**. A *typical cost structure* in shoe manufacturing reveals that because of the low Chinese labour costs, labour became a marginal component of the production costs. Transport costs are low because of a significant value (at retail)-to-volume ratio. The most important costs are actually related to retailing and marketing, underlining the level of maturity this industry has achieved.

- **Load unit**. The typical factory output is a completed product including the wrapping and packaging (often including the price tag), ready to be put on a store shelf. Orders are placed on pallets, which are then assembled in *container loads*. The load units are containerized but the assembly can include a variety of goods bound for the same distribution centre, particularly if the retailer is diversified. At the distribution centre, these loads will be broken down, often in LTL bound to specific retailing stores.

- **Modal and "intermodal" use**. Since the export market is global, the commodity chain involves a variety of modes. The first step is commonly truck deliveries at a distribution centre where loads are assembled in containers. Those containers are then *delivered to a port facility*. Since the shoe commodity chain is globally oriented with a multitude of markets being serviced by a fairly centralized production structure, a set of complex activities are performed at the port. A particular problem is linked with containerized trade imbalances and the *loading of containerships* considering that each services different markets, customers and has a set of port calls. In 2004, about 160,000 TEUs of containers carrying shoes were imported in the United

States through west coast ports. Then, the *inland freight distribution system* carries these containers to their destinations.

- **Regulation and ownership**. This commodity chain takes place in a context where the global apparel industry operates in a free trade environment. Since shoes are simple and labour intensive products, few countries maintain duties for this type of product, which can circulate with relative ease from a regulatory perspective. The ownership of global commodity chains is increasingly concentrated since many international logistics providers have *vested interests in physical distribution activities*, notably distribution centres.

- **Distribution channel**. In the case of shoe manufacturing in China, like many manufacturing activities, "locational" issues are simple as manufacturers choose sites close to port facilities. The challenge resides in the distribution of shoe production to a multitude of customers in a multitude of countries. Many logistics and distribution firms (3PL) have started offering comprehensive freight services in China, particularly around its export oriented zones. There is thus a setting of more efficient distribution channels within China, which helps cope with the surge of exports.

- **Added value**. It is typical in this commodity chain that the designer and the retailer capture the great majority of the added value (25% and 50% respectively).

The sequence provided here has focused more specifically on the transportation and distribution aspects of the commodity chain. It reveals a "globalized" and fragmented industry seeking to extract as much added value as possible from a mature product being the object of intense competition for its production and retailing.

Annex 5

5 Ways Vietnam can cut into China's Footwear Market

Bill Belew, 15 February 2007

Last year, the United States imported 20 billion dollars worth of footwear products and accessories. Vietnam accounted for *just 5% of that revenue.* But, 5% beats 4% or 3% or...

Somebody or somebodies, and rightfully so, are beginning to realize that *everything* being manufactured in China is *not* a good thing.

Many US companies are beginning to realize the need to diversity the market for their footwear suppliers. Vietnam is on the list.

Vietnam needs only to:

1. step up its number of skilled workers
2. launch more promotional activities
3. intensify investment in modern equipment
4. get accepted into the WORLD TRADE ORGANIZATION
5. be conferred with Permanent Normal Trade Relations by the United States
6. court USA footwear importers when it comes to intricate design and high quality

Vietnam's Trade Minister thinks its country can reach 20% market share this year. The country already exports to the U.S., Europe, Japan and Africa.

The footwear industry in Vietnam grew almost 17% last year to 3.6 billion dollars.

Vietnam will never beat China in overall manufacturing. China's 1.3 billion population far outnumbers Vietnam's 84 million.

But, if a country that is 16 times smaller than China can take just 10% market share away from its giant competitor...that will be a victory in itself.

Annex 6

Dumping Suit Harms Vietnam's EU Shoe Exports

VINH PHU SHOE COMPANY workers check sport shoes for export. The country's footwear exports to the European Union have decreased due to an EU anti-dumping lawsuit. — VNA/VNS Photo *Hong Hoa*

Hanoi — The amount of Vietnamese footwear exports heading to the European Union has decreased due to an EU anti-dumping lawsuit, according to the latest statistics from the VIET NAM FOOTWEAR ASSOCIATION.

Viet Nam's footwear shipments to the European Union currently represent only a half of the country's total footwear export turnover, instead of the previous ratio of 70%, due to the EU's anti-dumping lawsuit.

However, the association said the EU has remained Viet Nam's key footwear export market as the country's exports to the market still continuously enjoy tax incentives from the EU Generalised System of Preferences.

European footwear importers have returned to buying Viet Nam's footwear following the EU's decision to levy an anti-dumping duty of 10% on Vietnamese footwear, lower than the rate of 16.5% levied on Chinese footwear producers.

However, the lawsuit has still had negative impacts on the country's exports to the EU, the association said.

US market

Viet Nam's footwear exports to the US have kept rising, with last year's export turnover reaching US$ 802 million, up 30% over the previous year.

The association attributed the success in the American market to the effective co-operation between domestic footwear producers and famous global trademarks. Vietnamese footwear can be exported through key distribution systems in the USA as wholly foreign-invested and joint venture companies located in Viet Nam and several Vietnamese companies have acted as sub-contractors for trademark giants including NIKE, ADIDAS and REEBOK.

Viet Nam last year earned US$ 3.59 billion from footwear exports, up 20% over 2005, of which sport shoes were the main export staple with a US$ 2.63 billion-share of the turnover.

Viet Nam has emerged as a major footwear producer in the world, just behind China and India in the Asian region. Last year's statistics showed that two out of ten pairs of shoes bought across the world were produced in Viet Nam.

Viet Nam has more than 750 footwear production lines, rolling out 715 million pairs of shoes each year. — VNS

07/04/2007

Annex 7

India: Global Footwear Brands Get Their Shoes from India

Possibility of *Roger Federer* or a *Maria Sharapova* sweating it out on the lawns of Wimbledon in shoes of Indian make is very real.

ADIDAS, REEBOK, NIKE, PUMA and FILA, international sports footwear companies presently get their shoes manufactured in India through domestic companies such as LAKHANI and M&B FOOTWEAR.

"We are using 10% of our total production capacity for producing shoes, mainly sports shoes, for multinational brands in India. In the coming year, we hope to double volume of production for global brands" said *Inder Dev Singh Musafir*, Managing Director of M&B FOOTWEAR.

M&B FOOTWEAR has an exclusive manufacturing and marketing rights for Lee Cooper shoes in India and is targeting a turnover of Rs100 crore by end of this fiscal.

Adidas has spent a lot of time with Indian shoemaker LAKHANI SHOES for past few years training and improving processes. Specialized sports shoes of global brands, manufactured in India is likely to enter international markets in a couple of years, expects *Gunjan Lakhani*, Director LAKHANI ARMAAN.

"The retail boom is going to drive this growth and many Indian footwear companies are investing in technology and capacity addition to drive this growth" he said.

China based company APACHE, the largest manufacturer of ADIDAS shoes worldwide, is finalizing plans to set up a large facility in south India in coming 12 to 18 months, industry sources say.

Sajid Shamim, Director of Marketing at REEBOK INDIA agrees and said that REEBOK's Greg Norman line of world-class golf wear were already being made in India.

Organised shoe industry size in India is about Rs 3,000 crore of which about 10% is used for manufacturing of shoes for global brands.

26 February 2007

Annex 8

Allegation of Chinese/Vietnamese dumping practices

An increasing number of people (official from the European Commission among them) point to the use of dumping in the case of Chinese/Vietnamese footwear exports for explaining the general downwards trend of manufacturing in the world outside of China/Vietnam. Their claim is that Chinese leather footwear is being sold in Europe (and around the world) at about 80 % of its normal value and Vietnamese shoes at 50%. These two exporting countries have now massive, highly competitive industries and are entirely capable of retaining their extraordinary competitiveness without exporting at dumped prices.

What is dumping? It is the sale of a product for export at less than its normal value in the market where it is produced.

Why dumping? It can happen for number of reasons:

- It can be maintained as a short-term predatory pricing strategy by exporters designed to put competitors in an export market out of business (which is an accusation regularly directed toward China).
- It can be the result of market intervention or state subsidy of a company's production that enables it to artificially lower the cost of export.

Does the EU Commission have proof of Chinese/Vietnamese using dumping? In case of the companies accused of dumping, designated by the Chinese authorities and investigated by the EU, there was, according to the Commission officials, clear evidence of state intervention or non-standard accounting practices conditions. These included:

- Non-commercial loans or capital grants from the state.
- Restrictions on selling on the Chinese domestic market.
- Non enforcement of international accounting standards.
- Improper evaluation of assets.
- Non-commercial conditions for land-use: it is not possible to own land in China, but the EU investigators claim to have found clear evidence of factories being provided with land by the state rent-free.
- Other forms of state intervention: all the Chinese and Vietnamese companies were not able to show that 'in fact and in law' they are free from unfair state intervention.

NOTE: Besides dumping, some illegal tactics are used to obtain an undue commercial advantage by circumventing quotas, through, for instance, labelling in Macau or by changing outdoor categories to protective footwear by using 100J caps (Safety shoes are indeed not covered by quota regulations).

What are the impacts of China/Vietnam massive shoe exports on target markets industries? EU production of leather shoes has fallen 30% since 2001, accompanied by a steady fall in import prices and a tripling in imports for leather shoes from China and Vietnam over the same period. Before 2001 European leather footwear production was falling at around 13% a year. Profit margins in the European footwear industry since 2001 have fluctuated between 0-2% and this figure represents the successful companies: more than 40,000 jobs have been lost in the European footwear sector since 2001 and more than 1,000 shoe factories were forced to close down. With the end of the quota system at that moment, there is clear evidence that European producers have suffered serious injury from illegally under-priced imports. On the other hand, at the average retail

price an anti-dumping duty represents about 7% of the average sale price. If the burden of the duty is equally shared by all intermediaries in the supply chain (which would be only fair), the cost of a pair of 35 € shoes would rise by less than one euro, which is not really significant to the end consumer's purse.

Annex 9

EU Penalties on Chinese Shoes Lose-lose Decision

Beijing, April 7 – **Chinese exporters lose out.**

European manufacturers in China lose out. European exporters lose out And European consumers lose out.

The provisional tariffs slapped on Chinese leather shoes by the European Union (EU) are a lose-lose situation which must be turned around, a top COMMERCE MINISTRY official said yesterday.

The EU was not justified in imposing the anti-dumping penalties because there was no credible evidence for denying market economy status to Chinese shoemakers, Vice-Minister of Commerce *Gao Hucheng* told CHINA DAILY. He was referring to the EU decision to levy provisional tariffs on imports of Chinese leather shoes. The measures come into force today and gradually rise from 4.8 to 19.4% by October, when a final decision is expected. "The EU declined to grant market economy status to 13 firms it investigated on the spot. But all of them are privately-owned or foreign-invested, and comply with the criteria for market economy treatment" said *Gao*, also the ministry's international trade negotiation representative. "It also denied market economy treatment to non-sampled companies, about 150% or 90% of the total respondents, without giving any explanation" he added.

The EU began to give market economy status to some Chinese firms in anti-dumping cases in 1998. As China has not yet been recognized as a full market economy by the EU, the status helps individual companies gain access to the European market.

The EU violated not only WORLD TRADE ORGANIZATION (WTO) anti-dumping rules but also its own laws and anti-dumping procedures, *Gao* said, because none of the 160 respondents had received disclosure from the EU on their claim for individual treatment. The EU's determination on dumping and injury in the case lacks enough evidence, he said. Shoemaking is a labour-intensive industry in which China enjoys comparative advantages in terms of labour and resources; and the EU should not arbitrarily regard the price advantage of Chinese leather shoes as amounting to dumping, he said. "Most Chinese shoemakers are small- and medium-sized companies that are not able to dump goods in the EU market" he added. He noted that the European petitioner listed only 6 of 15 injury evaluation indicators required by the WTO Anti-dumping Agreement.

"So the EU lacks adequate evidence to file the case" *Gao* said. Since no harm has been done to the EU industry, there is no reason for the case, he said. The penalties were also against EU companies' interests, *Gao* pointed out.

According to Chinese statistics, footwear producers from the original 15 EU member states have set up 478 plants in China with an actual direct investment of US$ 737 million; and they also export to the European market. "Anti-dumping measures against Chinese footwear exporters will surely impair the profits of EU footwear producers and investors in China" Gao said. Chinese footwear exports are basically low- and middle-end products, while the EU produces mostly high-end goods, he said. "Meeting different needs of consumers, the two kinds of products are not in direct competition; and have obvious differences in sales channels and market segmentation. The anti

dumping measures are not only unnecessary but also harmful to the interests of EU middle- and low-end consumers" he explained.

Gao said footwear exports from China generate lucrative returns for EU importers and retailers and provide a large number of jobs in the economic bloc. The development of the Chinese footwear industry also ensures EU exports of shoe-making machinery, leather and other raw materials every year.

According to Chinese customs statistics, in the first 11 months of 2005, leather imports from the EU reached US$ 570 million, a year-on-year increase of 27%. China imported US$ 54.04 million worth of shoe-making machines from the EU in 2004, up 26% year-on-year.

Gao urged the EU to treat Chinese firms fairly and re-evaluate the whole case to ensure the development of shoe trade.

Last July, the EU initiated anti-dumping investigations into leather shoes worth US$ 730 million from China the largest single anti-dumping case between the two economies. According to statistics from the MINISTRY OF COMMERCE, the EU is not only China's largest trade partner but also a major source of dumping charges against China.

Source: **CHINA DAILY**

Annex 10

China's Power Erodes Free-Trade Support in Developing Nations

By Helen Murphy, Christopher Swann and Mark Drajem

April 2 (Bloomberg) – Three years ago, the textile plant *Freddy Romero Ramirez* runs in Bogota exported 234,575 meters of fabric for suit linings, enough for about 156,000 suits. This year, facing stronger competition from Chinese companies, he'll sell less than 3% of that amount abroad. "There is no way local industry can survive the force of Chinese trade unless similar forceful measures are taken by the government," *Romero*, 45, chief executive officer of TEXTILES ROMANOS SA, said in an interview at the factory.

China's emergence as a world trade powerhouse, blamed in the USA and Western Europe for the loss of thousands of factory jobs, is having an even more severe impact on developing nations. Support for free trade is dwindling as industry groups in countries around the globe lobby for protection against Chinese competition.

Frank Vargo, vice president for international economic affairs with the NATIONAL ASSOCIATION OF MANUFACTURERS in Washington, calls fear of Chinese competition "one of the most important impediments" to a new world trade agreement in the current Doha round of negotiations.

Much of the impact comes from China's textile exports, which accounted for about 70% of its record US$ 177.5 billion trade surplus last year, according to CHINESE TEXTILE INDUSTRY ASSOCIATION Chairman *Du Yuchuan*.

Turkish Textiles

Turkey's textile companies shed about 10 percent of their workforce in 2005 and 2006 in the face of Chinese competition. While a sales-tax cut and a weaker lira have helped them recover, "competition from the Far East still means that it's only the large companies with strong brands that are comfortable" says *Yusuf Benli*, head of the textile department of the ASSOCIATION OF EXPORTERS IN ANTALYA, on Turkey's Mediterranean coast.

No region has felt the shock more than Central and South America. "The least developed countries in Latin America are scared to death" says *William Reinsch*, president of the Washington-based NATIONAL FOREIGN TRADE COUNCIL.

In Colombia, Chinese textiles are displacing products in domestic as well as export markets, says *Ivan Amaya*, president of the COLOMBIAN ASSOCIATION OF TEXTILE PRODUCERS. Textile imports from China have risen more than fivefold since 2001, according to *Amaya*.

"They Always Catch Up"

"You have to constantly be innovative and stay ahead of the Chinese as far as designs and colours are concerned, but they always catch up" says *Romero*, who now employs 62 workers after dismissing 12 in the last three years.

Amaya says that without government measures, Colombia's denim, cotton-shirt and trouser production may vanish in three years, along with 14,000 jobs.

Colombian Trade Minister *Luis Plata* says his office is conducting a "preliminary investigation" of dumping complaints, which "should be concluded in the first half of the year."

Elsewhere in Latin America, industry officials with similar grievances are demanding relief from their governments. Peru's producers have asked the government to investigate their complaint that China is dumping textiles and apparel in Peru at below-market prices.

"The Chinese sell their wares at prices that do not even cover the cost of the raw material" says *Martin Reano*, general manager of the textiles committee of Peru's industrial lobby, the NATIONAL INDUSTRY SOCIETY, in Lima. "No one can compete with that."

China's Contributions

Chinese officials reject the notion that their country's success comes at others' expense. "China itself is a developing nation" says *Qin Gang*, spokesman for China's FOREIGN MINISTRY. "We in particular want small developing nations to enjoy sustainable development and growth. We offer them support, loans and subsidies, much more so than developed nations."

After the African nation of Lesotho complained last year that Chinese garments were forcing local industries out of business, ZTE CORP., China's largest publicly traded telephone equipment maker, announced a US$ 30 million project to build phone networks in Lesotho and Ghana.

In Latin America, too, China's impact hasn't been all negative. Chinese demand has pushed up the prices of copper, iron ore, soybeans and other commodities produced in the region. The resulting economic growth has made it easier for nations in the region to pay down debts to the INTERNATIONAL MONETARY FUND.

Rising Exports

Exports to China from Latin American and Caribbean nations increased at an average annual rate of 35%, after inflation, between 2000 and 2005, according to the WORLD BANK.

Even so, China's growing economic power in the region is creating increasing anxiety. In Brazil, shoemakers are compiling evidence for a formal complaint, says *Elizabeth Renz* of the BRAZILIAN ASSOCIATION OF FOOTWEAR.

In the state of Minas Gerais, low-priced shoes from China threaten the livelihoods of thousands in Nova Serrana, a town of 60,000 that depends on the shoe industry for 70% of its jobs, says *Junior Cesar Silva*, president of the local shoe manufacturers' association.

Production of sneakers, representing the bulk of the output of Nova Serrana's shoe-making companies, fell 5% last year from a year earlier, he says.

Brazilian imports of textiles from China rose five-fold to US$ 149 million in 2005 from US$ 28 million in 2002, according to Brazil's TRADE MINISTRY. Imports of shoes rose 10% to 14.6 billion pairs in 2006 from a year earlier.

Competitive Pressure

Competitive pressure from China intensified with the phasing out in 2005 of the Multi-Fiber Agreement. Before that, China and Latin America each accounted for around a quarter of the USA clothing market. Now, "China's share may double and Latin America may fall by two-thirds" says *Claudio Loser*, former director of the Western Hemisphere Department at the INTERNATIONAL MONETARY FUND.

Already, China's share of the USA market has climbed to 30%, or US$ 28.1 billion, while Latin America's has shrunk to 18%, or US$ 16.8 billion, according to the NATIONAL COUNCIL OF TEXTILE Organizations in Washington.

When the USA lifts quotas on Chinese textile imports in 2009, "China is likely to demolish the competition" says *Cass Johnson*, president of the textile council.

Diluting the Benefits

The surge in Chinese exports to the USA has also diluted the benefits of hard-won free-trade agreements in the hemisphere.

When the *Bush* administration and clothing importers pushed for ratification of the Central American Free Trade Agreement in 2005, they sold it as the best way for countries in the region to compete with imports from China.

It has not worked out that way. Last year, the first year of the agreement, imports from the six Cafta countries – Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and the Dominican Republic – fell 7% to US$ 8.5 billion. El Salvador, the first country to implement Cafta, saw its textile exports fall 12.6% to US$ 1.4 billion.

"China is extremely strong, particularly in light manufacturing" says *Juan Carlos Pereira*, director of PRONICARAGUA, a public-private trade-promotion organization in Managua. "They have an amazingly deep base of suppliers."

USA business lobbyists say China is scaring Latin American and other developing countries away from making concessions in negotiations on a new world trade agreement.

Negotiators for developing countries say that "if we cut tariffs, the Chinese are going to eat our lunch" *Reinsch* says. "That is a hard argument to counter because it has some truth to it."

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Annex 11

China, the World's Champion of Counterfeiting

By Jean Pierre Bidegain

Chinese counterfeiting has been thriving for many years. According to international experts, 450 billion in counterfeit products are manufactures yearly. China alone, accounts for 40% of the global production each year.

In the USA amazingly grew up from US$ 30 million in 1982 to US$ 330 billion in 2003. For the Chinese, copying is great! In the Chinese culture, when something is beautiful, it is great to get a copy of it! This is why in tens of workshops, some paintings are indefinitely reproduced to meet the customer's demands. Likewise, when a Chinese man appreciates a monument or a house, he often asks an architect to build him a, identical copy of it. To them, copying is expressing their respect for the original work. It results in a misunderstanding in Chinese's population when it comes to what we call creation right or intellectual property.

At the beginning, the Europeans didn't pay much attention to the Chinese tradition of counterfeiting. It used to make them laugh. We could see on television a Chinese billionaire who was being built a copy of a room of Louis XVI' castle in Versailles or a Normandy castle identically reproduced along the Great Wall. Then the Chinese consumers wanted to get the VUITTON purses and MONT BLANC pens. Then the local industrialists started to make copies in the workshops. Today, copies are made in factories with thousands of workers and sometimes, in sub-contract chains that manufacture original products in the daytime and the fake ones at night. According to the French officials in charge of the fight against counterfeiting, the industry employs between 3 and 5 million Chinese people and the market amounts to 8% of China's GDP. Shoes are not spared this phenomenon and in the Chinese cities' large avenues stand some counterfeiting supermarkets such as the New Silk market in Beijing. In these three or four-floor buildings looking like European department stores, you can find all types of copies: clothes, TV's, DVD's, bags, shoes and so on. Five firms – CHANEL, VUITTON, PRADA, BURBERRY and GUCCI – have lodged a joint complaint against the manager of the "supermarket of counterfeit products".

The Diversification of Counterfeiting

The counterfeiting industry diversifies. Everyone knows the phoney bags bearing luxury house logos. They are often peddled on the streets. But today, counterfeiting affects any kind of products; fake medicine, car parts, mobile phones, batteries, glasses etc. In addition to this, some hackers copy movies, disc and software. In brief, all the sectors are affected and counterfeiting has become the Chinese companies' specialty.

The Increase in Exchanges Encourages Illegal Business

With the raising of the textile quotas and the growing globalisation, the means of hiding illicit or counterfeit products in ordinary shipments have stepped up. This is how the mafias and forgery dealers have realized how interesting such an illegal business could be. The amount of money to invest for the traffickers is pretty low since the counterfeit products are sold at a very low production price. All the ideal conditions are brought together to develop a lucrative illegal

business; weak purchasing cost, considerable return on investment, low risk in case of seizure and at judicial level. Forgeries are paid for in cash at delivery and the number of controls carried out by the customs carried out by the customs has not grown compared to the multiplication of the exchanges. The risk of being controlled went down from 1/10,000 to less than 1/10,000,000 across the world. Moreover, the raising of the tariff barriers encourages the carriage by the less controlled docks. Plus, there's no possible comparison between the risks brought upon the smugglers and those incurred by the drug dealers while the amount of earnings is similar. All these conditions have changed the counterfeiters' profile. The time of craftsmanship is over, welcome to the mafia era.

China Respects Nothing but the Law of the Strongest

It has been months, even years since the luxury companies' managers have sounded the alarm and blamed the Chinese authorities to give free rein to counterfeiting and even encourage it. Neither the WTO nor Europe were able in more than twenty years, to implement a reliable system of observation of this phenomenon. Both of them regularly order a report on the issue but in the meantime, the Chinese authorities talk and play for time. They understood that each day without any decision-making or sanction is a day won for these firms and brings money in the Chinese state's coffers. Developed countries' officials hum and haw on the behaviour to have towards them. They are wrong because China understands nothing but the law of the strongest and never respects the weak ones. Its history is an evidence of this behaviour.

Annex 12

The Future of the Italian Shoe Industry

Speech by *Vito Artioli*, President of ANCI

at the 3RD WORLD FOOTWEAR CONGRESS in Logroño/Spain, 26 April 2007

Recovery in the footwear sector seems to be at the door and the worst of the crisis over, but the industry will have to make strategic choices in order to remain competitive on an international level, focusing on segmentation and on product quality. This is, in brief, what emerged from the survey commissioned to ASTRA RICERCHE by ANCI on the medium-term future for the Italian footwear industry, presented at the annual ANCI Convention in November 2006.

This study outlines several forecasts for the five-year period 2007-2011, describing the future of the sector and suggesting a number of strategies for success.

Four Possible Scenarios

The study carried out, based on a sample of 50 companies and presented by the President of ASTRA, *Enrico Finzi*, foresees four possible future scenarios for the Italian footwear sector, determined by different trends in Italian and international economics and by the competitive capacity of the Italian footwear industry.

The first scenario, seen as fairly unlikely, is the most negative and forecasts a long phase of recession, with room for improvement from 2010.

The fourth scenario, the least probable of those hypothesised, is also the most optimistic and sees a brief international recession in 2008, after a phase of growth that will return even stronger from 2010, with a positive influence on Italian economics and the sector.

Whereas the second and third scenarios are more likely, both hypothesised as starting with the same cycle of international economics, characterised by a moderately recessive phase in 2008 and by recovery, good but not lively, in 2010.

In these conditions there are two possible evolutions for Italy and for the footwear sector: either a loss of dynamism with zero growth for the whole period, or an initial, still difficult, phase followed however by accelerated growth from 2009.

However, according to the this analysis, the end of 2006 would seem to represent the end of the hardest phase of the crisis for the Italian footwear, a period characterised by loss in turnover and in profit, a reduction of market shares, a bitter “Darwinian selection” of companies and consequent job losses.

But the next two-year period is still painted as a difficult one, with no widespread return of profits until 2009-2010.

A key factor clearly emerges from this picture: the sector strongly feels the need to focus on made in Italy, considered a determining factor if it is to remain on the winning market. What must also be considered is that, even more important than a means of self-protection, made in Italy is first

and foremost a brand offering a guarantee to the end consumer as part of a logic of transparency. The study shows how companies are rethinking delocalisation in terms of the only tool for competition.

Based on analysis and possible forecasts for the sector, the study proposes various strategies and policies that would encourage the success of the Italian footwear on any scenario, and in particular, on the two most probable ones. 18 strategic lines are suggested and identified as absolutely indispensable factors of success for future "winners".

Focussing above all on brands and less on designer labels, this is the first competitive factor suggested.

Investing in strong brand policy, valorising surplus values and rediscovering product centrality, focusing on quality, style and research, in other words on the very characteristics of Italian-made products - these are all success strategies that Italian manufacturers must not ignore.

This recipe highlights the phenomenon of saturation, whereby the so-called super-top bracket is almost complete, governed by international designer names and by great luxury centres, reserved for the chosen few.

Because even the high bracket of the market, the one immediately below the super-top, seems to be covered, today permitting only a few new entries by Italian entrepreneurs, the medium-high bracket, the territory of the brand, is the one that seems to be in line for strong expansion.

The potential market for the Italian footwear industry is estimated as being worth around 32% of the world market, representing 19% of its volume; and according to forecasts Italian brands will have the greatest possibilities of success on new markets.

The most interesting slice of the market is and will be the medium-high one, made up of products that are "beautiful and well-made", typical of Italian brands, accessible to the middle class that is growing in various countries.

This study also shows the need to modify the consumer's current conception of made in Italy, which is currently seen as products with a high fashion-beauty-elegance content at extremely high prices.

Instead, the perception of Italian products must be redirected towards a concept of style-elegance, but also multi-occasion wear ability, with a good quality-price ratio. This is why it is strategic to invest in "fit & style" models, to develop a "total" brand, dedicated in other words both to men and women, without specialisation in certain kinds of products. New lines must be developed, all strongly characterised by their own identity, to cover more than one segment of the market, satisfying different needs and targets.

It is therefore a good idea to act on several brackets of quality/price through different dedicated lines, destined for different channels and/or sales points, perhaps with different percentages of out-sourcing and production delocalisation.

Another vital factor is to increase, also thanks to acquisitions, not only the number of products on the market but also the companies themselves, for better negotiating power with

"concentrated" distribution (chains) and for better management of growing internationalisation and penetration into new markets.

The sale of evergreen (unchanging and with large-scale production) models must also be extended, with slight variations from collection to collection. In fact, for brands, the right mix of personality and awareness of the product over time is crucial as is renewal with each collection.

For the medium and medium-high bracket the industrialised share of the product must be increased, with a reduction in the artisan element.

The study also suggests accelerating the introduction of new materials (natural and not), developing the multi-material culture, namely the mix in the same shoe of different materials, simultaneously overcoming the concept of quality linked purely to "top" raw materials and communicating the renewal of materials as a factor linked to fashion and innovation.

Rationalising Human Resources

The automation of a number of production operations is also considered to be helpful, employing less human labour for new materials or mixes of materials. Operators should meanwhile be "moved upwards" and used almost exclusively in the semi-artisan "top" phases of the cycle.

When possible it is then a good idea not to delocalise or re-localise "top" productions in Italy, limiting them to highly industrialised medium and medium-top productions and excluding the most qualified and assembly phases.

Computerisation of companies and the system is seen as necessary for cutting general costs, using the web for the exchange of information and for optimising via Internet relations with stake-holders (suppliers, service centres, external collaborators, distributors/clients, end consumers, trade fairs, organisation, associations, institutions etc.).

The forecasts see the role played by new international markets as increasingly more important, where it is necessary for the presence of Italian companies in the sector to expand, also through partnership with local operators.

In this context, growth trends of some macro-areas must be taken in consideration (ex-URSS, Eastern Europe, Far East, Middle East, Central-Southern America, North and South Africa).

For a few operators growth may be horizontal, through expansion of their assortment with products contiguous with footwear (leather goods and clothing). Some brands may shift from specialist to multi-specialist, from product-brands to world-brands.

Fusions were, are and will be difficult and rare in the world of small Italian companies, which is characterised by the individualism of businessmen, despite the problem of insufficient critical mass for a large number of small-medium enterprises. It would however be useful for footwear manufacturers to identify partners (perhaps even competitors but compatible) with which to set up and develop "ad hoc" projects, without necessarily establishing corporate relationships, for the sharing of some key activities: purchases/supplies, logistics, distribution, co-advertising, Internet etc.

Annex 13

The State of the Tanning Industry in Europe

Contrary to the depressed mood in the European shoe industry, the last meeting of COTANCE (EUROPEAN TANNING INDUSTRY FEDERATION) concluded that 2006 has resulted much better than 2005 for European tanners.

The recession that has adversely affected leather markets in the recent past seems definitely gone and economic indicators are consistently showing:

- An improvement in the leather trade, with a 5% increase in 2006 and an outlook for 2007 that is palpably better.
- Bovine leather seems taking the lead followed by the sheep and goat leather sectors.
- Slaughter figures for 2006 give no ground for a price increase in domestic prices contrasting to the unjustified surge in prices in the calfskin sector.
  Note: The fact that European tanners have only 9-10% labour cost in their bottom line and export around 60% to China's leather industry is the probable reason for:
- The healthy condition of the leather producing sector.
- The opposition of COTANCE against the EU Commissions' anti-dumping measures against China/Vietnam shoe imports.
- Its insistent demands for deregulation within the industry and a push for free export of raw hides from Brazil, Morocco and other developing countries.
  Remark: Long term, the question needs to be asked whether a successful tanning industry can survive without a substantial leather transformation industry in close proximity.

Distribution is, in fact, a key factor to be developed and governed more strongly.

Annex 14

Labelling "Made in …."

Speech of *Vito Artioli*, President of ANCI

at the 3RD WORLD FOOTWEAR CONGRESS in Logroño/Spain, 27 April 2007

Ladies and Gentlemen, Distinguished guests, Colleagues!

When discussing matters of great economic, political and, if you like, strategic importance such as international trade relationships, in particular the explosion of "Planet China" and in general South-East Asian countries, first of all we need to be totally clear about the language we have at our disposal and how we use it. Because the most obvious risk is that we may succumb to the easy, convenient temptation of "labelling".

I refer to the hardly correct yet very frequent "habit" of "labelling" or "pigeon-holing" positions and evaluations that are different from our own, thereby overturning the contents and falsifying their meanings.

Asking for trade to be not only free, but also fair, is not neo-protectionism. Calling for a tendencies standardisation in basic conditions and rules governing behaviour cannot be surreptitiously identified with narrow-minded policies and a refusal of globalisation. Following up transparency and customs policies based on criteria of, albeit partial, reciprocity is not shirking from the competition. Reporting lack of respect for human rights as the most elementary and effective tool for limiting production costs, is not attacking the autonomy of individual countries, but waging a great battle for liberty and social emancipation.

The request for proper use of monetary policies is not undue intrusion into the choices of other countries: this tends on the other hand to prevent currency being used artificially as a "drug" for our own competitive capacities.

Sustaining a battle to firmly counter-attack the spreading invasive phenomenon of forgery is merely carrying out a legitimate fight for the concrete realisation of the principle of legality. Expecting consumers worldwide to be put in a position whereby they can evaluate the congruity between quality, price and origins when they make a purchase, means not only sustaining the conditions for fair competition, but also fighting misleading and deceptive behaviour. Adopting, as part of international law, measures taken to defend trade is not taking a stance of second-hand economic nationalism, it is setting up suitable steps for compensation and re-balancing with the general aim of safeguarding the market and the orderly supervised growth of world economy.

In other words, only if we manage to use a "shared common vocabulary" relative to these concepts will it then be possible to start pro-active negotiations, instead of continuing in the jungle of trade aggressions and on the prairies of rule-less incursions. Having said this, denying the emergence and rapid growth of a "China problem" (and of other large countries in the Far East) in international trade exchange, means comfortably hiding behind falsely liberalist hypocrisy, or more concretely playing to purely trade-linked, strong interests harboured not only in Northern Europe but also in our country.

On the opposing front, that of structural stages in the potential of our export trade, I cannot but remind you of the anti-historical position of the Japanese Government, which is continuing to protect its own small footwear industry with quotas and duties. On the same front, the new-economy giant India is maintaining duties that are higher than the European average, while its own capacity of trade penetration into Europe is increasing at an alarming rate for the future. Quoting the principles of free trade appears decidedly hypocritical when these are not linked to those of correctness and standardisation of basic conditions. Currency, social and environmental dumping alters and "drugs" the competition. Pigeon-holing these reflections as inspired by a sort of neo-protectionism mean changing the deep-rooted reality of the situation.

These considerations aim merely to partially redress the imbalance of an unacceptable disparity in the conditions of international competition and in the basic rules. The explosive and unquestionable "Chinese blend" must make Europe radically rethink its trade policies as soon as possible. Continuing to gamble on the "risk-opportunity" alternative seems to be a game for masochists. In fact China has admitted, in the words of its own Government's powers-that-be, that its explicit aim is to become the only "production island" on the planet over the next 10 years. It is certain that this gigantic country may represent, even for part of our sector, a medium-long term opportunity for various trade markets. But if the rules governing Europe-China trade relationships are not modified immediately, this appointment will see an increasingly weaker, increasingly less competitive Italian and European manufacturing industry.

These are all the reasons why ANCI has decided to act, in collaboration with the CEC, facing a long and tiring battle with the priority aim of obtaining Antidumping duties on goods from China and Vietnam. Duties that we have never considered a definitive solution or even a replacement for reciprocity and correctness in competition. These duties, on the contrary, must "incentivise" the adoption of correct trade behaviour.

This battle was won on 6 October 2006, even if we were not totally satisfied by the period of application of the duties, for which we will however be requesting an extension.

The other great theme in trade policy that will influence the destinies in our sector is obligatory Made in origin certification for footwear products arriving from non-EU countries. Besides being a tool for self-protection, this is the real guarantee for European consumers when they purchase, offering them awareness and knowledge of the real rapport that exists between origin – quality – price. Europe is the only continent that doesn't insist on compulsory origin labelling. Compulsory "Made in" labelling only harms those who prefer to remain silent about origins, using this method as a fraudulent tool for creating a surplus of trade profit, passing off as made in Italy or in other European countries what is not Italian or European and should therefore cost much less. This dupes the consumer and at the same time, these great lobbies certainly do not guarantee the same employment and widespread wage levels that instead are the result of traditional manufacturing.

Finally, to conclude, both the first and the second objective represent a fundamental and absolutely necessary way to defend the survival of the European footwear sector and a way to combat projects for traditional de-industrialisation that unfortunately are also harboured within the EUROPEAN COMMISSION.

Annex 15

Elche – World Footwear Capital



The footwear manufacturing industry and that of its component parts have undeniably been the city's economic motor for decades with over 2,100 production and sales centers. Indeed, these centers constitute 12% of the city's 12,400 registered businesses. Within Spain, Elche is an important player in the footwear industry. Its 1,100–plus companies in this sector make up 42% of all such companies in Spain, employing over 18,000 highly qualified workers.

Production is commercialized both in the domestic market and abroad. The sector's enterprising spirit has led it to export to, and have an important presence in, markets such as those in the European Union, the United States and other emerging markets, thus diversifying distribution. Alicante's exports index is one of the highest in Spain, thanks in great part to Elche's footwear sector.


The companies in this sector are constantly improving their competitiveness in international markets. At present, they are using new strategies based on brands, design, fashion, quality, research, respect for the environment, new technologies and high standards of service.

As footwear production has grown, so have those companies supplying component parts, raw materials and accessories. This industry has a higher level of territorial concentration since over 75% of the Spanish companies working in this sector are to be found within Elche's city limits and supply both Spanish and, as its increasing export figures show, international markets with high-quality products of unbeatable design. World Footwear Capital Elche's footwear factories *produce almost half of the footwear manufactured in Spain today*. A large proportion of their production is exported to EU countries and to the USA.

Annex 16

Marketing Tips

- ✓ Find market ***niches*** which are not too crowded.
- ✓ Create a ***brand,*** logo, image clearly recognisable by its design and colours.
- ✓ *Insert* ***Publicity*** in specialised magazines.
- ✓ Use ***franchising.***
- ✓ Create a ***stable sales set-up*** through independent agents on target markets, importers-distributors or by ganging together with fellow local manufacturers within national sales consortia (e.g. CONSORTIA TUNISIA proposed by UNIDO).
- ✓ ***Create a company profile***. This is not a product catalogue but a nicely printed one-page summary of what the company is about : foundation year, location, contact details, number of staffs and daily pairs produced, types and construction of articles and which markets you ship to. One might want to add whether the firm is ISO certified and, hopefully, the awards received. The profile should be easy to update in its own language, in English and the primary language of the customer and distributed to all clients in person and through e-mail and/or fax.
- ✓ ***Design a readable business card***. It is the most important piece of information one can have. There is a need to make sure to use block letters (no fancy printing) and have current phone/fax/mobile numbers and office/factory and e-mail addresses, preferably in the company's and the customer's primary languages.
- ✓ ***Produce an album of products produced*** *for existing customers.* No overspending – these things can be expensive. Do not forget reference numbers and details which will inform clients what others purchase from you.
- ✓ ***Make sure that the company's internet website is updated regularly***. To secure people visit it, register it with major search engines, your local federation and foot industry websites such as www.shoeinfonet.com**.**
- ✓ ***Produce a material folder for each style***. Make it in threefold that contains cut pieces of the main materials, especially if the customers signs off on it. It is an easy way to keep records.
- ✓ ***Professionalize company staff***. Potential buyers are impressed when their prospective suppliers (buyers) act professionally. Before the client's visit, train key members of personnel (manufacturing, customer service, and engineering) to be able to make a quick and accurate presentation of their job. The goal is for the customer to know that his order is being attended to professionally from the time it is received until shipping.
- ✓ ***Professionalize communication***. Make sure that all letters, e-mail messages, faxes and phone calls are checked and responded to quickly and accurately. The way a company communicates says a great deal about its focus and pays off many times over.

- ✓ ***Export should be started with a market that is familiar and geographically easily accessible*** and contacts are available. Find out what kind of shoes are being sold and if the offered range will fit in. Enquire about how much the transport and shipping costs are, the lead times, the size ranges and the professional fairs which are taking place.

- ✓ When ***exhibiting at a trade fair*** obtain a list of attendees from the organizers and, one month before the show, write a letter/fax or e-mail to the companies explaining
  - — the company profile and product range;
  - — who will be in the booth and initiate meetings;
  - — ask for the potential visitors' interest;
  - — the same procedure should be followed after the show.

- ✓ ***When looking for an agent, scrutinize candidates carefully***. Experience shows that a good agent can be an asset rather than an extra expense if following factors are properly considered:
  - Have a written agreement and make it non exclusive.
  - Ask the candidate what accounts he plans to sell to in his particular area and how he/she can be assisted in her/his the campaign
  - Agree on a particular timeframe for him/her to begin producing business.
  - Which other companies he represents and what trade fairs he exhibits at.
  - Agree on how samples will be handled and who will pay for shipping them.
  - Be careful not to recruit a multitude of agents until you have some success with one and the necessary staff to manage and service them.
  - Make sure to have everything confirmed in writing and signed for.

- ✓ The following sales techniques are to be followed if direct marketing is practiced:
  - Prospect for potential customers at trade fairs, from local offices of foreign buying organizations, via inquiry letters you send to companies found on the internet and various trade lists.
  - Target those companies that most closely resemble the profile of your product.
  - Solicit the companies on your list by any means possible (email, fax, direct mail, telephone) and attempt to start a discussion with them.
  - Sample to the best of your abilities: fast and accurately. The price of sampling is part of the cost of doing business and is never to be considered as a negative.
  - Do not be afraid to ask questions: What is the last number? Who is the outsole from? Who is the leather vendor? What type of packaging and what labels are necessary? Etc.
  - Understand potential expenses: when the sample is finalized, find out what has to be and what will be bought.
  - Provide a professional quote: buyers have more respect and confidence in a source that gives a quote based on certain conditions and maintains that price.