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**REVIEW OF  
FOOTWEAR TRADING  
PATTERNS AND PRACTICE**

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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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## SUMMARY

To give recommendations is difficult and risky. What has happened in the past is history but a tool to use to prepare us for the future.

The challenges mentioned in this paper are challenges we have in the developed countries to day. A lot of the challenges are also already in the developing countries and more will come.

The developing countries have to take notice of how the development has been. The difference between the developed and the developing countries is that development at some places will go much faster in the developing countries than the developed countries ever have seen. Other developing countries have not yet the same possibilities.

Logistic has to follow the development. There will become a concentration inside footwear production and trade. The companies will grow bigger but not so many will be left. The consumer will still have a bigger influence. The media mean a lot in the daily life. Internet has created the global market place. Brands and their protection is a question of good or bad life for industry and trade. Partnership gives an important possibility to grow and develop, but select your partner with care. The problem concerning slow turnover of inventories has to be solved. The global market place will open much more. Protection of domestic industry will be reduced. Every part must follow the rules to obtain free competition under fair conditions. Make things better rather than cheaper. The customer is not an enemy. The consumer wants to be pleased. Find a good brand to cooperate with. We have all the same brain and possibility to learn.

## INTRODUCTION

The *objective* of this survey is to provide a review of domestic and export trading patterns inside footwear business and to give recommendations to developing countries for using appropriate trading strategies and channels. The focus is on footwear marketing and sale.

The structure of this paper follows the development we have seen inside sale and marketing of footwear. The paper refers from the beginning less than 150 years ago with local supply of footwear up to day where footwear has become an important business on the global market place.

The development has been different from one continent to the other, but it is important to realize that the consumer has become a powerful player. To know and to acknowledge the customers wishes is and still will be a key factor.

The development has created challenges. A lot of new markets have come and the competition is growing every day.

The paper describes the most important challenges. Challenges, the footwear business has to be aware of. The paper tries to give an answer to the questions the challenges bring.

We know the history and we hopefully know the challenges.

Through the description of the situation to day inside shoe business, the paper informs about the way from shoe producer to the consumer. The different channels which have been developed inside trade and marketing of footwear are mentioned and discussed.

Important topics as logistic, calculation, fashion, and turnover of inventories, flexibility, social responsibility, brand protection, market protection and the future are described and discussed.

The structure and the topics in the paper lead to the recommendations to developing countries

## DEFINITIONS

Footwear is traded through various types and methods channels that are mentioned in this document. The following short definitions/explanations are to provide basic orientation and understandings of these terms.

- **Shoe store**  
Shoes and what belongs to shoes – accessories such as shoe polish, laces, socks etc. – are sold with service.
- **Mail order**  
Distribution to consumer who orders the shoes presented in a catalogue and gets the goods delivered by mail.
- **Supermarket**  
Non food self service sale together with other goods – it is not only footwear.
- **Shoe supermarket**  
Self service sale only with shoes.
- **Sport store**  
The store where shoes are sold – mainly sport shoes – together with textile and other equipment related to sport. Service is usually possible to get.
- **Fashion store.**  
Fashion is most important. Textile and shoes are sold with service.
- **Capital chain**  
A company with central management and several stores run under one name. The stores may have full service or self service.
- **Buying group**  
To get bigger volume are more individual retailers with own stores working together concerning purchase of shoes. The stores are run under different names. Some buying groups have developed also to do marketing together and run the stores under one name even though the ownership is individual. The stores may have full service or self service.
- **Franchise**  
A franchise “giver” who has the idea and concept makes a contract with the franchise “taker” who gets the goods delivered as a brand. The franchise “taker” runs the stores under one name and acts in the market as if the stores are a capital chain. The stores may have full service or self service.
- **Partnership**  
It its an agreement between producer or owner of the brand and retailer to support in marketing and service. The stores may have full service or self service.

- **Internet sale**

The goods are presented on the company internet homepage from where the goods are ordered by the consumer. The internet is the market place without any store.

- **Catalogue**

The trading company controls product development, assists or also controls material purchasing and publishes its product range in specific catalogues (seasonally and/or by product types). Anybody from the local population may collect such catalogues and then he/she contacts his/her family members, friend, neighbors etc. (but usually not browsing houses/districts at random) for orders. Collected orders are forwarded to the catalogue company's stock; they are collected and delivered to the clients by the agent. (This is a booming business in Mexico, but nowhere else.)

## HISTORY

Only to sell a pair of shoes without having any thing to do with making it is, in fact, a rather modern business.

The shoemakers craft is one of the eldest trades in the world. It is not more than about 150 years ago the industrial revolution inside shoe production started. The first machines for manufacturing shoes appeared in America, and in 1873 the first working shoe machinery was shown at an exhibition in Vienna. Already in 1874 the first shoe factories in Europe were established.

To sell and to market the shoe as a business it self did not begin in a larger scale before that. Until then the shoemaker as a craftsman was also the one who sold the shoe to the normal population. The shoes were sold from the small workshops, marketplaces and around where the shoemaker came on his way.

The industrial revolution inside shoe production created the shoe salesman as a career. The shoe retailer was born. To day we say: the last link in the chain from cow to consumer.

From cow to shoe is a complicated process, but you have not the complete success before the shoe has reached the consumers foot and she has paid the price. The sale and marketing of shoes started to be developed. Around World War One the shoe retailer began to be organized.

## DEVELOPMENT

Very fast the competition in selling shoes grew. Through the industrial revolution the prices fell and it got more and more important that the distribution of shoes was made effective.

Even though you still can see shoes being sold on marketplaces, the shoe mainly now was sold through a store.

Some shoe producers opened their *own stores*, and in that way they came closer to the consumer.

The *shoe retailer* who only sold shoes through his store, or may be more stores, very soon felt that the competition grew. They had a common interest in fighting against legislation and other aspects which could disturb their efforts to market and sell their goods. Some retailers could see an idea in working closer together and in that way be able to buy bigger quantities of footwear together to obtain better prices. The first “buying groups” of individual shoe retailers were established.

Quite naturally the shoe department got an important role in the *department store*, as it still has to day.

*Mail order*: a way to get a bigger market.

The *super markets* had a big chance to show the consumer that they could sell cheaper shoes at low prices. All selling in the super market is self service with low costs.

Sport becomes more and more important for the population. *Stores* only selling sport equipment grow over all and the choice of footwear for sport increases very fast. The *sport store* is selling more and more shoes also for other purposes than doing sport activity.

The *self service* shoe super market often established in bigger halls placed outside the cities comes up.

The *fashion store* mainly selling clothes with accessories finds it naturally also to take shoes in the assortment. Clothes and shoes is fashion linked together.

*Capital chains* grow. Bigger companies and shoe retailers establishing more shoe stores over a bigger territory and often also in more countries develops.

The *buying groups*, established by the individual shoe retailers, are getting into a stronger competition to e.g. capital chains. The buying group also begins to work as a marketing group. The stores are run under the same name or brand even though the stores are owned by different shoe retailers.

*Franchise* becomes more and more developed also inside marketing and sale of shoes. It is a common ownership between the franchise giver who has created the idea and concept and the franchise taker who runs the store.



Together with the growth in the consumer private household economy, the standard of living increases. The name and *brand* of the goods to be bought gets more and more important. There is a feeling of quality and self-assurance by a lot of consumers when the right brand is worn. It is also a question of the consumer identity. “Who do I want to be compared with?” – “I show the world that I can afford it” – “I am in now”.

The store with a very clear concept gets a growing importance.

The *internet* has opened a world wide market. It has become a global market place. Sale by mail order has almost been taken over by the internet. Meanwhile there are some facts which means, that shoes are not the most obvious thing to sell through the internet. A shoe has to fit the foot and there is only a little difference from one size to another. Marketing and sale has got another dimension through the internet.

Marketing and sale is a growing power and the competition will only move one way – forward. Inside the last 10 or 15 years there has become a closer link between producer and distributor. To day it is crucial for success that producer and distributor understand each others positions and situations and have the mutual respect.

The consumer has never been in such strong position as to day. Through consumer magazines, newspapers, links on the internet, radio and TV programs the influence on the population is of vital importance how the consumer will act.

The customer does not only buy a pair of shoes. He/she buys and pays for a lot more than that – all what is around the shoe. You may say: “He/she also buys and pays for the “wrapping” of the shoe.” The history – the service – the brand – the fashion. If the shoe and the “wrapping” are not accepted, it will not be sold.

For sure: **the consumer has become the King**. The consumer reaction is determining for the way and how we shall sell and marketing our product.

*Table 1***Global Footwear Consumption (2005)**

Country	Apparent consumption	Population	Consumption
	<i>million pairs</i>	<i>million</i>	<i>pair/capita</i>
USA	2,266.8	298.2	7.60
EU	2,387.2	459.2	5.20
Japan	649.5	128.1	5.07
Taiwan	93.0	22.9	4.06
Canada	122.4	32.3	3.88
South Korea	178.9	47.8	3.74
Australia	72.0	20.2	3.60
Brazil	552.0	186.4	2.96
Mexico	281.6	107.0	2.63
Thailand	144.7	64.2	2.26
Indonesia	490.0	222.8	2.19
China	2587	1,315.8	1.96
India	2,108.4	1,103.4	1.91
Egypt	98.0	74.0	1.32

## CHALLENGES

The development after the industrial revolution has brought us to the global market place, where we all are to day. Every body who wants to do business cannot do anything against the fact, that he is a part of this market. The winners are those who understand to use the challenges to develop themselves in a huge market with almost no limits.

### Trading Channels

The development in the patterns how the footwear goes from producer to consumer shows that the competition puts pressure on the selling price. If the efficiency is not high enough, it is not possible to be in the market.

When the sale of footwear started as a profession, the retailers were mainly small companies. To reach the many small retailers, the wholesalers got an important position between the footwear industry and the local retailers who made their business in the city, the town, the village or into the country.

The different countries had their own industry, wholesale and retail market. Domestic legislation took care of protection of own industry. The competition took place inside own borders. Communication was slow and difficult and the distance between the towns and the villages was big.

When the different markets began to open and allowed imports from other countries, the competition grew in a way it never had been seen before. To be able to act in the market, it was necessary to be more effective and to get more volume.

With a bigger volume, it would be possible for the retailer to import, to buy directly from the industry and to get lower prices because of bigger orders. It provided the background to the retailers to work together and to establish the first buying groups for instance in Germany between World War One and Two.

Inside the buying group, who may consist of 30 to several hundred individual retailers, some retailers grew and established more stores in a way that they became able to get volume enough by themselves.

The *advantage* for the shoe retailer in working close together is the possibility:

- To get volume.
- To learn from others experience.
- To make common education program for employees.
- To make professional marketing and campaign covering a big area. (the whole country).
- To give better service to the consumer through possibility to offer exchange services all over.
- To make own collections as private label and in that way have an exclusive brand where the selling price is less transparent.
- To make a concept which can be well known over a bigger region or may be over the whole country?

The *disadvantages* are:

- The retailers are dependent on each other.
- The retailer must give up his independence.
- Less influence on the appearance of own store.
- Less influence on own concept.
- Less influence on own price calculation.

Especially in Central and Northern Europe a big part of the development in retailing of footwear has been through establishing of buying groups.

The delivery of ordered goods from producer to store will very often be directly or may be through central warehouse of the buying group. Some retailers with more stores may have their own warehouse or main store from where they distribute the goods to the stores on different locations. The costs of delivery and the time to get the goods delivered are very important to be aware of. The goods have to be present at the right time and location at lowest costs.

The producer selling own production to the consumer is the way where one company/part has the fully control the hole way through the distribution channel. One thing is the sale of second choice and returned goods through factory outlets or the “factory back door”. Another aspect is for the reason of efficiency and fully influence on under which concept the goods are sold. The “flag ship store” where only the producers own brand is shown and sold is to day very important. In all capitols and big cities over the world a lot of “flag ship stores” are present selling footwear.

Especially inside the last 15 years a closer link between industry and retailer has been established. Today there has become a bigger focus on brands and their concept. A partnership gives the producer the *advantage* of having influence on the complete distribution to the consumer:

- The look of store/salesroom.
- How the footwear is introduced to the consumer.
- A clear concept.
- Education of sales staff.
- Handling of complaints.
- Marketing material.
- Price.
- Location.
- To have an “ambassador” at the local place.
- A place to measure the consumer reaction on new collections.

The *disadvantage*:

- Bigger dependence on the retailer with whom the partner contract has been made
- It can be difficult may be impossible to get new customer in the same area.
- Big loyalty to the partner is necessary.

From the retailers point of view is a clear *advantage* that he will have or get:

- Better buying conditions.
- More and earlier information.
- Back up and loyalty.
- Professional marketing.

The *disadvantages* for the retailer are:

- Bigger dependence on the producer partner.
- Less influence on assortment and price.
- Investment in shop furnishing.
- Less flexibility towards other producers.

Maybe the partnership can give the possibility to present the goods/brand together with other brands that can support each other towards the consumer.

Department stores are now very often seen creating “shop in shop” where different brands are presented beside each other. Such arrangement can also be a partnership between producer and department store.

Franchise is another sort of partnership where it does not have to be the producer who is involved, but the goods are made under private label by different producers. The idea is that the consumer understands the goods and the store as a brand with a particular concept. Further more franchise can make it possible for the younger generation to be self-employed with professional support which is necessary to get success in the market.

The capital chain, big companies running several stores but all decisions concerning location, choice, assortment, price policy and marketing are taken in the head office, is a very strong player in the market. Their buying volume and market share make them able to have a big influence on the price they are willing to pay and to whom else the goods are sold.

Because of its volume, it is easy for the capital chain to make its own private label brand. To make marketing with private label brands together with other brands gives a bigger flexibility in price setting and the brands will support each other and send a good image-signal to the consumer.

It is very different from country to country how big a market share the big chains have. For example in USA where the market inside shoe business since the last 25 years has been completely open. The top 15 retail companies have a market share of about 53% in pairs and 40% in dollars in 2006. Out of the 15 best retail chains, 12 chains are self service. The more self service the more pairs are sold.

In Europe the self service chains in footwear have a very different market share. In countries like Germany, England, France, Italy and Belgium self service shoe stores/supermarkets plays a still bigger role. But to imagine that self service will get the same market share on all markets just like that is wrong it depends on what the consumer wants. Is it only the price or is it fashion, service, assortment, quality, special brands which is the most important thing for the consumer.

E.g. in Germany there are examples of rather big retailing chains selling footwear at higher level as GÖRTZ, Hamburg with a lot of stores around Germany. DEICHMANN also from Germany – the biggest shoe retailer in Europe – is distributing their shoes in a middle way between self service and service and at a lower price under private label brands.

The big competition on the footwear retail market has forced the above mentioned buying groups to develop and they try to act in the market as capital chains. It is difficult because the individual owners of the stores have to give up their independence and to leave a lot of their influence to what happens. A very important thing: To have one name on the retail store over all.

The internet has made the distance between producer, distributor and consumer much shorter. To get information about products is very easy. Without any doubt the internet will have a growing importance inside marketing and trade.

When we are looking on the sale of footwear to day over the internet, there is a rather big difference from one country to another how much is sold that way. Especially the markets in USA, Canada and Holland are important. Sale through the internet has got a good platform in these countries.

In other countries some companies have tried to make internet business with footwear but not yet with big success.

The best sold shoes over the internet are standard articles which do not change every season and where the consumer exactly knows the ordered shoe. To sell footwear over the internet can be done without very high costs, but a part of the shoes sold get returned by the customer and it is very important that the shoes can be delivered just after the order has been received from the customer.

The internet sale is to day organized by companies who distribute all their shoes this way or retailers and department stores making both traditional sale and internet sale.

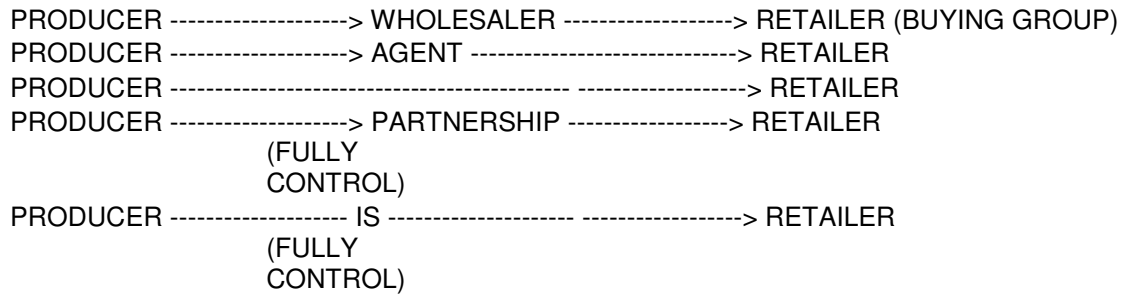
The most producers use the internet to present their collection and to get in contact with the consumer but not directly to sell.

The channels to deliver the footwear from the factory to the consumer have developed. In earlier days the shoes went through more links before the consumer could see and try them on. The wholesaler played an important role. He had his stock and delivered the goods in specific areas or regions to the retail market. The connection from retailer to producer was through the wholesaler. To deal with the wholesaler made it possible to the retailer also to buy smaller quantities. To day the distribution channel has to be as short and direct as possible. If not the prices and delivery costs are too high. Very few wholesalers are left.

The buying capacity of the retailers has grown and the producers cannot allow that too many costs are calculated on the shoe and that they have no control over the distribution. Export and import happens through agents direct in close connection to the producer. Bigger producers and brands have their own company placed in the different countries/markets where they are represented.

The market does not allow that there are big difference in price from one country to another and the producer and the owner of the brand wants to have fully control until the last link – the retailer.

It is also because of that the producer/brand going into a new market often makes own retail stores. In that way they have their collection presented to the consumer under own fully control and under the concept they want.



## Logistics

Where the history began was to have anything to put on the feet to protect feet and body. Through thousand of years the protection of feet and body has become an important part of the single person personality. A lot more than boots, sandals and shoes are sold. It is also a question of health, fashion and personal value. To day footwear has to be handled like fresh fish. There is not a written date of sale as you find when you buy food, but the consumer takes over, and she will through her response show when “last day of sale” is over.

To avoid big losses, the effective logistic has become a crucial condition.

Logistic means to have the right item at the right place in right time. It seems to be very logic, but it is much more complicated in a global market with a big range of products and a lot of possibilities to go wrong, than one should think.

From the producers decisions about the assortment which is going to be presented to the wholesaler/retailer and to the decisions about what they think they can sell to the consumer and therefore will order is a long process. The producer wants to sell the collection as long time as possible before delivery and opposite to that, the wholesaler and retailer want to make their decisions as short as possible before delivery to be more sure of what the consumer will ask for.

It is important to be aware of that the cycle in production follows the cycle in sale.

The weather and the different seasons in a year have a big influence on the demand for different types of footwear. To reach the optimal point is that the goods are produced and delivered to the retail market just before the consumers are going to be inspired and take their decisions. Right time of delivery with the shortest time of inactive presence in stock is of biggest importance.

Right time of delivery is a main issue. Footwear must be available for the consumer when she wants to buy. The possibility for the producers and retailers to react on the consumer demand is much better when the right delivery has taken place. Flexibility makes it possible to react and get the best out of the situation.

To design and create a pair of shoes, make the marketing and efforts to sell, deliver the right assortment and quantity at the right place and everything at the agreed price is a commonplace and natural thing but a difficult subject. Every part of it cost a lot of time and money. The use of electronic identification which all the time is under development is of course very important, but if the logistic fails all the efforts to reach good business are lost.

The right logistic is – and for sure – also in future will be one of the most important barriers to fight for, to be able to solve in the most effective way. You may have a perfect product and a clever sale organisation but if the logistic fails everything is gone and you can forget it.

## Calculation

The footwear itself has a price when it leaves the factory, but the price the consumer has to pay is another thing. There are a lot of different elements who decides what the final price will be.

Different countries have different tax and duty rates. The cost structure is also different from one country to another. And at the end we have the competition in a free market to take care of.

To calculate a shoe is also to estimate the risk to get it sold at the right price.

A high fashion shoe will have a higher calculation because there will be a higher risk not to get the right price for the part of the assortment which not have been sold before the article went out of fashion. Maybe the style, colour, heel, material suddenly is wrong and not attractive any more.

A standard article sold over more seasons will have a lower calculation because the risk not to have the right price is less. Classic shoes for men do not have the same risk not to be sold at the calculated price as high fashion men shoes. Shoes for children are normally lower calculated then shoes for adults. The problems with children shoes are that they are rather expensive to produce as it is only the material costs that are less. The process in production is the same as an adult shoe.

To sell shoes to children is also often more expensive in terms of service costs than it is to sell to adults. It is also a question of health. Take care of the child foot! There is a barrier how much a children shoes can cost. Shoes for children are generally lower calculated, but very often the same article is sold over more seasons/years.

*Example:*

<i>Article</i>	<i>Ex-factory price</i>	<i>Retail price</i>
High fashion	100.00	299.00
Standard	100.00	249.00
Children	100.00	229.00

To pay the best price possible to the producer is of course of very big importance.

From statistics shoe store costs are known as indicated in the table below (figures are % of total turnover in a year):



	%
Consumption of goods	52.6
<b>Gross profit</b>	<b>47.4</b>
Salary: <i>employee</i>	22.3
Salary: <i>owner</i>	0.6
<b>Subtotal salaries</b>	<b>22.9</b>
Rent of premises	9.7
Marketing	4.7
Interest	0.1
Other costs	4.7
<b>Total costs</b>	<b>42.1</b>
<b>Profit (final result)</b>	<b>5.3</b>

In this example we see, that a gross profit of 42.1% would have given a 0% result – no profit. The example is a full service shoe store. E.g. a self service store has of course another structure with lower salary costs and may be bigger costs for rent as the rooms have to be bigger. But at the end the footwear can not be sold cheaper if you want to be sure that the costs are covered.

The following examples illustrate how retail costing is done in various conditions.

- **Example 1\***

When setting the (retail) price of footwear, i.e. before shoes are presented at stores, it should be considered what the consumer is willing to pay for them.

	<i>Amount</i>	%
Retail price	199.00	120.0
Selling price	165.83	100.0
Cost price	80.00	48.2
Gross profit	85.83	51.8

- **Example 2**

The cost price is 50.00 and the gross profit must be 42%. What is the lowest retail price which can be accepted?

	<i>Amount</i>	%
Cost price	50.00	58.0
Selling price	86.20	100.0
Retail price	103.45	120.0

The selling price - gross profit = 100.0% - 42.0% = 58.0%

\*In the examples 20% of value added tax (VAT) is assumed.

- *Example 3\**

	<i>Amount</i>	<i>%</i>
Cost price	100.00	50.00
Salary	37.10	18.55
Rent of premises	19.00	9.50
Delivery	2.00	1.00
Packaging	1.00	0.50
Marketing	9.40	4.70
Energy (electricity+heating)	2.00	1.00
Training of employees	2.50	1.25
Others	2.00	1.00
<i>Costs</i>	<i>175.00</i>	<i>87.50</i>
Interest	0.20	0.10
Salary manager	8.20	4.10
<b><i>Profit</i></b>	<b><i>16.60</i></b>	<b><i>8.30</i></b>
<b>Selling price</b>	<b>200.00</b>	<b>100.00</b>
VAT	40.00	20.00
<b>Retail price</b>	<b>240.00</b>	<b>120.00</b>

At the first look the make up on the price of a pair of shoes may seem high. The above examples show the difference from cost price to retail price and the costs which have to be covered by the gross profit (in percentage of the sale price.)

Thanks to modern technology of to day, the labour costs of selling a pair of shoes are higher than the labour costs of producing a pair.

To let the shoes on sale at reduced price is an expensive experience. A discount or reduction of 10% means that the sale in quantity has to increase 25%. It means you have to be sure that you can sell 25% more shoes to get the same profit at the end. An example of discount calculation is given in the table below.

Components	Discount rate (%)		
	<i>None</i>	<i>10</i>	<i>20</i>
Retail price	480.00	432.00	384.00
- VAT (20%)	80.00	72.00	64.00
<b><i>Selling price</i></b>	<b><i>400.00</i></b>	<b><i>360.00</i></b>	<b><i>320.00</i></b>
- Consumption (60%)	240.00	240.00	240.00
Gross profit (40%)	160.00	120.00	80.00
Gross profit share (%)	40.00	33.00	25.00
<b>Lost profit</b>		<b>-40.00</b>	<b>-80.00</b>

*Conclusion:* to give 10% discount means a loss of 25% (-40/160). To give 20% discount means a loss of 50% of gross profit (-80/160). The store must sell 100% more goods to get the originally profit.

\*In the examples 20% of value added tax (VAT) is assumed.

The costs in the store are well known. What are much more risky are the unknown costs. The shoes filled up in the stock warehouse have their price from producer. But at what price they are going to be sold is another question. Unsold goods have the same price as sold goods. A reduction in selling price, when the consumer gets a discount, is at the same time a reduction in profit as long as there is any.

The shoes are delivered in a wide range of sizes for children, women and men. The assortment of every article has to cover all sizes and of the most used sizes there must be 2 or 3 pairs per each size. Either there will be too many pairs in an assortment or too few. The customer who wants to buy a particular shoe gets disappointed if the right size is not available.

To sell shoes out of fashion is a difficult job. The value of the item out of fashion does not correspond to the quality of material and production of the footwear. The price is only settled to what somebody is willing to pay. The losses on footwear gone out of fashion are extreme. Even though the retailer has paid a fair price, he has paid too much.

When the mark up may seem to be high, one must not forget that the profit on the sold shoes also has to cover the costs on the shoes sold without any profit. The gross profit is an average profit on the total sale.

## Fashion

The style and design of the shoe is one of the main reasons for getting the consumers acceptance. Most people want to wear something, they like and find nice. But it is also very important that another person who is looking at you admire your good taste. "It gives a good feeling", a lot of people will say. The look of footwear has always changed and developed its shape, design and colours in big circles. What ones seemed to be great fashion returns years later back in a little different way.

The development of new materials, combinations and inspiration from what is going on in our world followed by new trends popping up at different places, or at certain occasions, suddenly causes attention. Designers and fashion creators understand to catch the signals. Often famous people shown in TV, films and magazines are seen wearing the new ideas. The fashion always moves and now and then it moves almost too fast.

To sell footwear out of fashion is a difficult job. The value of the item out of fashion does not correspond to the quality of material and production of the footwear. The price is only settled to what somebody is willing to pay.

The losses on footwear gone out of fashion are extreme. Even though the retailer has paid a fair price, he has paid too much. He has to carry the costs. What about the calculations?

It is obvious, that in countries with a population living in a good standard the fashion means more than at places where the standard of living is lower. The higher standard of living does of course also mean that more footwear is sold to the single consumer. New footwear is not bought only because the feet has to be protected, but because of fashion and look.

To increase the consumption of footwear per capita, fashion is the leading point.

## Turnover of Inventories

It is a question of efficiency. Turnover of inventories is the weakest point in footwear business. It is difficult to find another business with a lower turnover of inventories than footwear retailing. It is thought-provoking that the standard in most countries is a rate of turnover of 2 in a year. It means that a pair of footwear in average, after it is produced, is 180 days in stock before it is sold. It is waste of time and money.

Some very big traders with several stores and central stockroom can have a faster turnover of inventories, but compared to other business e.g. textile it is still much too slow.

The longer the footwear is in stock, the bigger is the risk that the calculated selling price not can be obtained. Further more the investment in stock is much too high. Shoe business is, in that way, a much more capital demanding business than e.g. the textile business and others linked to fashion and consumer consumption.

It is a big challenge for the footwear business to get this problem solved. There has been spoken a lot about this question since a lot of years, but not a lot has happened. New machinery and technology, development of logistic with faster possibilities to get the goods delivered have we seen. The result concerning this matter has been poor.

Flexibility in planning production and order giving is an important tool. Faster information about what happens in the market is possible through modern technology. Shorter time from order giving to delivery time is necessary. Very often main orders still have to be placed 4 to 6 months before delivery.

Who is going to carry the risk is always a question. Both industry and trade/retail have to carry this burden on their shoulders.

All the way from tannery, component producer, footwear industry, wholesaler to retailer the procedure has to be analysed. To produce the shoe itself does not take long time, but all preparations from design, material/leather, last and so on takes time. After the shoe has been produced, the shipment and presentation to the consumer through marketing and finally sale comes up.

The consumer is sending a lot of signals that must be used. The reactions the consumer shows when new fashion and ideas are presented on the market are very useful. What about the style, the last, the heel, the colours, the combinations of material and the fitting?

Very often it is possible to see if new models will be successful or not. When new articles are sold at once when they are presented, it is most likely that the demand will increase. The other way round, a new article which does not attract any attention can be difficult to sell.

To read the consumers reaction, and on that background be able to follow up, creates a faster turnover of inventories. The consumer reaction must be observed, collected and informed by the retailer so action can be taken.

Through check-up in different countries on the best sold articles, it shows that inside a brand it is almost the same styles which are placed inside top 10 on all markets

To increase the turnover of inventories, the industry must also take the risk and produce best sold styles for own stock, so that delivery can be carried on as soon as the orders are coming in from the retailer.

The factory outlets that came in the market first in USA and later spread to other countries could be used in a more effective way.

Particularly in Europe a lot of retailers are and have been negative against factory outlets. Meanwhile, the fact is that in the modern world, a lot of goods are produced and cannot be sold through the ordinary channels. A way to clean the stocks and to reduce the investment in goods having a slow turnover is a question of collaboration between footwear industry and the retailer.

The factory outlets can be used in a more effective way. The possibility for the retailer to return slow sold footwear to factory outlets and in that way get free capital to invest in new goods would make it possible to increase the rotation of goods. The costs to make such a project have, of course, to be covered by everybody involved. Already to day we have a big difference between the calculated and the realized price together with much money invested because of slow turnover of inventories of footwear.

It is necessary that producer, wholesaler and retailer will understand working together, with the tools we already have and may be new we will find, to get this very big and expensive problem solved. Those who are able to do it better, are for sure winners.

*Example:*

4 month	3 month	14 days	6 month after delivery
I _____	I _____	I I _____	I _____
Shoes ordered Main Order	Shoes delivered On sale in The Store	Sale at reduced price	

The main order is given to the producer 4 month before delivery. It can be in March for delivery July. As soon as the shoes are delivered, they will immediately be prepared to be presented to the consumer (unpacked, controlled and price labelled). The shoes will be on stock waiting to be sold.

Through the first 3 month the sale of the specific shoe will be controlled. How fast or how slow it is sold.

If it is a good sold article, it is may be possible to make new order for immediate delivery as soon as the positive reaction from consumer is observed. If it is a bad sold article, the selling price has to be reduced to make the shoe more attractive to the consumer. Then the question is: How much the price has to be reduced. The first loss is the cheapest. If the shoe is not sold at the reduced price, the price has to be reduced once more and meanwhile the time period from delivery till sale gets longer.

In average about 60% of the shoes will be sold at calculated price. The rest will be sold at reduced price.

At the end, the shoes will in average have been in stock 6 month before they are sold. The turnover of inventories is twice a year. If we compare with food in a supermarket, the turnover of inventories will be about 40.

## Flexibility

How to act in the most efficiency way is also a question of flexibility. We have all our opinion to day, but may be it is different to morrow. Not only fashion is changing. The world around us changes every day.

One of the greatest examples of flexibility in footwear business is to see the moving of shoe factories from countries to other countries inside the last 40 years. It has been an enormous challenge for the footwear industry.

The movements in the direction of open markets and globalisation have created other conditions. The labour force and costs in the developed part of the world have forced the industry to find other ways to be able to compete.

The Danish shoe company ECCO is an example of a small shoe factory established in 1962 in a small village close to the German border that have been able to act inside the changeable conditions with success.

To day ECCO has 80% of the total production of about 14 million pairs a year (2006) outside EU. 15% of the production is in Slovakia and 5% in Portugal. The rest is made in Indonesia and China. Totally there are about 13.000 employees in the ECCO Company.

A lot of new jobs have been created in the developing countries and in the short term, it has an adverse effect in the developed countries.

Other examples of shoe producers from EU who have been successful under to day's conditions are RICKER from Germany, MEPHISTO from France and GEOX from Italy.

We have got the global market place. More and more people earn more and more money. More and more goods are produced and presented to the consumer. New marketing methods have come up. The shoe has changed from being only a thing to put on the feet to be a part of the single person expression and identity. The consumer has been much more powerful. Fashion is only successful if the consumers accept it. A brand is only a brand if the consumers accept it as a brand and buy it. It is the consumer who gives the final answer and acceptance. Yes, indeed the consumer is powerful.

To produce and sell under to days conditions in a successful way is also to understand to be flexible and to act flexible. It is a crucial qualification.

## Social Responsibility

International competition is only possible under the same rules. Those rules have to be accepted by all involved. The way we treat each other has a long-range influence of how we behave and do our jobs.

The global market place means that we come closer to each other and our different culture. To obtain the best results is it necessary that we respect and try to understand each other. We have a common goal: To get success with what we are doing. If we are producers, distributors or retailers are the same. In some developing countries, we do not find the same understanding and interpretation of code of conduct. But it is not only those who are producing the footwear who are responsible, it is also those who are making the orders.

To go in the right direction in a fair way will at the end give us the best position. It is of global interest to all players in the market, that peace and regular behaviour are headlines to be respected by every one.

Schools are still the best place for children to be educated until they are old enough to understand and able to have an employment, which gives a background to live a decent life.

Social responsibility is necessary to develop a market in a successful way. A lot of companies who have moved to developing countries can confirm that.

## Quality

If the consumer is asked: “Do you want to buy quality”? For sure the answer will be: “Yes”. May be she shortly after will say: “But I do not want to pay too much”.

Of course the consumer knows that there mostly is a connection between price and quality. But it is very important that the consumer not gets disappointed. A disappointed customer is difficult to get into a positive dialog, and the customer will be lost.

To day we know, we can get good quality on almost all the markets. It is not only the old markets who can assure that the quality corresponds to the price. Markets in e.g. Taiwan, Indonesia and China presents a wide range of good quality footwear at very competitive prices and increase the competition on the global market place.

Consumers all over know about bad and good quality. To day you will find a lot of very nice shoe stores in China, Russia, Ukraine and India in the bigger cities. Consumers coming there know also a lot about bad and good quality. The consumer is a clever person, and you will nowhere find more stupid consumers than elsewhere.

Stay at the quality and the confidence will be there. If the price becomes more important than the quality, the confidence to the product can go lost very easy.

Quality in what we are doing, gives us a feeling of confidence.

## Complaints

To mention complaints just after having thought about quality and confidence is rather logical.

Footwear is an exposed product. When we move on, normally we do not look down on our feet. We step on a lot of things we do not think about. It may be wet, dry or dusty if not worse.



It means that we often are in a situation where the footwear has been used in a way, with the result that it breaks. Even if the best efforts are made from producer and retailer, it is impossible to avoid that the consumer comes with a broken shoe or a defect in or on the shoe and make a complaint because of that.

With the consumer strong position, it is very important to have a strategy and policy how to handle complaints. Complaints have to be solved before they become an expensive problem.

The fact is, if a customer has gone to the supermarket to buy a cheap pair of shoes and after some time they get a defect. The customer then will return to the supermarket, where she has bought the shoes, and make a complaint. Without any big discussion, she will have a new pair of shoes.

Time is money, why it costs too much to make a discussion out of it. And what is more important, the customer has left the supermarket for ever. She has got disappointed that the pair of shoe she bought did not come up to her expectations.

When we transfer the situation from the supermarket to the specialized shoe store with full service - what then? The customer has bought a pair of shoes at a higher price than she would do in the supermarket. She feels convinced that she has bought a pair of shoes in a better quality, than she would do in the supermarket. If her shoes inside one year or two gets a defect, she will go to the shoe store to get the problem solved.

If the complaint is not solved in a, for her, satisfactory way, she will compare the situation, if she had bought a cheap pair of shoes in the supermarket. The fact is she thinks she has bought a better quality and paid more for it at a place, where the staff is supposed to be experts in footwear.

If the shoe can be repaired, it is important that the customer gets a properly explanation, she can accept.

A complaint which has been solved in a professional and positive way can be turned from a problem to a matter of good service. If it becomes a bad experience for the consumer, she will never return to the store again, and she will tell the story to her next neighbour. Very fast it will cost more than a new pair of shoes.

## Brand Protection

### **Top brands of the footwear market** (December 2005 – November 2006):

1. NIKE
2. NEW BALANCE
3. SKETCHERS
4. REEBOK
5. ADIDAS
6. TIMBERLAND
7. BRAND JORDAN
8. VANS
9. BIRKENSTOCK
10. ROCKPORT
11. ASICS



12. NINE WEST
13. STEVE MADDAN
14. CLARKS ENGLAND
15. CONVERSE

These 15 brands had a market share of 38% of the total market.

The brand has become more and more important also for the footwear business. To have an identity which the consumer can understand, can be crucial for the choice the customer will take.

It is very difficult to build up a brand. Producers are hard working to create there production under a brand and wholesale dealers, importers, exporters, franchise companies, buying groups and other suppliers are making big efforts to make there own brand or private label.

We see that the best known brands at all inside sports footwear are companies like NIKE; ADIDAS and PUMA. They develop and create their articles, but they do not produce them by themselves. The brand is the “headline” of their collection and it is very easy for the consumer to identify their shoes.

To be known as a brand is a decision taken by the consumer. If the consumer is not willing to accept the idea, style or quality of a collection, it will never be a brand.

To create a real brand is very expensive and not done over night. It is difficult to be a small brand and it costs a lot of efforts in launching and marketing a brand.

When the consumer buys footwear, she also buys the brand and what belongs to that. The brand is a part of the value of the shoe.

For the producer the biggest risk is that the copy is of bad quality. Bad quality destroys the image of the shoe. It is not always the consumer is aware of that it is a bad copy she is wearing.

Protection of the brand has never been more important as it is to day. In the last ten years we have seen that more and more responsible authorities e.g. governments and EU are taken action through legislations to stop production and trade of false brands.

We see now that the fight against copying and false brands has come so far, that it not only is the producers and traders of the false brands and copies who can be punished. Some countries have already made or are going to make rules where also the buyer, the consumer can be punished. In Italy for example the control is very strict.

In the global market every player has to understand that the rules have to be respected. Especially in countries like China, Turkey and Canada there are a lot of counterfeiting. There are examples where 40% of the market is lost because of counterfeiting. Counterfeiting will at the end give no winners but only loser.

Counterfeiting is an enemy of fair trade. Neither producers nor traders have in the long term been winners but only loser.

Fair trade is the condition for development of the global market place.

## Market Protection

The EU anti-dumping on shoes from China and Vietnam is the newest example of protectionism. The footwear industries in Italy, Spain and Portugal have tried to convince the EUROPEAN COMMISSION that it was a right idea to protect themselves through those new duties.

The fight for or against anti-dumping duties gave the result, that all footwear except some types of sport shoes should have a duty imposed. The duty should be 16.5% on leather shoes from China and 10% on leather shoes from Vietnam. The anti-dumping duty got imposed for 5 years.

From the retailers and wholesalers point of view the losers will be the consumers.

When European companies decide to outsource their production of shoes to China, it is simply because the Chinese manufacturers are the best pick on the market. The Europeans get the requested product quality at a low price. The result is a wide selection of qualities and different prices for the European consumers and a high degree of competitiveness for European companies on the world market.

This is an excellent example of globalisation in practice. Companies have adapted to globalisation and make use of the advantages of the global division of the labour force. The problem is that not all European companies do it. While many companies in the shoe industry master the skill of globalisation to the full, other parts of the industry have neglected to restructure their business to meet new challenges. Not surprisingly, this part of the industry has a strong wish to protect the European market against cheaper shoes from China.

But protectionism via trade barriers is a short-term fix. Sooner rather than later, all European industries will have to improve their competitiveness. It is an illusion to think that retailers will return to buying shoes from Europe simply because of new duties on shoes from China. What will happen instead is that footwear companies will start looking for other competitive manufacturing countries such as Bangladesh and Cambodia.

From those who wanted the duties on shoes from China the point of view is that it is very important for the European industry and exporters that the Chinese market opens up instead of having their protectionism. By imposing anti-dumping duties in Europe on Chinese shoes the positions in negotiation with China about import restrictions will be better.

The Chinese market is the largest market in the world. The optimal situation is the day where all players will have free access to all the markets in a free competition.

It is a wrong way to go that protection is good as long as own production is protected. At the same time with the wish to have the possibility to go into a bigger market

Protective measures are not good for local industries as their product development and improving efficiency not will be pushed forward. Strong competition creates new ideas and methods and makes the players more powerful. WTO rules have to be respected and at the end market protection has never, in the long term, been able to develop any thing. There are no such examples in any country or industry.

The goal must be that the consumption between the worlds population will be more equal. It is of biggest interest to the developed countries that the developing countries get to a level, where

the consumption and demand for goods grows because of higher standard of living.

### **Examples of Market Protection**

- The EU adopted anti-dumping on certain leather shoes from China of 16,5% (and 10% from Vietnam). Effective 7<sup>th</sup> October 2006, with special technology athletic footwear (STAF) of at least 7.5 € FOB accepted.
- Japan's quotas limit imports of non-athletic leather footwear to 12 pairs/year, about US\$ 40 fee. Per pair for quota items entered without license.
- Canada has anti-dumping duties on waterproof items from many countries (up to 79%).
- Australian shoe duties are scheduled to phase down to 5% on 1<sup>st</sup> January 2010.
- Brazil has temporarily raised many rates to 35%, its WTO bound maximum, due to its overvalued currency.
- Mexico has anti-dumping duties on shoes from China in the 200% plus range through 31<sup>st</sup> December 2007, and a reference price system applicable to all shoe imports.

### **Education and Training**

To get a position and to be able to fulfil the challenges on the labour market, it is clear that education and training is an important issue.

Communication to and with the consumer has become ultra short. We have to know and understand what we are talking about. Everybody in business has his position which has to be filled out.

We have our basic knowledge from school and life experience, but this is not enough. Inside our profession we have to act professionally.

A lot of training programs are developed and education on all levels is a must. As an example: The Danish shoe producer ECCO. They have factories in Portugal, Slovakia, Indonesia and China. Their training programs are identical over all. The human brain is the same over all. There will be no difference in intelligence. We have the same possibility to use it.

Also in marketing and retail shoe business we have to know about the products we present and sell. We have to give the consumer an experience. To do that, knowledge has to be behind.

To be able to sell and give service and good feeling to the consumer is the way to success.

To be able to sell gives a personal quality to be proud of.

If you are proud of what you are doing, you are a better person in your profession.

To adapt marketing and sale to consumers demand cannot be done without knowledge and vision.

### **Develop Our Business**

In the developed countries with a growing standard of living, we see that the consumption of footwear does not increase with the same speed as the standard of living goes up.

A smaller part of the sum of money at disposal for the households is used on footwear.

Footwear must be placed in the consumers mind. To look at and to try the shoes on the feet and feel comfortable has to be a good experience. A lot of actions can be carried out. The shoe-industry has a big possibility and chance in supporting the marketing and sale of their collection.

### Examples:

- Professional advertising in TV and radio.
- Small catalogues or leaflets to be placed in the stores or distributed in local areas.
- Loyalty programs were greetings through post cards or small gifts are sent out directly to consumers on the basis of an address card index.
- Shoehorns with print of the producer-name to be delivered together with the shoes.
- Extra laces together with the shoes.
- Nice bags may be in textile to put the shoes in.
- Shoe polish in the right shoe colour.
- A lot of gimmicks can be used.

Training and information to the sale staff in the stores about the products and collection can be established.

The purpose is to help the retailer to please the customer and put focus on own production and brand.

### The Future

It is difficult to predict, especially about the future. But to look behind gives an idea of what will happen.

Without doubt, there will become a concentration inside all links from leather to shoe and finally to consumer. The companies will be fewer but bigger. To strengthen the efficiency is necessary to be able to act under still stronger competition.

The consumer demand will be stronger. The consumer influence will grow. Prices mean a lot, but the consumer wants also quality. The consumer will know a lot about the goods, she wants to buy. The consumer is well educated.

The bigger consumption among the population, the stronger demands will be. Through the last many years, the market has developed that way.

The influence through the media will still be stronger. The world will be “smaller”. To travel will be cheaper. The consumer will be more international. To be and to get in contact with other people will still be cheap and easy.

The consumer wants adventures. The consumer is curios.

Everybody who takes part in the business must be well educated and informed about the goods, the consumers knowledge grows.

The internet will develop and be able to give the consumer information about everything in an easy way and very fast.

Brands will have an important role and protection of brands will also in future be a big challenge. May be it will be more easy to find those who try to cheat.

In the developed countries has the brands through the last 40-50 years got a big influence on consumer reaction

Mono brand stores will come more and more. Many mono brand stores have a big success on a lot of markets, among others: ZARA from Spain, HENNES & MAURITZ from Sweden, HUGO BOSS and ADIDAS from Germany, RALF LAUREN and NIKE from USA, GEOX from Italy and ECCO from Denmark.

Multi brand stores will come later on.

Factory outlets will grow to make bigger flexibility in the retail market. The rate of turnover on goods in stock will be forced to go up.

The individual shoe retailer will be reduced in number to almost nothing. Small business has difficulties in getting sufficient efficiency and professionalism.

A lot of partnerships will be developed. It is a good chance for small and medium size companies.

Marketing and buying groups will be sold to investment funds and converted to capital chains.

Department stores will go into difficulties. (It is almost only in USA. they are successful.)

Self service supermarkets will still sell big quantities of cheap shoes.

Exclusive fashion stores will have their platform in bigger exclusive city area and exclusive malls. In the last 5 years very nice new stores and malls are seen also in developing countries.

Health will still be a very important issue also in connection with footwear.

Developing shoes will be of growing importance.

The global market place will be opened much more. The single markets also in Asia will have to reduce duties and other sorts of market protection. The growth in population and standard of living means that a lot of their own production will go to the domestic market.

We have to face problems will come, but have to be optimistic and make use of our chances.

## RECOMMENDATIONS TO DEVELOPING COUNTRIES

1. Remember: We have all the same brain. Education and training give more opportunities.
2. Free and fair trade gives the best foundation for a positive development.
3. Duties to protect own industry and trade is at the same time a reduction in the possibility to develop. From experience we know that it is a fact that an open market with competition creates a bigger market.
4. If everybody follow the rules and standards, competition is fair and to handle.
5. Make the things better, not cheaper.
6. Understanding plays an important role. When you understand what the consumer wants, you have a good tool.
7. Try to find a good brand to cooperate with.
8. To get a position in the developing countries market, companies from outside need to have relations to local people who know the domestic markets, conditions, culture and complexity.
9. Brands on their way into a new market do not come if they cannot have fully control over their efforts. The developing countries have to make it easy for industry and traders to go to new markets. Large and inefficient bureaucracy can make it difficult.
10. Industry and trade want to work together with people who are reliable.
11. New companies in the market create new jobs and progress.
12. When companies are asked: What is the most important matter to get solved going into a new market? The answer will be: To get in contact with the right people to work with.
13. Look at and study the challenges how they are and how they have been in the developed countries. For sure, the development in many developing countries will increase rapidly and go much faster then we have seen before. The developing countries will in some cases jump over a lot of the small steps. In other developing countries the possibilities are smaller and there is a risk that the barriers will grow.

At the 25<sup>th</sup> anniversary in 1987 of the Danish shoe producer ECCO, the well known Danish artist *Piet Hein* presented the poem:

We trust in Man,  
But still we use  
To shape our feet  
To fit the shoes.

A future world  
With less conceit  
Will shape our shoes  
To fit our feet.