



The 2007 World Footwear Congress took place at the end of April in Logroño, capital of La Rioja, a Spanish region most famous for wine, but one that also has more than 300 footwear manufacturers employing 3,200 people. As the numbers suggest, most are small producers but the discussions over the two-day event proved that they, and small-scale manufacturers all over Southern Europe, are battling hard to define their place in the world market.

The fight for the future of footwear

The debate on the future of the footwear industry is most intense in Italy, where Vito Artioli, vice president of the National Association of Italian Footwear Manufacturers (ANCI), insists that attitudes are beginning to change among producers. There is a growing acceptance that Italian companies have to make shoes that consumers can wear in a variety of contexts and that the prices must be competitive, but without compromising traditions of beauty, quality, style and elegance.

New markets are opening up as the number of higher earners increases in the world's fastest growing economies. The Italian footwear industry believes its products will be in demand among newly

affluent professionals in these markets, with Italian shoes continuing to be, in themselves, a symbol of prosperity.

This is equally true in more established markets such as the European Union and the United States, but Artioli warns that the highest market segment globally is now saturated. It's a slice of the market 'reserved for the chosen few', the biggest of the brand names. Even the category just below what he calls 'the super top' is crowded these days, leaving the 'medium-high bracket' as the one that offers the best prospects for growth.

This is an interesting tack for the charismatic Artioli to take: most of the southern European manufacturers to speak in Logroño put the emphasis on

playing at the top of the market, suggesting that this was an arena in which they would feel safe from the threat of competitors from Asia, and especially China.

But, there is not enough room for all European footwear manufacturers to produce for the high-price, high-end, high-fashion segment. If the ANCI vice president is correct that a move towards the middle market is the best way to achieve expansion, companies in Italy, Spain and Portugal will have to grit their teeth and engage in more, not fewer, fights with their Asian counterparts.

Artioli believes in challenging China verbally, and in very frank terms. So, if we want consumers worldwide to be able to

make a genuine judgement of the quality, price and origin of the footwear they buy, we must fight all misleading and deceptive behaviour. He is tacitly critical of some in Northern Europe and North America whose interests are purely in trading rather than manufacturing. He accuses them of hiding behind false liberal assumptions because of their insistence on taking China at its word (that it plays by the rules), and on labelling anyone who harbours scepticism about the fairness of trade with China as neo-protectionist.

Things must change

In the broader battle, one of the European industry's weapons should be greater collaboration amongst companies. They must share and centralise activities such as procurement and distribution, and work together to penetrate interesting new markets in Eastern Europe—including the former Soviet Union—South Africa, the Middle East, the Far East and Central and South America.

At the same time, each company should take steps to use a mix of materials, rather than just top quality leather, introduce a greater level of industrialisation to manufacturing and abandon artisan aspects of the process that have ceased to offer a competitive edge among unappreciative middle-level consumers. In saying this, Artioli echoes the views of the Italian industry itself, as these are the major findings from a detailed survey of fifty footwear manufacturers conducted late last year.

Doubts remain about the best way forward however. The study showed four possible scenarios, depending on which path producers decide to pursue, as well as on the wider economic situation of the global market. The two extreme options are dismissed as being the least likely. One predicts a lengthy period of recession, with recovery only possible after 2010. The other—the most optimistic—envisages only a brief global recession in 2008 and strong growth either side of it, particularly after the start of the next decade.

The other two possibilities are that the Italian footwear industry will lose its dynamism and have flat growth over the next five years or, more optimistically, that the difficult times will lessen but continue until 2009 before growth picks up considerably. This would imply that the close of 2006 marked the end of the Italian

Bello e ben fatto. Italian footwear manufacturers must improve efficiency, but without compromising their reputation for beauty, quality, style and elegance.



industry's difficult recent history.

If profits are to return, however, change must take place along the lines Artioli has suggested. If Italy can come through its recent travails, it has the potential to produce 19% of global inventory by volume and, more impressively, 32% by value. He knows this will not be easy, but change never is.

Open market legacy

In the United States these days, the situation seems more straightforward. The footwear industry is about retail and distribution. The key issues are interpreting consumer demand accurately, sourcing and stocking the right shoes in the right quantity, and making them available to consumers at the right price and through whichever distribution channel the customer prefers. For Peter Mangione, president of Footwear Distributors and Retailers of America (FDRA), this is the result of 25 years of open market.

The main consequence of this openness, he insists, is that the US footwear sector is 'a grand success story', generating more than \$50 billion a year. Consumers buy on average eight pairs of shoes a year, almost double the level in the European Union and more than four times as many as China (1.96 pairs) and India (1.91). In the same way as most retail markets, however, footwear sales in the USA have gone through intense consolidation and almost the entire market is now in the hands of 12 major companies with Wal-Mart,

unsurprisingly, at the top of the list. JC Penney, Payless ShoeSource, Target and Kohls—all big names in their own right—are its closest rivals.

The fastest growing channel for footwear sales in this part of the world is the Internet. Whilst most retailers have a mixed clicks-and-bricks set-up with stores in shopping malls as well as dedicated websites, other players are coming to prominence with an Internet-only offering. Zappos may be the best example of this.

Launched in 1999, at the height of the dot-com boom, Zappos' founder Nick Swinmurn believes that it won't be long before 30% of US shoe sales take place online. At that point, the company that has not just the best selection of shoes, but also the best service, will win. He insists that Zappos will be that company.

The president of the European Confederation of the Shoe Retailers Associations, Yrjö Gorski, says that self-service over the Internet is also beginning to make an impact on the European market. There, too, consumers have come to expect a greater assortment and a service that meets their particular needs.

Bricks-and-mortar retailers need to embrace technology much more readily, he argues; not only to build a closer relationship with consumers, but also to be able to manage their relationships with suppliers much more efficiently. Gorski claims that, "Footwear is one of the sectors with the lowest use of technology. We have a very low use of e-business tools and our use of online procurement, online marketing and online-sales is lower than in companies of a similar size in other sectors."

The Zappos example proves that these tools can work as well in footwear as in any other retail sector. The most common argument against online shoe shopping is that it's impossible to know if a design, a style and a size are right for you until you see the shoe and try it on. Zappos knows this, so it offers free shipping on sending products out and free shipping for returns if a customer decides not to keep them.

Its plan is eventually to move into other product areas, the way that Amazon has done, but shoes will continue to be the company's main focus. It holds over two million pairs in stock from 500 named brands and its projected revenues for 2007 (almost entirely from shoe sales) are \$800 million.

Country of origin

One of the categories on the Zappos website is for US-made shoes, which indicates that the country of origin continues to be an important question for at least a segment of the buying public there too. According to Peter Mangione, this group is growing ever-smaller because 99% of the shoes US outlets sell are made outside the country. The corresponding figure for the European Union is 80%.

He points out that more than half of the world's shoe imports are to these two economies with China as the principal source. It has an 86% share of the US footwear market at present. He always mentions China in a matter-of-fact tone of voice as he knows China's dominance is news to no-one and anathema to many. Nevertheless, he is an unabashed admirer of what the Chinese footwear industry has achieved in recent years.

"China isn't the only country with low wages," he explains. "What sets China apart is the huge investment it has made in industrial production. The country is awash with private investors who will put money behind any good business idea. There are more than 200 factories there that each produces more than 20,000 pairs of shoes per day, and several that produce more than 50,000 pairs a day."

He is certain most in the US footwear industry regard the country of manufacture as a secondary issue and he finds it hard to understand why such a large proportion of their European counterparts devote so much time and energy to this subject. "I'm used to it now," he says, "but I still don't get it. I guarantee that when people in the industry in the USA get together, this subject is not even on the agenda. There, what matters is that we in footwear are losing the battle against other products as we compete for a share of people's disposable income. People are spending more on their mobile phones than on footwear. That's what really matters."

He also points out that 45% of shoes sold in the USA now are in the athletic category, dominated by Nike with its famous tick logo on two out of every five pairs of sports and leisure shoes sold. At the other end of the spectrum, only 7% of all footwear now sold is in the dress shoe category—shoes that the FDRA president describes as 'works of art', but which command a small market share.

Nevertheless, 7% of the \$50 billion US

footwear market is still a handsome prize, as specialist retailer DSW has proved. This company, which achieved \$1.28 billion in sales last year, has more than 220 enormous shoe stores in cities and shopping malls throughout the USA, each one displaying around 30,000 pairs of shoes.

Yes, these do include athletic shoes but, more than 350 designer brands—including many European ones—are also well-represented. The format is self-service, although DSW insists well-trained sales associates are available to offer any help customers require.

A call for optimism

If the companies that make and sell shoes have a series of options still open to them, it's also true—as the Italian study makes clear—that the global economic situation also has important implications for the footwear sector. Madrid-based Antonio Garrigues, a partner at one of Europe's largest law firms and a frequent speaker on international affairs, argues that many are still struggling to properly understand the term 'globalisation'. Ours is a complex and changing world; this is our reality and we must accept it, he says. However, it is important to face up to globalisation with optimism.

He argues that it is easy to be a pessimist but that if you look at the situation carefully you will see that the

world of today offers more opportunities than problems. So, he divides the world into three axes—a North American one (including Canada and Mexico as well as the USA), a European one and a Pacific one—and describes the current economic situation as a battle amongst them. It is also a mistake to think of the Pacific axis as China alone, as India is becoming more and more important in the global context, and Japan remains powerful.

"Who is going to win this battle?" he asks. "Certainly not Europe, as its capacity to compete is very limited in my opinion. There is no single market because nationalism is still powerful and politicians are far too focused on the short-term." He foresees only a few large-scale global players in every sector with, for example, the automotive industry limited to 15 factories worldwide and with perhaps only two or three left in Europe.

As far as the footwear industry is concerned, Garrigues thinks the biggest challenge is for it to improve its record in adopting new technology. Companies that can achieve this stand a good chance of surviving and thriving. People everywhere want to live better and for longer, and footwear can be a part of that. Consumers can have footwear that improves their lives and contributes to their health and medical treatment they may require.

"Nothing is secret these days and every good idea will immediately be imitated. Nevertheless, the most important thing is to carry out scientific investigation and keep coming up with new ideas. If I was in the footwear business this is what I'd be trying to do because, whether it likes it or not, the footwear sector here in Europe is going to go through further consolidation."

Tough words—but essentially true. Many of Europe's footwear manufacturers do need to change. The means to greater industrialisation are all there, as is the technology to remove many of the problems of high labour costs and overheads. It just requires the necessary optimism to invest and that is perhaps the real problem.

Too many manufacturers have been bowled over by the Chinese express and have lost confidence in themselves. But, as we have said, the technology is available to produce footwear competitively in Europe and other developed economies. *World Footwear* will explore this in greater detail in a future issue. 

Robots can effectively replace skilled labour in many operations.



Image courtesy Klöckner DESMA GmbH