



The port of Rotterdam. Birkenstock's US-bound stock flows through here to Norfolk, Virginia, before continuing by rail to the company's new distribution hub at Hebron, Kentucky.

Why US slowdown could be good news for footwear brands

When consumers in the US tighten their belts, the whole world used to have to go on a diet with them. Today, with developing economies in Asia growing so quickly, this is probably less true than at any time in the last 100 years.

But the US market still matters hugely, not least to the global footwear industry. Nowhere in the world do manufacturers, wholesalers and retailers sell more shoes (2.4 billion pairs in 2006); in no market across the world do consumers buy more pairs per person each year (eight each, on average).

This may help explain why so many of the 1,600 exhibiting companies at the most recent WSA exhibition in Las Vegas (February 2008) came from Asia, Latin America or Europe; they all want a slice of the American pie.

The constraints on US consumer spending are real, though, which is why the US central bank, the Federal Reserve, took further steps in mid-March to inject new life into the economy by authorising a \$236 billion 'liquidity boost'. With things as tight as they have been so far in 2008, the authorities clearly thought they had no option but to intervene; the *Financial Times* called it "an effort to fight off the risk of a deep and protracted recession".

The footwear industry could not fail to be affected by all of this, and it has suffered—the fact that other apparel sectors has suffered even more is no consolation. Growth in footwear sales dropped sharply in 2007, with the latest figures available from analyst firm the NPD Group putting the figure for 2007 at 1.6%. Many in the industry will view this as a

disappointment after growth figures of almost 5% in 2006 and a cork-popping 11% in the heady days of 2005.

Commentators on this industry used to say that footwear was recession-proof because everybody needs shoes. The experience of recent months shows that this isn't true, not if your strategy for success is predicated on persuading people to buy more shoes than they need—eight new pairs a year each, for example.

Curiously, though, three prominent footwear brands from Europe that we have spoken to are of the opinion that a downturn in consumer spending such as the present one need not mean hard times for them. Hard work, yes, but companies that have invested time and effort in making their supply chains as efficient and effective as possible and in strengthening their relationships with key buyers may even be able to look forward to a better year's business in 2008.

This may seem counter-intuitive, but it is the firm view of Douglas Segal, one of the sales managers in the US of iconic Balearic brand Camper, that his company has a successful year ahead of it in the US market. "People [buyers] are going deeper into brands," he says. "They're working with fewer brands now and relying more heavily on strong partnerships with them. They have to know their suppliers will come up with good quality collections that will sell. Sure it's fun to buy pink boots with pink coconuts on them, but in this economic climate you have to have something that you can sell."

Caution in planning distribution

For him, this means that trusted and popular brands have little to worry about. Camper has been careful not to become what he calls "over-distributed" in the US, trying to keep the number of boutiques and department stores in any given city that it deals with to a sensible number. This will help it concentrate on keeping its existing relationships working well and on continuing to offer a high level of support to its retail customers in terms of logistics and in-store help.

He is in no doubt that this strategy will reap rewards. "There's a recession somewhere, but go to the airport and it's packed, go to a restaurant and you can't get a table," he says. "People still have money to spend and they still want to look good."

At Birkenstock, Gene Kunde, president of the US operation, agrees that strong supply chain relationships will be the key to continued success for brands aiming to sell into the US market. Over the last seven years, he says he's seen many things that prove this is correct.

He joined Birkenstock in 2001, so he knows the effect that tough economic times can have on a business like this. Consumers don't stop spending, but they are likely to choose more carefully what to spend money on, and established, credible brands definitely have an edge. This doesn't mean they can afford to stop improving.



Geox aims to have 45 stores of its own in the US by 2011, but selling its breathable, waterproof footwear in department stores is also a key component of its expansion strategy.

CREDIT: GEOX.

Mr Kunde comments: "There were probably 12 people from our company at the stand at WSA, primarily sales people. But I guarantee that if you asked each of them what was most important in our business at the moment they would all say it's the supply chain. We had breakfast meetings at six o'clock and the big topic of discussion was how important it was for us to deliver orders as promised to our customers. We want this to become more seamless, more effective and more efficient. We've spent a lot of time on it and I'd say we feel better about 'delivering as promised' today than we did a year ago."

He explains that there are plenty of potential pitfalls in this. The footwear business still operates with two main order-cycles, spring-summer and autumn-winter. Six or seven months before the start of each season, manufacturers and brands need to gather information about orders, source materials, carry out production and ship the finished shoes at just the right time. "We know there is a lot at play," he says, "but if we do it, if we get it right, our customers will stick with us. They'll see us as a good supplier, as a company they can rely on."

In Birkenstock's case, production still takes place exclusively in and around the company's home town, Vettelschoss, near Bonn, in Germany. Finished shoes go first into the company's own warehouse waiting to be picked and packed, before going by road to the port of Rotterdam in the Netherlands and from there by container ship across the Atlantic Ocean to Norfolk, Virginia. From the US port, they go by rail to the centralised distribution hub of the US operation, which is in Hebron, Kentucky. Until recently, Birkenstock's US warehouse was in northern California and shipments had to go through the Panama Canal before docking at the port of Oakland.

The brand has had a presence in the US footwear market for 47 years and Mr Kunde says there are

supplier-client relationships that have so far run for 30 or 40 of those years. The last couple of them have been tough, he admits. Because the dollar has weakened, companies such as his that have to make most of their labour, production and materials calculations in euros have seen costs rise by 40%.

This was one of the main reasons for establishing the new distribution hub in Kentucky; other changes have included Birkenstock US—which had always operated, under licence, separately—becoming a formal part of the parent company in Germany for the first time. It has also had to reduce its headcount. "What we know as a group, though, is that if we deliver the right product at the right time, that's more important than price and more important than assortment," Mr Kunde concludes.

One company that is in serious expansion mode in the US—breathable and waterproof footwear specialist Geox—agrees that the currency fluctuations have been a stumbling-block. Chief executive, Diego Bolzonello, says margins in the US market are low. However, he has had "interesting meetings" with footwear buyers from big retail chains such as Bloomingdales and says performance footwear is becoming a popular choice in department store collections.

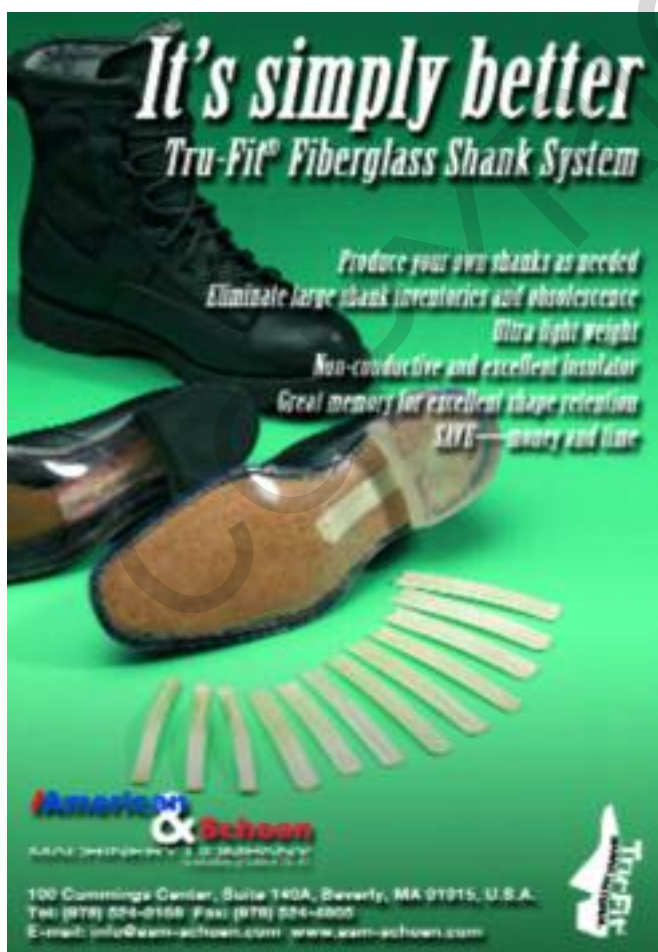
"The second half of 2007 was good for us in the US,"

he continues. "Like-for-like, business was 20% up, so we know this is a market we have to pay close attention to. We're going to continue to build up our relationships as a supplier to the department stores as well as opening more stores of our own there."

He says Geox will open 15 new own-brand stores in the US in the course of 2008 and, in three years, the company hopes to have 45 shops in the US, but it will keep selling through big US retail chains too. The company's expansion plan is to have 45% of its business in Geox shops (either company-run or franchised) by 2010 and the other 55% in multibrand retailers.

Mr Bolzonello describes the US market as "different rather than difficult", but he insists that it is as strategically important as it is vast. "The key to success there is to think like a US company rather than a European one," he says. "That means you have to give good service to the client. We will do that. The turnover we have there, 70 million euros, is only the beginning; our target is to have the same turnover in the US alone as we have in Europe at the moment."

To achieve this, the company knows it will have to invest money in advertising to raise brand-awareness and time and hard work in building up the supply chain relationships that can be the key to lasting success. 



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