

The China Leather Industry Association caused a stir last year when it predicted that footwear consumption in China will double in the coming years. Obvious questions on detail such as from how many pairs, to how many pairs and by when this doubling will take place were less than easy to answer. Now, new information has come to light on this subject.

New numbers for China's shoe requirements

When Madam Zhang Shuhua, president of the China Leather Industry Association (CLIA), said last year that footwear consumption in China was set to double, the industry became excited. There are upwards of 1.3 billion people in China; if they start buying double the number of pairs of shoes they buy at the moment, how will manufacturers and their suppliers cope? A more obvious question, however, is this: how many shoes are we talking about?

Interestingly, Madam Zhang said she could not be 100% sure of today's figure. Official figures are hard to put together, she explained, but her organisation estimates that Chinese consumers buy an average of 1.5 pairs of shoes each per year. Multiply 1.5 by 1.3 billion and you get a current consumption statistic of 1.95 billion pairs. If Madam Zhang is correct in her prediction, it means the global footwear industry will soon have to find a way of supplying China with almost an extra two billion pairs of shoes a year. This is ten times the total number of shoes produced in Italy in 2009. Yes, the Italian industry is mostly focused on luxury and high-end fashion, but the fact remains that Italy is an important source of shoes on the world stage. ANCI, the Italian Footwear Manufacturers Association, claims that its member companies currently supply 38% of all European-made shoes and what we are considering here is that the global industry may need to find ten times that capacity just to meet the extra demand that China is set to present in addition to its demands today. That means finding the equivalent of ten new 'Italies'.

All of this is assuming Madam Zhang's baseline figure is fair. It turns out that not everyone in China believes it is.

If tannery owner Li Chen is correct, China's estimated total shoe consumption of around 1.9 billion pairs per year is already being surpassed just by urban women. In China, city women buy an average of seven pairs a year each, he says.

CREDIT: CHINA SHOES EXHIBITION, DONGGUAN





Madam Zhang Shuhua, president of the China Leather Industry Association, has said footwear consumption in China is going to double. Questions as to how many shoes that means and how suppliers will cope remain unanswered.

CREDIT: ALL CHINA LEATHER EXHIBITION

Tannery owners talk

In April 2011, our sister publication, *World Leather*, carried out visits to China and prepared detailed reports on two of the country's biggest and most prominent tanneries, both of which are important suppliers to domestic footwear brands. These two tanneries, Gansu Hongliang Leather and Xingye Leather Technology, are finalists in the 2011 Tannery of the Year competition.

Xingye is located close to the busy leather production hub of Jinjiang City in Fujian province. It is one of around 50 tanneries in the town, but stands out because of its pioneering work in environmental protection. Company chairman, Wu Huachun, said in the report that he believes footwear consumption in China at the moment is around 1.8 pairs per year for people living in cities and, perhaps, one pair for people in rural communities. He agrees that a doubling of this total in the next four or five years is likely. Mr Wu says: "It will be an enormous number, perhaps an extra two billion pairs a year, and China's production of leather will have to increase. Yes, sports shoes may use only 25% leather and 75% synthetic materials, and that trend will continue, but casual shoes will continue to use leather."

This may explain why his company is in the process of doubling up on capacity. It is building new facilities a few kilometres away from the site and hopes to be able to achieve a total output of ten million square-feet of finished leather, mostly for sale to footwear manufacturers, per month within four years. This building work has begun, indicating that Xingye is confident enough of a huge increase in demand from its footwear customers to have made this capital investment in extra capacity.

Recent results from a number of domestically-focused footwear brands also support the predictions of growth.

Aokang Group, which manufactured around 17 million pairs of shoes in 2009, now has three footwear manufacturing centres, two research and development centres and more than 3,000 of its own footwear stores across China, in which it sells its shoes under the Aokang, Kanglong, Meirie's and Redess brand names. It has announced plans to float on the stock exchange to raise capital for further expansion. Rival group Belle International is already a public company. It reported net income growth of 35.2% year on year to \$523 million in 2010. Total from footwear sales in 2010 was \$2.2 billion, up from \$1.8 billion in 2009. Belle operates five manufacturing bases—in Shenzhen and Dongguan in Guangdong province, Jianhu in Jiangsu province, Zigui in Hubei province and Suzhou in Anhui province—and has a total capacity of around 25 million pairs a year at the moment.

Ten times the capacity

Another public company, Yue Yuen, has ten times that capacity. And although many of the shoes it makes are as an outsource manufacturer for big name sports and outdoor brands in North America and Europe, and a large proportion of 286.4 million pairs of shoes were for export to those markets, its Pou Sheng subsidiary is focused on making and selling shoes in the domestic market. The company's senior management said in the 2010 annual report that increasing consumer spending in China makes them optimistic about continued steady (rather than spectacular) growth for Pou Sheng, which currently operates 3,956 retail outlets of its own across China, as well as supplying 4,218 "sub-distributors". Xingye's Wu Huachun makes the important point that 50% of the shoes produced in China, by Yue Yuen and other manufacturers, go for export at the moment. But he thinks this has to change for the simple reason that China is going to need more of the shoes it makes for consumption on the domestic market.

His rival for the title of Tannery of the Year for China in 2011, Li Chen, takes a similar view. The tannery Mr Li founded and runs, Gansu Hongliang Leather, is in a much more remote region in the north of China for reasons of proximity to important domestic sources of raw material, but he recently opened a new finishing plant in the much more footwear-focused Guangdong province and regards himself as being close to the main players in the Chinese shoe industry. His specialism is supplying shoe upper leather to the makers of women's fashion footwear.



The first of four retanning and finishing departments that footwear supplier Xingye Leather Technology is building near Jinjiang City. The company is investing heavily to double its output of shoe upper leather in anticipation of rising demand in the domestic market

CREDIT: WTP

On the question of footwear consumption in China, Mr Li's answer reflects this special focus. He anticipates that demand will indeed double and has been trying to stock up on raw material for about a year and storing it so that he can take in his stride any sudden rush for leather on the part of his customers. His store of wet blue and crust is "maybe the largest in China", he says. According to the research he has carried out—which he says is extensive—today, in China's cities, the average woman buys five pairs of shoes and two pairs of boots each year: three pairs of shoes for spring and summer, plus two and two pairs of boots for winter.

In the countryside, things are different, and two pairs per woman per year is the figure for footwear consumption that

Li Chen believes to be accurate. Nevertheless, seven pairs of footwear for each female member of the urban population is a huge figure. For illustrative purposes, the CIA World Factbook's figures for 2007 suggested the male population of China was slightly larger than the female. It also suggested an urban population across China of 562 million people (42.3% of the total population). If we assume, stressing that this is for illustrative purposes only, that the proportions of men and women are the same among the urban population as in rural communities, we could put the number of Chinese women living in cities at more than 272 million. Li Chen says they are averaging an annual consumption of seven pairs of shoes and boots each, giving a total of 1.9 billion pairs.

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A much higher total

It means that, if he's correct, the overall consumption figure for China must be much, much higher than two billion. It's almost two billion before any men or anyone living in the country buys any shoes at all. Those same CIA Factbook figures give a rural population of 767 million. And, making the same assumption as above about urban and rural populations having the same proportions of men and women, the male urban population is around 290 million. At a conservative estimate, we could examine the effect on the overall figures of rural people buying one pair of shoes per year and urban men buying 1.5 (clearly very conservative numbers). This would add 1.2 billion to the total and put China's total footwear consumption today at 3.1 billion pairs a year, a billion more than many industry observers believed until now. Play with the numbers further to put rural consumption at 1.5 pairs per year and urban male consumption at two pairs per year and you have a total that is closer to 3.5 billion pairs.

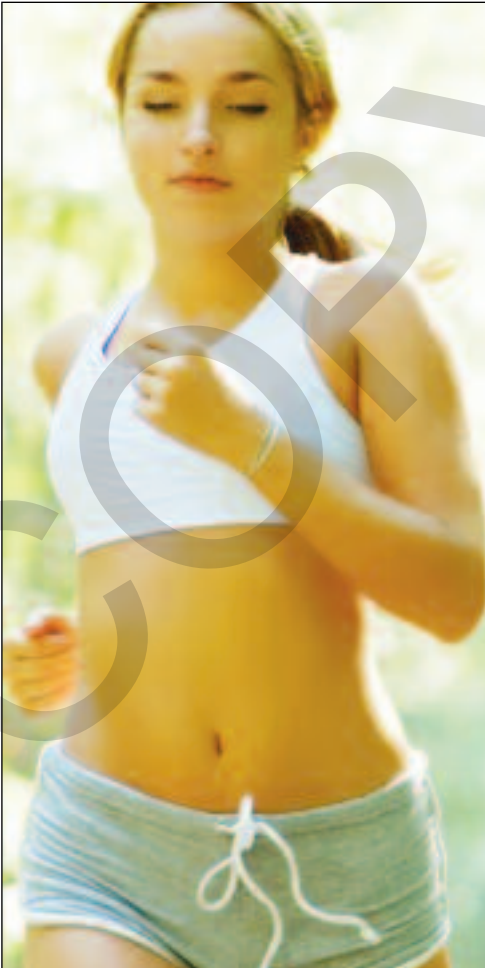
Mr Li thinks the figure of seven pairs per prosperous city woman per year is unlikely to go much higher between now and 2015. However, people in smaller towns, influenced by friends and family or by people they watch on television or see in magazines, will imitate them and growth of the overall total is certain to come. The idea of the total doubling still resonates with



Hides prepared for loading at the Gansu Hongliang Leather tannery in northern China. Owner, Li Chen, believes footwear consumption is on the rise and is stocking up on raw materials.

CREDIT: WTP

him strongly; it's just that the base his calculations start from is substantially higher than the figures we have seen until now. He consults frequently with big footwear companies that concentrate on China's domestic market and says their projections tally with his, which is why they are opening new shoe stores right across China and working hard to sell more shoes to Chinese internet users. Perhaps it's a good job he has been stocking up on raw materials.





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