



The changing retail picture

Veteran footwear industry commentator Peter Mangione has observed the effects on the US shoe retailing sector of the recent global economic crisis. It's not pretty, but not everyone has seen business and market share shrink.

Mr Mangione, a former president of the Footwear Distributors and Retailers of America and now managing director of a consultancy company called Global Footwear Partnerships, still has concerns about the US economy, pointing out that the deficit in his home country at the start of 2010 was higher, at \$1.3 trillion, than the nominal gross domestic product of every country in the world outside the top ten. We are witnessing what he calls "a seminal shift of wealth away from the US", and he insists that the long-term outlook is for a weak dollar and a lower standard of living in his homeland. This affects everything, including shoes, but that does not mean that every company in the footwear industry is going to be affected adversely.

What a year

Speaking before full-year figures were available for 2009 for all the companies he scrutinised, Mr Mangione was still able to highlight a number of factors by examining how last year appeared to have gone for the top retailers and top brands in the US market.

Six of the retailers he highlighted were DSW, Payless, Famous Footwear, Genesco, Finish Line and FootLocker,

The former president of the Footwear Distributors and Retailers of America (FDRA), Peter Mangione, has made some acute observations on changes to the way footwear is selling in the US since the global economic downturn.

while the footwear brands he focused on included Nike, adidas, Brown Shoe, Steve Madden and Skechers. The order in which these names appear here is not important, what matters is the way Peter Mangione interprets the current state of the global economy to be affecting them.

All the brands are strong, he believes; they devote their energy to keeping their names in the minds of consumers and, for the most part, don't 'do' manufacturing. "They are laser-focused on brand-building," says the former FDRA president. "Look at Steve Madden, for example. Steve Madden has figured out teenage girls. He is the one who is closest to those consumers. What you might not know is that Steve himself and his senior management team spend Saturday and Sunday in one of their 92 stores. They get all the feedback they need and then on Monday morning they hold a global video conference with their manufacturing partners to tell them what is selling well, what they need big volumes of, and so on. Then Steve goes golfing on Tuesday and Wednesday."



DSW, a bellwether company for footwear retailing in the US, posted 2009 sales of \$1.6 billion, an increase of 9% on the previous 12 months.

CREDIT: DSW

Aggressive pricing

On the retail side, he points to the “aggressive” approach on pricing of Payless, which, with 4,900, has far more stores across the US than any dedicated footwear group. Consumers know that if they go to one of those stores they are likely to be able to buy two pairs of women’s shoes “with some fashion content in them” for \$15 a pair, because offering 50% off one pair of shoes if you pay full price for the first seems to Mr Mangione like Payless’s permanent strategy. It looks as though it may be working in the current economic climate because, in the third quarter of 2009, the group registered growth of 5.4% compared to the same period the year before.

As for FootLocker, the retail group with the second-highest number of stores, 3,615, things don’t seem quite so rosy. Quarters two and three in 2009 produced comparative sales percentages that were, respectively, 12.1% and 7.3% below the 2008 results. Peter Mangione has some sympathy. He explains: “Some of its new ideas, such as Lady FootLocker, have been a fabulous success, and FootLocker sells 10% of all the Nike shoes in the world. Nike has models that it only sells to FootLocker and, although the retailer also sells athletic shoes by other brands, this tie-up is the reason you can find Nike stores in outlet retail centres in the US, but not in shopping malls. FootLocker’s strength is repeat customers; athletic-shoe junkies who were buying 10 pairs of shoes a year. The

same people are now spending much less, so FootLocker has lost out.” For the full year, FootLocker subsequently posted sales of \$4.8 billion compared with \$5.2 billion the year before, a decline of 7.7%. It then announced a new strategic plan that it believes will help it grow annual sales to \$6 billion within five years. The company released few concrete details about how it would achieve this, although a greater focus on apparel is part of the plan.

DSW’s surge in the third quarter was even more impressive than that of Payless. Its 307 stores brought in 8.7% more revenue over the three-month period compared to the year before, marking a considerable turnaround from the early part of 2009. Mr Mangione describes DSW as a bellwether company, one whose fortunes reflect accurately the situation in the overall market. About 300 footwear brands have representation on DSW’s shelves and it’s the largest customer for most of its vendors. He says the group’s inventory turnover is “amazing”, at six-and-a-half or seven times a year, compared to the two or three of most of its rivals. The group later posted full-year sales of \$1.6 billion, 9% up on the previous 12 months.

Empty stores

When the recession really began to hit the US economy in 2008, huge numbers of consumers stayed home and things looked bleak. Peter Mangione has photographs of



trips he made this past winter to major shopping malls in the Washington DC area showing big-name stores empty of customers. He went on a Saturday afternoon and there was not a single customer inside the Rockport or adidas stores. The only store in the whole mall that was busy was the Apple store, but no one had gone there for shoes. "We're past the Armageddon stage now," Peter Mangione says. "Now that they've realised they're not going to end up on a street corner somewhere, consumers are starting to go back. Not so much to FootLocker, perhaps, because the niche market there—the athletic shoe junkie—is much smaller."

Department stores, however, have been "murdered" in his assessment, and he thinks this is a shame. The 'elephant in the room' in any discussion about retail in the US is Wal-Mart. Footwear is no exception to this, with the giant Arkansas-based supermarket group taking in around \$5 billion in shoe sales in 2009. This accounts for 1.5% of all Wal-Mart sales. The former FDRA president is of the opinion that Wal-Mart "gets the job done on footwear", but no more. Department stores have a much higher dependence on shoes and the footwear brands they stock have a much higher dependence on them, even though it's hard for shoe brands to make money out of department stores, he continues.

Online shoe shopping is still the fastest growing segment of the footwear retail industry in the US. According to Mr. Mangione, 7.5% of all shoe sales in 2009 took place online. Online shoe specialist Zappo's, now owned by Amazon, sold \$1 billion worth of shoes in 2009, he says. "The internet is the biggest shoe store in the world, but, again, it's hard to make money because of the high level of returns," he concludes. 📌

The changing situation in the global economy is having an effect on the footwear retailer sector in the US. As is often the case, there appear to be winners as well as losers.

CREDIT: DSW



Payless mixes an aggressive pricing policy with plenty of fashion content, including a new collection designed by Christian Siriano.

CREDIT: COLLECTIVE BRANDS