

Shoes on the move

Footwear feels like a completely different industry today compared to the sector that *World Footwear* began to cover 25 years ago. Most countries produced at least some of their own shoes and few people had heard of the term outsourcing, even though it was happening, of course. The foundations were already in place for the industry we have today, in which sourcing and shipping shoes to points of sale are the things that really count in markets such as the US, Canada and much of northern Europe (most of the wealthiest countries) rather than making the footwear.

Feng Tay was founded in 1971, part of the huge industrial development that took place in Taiwan, its home country, during that decade. By 1977, Feng Tay was manufacturing for Nike, a brand for which it now makes 50 million pairs of shoes a year. Its history is mirrored by another huge Taiwanese player, Pou Chen, which started making shoes even earlier, in 1969. Adidas was the first major brand that asked Pou Chen to produce on its behalf, with the two companies signing their first agreement in 1978. Today, Pou Chen claims to be the largest manufacturer of branded shoes in the world with an output of 327.6 million pairs in 2011.

By the late 1980s, at the time of the launch of *World Footwear*, both these groups had begun to spread their manufacturing footprint outside Taiwan, opening factories in China, Indonesia, Vietnam and India during the early years of

Since the launch of *World Footwear* 25 years ago, shoe manufacturing has become a truly globalised industry and logistics considerations necessarily play an important role for all manufacturers, brands and retailers. As is the case with most logistics, packing, storing and shipping shoes are activities that usually take place well away from the glare of publicity, but they can be critical to any big footwear firm's success.

this magazine's life so that, in 1993, when *World Footwear* was six years old, the influence of Taiwan as a manufacturing location was already on the wane and China was by far the biggest producer of shoes in the world, making a total of 3.3 billion pairs that year. The 50% share of global production that Asia had in 1983 (largely thanks to groups in Taiwan and South Korea) had now grown to 60% thanks to the output from new factories in other parts of the continent.



Clever footwear firms will use extra flexibility in picking up shoes from European ports to reduce inventory, lower costs and respond more readily to fashion demands.

CREDIT: PORT OF HAMBURG



Dachser has 1.6 million square-metres of warehousing space around the world. CREDIT: DACHSER

PACE OF CHANGE

The market has kept growing, and the trend of Asian dominance on the production side has continued. Our figures suggest that global footwear consumption was just over eight billion pairs a year in 2001 and had risen to 10 billion pairs by 2005 when global trade in shoes was worth \$160 billion. According to research carried out last year by the Portuguese Industrial Shoe, Components, Leather Goods and Derivatives Association (APICCAPS), the global total for 2010 exceeded 20 billion pairs for the first time. China was still the leader, and its production had increased from 3.3 billion pairs in 1993 to 12.6 billion pairs in 2010. India is second on the 2010 list, with just over two billion pairs manufactured (compared to 370 million in 1993). Brazil takes third place with 894 million pairs (550 million in 1993), followed by two more major Asian players, Vietnam with 760 million and Pakistan with 295 million. After that, it's back to the Americas and Mexico with 244 million pairs, but only two other countries made more than 200 million pairs in 2010. One was yet another major manufacturing country in Asia, Thailand with 245 million pairs, and the other was Italy, the only European country to reach those levels (down from 450 million in 1993). The 2010 total for these top Asian producers according to Apiccaps is 6.6 billion

pairs, more than 52% of the total. Other important sources of shoes in Asia, including Indonesia and Bangladesh, do not even feature on the Apiccaps list.

QUESTION OF VOLUME

European footwear brands have made great strides in convincing wealthy Asian consumers that it's worth paying more for the classiest possible product, so the manufacturing arm of the industry in Italy and, to a slightly lesser extent, Spain and Portugal, still has great grounds for optimism. Official figures from the China Leather Industry Association show that the country's footwear imports in the first four months of 2012 were 17.9 million pairs, an increase of 36.9% compared to with the same period in 2011. Exports were, of course, much higher (3.2 billion pairs over the four months), but the unit price for export footwear was \$3.66 per pair while the comparative price for shoes coming into China is currently \$28.17 per pair. This means there is hope for the manufacturers that are continuing the ancient craft of making shoes in Europe with the finest leather and other materials available, but this article must focus on volume rather than value and there can be no doubt that the volumes coming out of Asia, principally for Europe and North America, are of a different order of magnitude.

To move shoes, and any consumer product, around the oceans of the

world today requires expert help from the logistics service providers who manage the trade routes and make them as fast, secure and efficient as possible. Insight from some of these experts is of value to the strategists who are planning footwear supply chains in 2012 and for the years ahead.

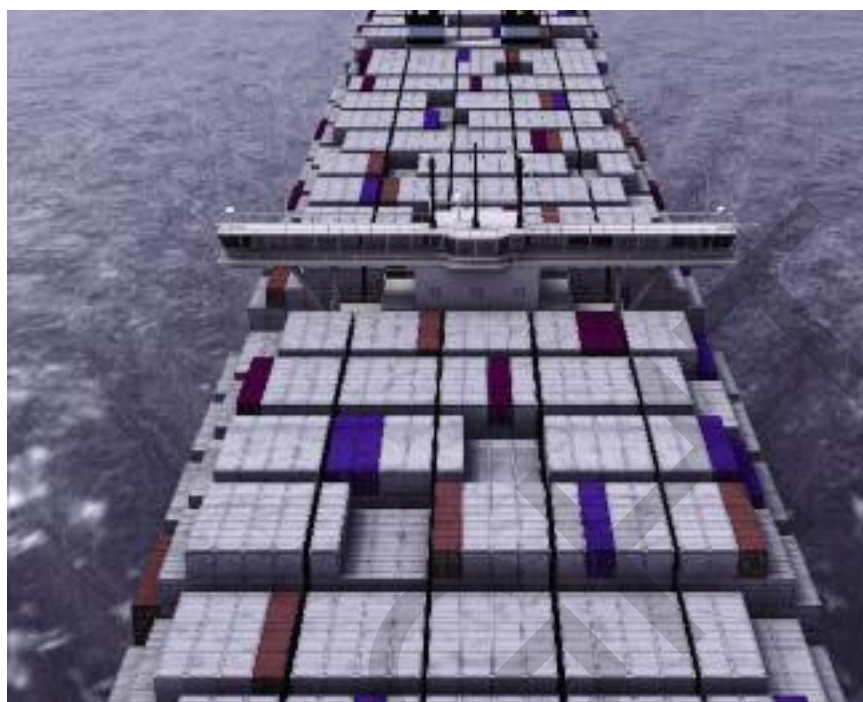
NO MYSTERY

Dachser is a logistics service provider that has its headquarters in Kempten, a town in southern Germany, close to the borders with Austria and Switzerland. It has 1.6 million square-metres of warehousing space around the world and currently transports 37.1 million tonnes of consumer products a year on behalf of its clients. Its managing director in the UK, Nick Lowe, says there is no mystery about the way the footwear industry and other consumer product sectors have developed over the last 25 years: production has moved around in pursuit of cheaper costs. He has personal experience, from a previous role, of the changes that have taken place in the supply chain of one major footwear group, Clarks. Shipments of leather, eyelets and other components from the UK, where most of the group's production was still taking place, began to increase in frequency at the time of *World Footwear's* launch as new factories opened in a number of European countries. The new locations included

two factories in Portugal, where grants from the European Commission following that country's entry to the European Union in 1986, made new industrial projects affordable and attractive. The logistics company brought shoe uppers back to England from the new factories on the continent for finishing. This model stayed in place until the early years of this century, by which time, in spite of transportation costs and increases in lead times, the savings on production costs made manufacturing in Asia more appealing.

"I left that job in 2001," Nick Lowe says, "and the set-up that began in the late 1980s was still in place. But within a few years, Clarks decided it was no longer viable. That was my first experience of this. It makes sense because this is about transporting cubic-metres of goods and we in the logistics industry have made our trailers bigger and we have, therefore, brought transportation costs down."

Nevertheless, he accepts that moving most production to the Far East has left most of the footwear industry of today facing the "unpredictability of transportation costs". Shoes are a relatively high-value product, he says, so small increases in transportation costs can be absorbed by brands or retailers without necessarily affecting the price per pair. But these are out-of-the-ordinary times and while the cost of shipping a 40-foot container from



Maersk Line has launched a new idea that offers a fixed-time daily service for shipments from Asia to northern Europe. CREDIT: MAERSK

Ningbo in eastern China to Southampton in southern England was \$1,300 at the end of 2011, the cost had gone up to almost \$4,000 by the time of our conversation in May 2012. This fluctuation in price is par for the course in container shipping, as we shall see, making a much more familiar debate about the fluctuating price of raw hides and leather seem simple by comparison. "Timings are becoming unpredictable, too," he explains. "To

reduce costs, shipping lines have extended their journey times by seven days. At certain stages of the journey they use slow-steaming, travelling more slowly to save money on energy costs." This has frequently given a total journey time of 40 days. This, plus an increase in production costs in China and other parts of Asia, has encouraged some manufacturers to look at new locations, including North Africa, Mr Lowe says.

It's a part of the world that David



In large variety of colours.

Ergonomic, of high quality, easy to grind

- Robust foam insoles for the demanding comfort of shoes and sandals
- To be finished with different covers, such as cotton, leather, alcantara, micro fibre and many others
- Best absorption characteristics with high restoring force
- Ideal for sensitive foot by means of optimal pressure distribution
- Available in all RAL and Pantone colours

More detailed information by:

ALSA the solemaker®



ALSA GmbH
D-86366 Steinhilber / Berzell
Phone: +49 09 677 81-4
Fax: +49 09 677 81-201 • www.alsa.de



Barges can transport containers from factories in inland China to Shanghai along the Yangtze river. CREDIT: SHUTTERSTOCK

Browne, sales director in the UK and Ireland for Maersk Line (the containerised freight division of industry heavy-hitter the A.P. Moller-Maersk Group), knows well as he only recently returned to Europe after running the company's operations in Egypt for the final four years of the last decade. He agrees that the whole of the eastern Mediterranean is an interesting region but feels that the social and political events of the Arab Spring that began in December 2010 could set logistics and manufacturing progress back. He suggests that some manufacturers who have looked to set up operations in that part of the world may have called a halt to the projects they were working on. "It's a shame," he says. "I haven't been back since I left, but in my opinion, Egypt works. Yes, workers in China whom western companies pay \$200 a month are three times more efficient than workers in Egypt who earn, perhaps, \$75 a month, but you can work round that. Egypt is, or at least was, developing its export business, agriculture is going well and there are decent opportunities for investment."

TRAVELS WITH MY LOGISTICS SERVICE PROVIDER

At freight forwarding company Allport, David Gartside is route development manager. He refers to the company, which is about to celebrate

50 years in business, as one, like other logistics service providers, that exists simply to move cargo from one part of the world to another for customers, who include major fashion groups that import large volumes of shoes into northern Europe from Asia. The importance of supply chain management today means these companies allow Allport personnel to accompany their sourcing experts on buying trips to the Far East. "We go together, and this gives us good insight into their buying trends," he points out. "This is valuable because there has never been more unpredictability and volatility. It's the way of the world. We are the logistics connection between the shipping lines, who own the vessels and the containers, and the retailers. In July 2008, it cost \$3,100 to ship a 40-foot container from port to port, China to Europe. In May 2009, when the global economic downturn hit, they were charging \$600. It follows global economic cycles. In 2008, the ships were full; demand for space was very high. Then, with the global economic slump, demand for space dropped."

This is borne out by official statistics. The standard way of counting traffic through container ports is in TEUs (twenty-foot equivalent units), which is the standard size of the single containers we are used to seeing on lorries and freight trains. Between 2008 and 2009, container traffic fell in nine

out of the ten busiest ports in the world (the exception was seventh-placed Guangzhou, where traffic increased from just over 11 million TEUs in 2008 to almost 11.2 million in 2009). The decline at the port of Singapore (then the busiest in the world) was from 29.9 million TEUs to 25.9, a fall of 15.7%. Shanghai (now number one) experienced a drop of 11.9%, from 27.9 million in 2008 to just over 25 million in 2009. Volumes increased again in 2010. The other seven ports in the top ten are Hong Kong, Shenzhen, Busan, Ningbo, Qingdao, Dubai and, in tenth position, Rotterdam.

RECORD PROFITS

Shipping lines had to reduce their rates and lost billions, according to Mr Gartside. Their reaction was to take more than 500 container vessels out of circulation during the downturn, reducing global container freight capacity by 12.6%. The ships lay idle from September 2009 until September 2010, he says. With supply cut, demand became strong again so that many of the shipping companies made record profits in 2010 on the back of prices that peaked at \$4,350 for a forty-foot equivalent. Then in 2011, they cut their prices again to increase market share meaning rates fell to \$1,100. "But today we are fast approaching the dreaded \$4,000 mark again," he says. "The shipping companies were in danger of

making losses at last year's rates, so they've adjusted again. They say their vessels are 85% or 90% full and that they cannot sustain loss-making rate levels. Whether you believe that or not is up to you. There is a school of thought that even if the actual bookings are real, the bookings are not being realised at the moment, and if you don't fulfil your booking you don't pay."

Footwear companies, like any other consumer products operation importing much of their product from the Far East to Europe or North America, should be wary of these market trends, Dave Gartside advises, and of the fast-changing nature of the costs of logistics. "The big players [among footwear firms] don't like this, but they can absorb the rise in their unit cost," he says; "that's why they're not in a hurry to source more in southern Europe. But not everyone is a big player."

INLAND CONNECTIONS

Logistics service providers will always find a way to react to whatever changes manufacturers undergo. For example, it's certainly the case that footwear factories in China have begun to crop up in locations far inland from the major sea-ports. This is fine, Dave Gartside insists. Wuhan in Hubei Province is growing as a hub. For \$500 dollars, companies can ship a 40-foot container of shoes or whatever product they like to the port of Shanghai along the Yangtze river by feeder barge. This will add three days to total transportation times. "Options are always available," he says. "Although we do prefer to have two weeks' notice if possible."

Unsurprisingly, the big shipping companies take a different view of recent developments. Maersk Line's David Browne, for example, says that moving ships over the ocean at lower speeds isn't only about money, but that it also gives companies like his, and by extension the consumer-facing companies they work for, substantial help in lowering their carbon emissions. "We can do it faster," he says, "but it costs carbon emissions; reducing a ship's speed from 25 knots to 18 knots saves hundreds of thousands of tonnes."

Customers, of course, want transportation times to be short, but the key, according to Mr Browne, is

reliability. So in an effort to reassure customers on the question of reliability, his company introduced a new idea last year called The Daily Maersk. It's not a corporate newspaper, but a way of improving on an industry-wide performance of almost 50% of containers failing to arrive at the destination port on time. This leads to retail groups ordering larger amounts of buffer stock than they really need and, with the knock-on effects for product manufacturers and raw materials suppliers, generally less efficient supply chains.

ANOTHER DAY, ANOTHER SHIP

Maersk Line says its new idea "ensures on-time delivery from Asia to northern Europe every single time". It has increased capacity to offer a more frequent service from four key ports in Asia (Shanghai, Yantian and Ningbo in China and Tanjung Pelepas in Malaysia) to three key ports in Europe (Rotterdam in the Netherlands, Felixstowe in eastern England and Bremerhaven in northern Germany), spreading the port-calls out throughout the week. Customers' worries about departure times, transit times and waiting times should be a thing of the past, the company argues, because the time between cut-off at the port in Asia (the time by which a footwear manufacturer's container of shoes must arrive at the quayside) and the time at which the same cargo will become available at a port in Europe, is fixed. Shanghai to Rotterdam is 34

days. Yantian to Felixstowe is 30 days. Tanjung Pelepas to Bremerhaven is 26 days. Cut-offs in the past have often been weekly, and in some cases set in stone for a period of two or even three weeks, making the consequences of missing the boat potentially very serious for any company that needs new stocks of shoes in shops in Europe for, say, a season's start. As the name suggests, The Daily Maersk offers a daily cut-off, so that if buyers in Europe order 10,000 extra pairs of a particularly popular pair of sandals at the last minute, the consignment can leave on Wednesday instead of Tuesday and still reach stores on time.

"We feel this can make a huge difference," David Browne says. "We can take the buffers out. Buyers can change the way they buy because they won't need all that buffer stock. Yes, it's only a few ports at the moment, but these link well to many of the main footwear manufacturing hubs in Asia, so I think it's good news for your industry." He is a seasoned observer, having started at Maersk just as *World Footwear* was being launched. At that time, the largest container ships could carry an equivalent of 4,500 TEUs; now the A.P. Moller-Maersk Group's E-Class can carry almost 15,000 TEUs. The Daily Maersk is an idea that shows logistics excellence can also be about becoming smarter, not just bigger. The company believes clever footwear manufacturers, and other consumer product companies, will be able to use it to respond more quickly to market demands, lower inventory and save money. ☺



Containers arrive from China at the Port of Hamburg. CREDIT: PORT OF HAMBURG