



Figures show that shoe imports into the country are growing at a phenomenal rate, and cost seven times more than those that are exported, while exports of leather shoes declined. What does that say about consumer demand, and how will it impact the domestic industry?

China's domestic footwear market is good news for all

Statistics from China for the first half of the year show that for the first time, numbers of exported leather shoes have decreased. During the period, 390 million pairs with a value of \$4.86 billion left the country, compared with 460 million pairs with a value of \$4.4 billion in 2010. This equates to a 15.2% decrease in volume over the two-year period – although it signals that the quality of the shoes has not decreased as the value has gone up by 10.4%. In terms of imports, 9.6 million pairs of leather shoes entered

the country in the first six months, with a value of \$460 million, compared with 6.3 million pairs worth \$220 million in 2010. Here, the increase in volume is 52.4%, while the value has increased by an astonishing 109%.

The growth of the footwear industry in the country is phenomenal. In 2010, the China Leather Industry Association (CLIA) said it expects domestic footwear consumption to double, and that it estimates each Chinese citizen buys 1.5 pairs of shoes per year. Last summer we reported that during a

visit to a tannery in the Guansu province, which mainly supplies footwear manufacturers, the owner estimated the figure at seven pairs per urban woman. He said while it was approximately correct that the rural population and men in general consume far less – maybe one new pair per person per year – women in cities were purchasing new pairs for every season. Going by his figures, China will consume 3.5 billion new pairs per year compared to the current estimates of 2 billion – enough to make the tanneries worry if they will have enough leather.

The observation regarding the urban woman is significant. The fact that proportionally fewer shoes are exported could well mean that more shoes are staying within the country to service the booming domestic market. During the first five months of this year, the average price per pair for exported shoes was \$3.74, while the corresponding value of the shoes coming into China was much higher at an average of \$27.65 – more than seven times more expensive, which also says something about consumer demand for high-quality shoes.

As well as population growth, the amount of money consumers are spending is increasing rapidly – with it, the growth in the luxury goods market. Reports also suggest that people's attitudes to quality are changing; *the Financial Times* reported that consumers have been demanding particularly high standards since the tainted milk crisis in 2008. This also means they are less likely to be satisfied with counterfeit designer articles. A survey of Chinese women by retailer Escada found 31% were willing to accept fakes in 2008; this figure had fallen to 12% by 2010.

Taste for the finer things

As the middle class grows, second- and third-tier cities are welcoming designer stores and shopping malls. The traditional wealth hot spots of Shanghai and Beijing will be joined by Hangzhou, Wuhan and Chongqing by 2015, according to research provider WealthInsight. In terms of extreme wealth, high net worth individuals – those worth \$1m or more – are expected to swell in rank by almost 10 a day, increasing by 66% to reach 2.13 million by 2015.

Luxury brands have been quick to capitalise on consumer demand for quality. PPR SA, the world's third largest luxury group by turnover and owner of Gucci, in July stated it generated \$1.4 billion in sales from the Asia-Pacific region, excluding Japan, in the first half of 2012 – a 16.2% increase on the same period last year. At LVMH, owner of Louis Vuitton and Fendi, sales totalled €12.9 billion in the first half of this year, 26% better than last year, with countries in Asia contributing the most, according to the group.

Chinese consumers often perceive Western makes to be higher quality, and so do not mind paying extra. The president of the Spanish footwear association, Rafael Calvo, said Spanish shoes now sell for a better price in China than the US, having gone up by 60% in recent years (see article on page 12). Espadrilles from south west France have seen a massive resurgence due to demand from China. Marzat's Megam Creation, a family business and one of a small number of manufacturers to make the shoes in the traditional manner, was once struggling against cheap Bangladeshi copies. But after being spotted at a shoe fair by a Chinese businessman last June, business is booming. Chinese consumers are happy to pay for the 'made in France' label, they said, with shoes selling



A Chinese footwear firm exhibiting at the GDS shoe fair in Düsseldorf.

PHOTO CREDIT: GDS

for about €80 in China compared with between €19 and €45 in France. Company turnover at the umbrella group has increased from €35,000 to €600,000 in less than five years.

Italian shoemakers haven't missed the trick. One example of an industry fair, Shoes from Italy, was held in Beijing in July. The organisers said Italian shoes are becoming increasingly popular in China and such shows raise the profile and potentially boost trade.

Factory closures

But has this focus on the West been detrimental to the domestic footwear industry? Figures tell us that domestic consumer demand is heading for dizzying volumes, but many in the industry report trouble, with small factories closing and, for some, conditions that are "worse than 2008", according to the CLIA. Although exports for leather shoes have fallen, exports for shoes in general are growing, but at lower levels than in recent years. This, coupled with high production costs and labour shortages, is driving some footwear manufacturers to shoe hubs in Vietnam and India, where energy costs are said to be lower and hide prices more affordable.

Although exports are growing, they are growing at lower levels than in recent years. Figures from the CLIA show that while Chinese footwear manufacturers exported almost 3.2 billion pairs in the first four months of this year, bringing in \$11.7 billion and growing 2.4% in volume and 4.1% in

value against 2011, in the corresponding period in 2011 the growth rates were 8.4% and 23.1% respectively against 2010. This suggests the value of individual exports is declining. This, coupled with high production costs and labour shortages, is driving some footwear manufacturers to shoe hubs in Vietnam and India, where energy costs are said to be lower and hide prices more affordable.

Some regions seem to be harder hit than others. According to the CLIA, exports from Dongguang fell 10.6% in January and February from the same period last year, having fallen 15.9% during the first 10 months of last year. In July, adidas cancelled contracts with some of its suppliers in China, and announced it is to close its only factory in Suzhou city later this year. However, that does not mean it is reducing its footprint in the country - quite the opposite. "We plan to open between 500 and 600 stores in the country by the end of the year," said Colin Currie, managing director of adidas Group China.

Adapt and develop

But footwear manufacturers are fighting back. Huidong produced 300 million pairs of shoes last year for brands that can sell them for several hundred dollars per pair in the market, but profit for shoemakers dropped to \$0.3 per pair this year, the lowest level since 2002, according to the CLIA. So to increase competitiveness, factories there have set up a footwear alliance, and opened a materials market and a research centre. They were reported as saying that while

they can do nothing to change the overseas market, they are aiming to increase sales in the domestic market, as they understand Chinese fashion and demand.

Xie Rongfang, Wenzhou Shoe Industry Association executive vice-president, agrees. He announced that Wenzhou city is to launch an international research and development centre for footwear to promote high-tech techniques. He said more sophisticated production line equipment will reduce the need for workers, thus solving the labour shortages problem, and that it is vital updated machinery is used to keep local companies competitive.

Similarly, Liu Qiongying, owner of women's shoe brand Aiminer, said exports this year have been at the same level as last year, despite difficult global economic conditions, because of the company's heavy investment in research. She said it put 70% of its profit into upgrading the machinery and it is now targeting massive domestic expansion.

So it seems that although the rate of growth of exports overall has slowed, and for leather shoes even declined, this does not signal trouble for the Chinese footwear industry. Yes, consumers are willing to pay more for imported shoes and the demand for luxury goods is growing unabated. But the organic growth in the domestic market is more than enough to keep good shoemakers in business. So much so that the tanneries we visited in China are doubling their capacities in anticipation. It seems it is a win-win situation for footwear manufacturers across the globe. 



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