

Italian companies hope their China strategy will significantly boost sales

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Chasing spoils from the East

The Italians are making a concerted push into China, with the launch of footwear show Micam Shanghai in April, followed by a second edition in mid-October. As a market for Italian footwear exports, it is by no means the largest – between January and May 2013 it was ranked 12th in terms of value, standing at €70 million from a total €3.3 billion, and fairly small when compared with Italy's largest market for exports by value, France, which took €531 million. It was even lower down the rankings in volume terms.

However, China is all about potential. With a rapidly expanding population estimated at 1.35 billion in 2012, and an increasing amount of disposable income, the country's need for shoes is unmatched. Research firm Euromonitor says footwear sales will grow at an annual rate of more than 7.5% from 2013 to 2017.

"We have decided to focus on China as a market for growth," says Cleto Sangripanti, president of the Italian footwear manufacturers association, Assocalzaturifici. "It represents a real business opportunity for today and the future."

Taking China and Hong Kong together, the average price of an Italian shoe in 2013 reached €106.80 (import value, not

Italian footwear companies, under the guidance of manufacturers' association Assocalzaturifici, are making a concerted effort to crack China. But as one of the most complex markets, a multitude of barriers stand in their way.

retail), an increase of 10% compared with 2012 and an indication of demand for high-end leather shoes. It is this sector the Italians wish to focus on.

Step change

At Micam in Milan in September, the award for best international buyer went to a Chinese buyer for the first time. William Wong runs Italian Fashion Gallery in Chengdu, stocking high-end Italian shoes and which has grown to four stores in the city since it opened in 2010. It is planning to open outlets in Shanghai, Beijing, Shenzhen and Shenyang in 2014.

The award going to a Chinese buyer is a "a major break from tradition", says Mr Sangripanti, "particularly if we consider the ideological stance we've had against China in the past."

He is referring to Italy's anti-dumping campaign; it has rigorously fought against Asia's cheap imports over the past few years. Anti-dumping duties on shoes with leather uppers from China and Vietnam were in place in the European Union between 2006 and March 2011. "This brought about some results but also slowed investment from China [to Italy] and vice versa. But now the mistrust that existed has changed towards a growing interest. We're now open to competition and there is clear evidence that there's an open-minded approach to China."

Micam Shanghai's organisers – including Fiera Milano and Hannover Milano Fairs Shanghai – are keen to stress that it is not an Italian footwear event, it merely follows an Italian format. "We have established talks with associations from Spain, Portugal, France, Brazil, Turkey, Japan and the UK, because without their support, nothing would be possible," explains Mr Sangripanti.

Two-thirds of the 260 exhibitors in Shanghai in October were Italian with the rest coming from elsewhere in Europe and footwear-producing countries such as Brazil. The British Footwear Association had 10 companies represented for the first time; FICE, Apiccaps and Abicalçados represented the Spanish, Portuguese and Brazilian footwear industries, and there was also a French contingent. In terms of buyers, 92% were Chinese and 8% from elsewhere in Asia, including Thailand, South Korea, Singapore and Japan. The April edition attracted 5,880 visitors from 14 countries and the October event was thought to have welcomed a similar number.

During the summer, a marketing campaign was launched, including a road show that stopped in Beijing, Shanghai, Chengdu and Hong Kong, supported by ICE, the Italian trade promotion agency. VIP buyer dinners and evenings were organised, with the aim of promoting the exclusivity of Italian products, on the back of the kudos the April edition gained from being an official partner of Shanghai Fashion Week.

"We are very pleased with the outcome of the second edition in terms of quality of the buyers, the internationality of the exhibitors and the level of the outfitting," said Mr Sangripanti after the event.

Hurdles

Despite these inroads, there are several reasons why China will be a tough nut to crack – not least because the market is so vast and operates in a different way.

"The distance is an obstacle," admits Mr Sangripanti. "China is far away and for SMEs (small- to medium-sized enterprises), when the entrepreneur is often doing everything in the company, staying away for seven or eight days can be too much; it's a time consuming experience."

"The second difficulty is size. China is huge and requires big investment. We cannot start off with a multibrand approach, you need to invest in the retail segment, in communications, and for 80% of Italian companies there's a need to have a local partner to do so."

There are different forms of cooperation between foreign brands and Chinese operators: agency and distribution agreements (regional or national), the opening of standalone stores or more complex joint venture agreements.



Chinese buyers at the October edition of Micam Shanghai

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"Partners and investors are able to advise on new strategies because we need to tackle the market in a different way to Russia or Europe," says Mr Sangripanti. "However, identifying the right partner takes a good deal of patience and the right instruments."

He sees the multibrand strategy as a route in. "We strongly believe that the multibrand industry will develop significantly in the next few years and Micam Shanghai is going to present a major showcase for SMEs."

The third barrier is culture and taste. China has its own rules for style, range size and shoe shape, and this constrains collections.

How will European companies get over these hurdles? Continued promotion and education, says Sangripanti. "Information is key. For Chinese buyers and investors it is not easy to grasp what a small company located in the Marche region is doing and it's also not easy to understand how imports work. That's why we organise seminars to explain how to buy and how to import. The role played by the Italian Trade Commission in Shanghai is critical to help buyers find the most appropriate solutions."

Another reason behind the new China push is the decline in demand for Italian shoes from Europe, where seven out of 10 pairs are sold. In the first five months of the year, exports declined 0.3% in value and 1.2% in volume, hard hit by the recession, which has led to a change in spending habits. In the domestic market, sales fell 7.2% in the first quarter and volumes declined 0.3% in the first five months with discounted sales accounting for 55% of sales in volume and 53% in value.

Comparatively, China's €70 million in the first five months was a 30% rise on the same five months last year and the 700,000 pairs was 26% more in terms of volume. This follows large increases in preceding years: in 2012, 1.4 billion pairs worth €145 million were imported; in 2011 it was 1.3 billion worth €108 million and in 2010, 790 million worth €57 million.

The market has vast potential for those companies that can devise a successful strategy, but it is no easy task, concludes Mr Sangripanti. "That is why we're inviting companies to go to China not only with their products but also with ideas." 