



L&Y Shoes from Guangdong province exhibiting at Expo Riva Schuh. If export markets are becoming tougher for producers in China, there is better news for those who focus more on the domestic arena.

CREDIT: EXPO RIVA SCHUH

The big news on the financial markets has been the “disappointing” growth in the Chinese economy of “only” 6.9% last year. Lower growth than in recent years, but higher than in most other markets. One exception is India, where growth rates are almost 7.5%. This is good news for the footwear industry in both countries.

Domestic growth beyond dispute in China and India

Good news about the Chinese footwear industry has been difficult to find in recent months. In December, on reporting a 5% year-on-year decline in sales in the six-month period to August 2015, Belle International announced that it will close more than 400 own-brand stores in China in the course of 2016. It's a group that has 13 footwear brands of its own, including Belle, Joy & Peace and Mirabell, and a total (before the closures) of more than 1,900 stores. Its revenues for the half-year period reported were just under \$1.5 billion. Rival group Daphne reported the closure of more than 800 retail outlets in 2015.

Factories have closed, too, especially in well established

footwear manufacturing regions such as the provinces of Guangdong and Fujian. In some instances, the manufacturers have decided to rely less on these relatively expensive areas and more on more recently set up production facilities in China's interior, but in others they have moved production to other, lower cost countries, especially Vietnam.

The consternation appeared to be compounded when, at the start of January, China's Council for Leather Exports (CLE) announced a decline of just over 5% in the value of footwear exports in the first ten months of 2015. Between January and October 2015, Chinese footwear exporters brought in \$44.5 billion in export revenues. Year on year, this represents a fall of 5.1%.

Not all bad news

Nevertheless, it would be categorically untrue to suggest that the news from the Chinese footwear market at the moment is all bad. In spite of factory and shoe shop closures, the domestic market is the source of solace, mostly because China's domestic market is enormous and growing, and online sales to Chinese consumers are more than compensating for in-store sales.

In one of the most recent reports on a Chinese leather producer for the Tannery of the Year award programme, Haining-based Dazhong Leather said shoe upper is still its core business, accounting for 50% of its output from around 3,000 bovine hides a day. Company president Xu Jian Xin explains that there are still four main production regions for leather footwear in the country: the clusters in the provinces of Guangdong and Fujian, and those around the cities of Chengdu and Wenzhou. Chengdu manufacturers in particular have experienced a downturn of more than 40% in their output of finished shoes in the last year, he says, but its decline in exports, owing to a lack of demand from customers in Russia and other parts of eastern Europe, that takes the blame. But Mr Xu makes it clear that increasing consumption rates in the vast domestic market are making up for this.

Domestic consumption up

"Across China, women are now consuming between four and six pairs of shoes and boots each per year," Mr Xu says. "For men it's two pairs. These are national averages, not just for the urban population." The CIA World Factbook's figure for the population of China in July 2015 was 1.367 billion, with slightly more men than women (a ratio of 1.06:1). Mr Xu's figures, therefore, suggest there are roughly 705 million Chinese citizens buying two pairs of shoes a year each and 660 million buying five pairs. This puts domestic shoe consumption in China at the astonishing figure of over 4.7 billion pairs. The last time a tanner in China shared information on this subject in a Tannery of the Year report was in April 2011 and the figure for overall footwear consumption in the domestic market then was



William Wong, speaking in February at the 2016 UITIC Congress in Chennai.

CREDIT: WTP

3.1 billion pairs, which was a much higher figure than influential industry reports were offering at the time. In less than five years, the total for annual consumption in China has gone up by more than 1.6 billion pairs.

Most of those 4.7 billion pairs of shoes are made in China. In the first eight months of 2015, the total volume of imported leather shoes (the most likely to be imported because there is little point in trying to compete in the Chinese market with local producers of cheaper shoes) was only 24 million pairs, according to CLIA figures. This shows an increase in volume of 22% compared to the first eight months of the previous year but if, for the sake of argument, we annualise the figure to 36 million pairs, imported shoes' share of China's annual consumption would only be 0.7%.



The Council for Leather Exports chairman describes the market potential of India's domestic footwear market as "huge".

CREDIT: WTP



Licence to sell

A halfway house between importing the shoes of major-name brands into China and working to increase the popularity of local brands is the phenomenon of Chinese-based manufacturers making locally, under licence, international brands' shoes for the Chinese market. This has been something of a saving grace for Belle International. In contrast to the own-brand store closures mentioned above, the group also runs stores in China for seven international brands (Bata, Mephisto, CAT, Hush Puppies, Fitflop, Clarks and Merrell) and has said this part of its business recorded growth of more than 16% over the same half-year period. The group will add almost 100 new stores to the network it operates across China on behalf of these footwear brands this year.

Busy marketplace

In all, then, growth in the domestic market is good news for shoe manufacturers who are producing in China, although they will have to work hard to benefit. Vice-president of the Hong Kong Footwear Association, William Wong, has his own footwear manufacturing company in China and his views on the market there carry weight. He says it's often hard to interpret the figures, but confirms that there is good growth in the domestic market now. "It's worth noting that a large number of manufacturers seem to have decided to shift their focus to the domestic market all at the same time," he says. "That means it's busy and it's difficult to carve out a decent market share. In fact, China must be one of the most difficult markets in the world at the moment because of how much competition there is."

Ambitious target for Indian industry

On the other side of the Himalayas, a similar story has been developing in India. Strong growth in the domestic footwear market there may go some way towards helping the wider Indian leather sector meet an ambitious government target of expanding the industry's annual turnover from current levels of around \$12 billion to \$27 billion by 2020. And this at a time when official statistics show a 10% decline in India's leather sector exports in the first eight months of this financial year, April-November 2015. India's domestic economy, however, is currently growing at almost 7.5% per year and spending on shoes is likely to grow in step with this.

If women in India buy two extra pairs of shoes per year and men one extra pair, the domestic footwear market in India will double to more than four billion pairs per year.

CREDIT: WTP

Double up

Naresh Bhasin, chairman for the western region of the country's Council for Leather Exports (CLE) and founder of Mumbai-based footwear producer RAM, says footwear consumption in India is "relatively low", estimating it to be 1.2 pairs per year for men and 2.3 pairs per year for women. This would give a national consumption volume of just over two billion pairs per year. The organisation's national chairman, Rafeeqe Ahmed, says the country's footwear industry has "huge market potential". Owner of one of the country's biggest leather and footwear manufacturers (and exporters), Farida Group, Mr Ahmed says India puts the domestic market size at 2.2 billion pairs at the moment with an annual value of around \$5 billion. But he says per capita consumption will increase to more than three pairs per person by 2020, taking the market size above four billion pairs.

Make in India

Mr Bhasin also believes the domestic footwear market in India can double in size quite quickly. "All we need is for men to buy an extra pair per year each and women and extra two pairs and we will have nearly doubled the total," he says. RAM, too, is a well established exporter of shoes but its founder says it is now experiencing stronger growth domestically than internationally. As in China, holding the licence to distribute shoes bearing a big brand's name is an area of particular growth and RAM is now an outsource manufacturing partner to a number of these licence holders. "Orders are going through the roof," Mr Bhasin says. "We are receiving orders for 70,000, even 90,000 pairs of shoes at a time for some big western brands for the Indian market." He also has word of a major North American footwear retail group that has plans to increase its network of stores in India from 40 to 300. He says the retail group is currently stocking its 40 Indian stores with product imported from other parts of Asia. "With 300 stores, the company knows that it will make much more sense to make the shoes here," he concludes. ☺