



China and other Asian countries continue to dominate footwear production.

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A fresh set of difficulties

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The world in 2017–2018 will be judged in the fullness of time as emerging from a long global recession but with a new set of problems and some lingering vestiges of austerity. There has also been a degree of sentiment that suggested another recession could occur if banks had not learnt their lessons. Debt was rising and uncertainty was endemic with the difficulty of predicting what the effects of Trump, Putin, Brexit, Nafta, protectionism and populist movements could lead to. Against this background, global shoe production (omitting closed uppers etc.) grew by an estimated 3.3% to reach 21.5 billion pairs.*

China remained in an unassailable position as market leader with 53% of output. Despite statements as to its labour becoming too expensive, concentrating on the domestic market, moving production off-shore or to other areas within China, it continues to be the major force. Exports grew by

a similar percentage to that of production at 2.6%. This was in spite of a lack of any real expansion in the US or German markets, or indeed the UK where sales actually decreased by 63 million pairs. It was in European and other 're-exporting' countries such as Belgium and Poland, where expansion seems to have been strongest. Domestic consumption expanded by 2.8% or 90 million pairs in line with the stated need to expand sales to home consumers.

The worry for China has been a switch from concern at too many babies being born to the more recent marked decline following the one child ruling. In 2017 there were 630,000 fewer births than in the previous year. The phenomenon of DINK (double income no children) has proved attractive for an increasing number of Chinese. The age structure has consequently also been affected with a quarter of Chinese predicted to be over

65 by 2030. It is therefore perhaps not so surprising that the one child rule is being relaxed and this again should have an eventual effect on the number of consumers, particularly children.

A PERIOD OF STABILITY

Whilst Asia has been the leading shoe production area by far, it has actually remained fairly stable as a percentage of world shoe production over a five year period (*Table 1*). This is to some extent due to the fact that it had already reached what could be called a ceiling at around 80% with no other region achieving even 6%. This situation is likely to continue for the foreseeable future.

Nike, for example, announced a 6% rise in revenue in 2017/2018 to \$34.3 billion. Footwear constituted 61.5% of this total at \$21.1 billion, also a rise of 6%. The leading producers were Vietnam (46%), China (27%) and Indonesia (21%), so these three alone

Table 1: Global shoe production.

REGIONAL SHARE (%)	2012	2013	2014	2015	2016	2017
Asia	81.7%	82.1%	82.2%	82.0%	82.1%	82.0%
Middle East	1.4%	1.3%	1.3%	1.3%	1.4%	1.5%
Eastern Europe	2.7%	2.6%	2.5%	2.5%	2.6%	2.5%
Western Europe	2.2%	2.1%	2.1%	2.1%	2.0%	2.0%
South America	6.3%	6.3%	6.2%	6.4%	5.8%	5.8%
North & Central America	1.9%	1.8%	1.7%	1.8%	1.8%	1.8%
Africa	3.7%	3.8%	3.8%	3.9%	4.2%	4.4%
Oceania	0%	0%	0%	0%	0%	0%

comprise 94% with other Asian countries responsible for part of the remaining 6%. In countries such as Argentina, India, Brazil, Mexico and Italy, there is a local production for sale in home markets, so the extent to which companies such as Nike base their production in these three countries is fairly well entrenched and unlikely to be subject to short term rapid changes. More likely perhaps, is the rapid change in the nature of shoe retail business.

SNEAKERS AND LUXURY GOODS

The global market for luxury goods of all types is forecast to have risen by 6–8% in 2018 taking its value to around \$315–320 billion according to consultancy Bain and Altagamma, the Italian luxury goods manufacturing industry federation. This positive trend is being driven by Chinese buyers who are increasingly young and aware of fashion trends and Bain and Altagamma think this total could reach \$445 billion by 2025. Online sales are also increasing in this sector.

The growth in street wear and casual attire has included sneakers even in the luxury goods category. In 2017 sneakers were worth \$3.5 billion globally with a rise of 10%. At the top end of the sneaker market there has been a merging of traditional producers such as Nike, adidas and Skechers with established luxury goods producers such as Gucci, Prada, Kering and Balenciago. Premium sneaker prices can start around \$400 per pair, rising to \$10,000 and even more for limited editions by the likes of Chanel. Millennials born in the early eighties to mid nineties comprise a third of the luxury market customers,

so sneakers have been one of the main drivers of footwear business together with online sales.

RISE OF ONLINE

One of the growing trends over the last few years has been the rise of online business and it is instructive to try and quantify the extent of progress in this area. Whilst it has shown marked growth, the plight of traditional 'bricks and mortar' stores has become alarming not only for retailers but also consumers, local government taxes and landlords. In the UK alone, 2017–2018 has seen major retailers such as Poundland, House of Fraser, Marks & Spencer, Debenhams and others either closing or cutting the number of stores, going into receivership or suffering other serious problems.

However, this is in fact now something of a global phenomenon with even large Chinese stores such as Belle and Daphne drastically reducing the number of their outlets. German department stores such as Karstadt and Kaufhof have experienced similar difficulties, while Sears in the US went into chapter 11 bankruptcy in 2018 due to a massive debt load and staggering losses. In any case, 142 unprofitable stores were already scheduled to close before the end of 2018. Leading shoe retailer Payless, also in the US, has not been immune to the general trend. Originally founded in 1956 as Volume Shoe, by 2000 it had over 4,000 stores globally and a turnover of \$3 billion. In 2017 it fell into financial difficulties and was only saved by the US Bankruptcy Court approving a fifth joint plan of reorganisation. This came at a cost of a reported 400 stores closing. The

problem has been exacerbated where retailers have not developed their online businesses early enough. Leder & Schuh, the leading Austrian shoe retailer is a case in point as is Vivarte in France.

Madeline Hurley of US eCommerce investment bank Petsky Prunier, looked at the surge in online business in all sectors during 2016 and found that it had been growing at an annualised rate of 15.2% from 2010 to 2016. Footwear and apparel increased by 16.8% online as opposed to 5.6% in stores during the same period. For the period 2016 to 2021 the forecast was an annualised increase of 1.3% in stores compared to 9.2% online. Footwear and apparel online sales in 2015 were valued at \$175 billion, with China (\$60 billion), US (\$46 billion), UK (\$11 billion) and Germany (\$10 billion) the leading markets. Statista's (statistics portal for market data) forecast for growth of footwear sales online in the UK would amount to 15.6% in 2016, 16.9% in 2017 and 18.1% in 2018.

According to retail fashion data platform TrueFit, 2% of online 'visits' convert to a sale. Returns are of course a perennial problem and can vary from 15% to 50%. They cost around \$260 billion globally with fit being a major problem. Software company Bodylabs says that online footwear returns are due to the following factors in the table below.

Poor fit	57%
Change of mind	12%
Quality issues	10%
Style issues	4%
Other	17%



Trainers on display at Foot Locker. In the UK retailer JD Sports is bucking the trend aided by stocking exclusive lines from leading brands.

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Fit is therefore indeed the major concern and there have been attempts to alleviate this problem with the use of technology by companies such as Truefit, Fitcode and Bodylabs.

GROWTH IN SPECIALIST ONLINE RETAILERS

In the shoe sector, specialist online vendors are increasing in strength and this includes Amazon since it acquired Shoefitr in 2015 as part of its growth strategy. Other specialist online retailers include the following:

- Zalando founded in 2008 in Germany where it holds a market share of over 5%. It is one of the largest in Europe and has a turnover of more than €4.5 billion with over 2,000 brands and a presence in 17 countries.
- Sarenza established in 2006 in France and present in 25 countries. Monoprix (Casino) is purchasing the company for a reported €250 million.
- Spartoo founded at the beginning of the millennium is present in 20 countries and has a turnover of €150 million. It is buying Andre, the French shoe retailer, from Vivarte. Andre has around 100 stores and 750 employees.
- Zappos started in 1999 in the US and was purchased by Amazon in 2009. It stocks some three million pairs of shoes, accessories and handbags, etc.

- Shoes.com is Canadian with a turnover of \$233 million in 2015 and aiming for sales of \$1 billion by 2020. It also established a store in Toronto and indicated that further stores were envisaged in Canada and the US.
- Shoes of Prey based in Sydney from its inception in 2009. By 2016, it had sold six million pairs of customised shoes.
- Others include Stadium Goods (New York and mainly sneakers), Sezane-Paris, including some stores, Far Fetch-London and Everlane-San Francisco. The current situation is that online sales in the shoe sector are growing faster than high street stores and are estimated to be increasing by around 15% to 20% annually.

ONE RETAIL SUCCESS STORY

One of the relatively few success stories in terms of store-based companies has been JD Sports in the UK. The name derives from its two founders, John Wardle and David Makin. The company has been steadily chipping away at the leader of the UK's sports sector retailers, Sports Direct. In the latest set of results at the time of writing, it achieved a £3.1 billion turnover in 2017, whilst the six months to August 2018 saw total sales

at £1.8 billion and up 35%. It was in terms of pre-tax profits that JD excelled in 2017 with £295 million against Sports Direct's £3.4 billion and £78 million respectively.

JD's success can be attributed to specific factors. It operates a total of 1,500 stores and yet has managed to balance their income with that from online sales. Its business model is a combination of 'resilient profitability' in the UK and Ireland while developing growth overseas in Europe, Asia and the US. The latter has also embraced the take-over of Finish Line and its 1,100 stores. The company has also been trialling five of its own stores in US cities during 2018.

Another factor is a focus on the 15 to 30 age group and its typical customer is said to buy as many as 8 or 9 pairs per annum. This has been possible because it has managed to persuade leading brands to provide models exclusive to JD Sports. Such agreements have been reached with the likes of adidas, Nike, Champion, Lacoste and Fred Perry. It is the wide range of such 'exclusives' that is the attraction. However, perhaps the most telling factor is that JD Sports is valued at £5 billion, which puts most of its competitors in the shade.

**Author's World Shoe Review 2018 and World Safety Footwear Review 2018. 📌*