

**WORLD
FOOTWEAR**

**BUSINESS
CONDITIONS
SURVEY**

2019
2ND SEMESTER

ISSUE 1



WORLD FOOTWEAR

by Portuguese Shoes

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Who we are

World Footwear is an initiative of APICCAPS, the Portuguese Footwear, Components and Leather Goods Manufacturers' Association, and it includes two communication channels: an annual edition of the World Footwear Yearbook and an electronic platform with updated industry news (www.worldfootwear.com).

The first edition of the World Footwear Yearbook, a comprehensive report that analyses the main trends within the footwear sector around the world, was released in September 2011, with new updated editions published on a yearly basis. Each report is published with the most updated data up to the previous year and analyzes the position of the relevant countries of the footwear industry in terms of different variables (Production, Exports, Imports and Consumption) and evaluates the strategic positioning of the different sector players. The World Footwear Website disseminates all relevant news about the worldwide footwear industry on a daily basis.

Report Coordination

APICCAPS' Studies Office

Joana Vaz Teixeira

This report was prepared by the Research Centre in Management and Applied Economics (CEGEA) of Católica Porto Business School for APICCAPS.

Disclaimer

Although due care has been taken in the preparation of this report, APICCAPS cannot guarantee the accuracy or completeness of the report and cannot be held responsible for any error or the opinions expressed herein.

ABOUT THE SURVEY

In 2019 the World Footwear has created the World Footwear' experts panel and is now conducting a Business Conditions Survey every semester.

The objective of the World Footwear Experts Panel Survey is to collect information regarding the current business conditions within the worldwide footwear markets and then to redistribute such information in a way it will provide an accurate overview of the situation of global footwear industry.

The first edition of this online survey was conducted during the month of December 2019. We have obtained 183 valid answers, 48% coming from Europe, 21% from Asia, 20% from North America and the remainder from other continents. One third of the respondents are involved in footwear manufacturing (manufacturers), one quarter in footwear trade and distribution (traders) and 40% in other footwear-related activities such as trade associations, consultancy, journalism, etc. (others).

Information was collected before the outbreak of the Coronavirus, which could potentially impact the views of the respondents and lead to conclusions in other directions.

EXECUTIVE SUMMARY

Respondents of the first edition of the World Footwear Business Conditions Survey are upbeat about the perspectives for the footwear business, anticipating quantities and prices to increase over the next six months. The expectations vary according to the continent under consideration, with North America and Africa being more optimistic about prices and South America and Asia expressing more positive expectations regarding the evolution of the quantity of footwear sold in their home market.

According to the participants' views, sneakers and sports footwear will continue to gain market share at the expenses of classic footwear. This is something strongly expressed by most of the respondents in Asia.

Regarding the retail channels, brick-and-mortar shops are quickly losing ground to online channels, with traders being more pessimist about the evolution of large retail stores share, while manufacturers expect them to grow.

In this edition, we also asked our panel of experts their opinion about Sustainability and consumer's preferences for products with low environmental impact. The majority of respondents (56%) believe that consumers prefer shoes with less negative environmental impact but only if that does not result in higher prices.

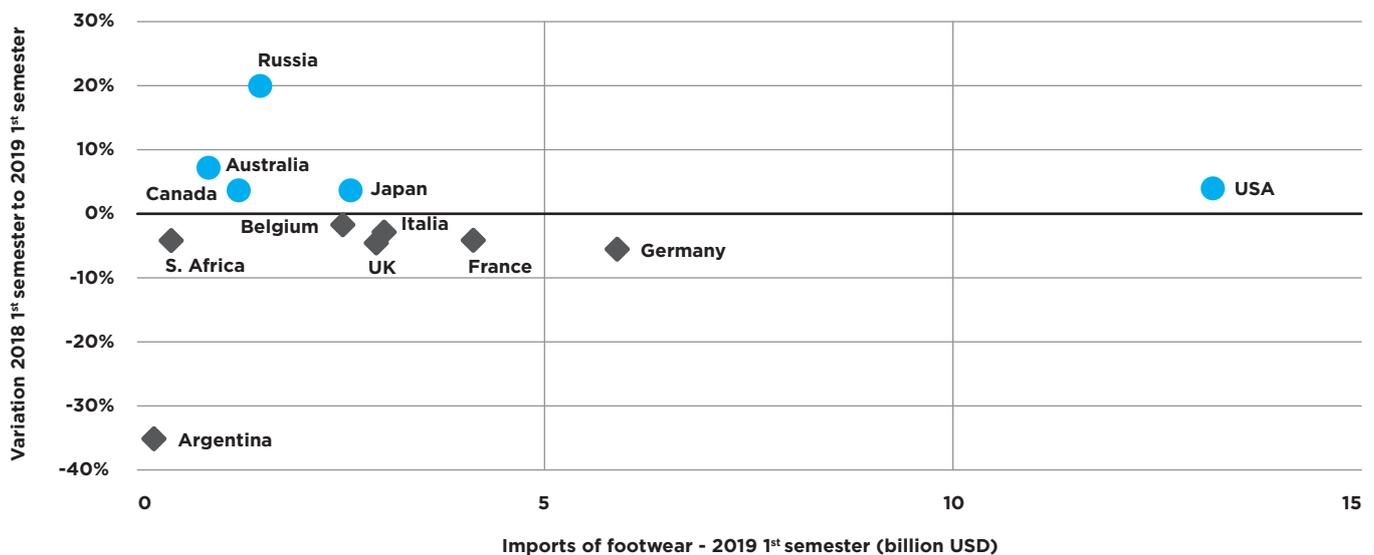
BUSINESS CONTEXT

The footwear business has been facing a challenging business context. The recent performance of the world economy was disappointing. According to the IMF, growth in 2019 was the lowest since the 2008-09 crisis. Growth in the European Union was particularly low, only 2%, but the economy also weakened in the United States and in emerging markets around the world. Despite signs of some appeasement in the US-China trade conflict, perspectives for 2020 remain highly uncertain.

In the first semester of 2019, international footwear trade showed divergent patterns around the world. Imports to the largest European markets (Germany, France, Italy, UK, Belgium) decreased from 2% to 6%, and 3% for the European Union as whole. But imports to the largest market in the world, the USA, increased by 4%, as did imports to Canada and Japan. The Russian market grew strongly, in the first semester, while the Argentinian took a nosedive.

IMPORTS OF FOOTWEAR

1ST SEMESTER 2019 VS 1ST SEMESTER 2018

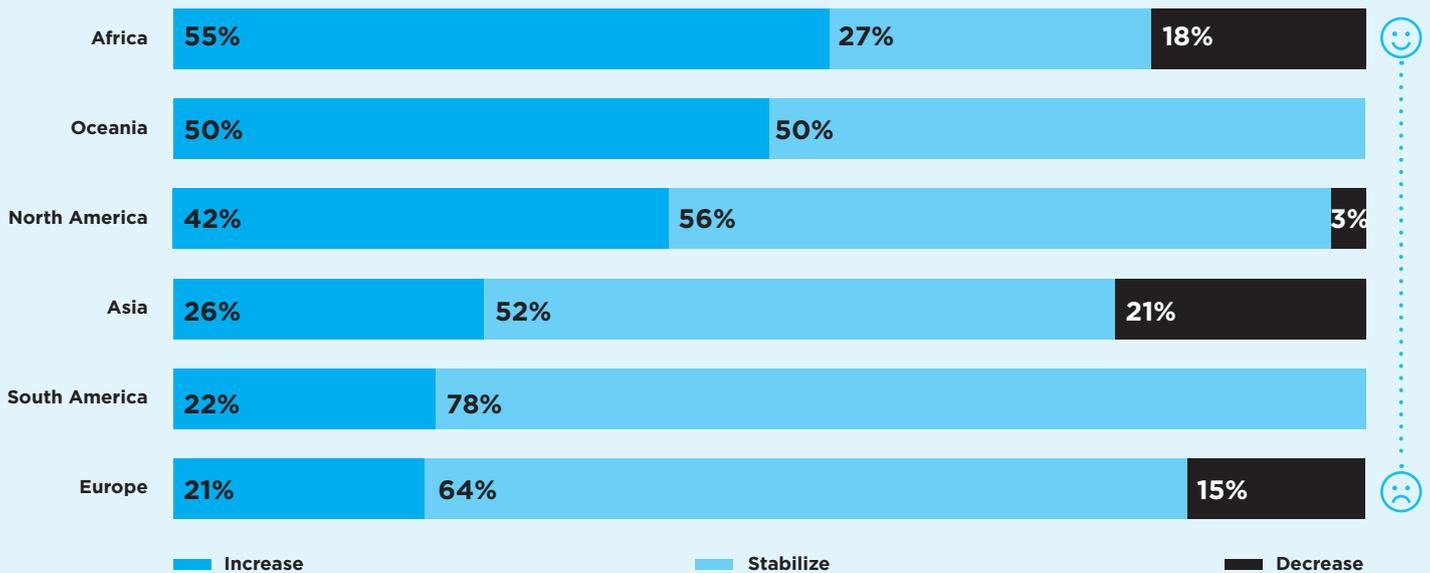
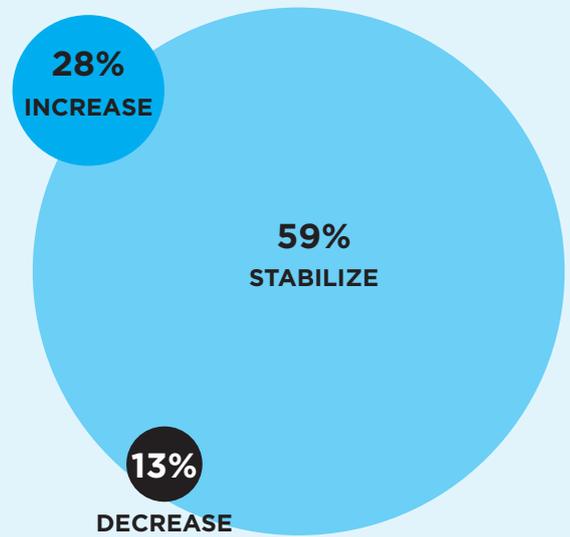


Sources: Eurostat Comext, Russia's Custom Statistic of Foreign Trade, UN Comtrade, and USA Trade Online.

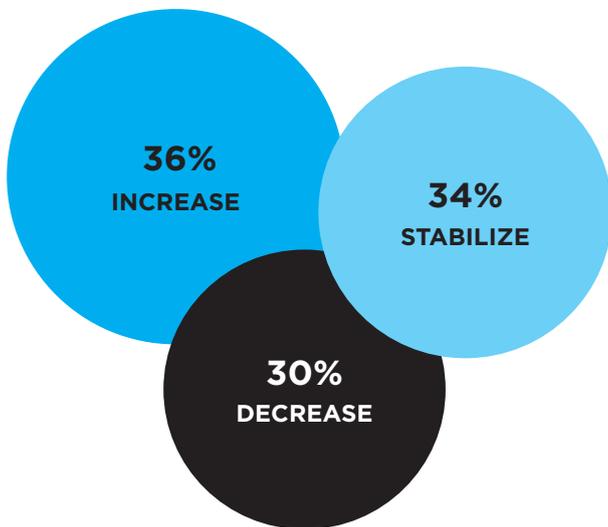
PRICES

The respondents that expect footwear prices to increase, in their home market, over the next six months, surpass those that expect the opposite by 15 percentage points, strongly suggesting that prices will rise. Still, the most common answer (59% of the respondents) is that prices will stabilize. Traders are slightly more optimistic than manufacturers (with a balance of positive to negative answers of 12.8 p.p. vs. 6.5 p.p.).

Regions mark answers more than profession. The overall expectation is that prices will increase, but there are much higher expectations in North America and in Africa (where the balance of positive to negative answers is 39 p.p. and 37 p.p., respectively) than in Asia (5 p.p.) or in Europe (6 p.p.).

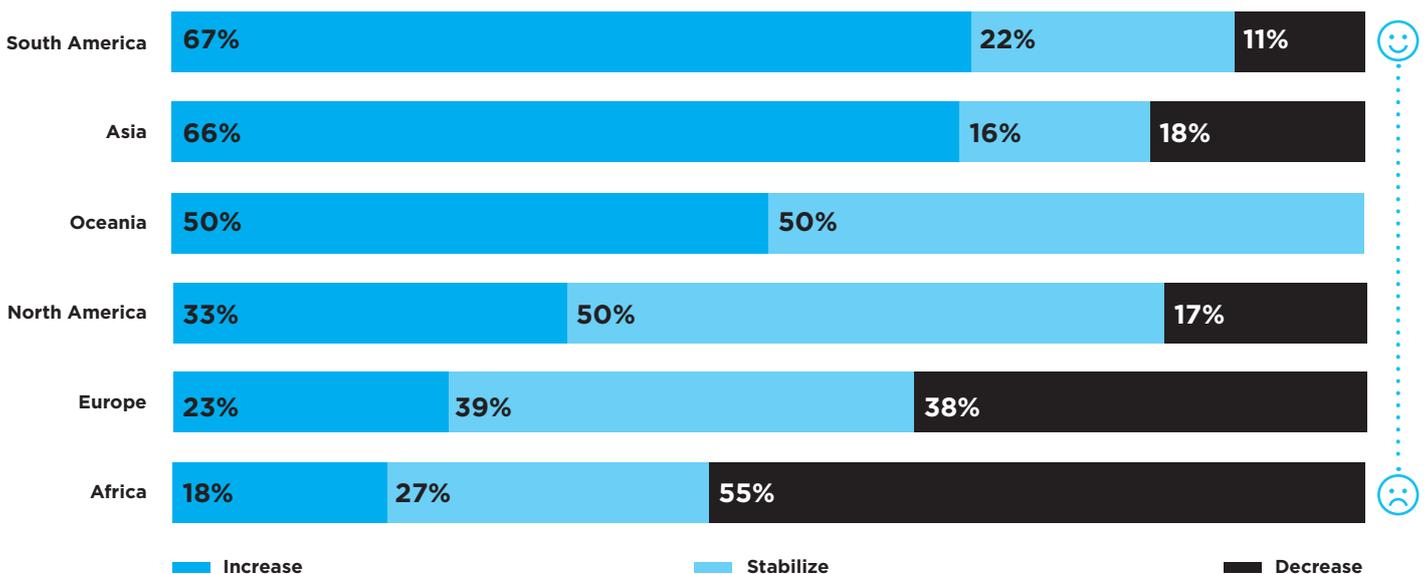


QUANTITY



The respondents that expect the quantity of footwear sold, in their home market, to increase over the next six months, exceed those that see it decreasing by 6.6 percentage points, suggesting that the quantity sold will rise along with prices. This is the most common answer (36% of the respondents). Contrary to the expectations on prices, manufacturers are more optimistic than traders that quantities will increase: traders actually are more inclined to think that they will decrease (balance -4 p.p.).

Regional differences are even stronger when it comes to expectations over quantity. Respondents in Europe and Africa are more likely to expect the quantity of footwear sold to decrease, while North Americans (33%) and, in particular, South Americans (67%) and Asians (66%) express very positive views about the evolution of the sector.



DIFFICULTIES

Among the difficulties and limitations that respondents expect the footwear business to face, over the next 6 months, competition in international markets is the most frequent (39% of the respondents), followed by cost related problems (34%) and competition in the home market (31%).

Competition in international markets	39%
Cost of merchandise or raw materials	34%
Competition in our home market	31%
Human resources problems (unavailability, lack of adequate training, etc.)	29%
Insufficient demand in our home market	27%
Insufficient demand in international markets	22%
Financial difficulties	22%
Taxes	21%
Legal or administrative obstacles to international trade	16%
Climate	14%
Regulatory or administrative requirements	9%
Others	8%
Lack of adequate equipment or other technological problems	7%

Note: Figures do not sum to 100% because respondents could select up to 3 options.

Competition in international markets is the biggest worry for respondents in Europe (48%) whereas the cost of merchandise or raw materials is the main concern in Africa (82%) and Asia (53%), and one of the main concerns in North America (33%). North American respondents are the most concerned with legal or administrative obstacles to international trade (28%).

TYPES OF FOOTWEAR

Overall, the answers to our survey suggest that sneakers and other sports-related footwear will grow in market share, over the next three years, and leather footwear will continue losing it.

Almost two thirds of respondents expect the share of sneakers in the total sales of footwear to increase. This percentage reaches 71% among manufacturers and 60% for traders.

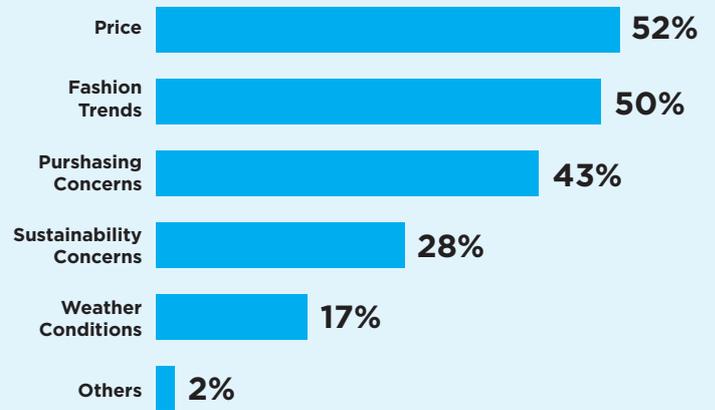
Geographically, this belief is shared by more than 80% of respondents in Asia and South America and more than 60% in Europe and North America.

	DECREASE	STABILIZE	INCREASE	BALANCE OF EXTREMES P.P.
Sneakers (for daily use)	8%	26%	66%	58
Other sports-related footwear	7%	40%	53%	46
Waterproof footwear	21%	57%	22%	1
Other plastic or rubber footwear	27%	45%	28%	1
Classic women's leather footwear	33%	47%	20%	-13
Classic men's leather footwear	42%	42%	16%	-26

Not surprisingly, respondents who are more optimistic about the growing importance of sneakers are expecting a negative evolution of classic leather footwear. 42% of respondents expect a fall of classic men's leather footwear share and, slightly more optimistic, one third of women's.

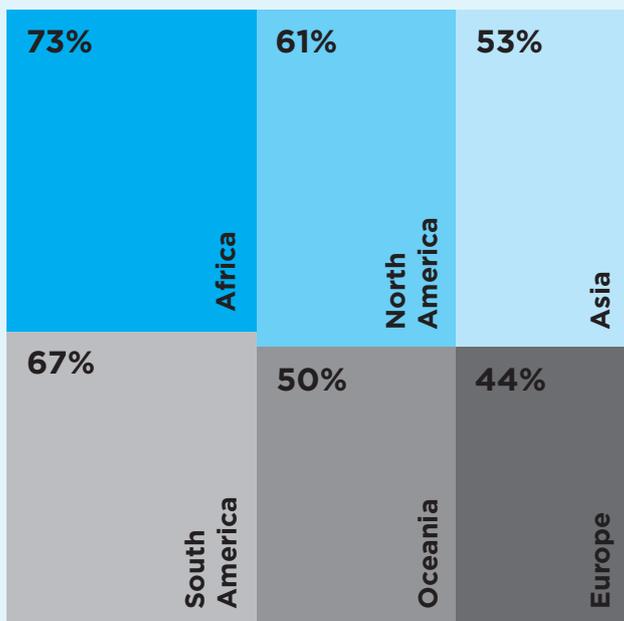
POSSIBLE EXPLANATIONS

Half of the respondents consider Price and Fashion trends the most relevant factors in determining the evolution of sales of each category of footwear.

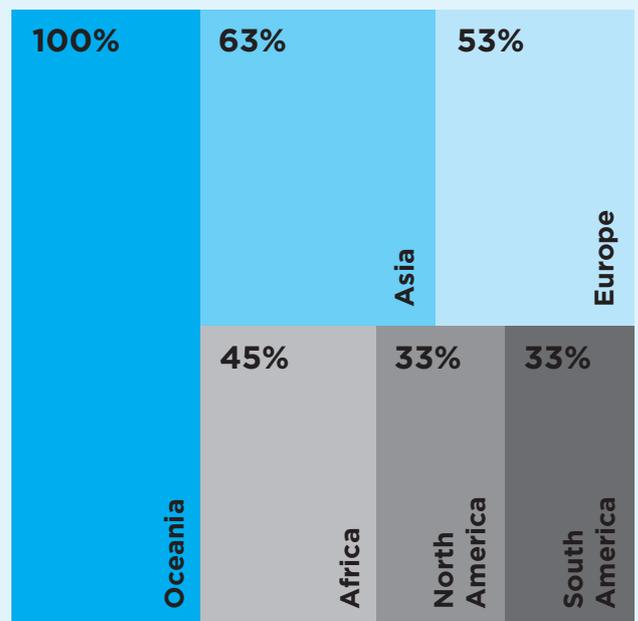


Note: Figures do not sum to 100% since respondents could select up to 2 options.

Price is less likely chosen in Europe than elsewhere (below 50% of respondents).



Respondents in North and South America value Fashion Trends the less (only one third of respondents)



RETAIL CHANNELS

Respondents' views are very optimistic towards the evolution of digital retail channels.

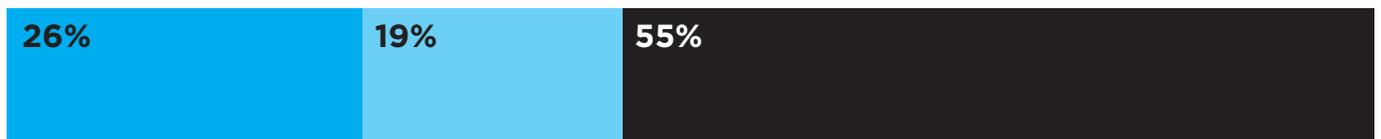
	DECREASE	STABILIZE	INCREASE	BALANCE OF EXTREMES P.P.
Own-brand online retail stores	10%	19%	71%	61
Multi-brand online shoe or fashion stores	6%	28%	66%	60
General online sellers	8%	29%	63%	55
Other channels	18%	63%	19%	1
Own-brand physical retail stores	35%	39%	26%	-9
Large-scale retail	41%	29%	30%	-11
Multi-brand shoe retail stores	46%	37%	17%	-29

Curiously, while traders are pessimistic about the evolution of large retail stores share (55% expect it to decrease), manufacturers mostly expect it to grow.

MANUFACTURING



TRADE / DISTRIBUTION

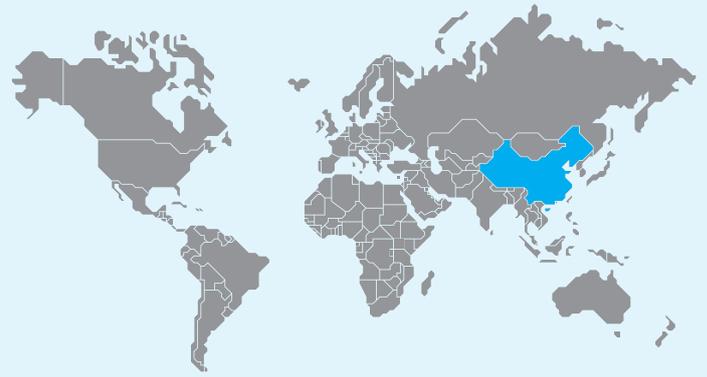


■ Increase

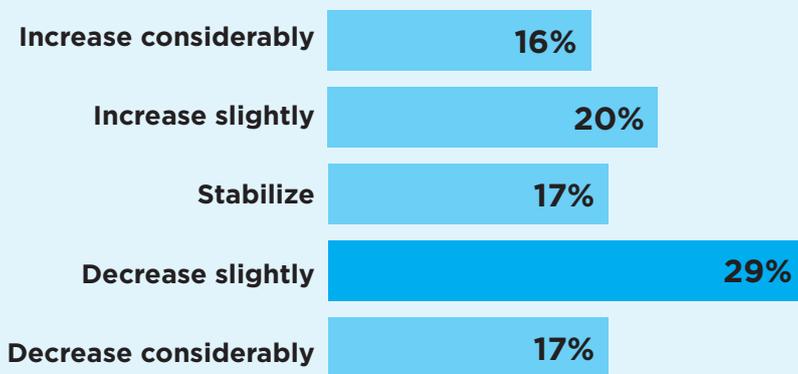
■ Stabilize

■ Decrease

CHINA



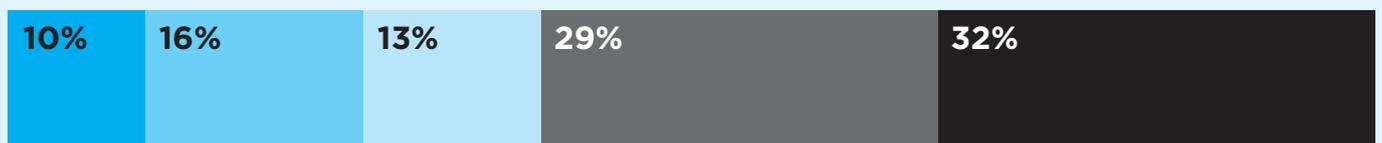
This semester we included a question regarding expectations on the evolution of the Chinese role in the international trade of footwear. China's share of world exports has been decreasing considerably since 2014, almost 8 p.p. in value and 6 p.p. in traded volume, losing ground to other competitors such as Vietnam or Indonesia.*



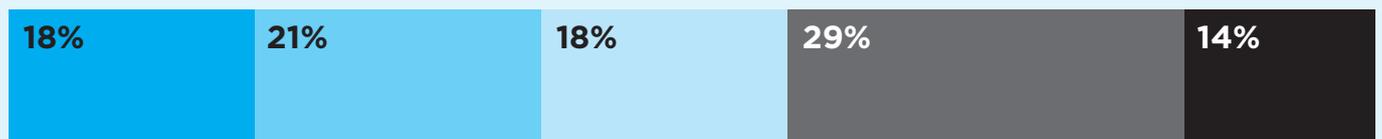
There are more respondents expecting China's share of the world's footwear exports to decrease slightly than those expecting its growth. However, results are, overall, very even.

In Asia, predictions of a considerable fall of China's share are more common (32%) than in other continents (14%).

ASIA



OTHERS



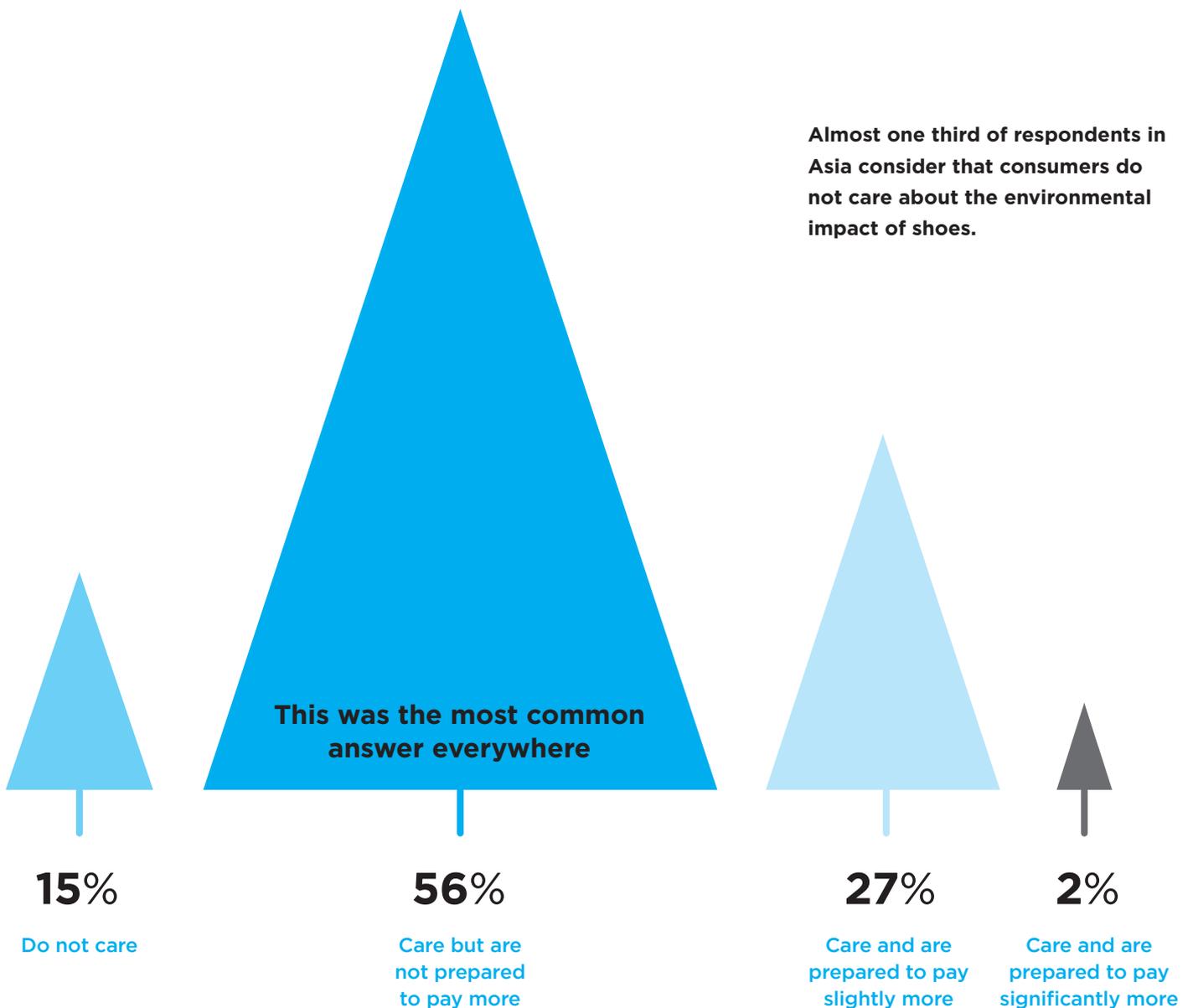
■ Increase considerably
 ■ Increase
 ■ Stabilize
 ■ Decrease
 ■ Decrease considerably

*This information was collected in December 2019 before the outbreak of the Coronavirus, which could potentially impact the options of the respondents and lead to conclusions in other directions.

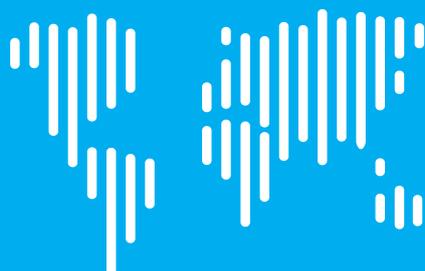
SUSTAINABILITY

Sustainability is one of the most discussed topics of the moment and in this survey we included a question focusing on the matter.

When asked about consumers' preferences for products with less negative environmental impact respondents believe that consumers:



Consumers who are prepared to pay slightly more are only willing to pay up to a 10% difference for shoes with less negative environmental impact while the ones prepared to pay significantly more are willing to pay more than a 10% difference in prices.



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**APICCAPS - Portuguese Footwear, Components
and Leather Goods Manufacturers' Association**

Rua Alves Redol, 372 | 4050-042 Porto, Portugal
T. +351 225 074 150 | editor@worldfootwear.com

