



**WORLD
FOOTWEAR**

**BUSINESS
CONDITIONS
SURVEY**

2020

1ST SEMESTER

ISSUE 2



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

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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 the global footwear industry.

The second edition of this online survey was conducted during the month of March 2020. We have obtained 129 valid answers, 41% coming from Europe, 31% from Asia, 16% from North America and the remainder from other continents. Almost 40% of the respondents are involved in footwear manufacturing (manufacturers), 17% in footwear trade and distribution (traders) and 43% in other footwear-related activities such as trade associations, consultancy, journalism, etc. (others).

EXECUTIVE SUMMARY

Since the previous edition of this bulletin, in January, the Covid-19 epidemic has strongly dented the world economy and the footwear business with it. This is evident in our survey.

Most of our panel members believe that over the next six months the quantity of footwear sold will fall and prices will decrease. Perspectives are everywhere negative but particularly so in Europe, where 9 out of every 10 respondents expect the quantity of footwear sold to diminish. Weak demand both in home and international markets is now our experts' main concern, pushing competition in international markets to the seventh position in the list of the footwear business difficulties that it previously led. Almost half of those interviewed also mention financial difficulties.

When questioned specifically about the impact of the epidemic on consumption, as compared to a no-epidemic scenario, our panel members, on average, are forecasting a 22.5% reduction, with some regional variation. Should these forecasts prove accurate, footwear consumption this year will fall by 696 million pairs in North America, 908 million in Europe, and 2.4 billion in Asia.

Most respondents also believe the epidemic will have lasting consequences for the location of footwear production with firms diversifying their sourcing among multiple countries, to reduce risk, or bringing production closer to the consumer markets.

BUSINESS CONTEXT

As they become available, statistics for footwear trade in 2019 are showing a mixed picture. Imports to the USA market, the largest in the world, grew by 2.4% on the previous year, as also did imports to Australia. In Asia, imports grew more than 20% to China but fell by 2% to Japan, both countries now slightly surpassing 5 billion dollars. The South African and, especially, the Chilean markets registered significantly negative growth rates. In most European countries, there was little change (growth rates between -1.5% and +0.5%) but imports to the UK fell by almost 10%.

IMPORTS OF FOOTWEAR 2019 VS 2018



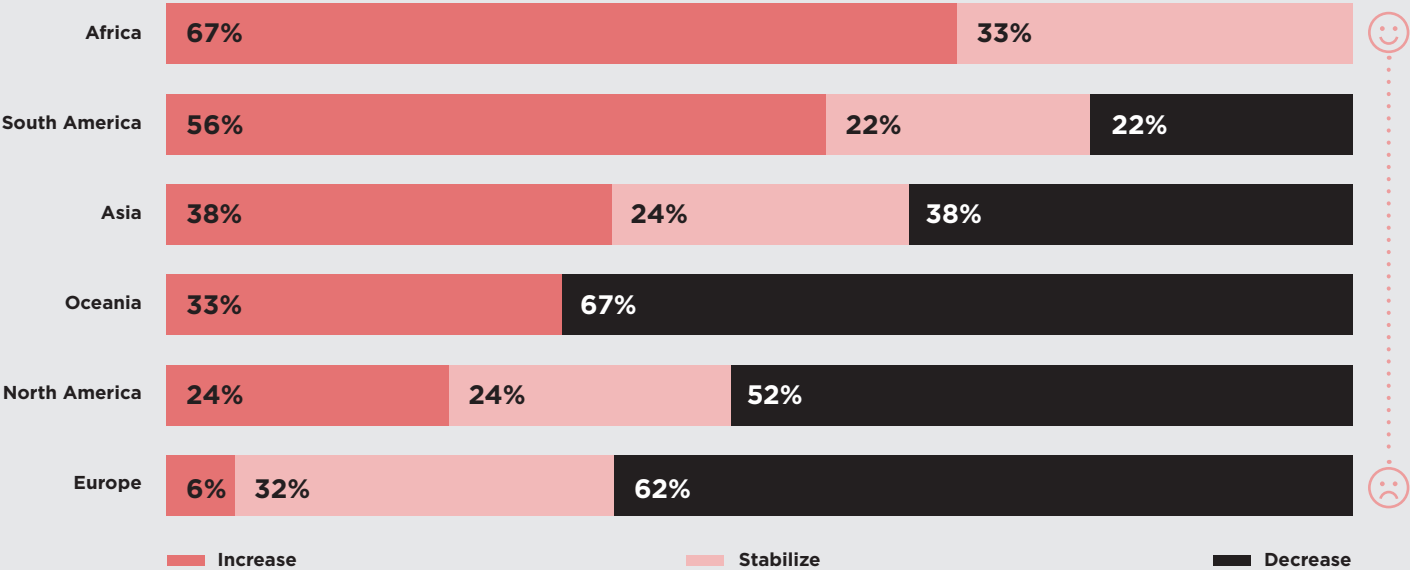
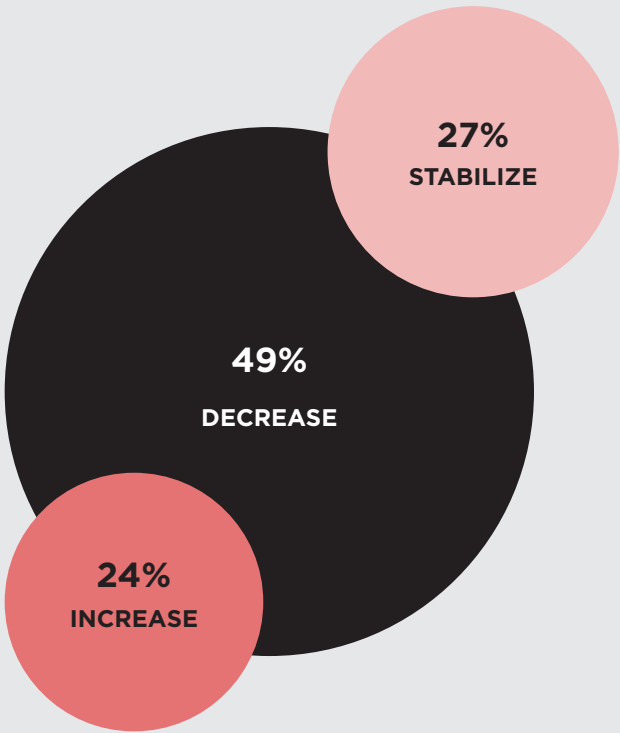
Source: Trade Map

Back in January, the International Monetary Fund was estimating the growth of world economy in 2019 at 2.9% and projecting that it would increase to 3.3% in the current year, which would have been good news. Since then, however, the Covid-19 epidemic has led to a steep degradation of economic perspectives. In this edition of the Business Conditions Survey we have a first glimpse of how the epidemic is hitting the footwear business.

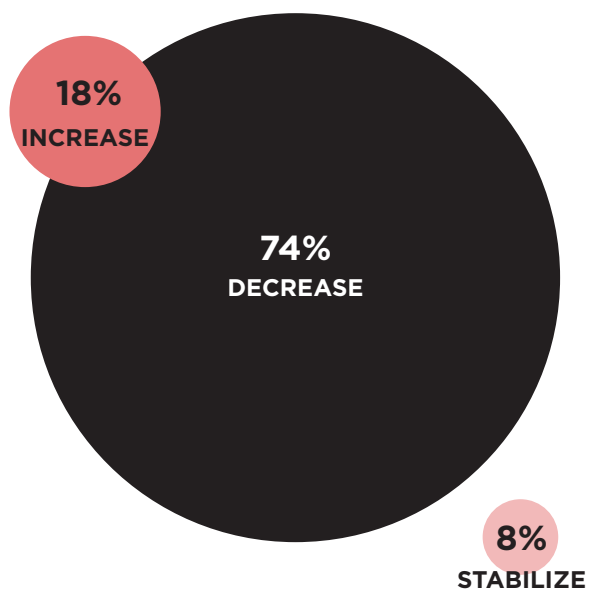
PRICES

The perspectives of our panel members for the evolution of footwear prices in their countries over the next six months have deteriorated markedly since the previous edition of this bulletin, published in January. Whereas before the majority of the respondents expected prices to stabilize, and more expected them to increase than to decrease, now almost half are predicting that prices will fall. This negative sentiment is independent of the respondent's line of business but slightly more pronounced among traders (balance of positive to negative answers of -36 percentage points - p.p.) than manufacturers (-28 p.p.).

Perspectives are particularly gloomy in Europe (-57 p.p.) but also very negative in North America (-29 p.p.) and Oceania (-33 p.p.). Africa and South America, on the contrary, remain upbeat, with most respondents foreseeing price increases. Asia shows an intermediate situation, with the same number of respondents predicting price increases and decreases.

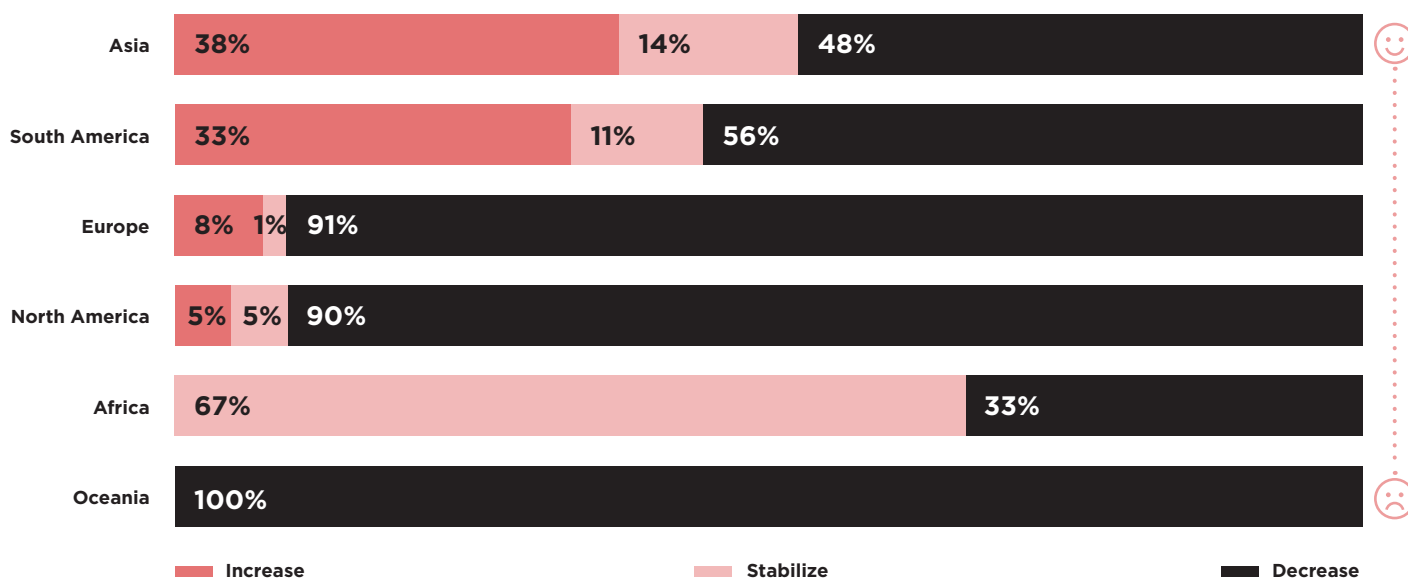


QUANTITY



The outlook for the evolution of the quantity sold is even more bleak: almost three out of every four respondents expect it to fall, while less than one in five counts on an increase. Among traders there is near unanimity (91%) that the quantity will decrease but 70% of the manufacturers also point in the same direction. The predominance of negative forecasts is common to organizations of every size.

The few traces of optimism come almost exclusively from Asia and South America: in these two continents about one third of the respondents believe that the quantity sold will increase in the next six months even if most hold the opposite view. In Europe and North America some 90% of those interviewed foresee the quantity going down, a unanimous opinion in Oceania. Africa deviates from this negative consensus, with two thirds of the answers suggesting that the quantity sold will hold steady.



DIFFICULTIES

The degradation of the economic conditions worldwide together with the restrictions on the normal operation of firms and on the movement of people imposed in many countries in response to the Covid-19 epidemic explain the sudden rise of “insufficient demand”, both in international markets and at home, to the top of the difficulties faced by the footwear business: more than half of the members of our panel mention these problems. There was also a sharp increase in references to “financial difficulties”, from 22% in the previous edition of this survey to 45% now. Moving in the opposite direction, “competition in international markets” fell from first place, with 39% of references, in December 2019 to the seventh position now, with only 11%. All other factors identified in the table below also gave way in face of the demand crisis.

Insufficient demand in international markets	56%
Insufficient demand in home market	53%
Financial difficulties	45%
Cost of merchandise or raw materials	25%
Human resources problems (unavailability, lack of adequate training, etc.)	16%
Competition in home market	13%
Competition in international markets	11%
Taxes	6%
Legal or administrative obstacles to international trade	5%
Climate	5%
Regulatory or administrative requirements	3%
Lack of adequate equipment or other technological problems	2%
Others	26%

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

TYPES OF FOOTWEAR

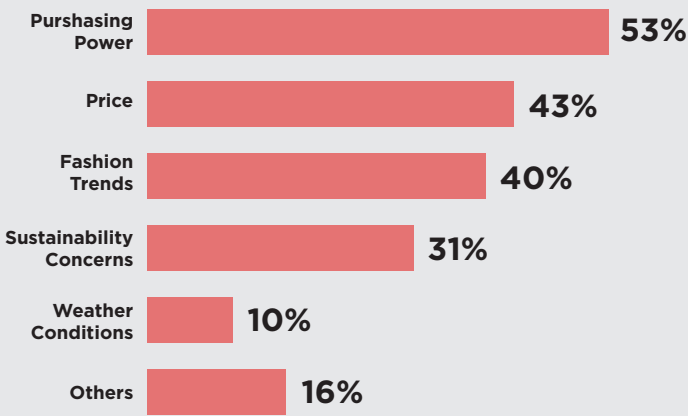
The health emergency has not fundamentally changed the perspectives of our panel members for the evolution of the share of different types of footwear in total footwear sales over the next three years. Perspectives for classic leather footwear, particularly men's footwear, remain grim: close to half of those interviewed believe its market share is going to decrease. Prospects are more even for plastic or rubber footwear, with a roughly balanced number of respondents seeing them gaining and losing market share.

Our panel continues to believe that sneakers and other sports-related footwear is going to gain market share in the near future. However, the balance of extreme answers for these two categories of footwear decreased considerably compared to the previous edition of the bulletin: it is too soon to tell whether this corresponds to some ebbing of the upward trend they have been showing for some years or is just a short-term fluctuation.

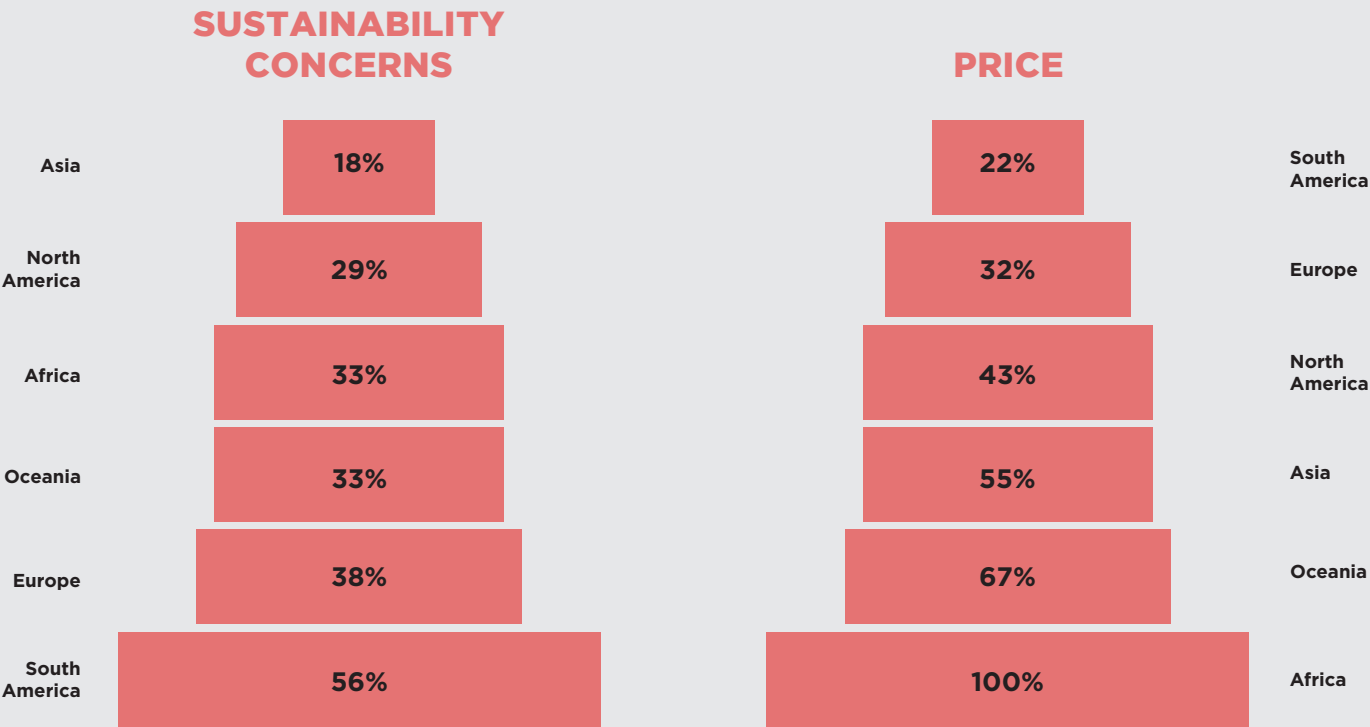
	DECREASE	STABILIZE	INCREASE	BALANCE OF EXTREMES P.P.	
Sneakers (for daily use)	17%	24%	59%	42%	😊
Other sports-related footwear	20%	34%	46%	26%	
Waterproof footwear	26%	50%	24%	-2%	
Other plastic or rubber footwear	35%	32%	33%	-2%	
Classic women's leather footwear	43%	31%	26%	-17%	
Classic men's leather footwear	46%	39%	15%	-31%	😞

POSSIBLE EXPLANATIONS

Asked about what factors drive the trends they forecast for the sales of each type of footwear, our experts place consumers purchasing power on top: in South America, especially, there is near unanimity about the importance of this factor. Price comes in second place and is most frequently mentioned by respondents from Asia and Africa. It is closely followed by fashion trends: these grab more answers from traders than manufacturers. About a third of those interviewed believe sustainability concerns explain the evolution of the sales of the different types of footwear: this is most commonly mentioned in South America followed by Europe.



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



RETAIL CHANNELS

Our panel continues to forecast that over the next three years digital retail channels will gain market share from brick-and-mortar stores: close to two out of three panel

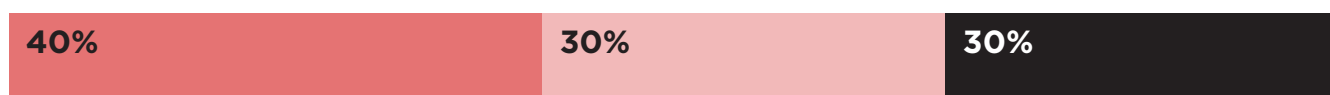
members believe online stores will increase their market share over that period while almost half expect that physical stores will lose it.

	DECREASE	STABILIZE	INCREASE	BALANCE OF EXTREMES P.P.
Own-brand online retail stores	11%	22%	67%	56%
General online sellers	11%	25%	64%	53%
Multi-brand online shoe or fashion stores	16%	23%	61%	45%
Other channels	29%	51%	20%	-9%
Own-brand physical retail stores	47%	28%	25%	-22%
Large-scale retail	47%	31%	22%	-25%
Multi-brand shoe retail stores	47%	31%	22%	-25%

These perspectives show considerable regional variation. European respondents are much more pessimistic about multi-brand shoe retail stores than those interviewed in other continents. The balance of “increase” to “decrease” answers is -56 percentage points in Europe, but only -5 p.p. in North America while in Asia it is actually positive (+10 p.p.).

Over the next 3 years, how will the market share of multi-brand shoe retail stores evolve?

ASIA



NORTH AMERICA



EUROPE



■ Increase

■ Stabilize

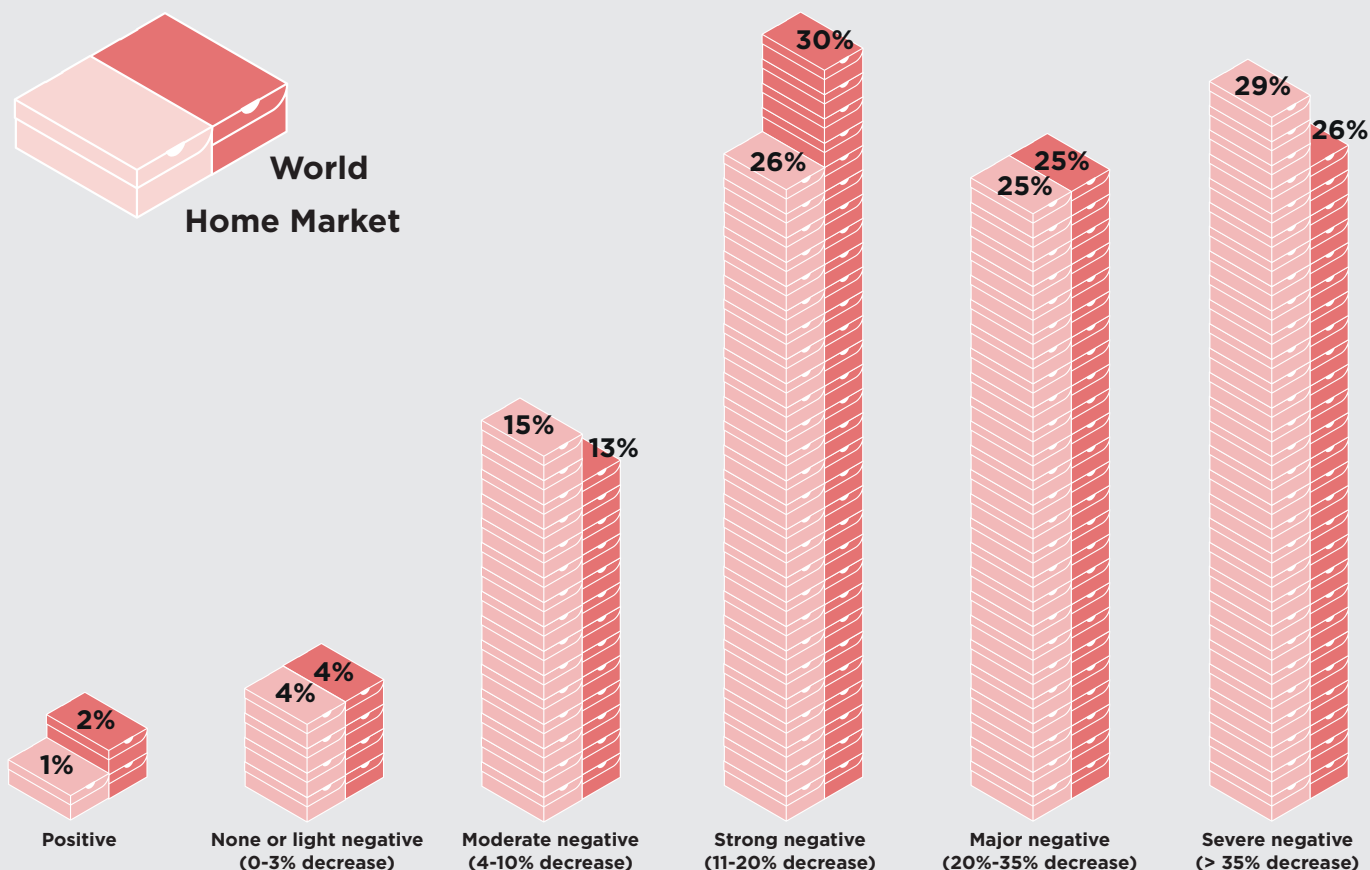
■ Decrease

IMPACT OF COVID-19

The consequences of the Covid-19 epidemic were inevitably the special topic of this edition of the World Footwear Business Condition Survey.

We questioned the members of our expert panel about the likely impact of the epidemic on footwear consumption in 2020, as compared to a no-epidemic scenario, both in their home market and worldwide. Answers are rather preoccupying: most of those interviewed believe that consumption will fall by, at least, 20%; one in four believes that it will plunge by more than 35% worldwide. Pessimism is common to all categories of panel members, both in terms of line of business and home country.

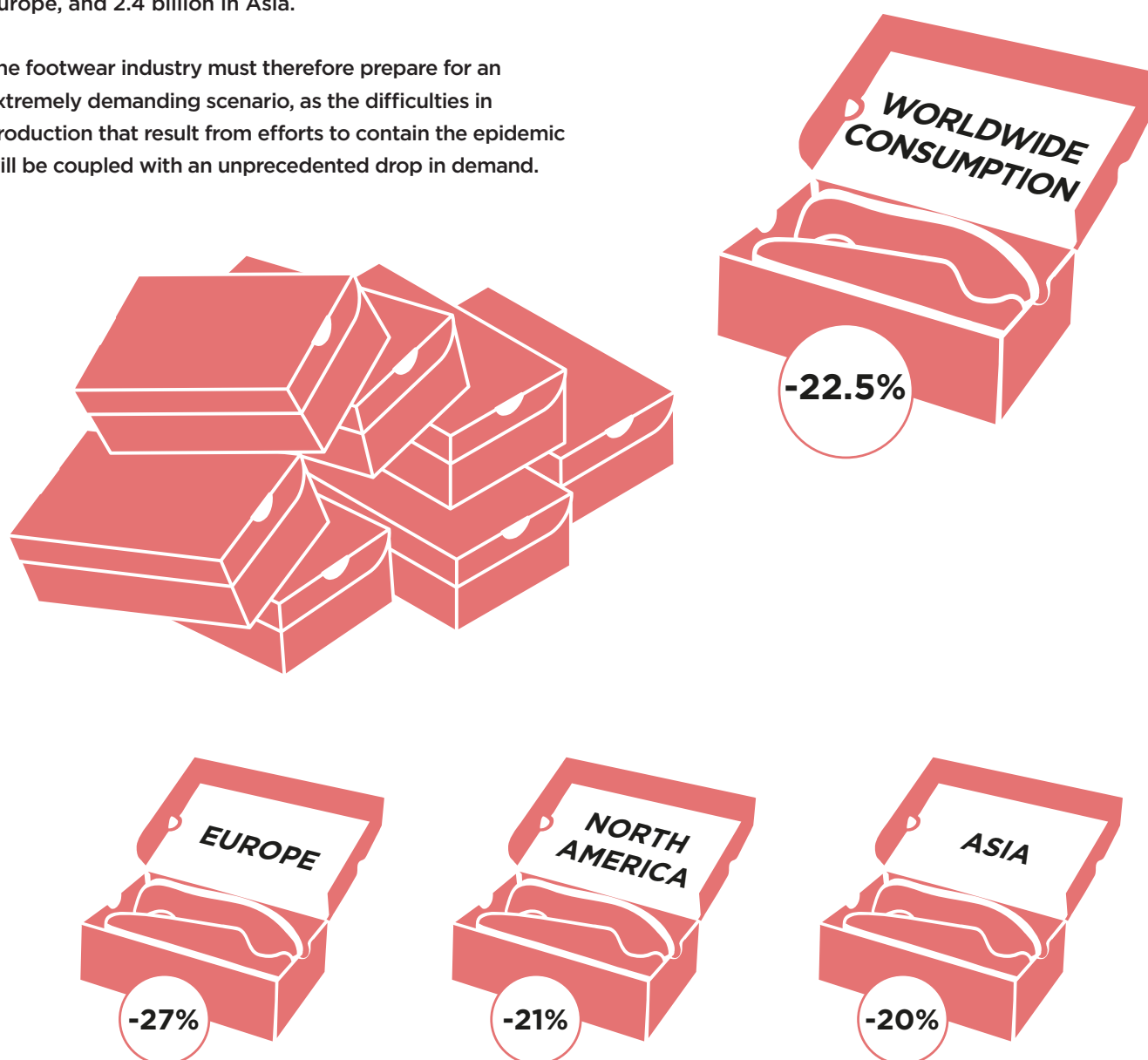
Impact of the Covid-19 epidemic on footwear consumption in 2020



IMPACT OF COVID-19

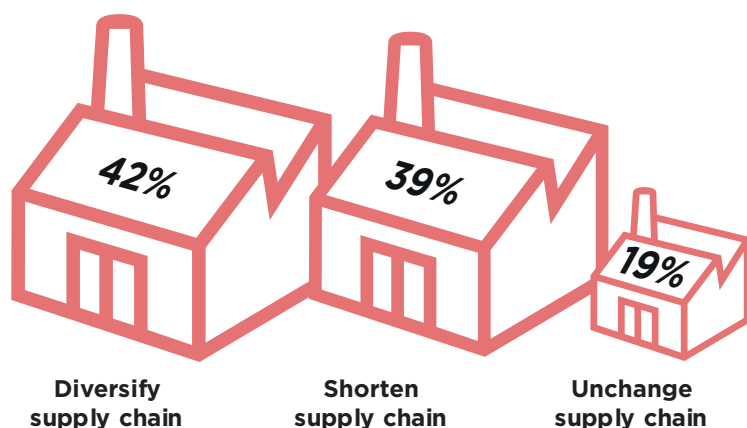
On average, the World Footwear's Panel of Experts is forecasting that footwear consumption worldwide will fall by some 22.5% in 2020. Estimates for Europe (-27%) are a bit more pessimistic than for North America (-21%) and Asia (-20%). Applying these percentages to the consumption by continent reported in the World Footwear Yearbook 2019, should these forecasts prove accurate, footwear consumption this year would fall by 696 million pairs in North America, 908 million in Europe, and 2.4 billion in Asia.

The footwear industry must therefore prepare for an extremely demanding scenario, as the difficulties in production that result from efforts to contain the epidemic will be coupled with an unprecedented drop in demand.



IMPACT OF COVID-19

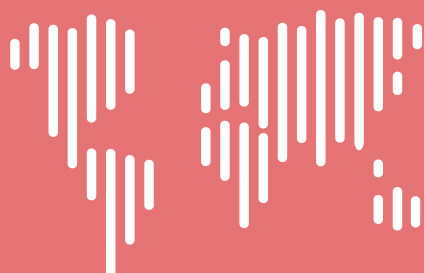
We also wanted to know about more lasting consequences of the epidemic. We questioned the panel members on its likely impact on firms' medium-term decisions regarding the location of footwear production.



Less than one in five of our experts believes the epidemic will have no impact on the location of footwear production (unchanging the supply chain). Others split almost equally between the option that firms will prefer to disperse production by different countries (diversifying the supply chain) to minimize the risk of disruption in their supply chains, and the possibility that firms will prefer to locate production close to the consumer markets (shortening the supply chain).

North American respondents are the least inclined to believe that things will remain unchanged, among the three continents – Asia, Europe, and North America – that dominate international footwear trade. Most respondents from North America believe that firms will prefer to keep production closer to consumer markets. On the contrary, in Asia, almost one in four of those interviewed trusts that companies will not alter their production location decisions.

	ASIA	EUROPE	NORTH AMERICA
Unchange supply chain	23%	19%	10%
Shorten supply chain	37%	43%	52%
Diversify supply chain	40%	38%	38%



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