

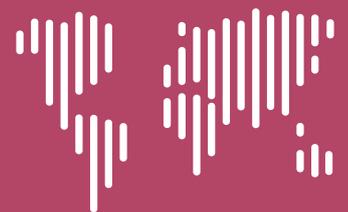
**WORLD
FOOTWEAR**

**BUSINESS
CONDITIONS
SURVEY**

2021

1st SEMESTER

ISSUE 4



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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With special thanks to Vasco Rodrigues and Filipa Cunha Mota for their contribution.

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' expert 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 fourth edition of this online survey was conducted during the month of March 2021. We have obtained 141 valid answers, 52% coming from Europe, 21% from Asia, 14% and 8% from North and South America, respectively, and 5% from Africa. More than one third (35%) of the respondents are involved in footwear manufacturing (manufacturers), 20% in footwear trade and distribution (traders) and 45% in other footwear-related activities such as trade associations, consultancy, journalism, etc. (others).

EXECUTIVE SUMMARY

Although the rollout of the COVID-19 vaccines worldwide brings hope to the global economy, prospects for 2021 are still highly uncertain due to the rising incidence of the disease and the emergence of new variants. According to the World Trade Organization, recovery will strongly depend on the effectiveness of vaccination efforts worldwide.

This uncertainty reflects in our survey, but the general outlook is positive. Most of our panel members believe that, over the next six months, the quantity of footwear sold will increase, which is an optimistic evolution in comparison to the perspectives from some months ago. Also, more than half of our respondents expect footwear prices to stabilize, and almost one third to even increase.

As in the previous editions of this survey, insufficient demand both in home and international markets is identified by our experts as the main source of difficulties for the footwear business but the cost of merchandise and raw materials is a growing concern.

After a very difficult year for the footwear industry, most of our panel members expect moderate growth (between 1.5% and 5%) in footwear consumption in 2021. Should these forecasts prove accurate, footwear consumption will grow 5.8% in South America, 3.8% in North America, 2% in Europe and Africa and 2.8% in Asia, this year, on average.

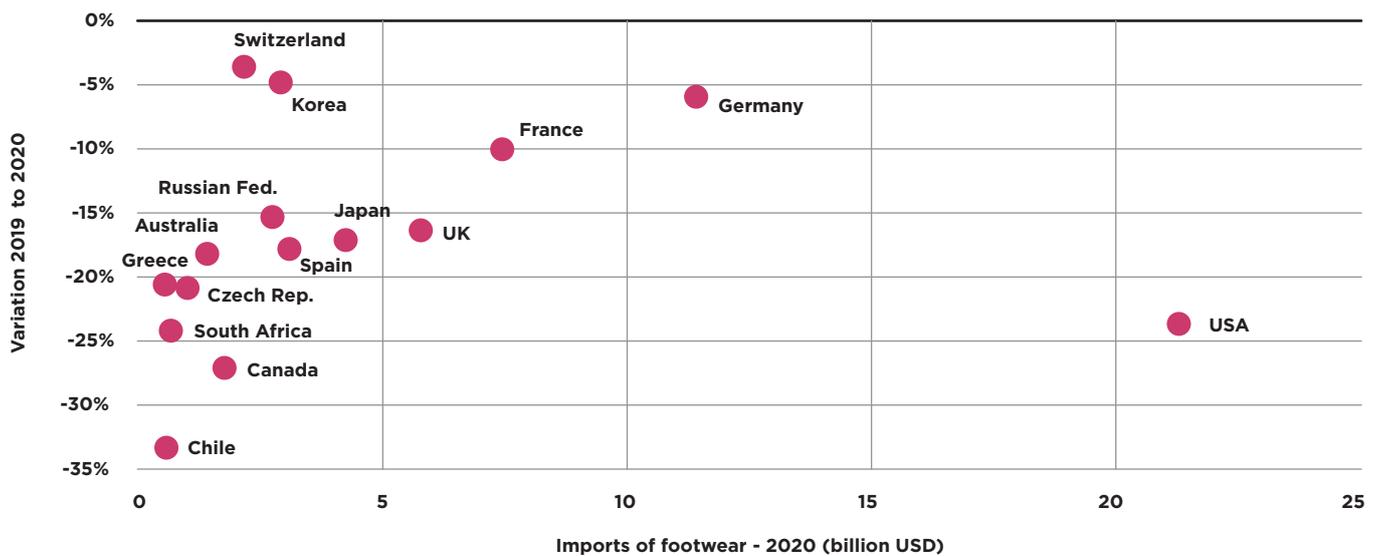
Asked about the share of the USA in footwear consumption, which has been showing some signs of a slowdown, most of our experts forecast it to continue shrinking and to account for only 10% of the world total in 2025.

Finally, we also provide the views of our experts on the priorities for footwear businesses' investment in the post-pandemic world and on the importance of different business-to-business marketing tools. On this matter, digital channels are considered increasingly important to the business.

BUSINESS CONTEXT

In 2020, trade plunged sharply as the COVID-19 pandemic backtracked the global economy, affecting different economic sectors and the footwear industry was no exception. The most recent statistics for footwear trade last year show an expected bleak scenery. From the already available data, we conclude that imports fell as abruptly as 33% in Chile, 27% in Canada, 24% in the USA and South Africa and 18% in Australia. In Europe, negative variations were registered between 3% (Switzerland) and 21% (Czech Republic). So far, we could only find positive variations in the imports of Iceland and Kazakhstan.

IMPORTS OF FOOTWEAR 2019 VS 2020

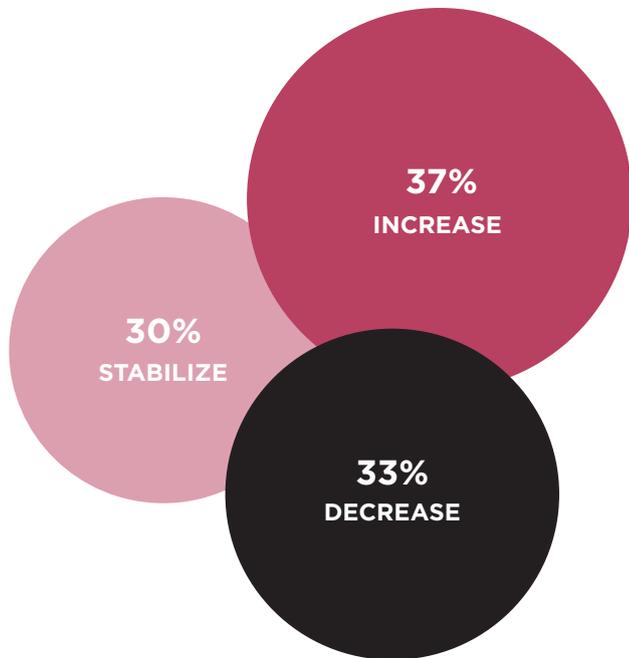


Source: Trade Map

After a year of a deep global economic recession, most economies are expected to grow in 2021. The most recent projections by the International Monetary Fund estimate an increase in the world’s real GDP of 5.2% in 2021, but the Fund warns that global recovery may be subdued while COVID-19 continues to spread. The World Bank is less optimistic, expecting the global economy to expand 4% this year, contingent on a widespread COVID-19 vaccine rollout throughout the year. According to the World Trade Organization, world

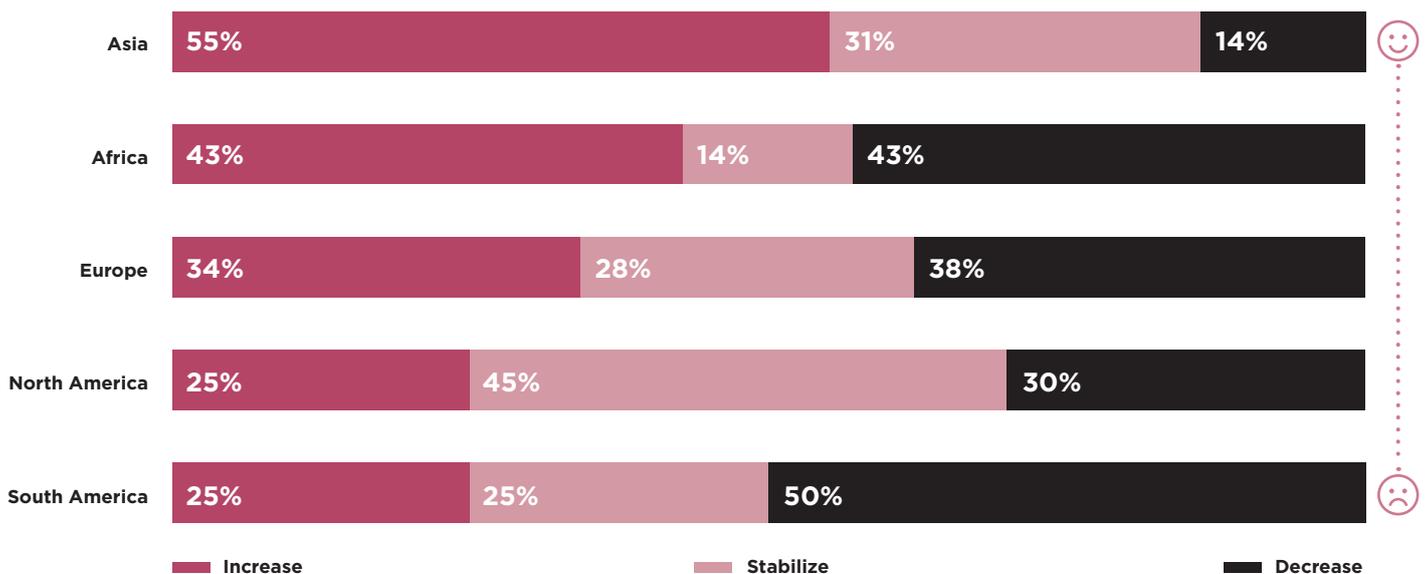
merchandise trade volume grew at a strong pace in the fourth quarter of 2020. However, this pace of expansion is “unlikely to be sustained in the first half of 2021 since key leading indicators appear to have already peaked, according to the WTO’s latest Goods Trade Barometer of 18 February 2021”. In this edition of the Business Conditions Survey, we continue to look at our expert’s expectations on the evolution of the footwear business in the near future.

QUANTITY



There was a significant improvement in the perspectives on the evolution of the quantity of footwear for the next semester since the last edition of this survey: the balance of extreme answers increased from -23 to +4 percentage points (p.p.). However, different lines of business have clear opposite views: while there is a negative balance of extreme answers (-6 p.p.) among manufacturers, respondents operating in the distribution sector seem to be confident about a positive evolution of the sector (positive balance of extreme answers of 21 percentage points).

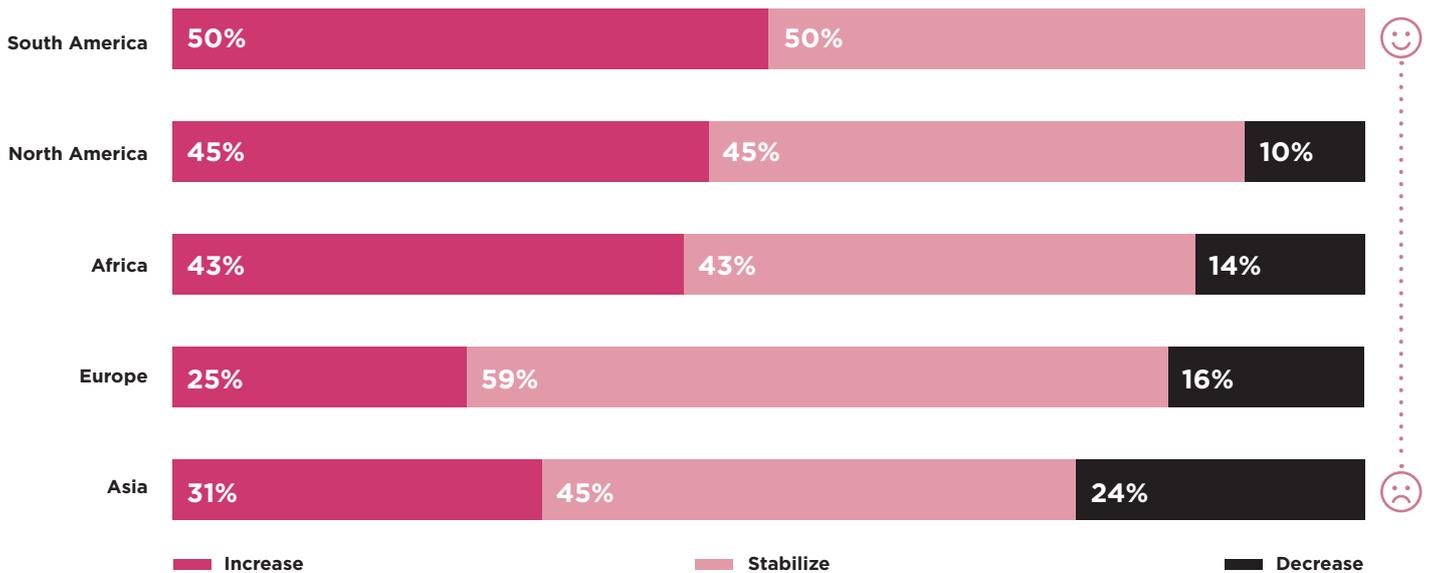
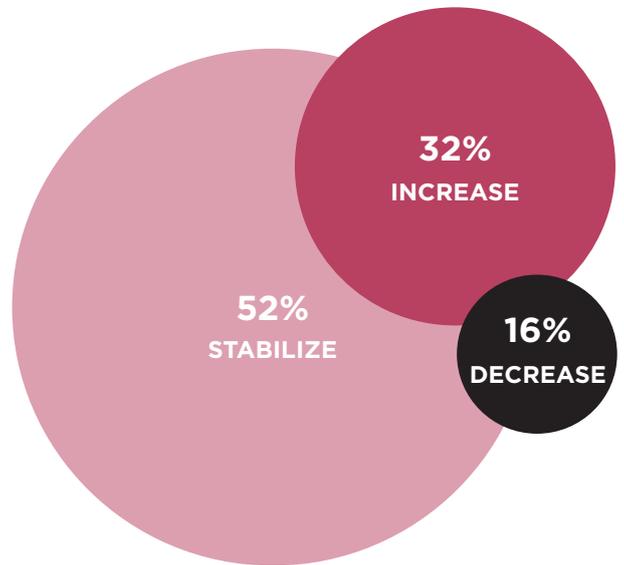
Despite overall favorable expectations, Asia is the only continent that presents a positive balance of extreme answers. Elsewhere, the quantity sold of footwear is most likely expected to decrease than to increase over the next six months.



PRICES

The outlook for the evolution of footwear prices over the next six months continues to improve among our experts: more than half expect them to stabilize and expectations of an increase exceed those of a decline by 16 percentage points. This sentiment is common to respondents operating in every line of business, but manufacturers are slightly more pessimistic than traders (balance of positive to negative answers of 19 and 25 percentage points, respectively).

Geographically, perspectives on the evolutions of prices are more cautious in Asia and Europe than in other continents, but the balance of extreme answers is positive everywhere.



DIFFICULTIES

As in the previous edition of this survey, published last year, “insufficient demand”, both in international markets and at home, continues to be at the top of the difficulties faced by the footwear business, being mentioned by half of our experts (down from 57% and 55% in the previous edition). References to “financial difficulties” increased slightly, from 42% in the previous edition to 44% now, and continue to be the third most relevant source of difficulties. Concern with the cost of merchandise or raw materials is growing, being mentioned by 41% of the experts, more 17 percentage points than in the previous edition. On the contrary, references to problems associated with “competition in international markets” almost have not changed (from 22% to 23%), and those related to competition in the domestic market actually constitute less of a concern in the current period (less 5 percentage points in comparison to the answers in the previous edition). Legal or administrative obstacles to international trade are relatively more important now (10%) than in the previous edition of this survey, which can be associated with new lockdowns implemented after the Christmas holidays. Finally, issues associated with climate, technological problems and taxes seem comparatively less preponderant than other difficulties.

Insufficient demand in our home market	50%
Insufficient demand in international markets	48%
Financial difficulties	44%
Cost of merchandise or raw materials	41%
Competition in international markets	23%
Competition in our home market	17%
Human resources problems (unavailability, lack of adequate training, etc.)	12%
Legal or administrative obstacles to international trade	10%
Regulatory or administrative requirements	7%
Taxes	5%
Lack of adequate equipment or other technological problems	4%
Weather conditions	1%
Others	14%

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

TYPES OF FOOTWEAR

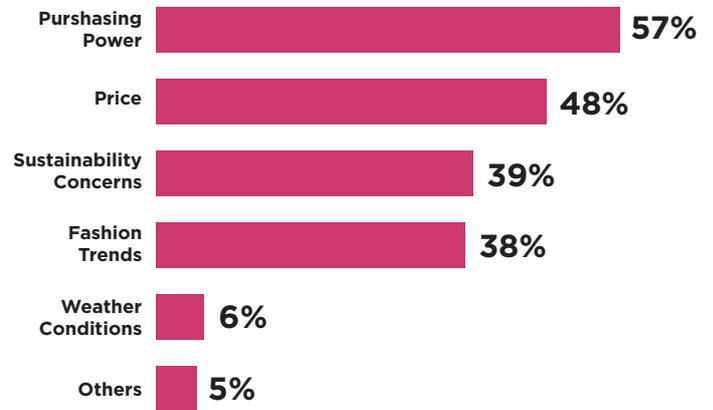
In terms of major trends, the views of our respondents on the evolution of the market share of different types of footwear, over the next three years, have not changed significantly from the previous edition of this survey to the current one. Our panel continues to believe that sneakers and other sports-related footwear, as well as other footwear with textile uppers, will continue to gain market share in the near future. On the contrary, perspectives for classic leather footwear, particularly men’s footwear, are getting gloomier (59% believe its market share is going to decrease, which leads to a balance of extreme answers of -45 percentage points).

Nevertheless, we should stress two changes in our experts’ expectations: waterproof and other plastic or rubber footwear are now expected to evolve positively. The balance of extreme answers for these categories of footwear increased sharply when compared to the previous edition of the bulletin: from -13 p.p. to 15 p.p. and from -2 p.p. to 9 p.p., respectively.

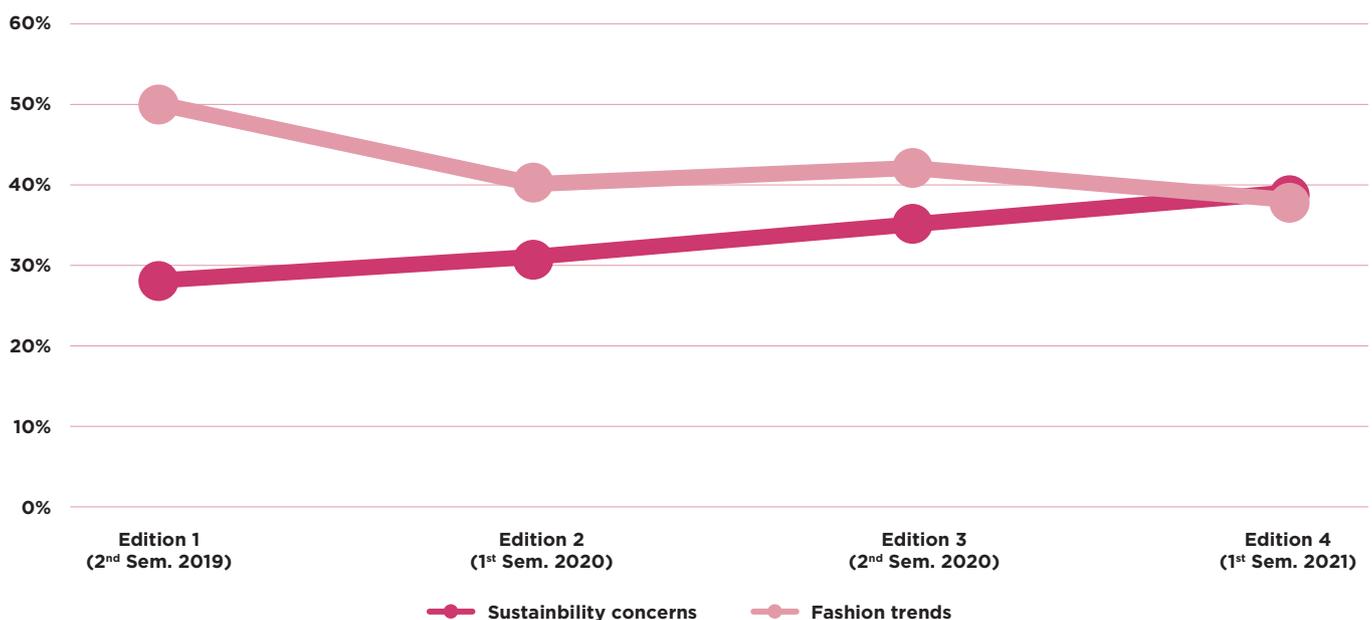
	INCREASE	STABILIZE	DECREASE	BALANCE OF EXTREMES P.P.	
Sneakers (for daily use)	77%	20%	3%	74	😊
Other sports-related footwear	63%	30%	7%	56	
Other footwear with textile uppers	50%	39%	11%	39	
Waterproof footwear	31%	53%	16%	15	
Other plastic or rubber footwear	28%	53%	19%	9	
Classic women’s leather footwear	16%	37%	47%	-31	
Classic men’s leather footwear	14%	27%	59%	-45	😞

POSSIBLE EXPLANATIONS

When asked about the factors considered to be the most relevant in determining the evolution of sales of each category of footwear, our experts' answers have also not changed markedly since the previous edition. Purchasing power and price continue to be recognized as the most important drivers, by this order, but sustainability concerns are now considered more important than fashion trends (+4 p.p. and -4 p.p. of responses, respectively, in comparison to the previous edition). The importance attributed to sustainability has been growing from edition to edition. North America is the only continent where fashion trends continue to surpass sustainability trends in importance. Although fashion trends are more relevant in this continent than in any other, its relative importance decreased from 80% of responses in the previous edition of this survey to 45% in this one. Fashion trends are also considered more important than sustainability concerns by traders, but not by respondents in other lines of business.



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



RETAIL CHANNELS

Since the first edition of the WF Business Conditions Survey, we have been asking our panel of expert about their expectations regarding the evolution of different retail channels over the next three years. Digital channels are considered to be increasingly important to the detriment of traditional, physical retail stores, which are expected to lose importance. On this matter, there are no significant changes to be noted from the previous edition of this survey to the current one: about 80% of the panel members believe that the importance of general online sellers, multi-brand and own-brand

online channels will increase over the next three years (balance of extreme responses ranging from +71 p.p. for own-brand online stores to +80 p.p. for general online stores). The balance of extreme answers continues to be negative for large-scale retail and multi-brand shoe retail stores but shows a slight improvement since the previous edition (from -25 p.p. to -16 p.p. and from -28 p.p. to -19 p.p., respectively). The views on the evolution of other non-specified retail channels are now positive (from to -13 p.p. in the previous edition to +4 p.p. now).

	INCREASE	STABILIZE	DECREASE	BALANCE OF EXTREMES P.P.
General online sellers	81%	18%	1%	80
Multi-brand online shoe or fashion stores	79%	19%	2%	77
Own-brand online retail stores	79%	13%	8%	71
Other channels	18%	68%	14%	4
Large-scale retail	28%	28%	44%	-16
Multi-brand shoe retail stores	23%	35%	42%	-19
Own-brand physical retail stores	17%	38%	45%	-28

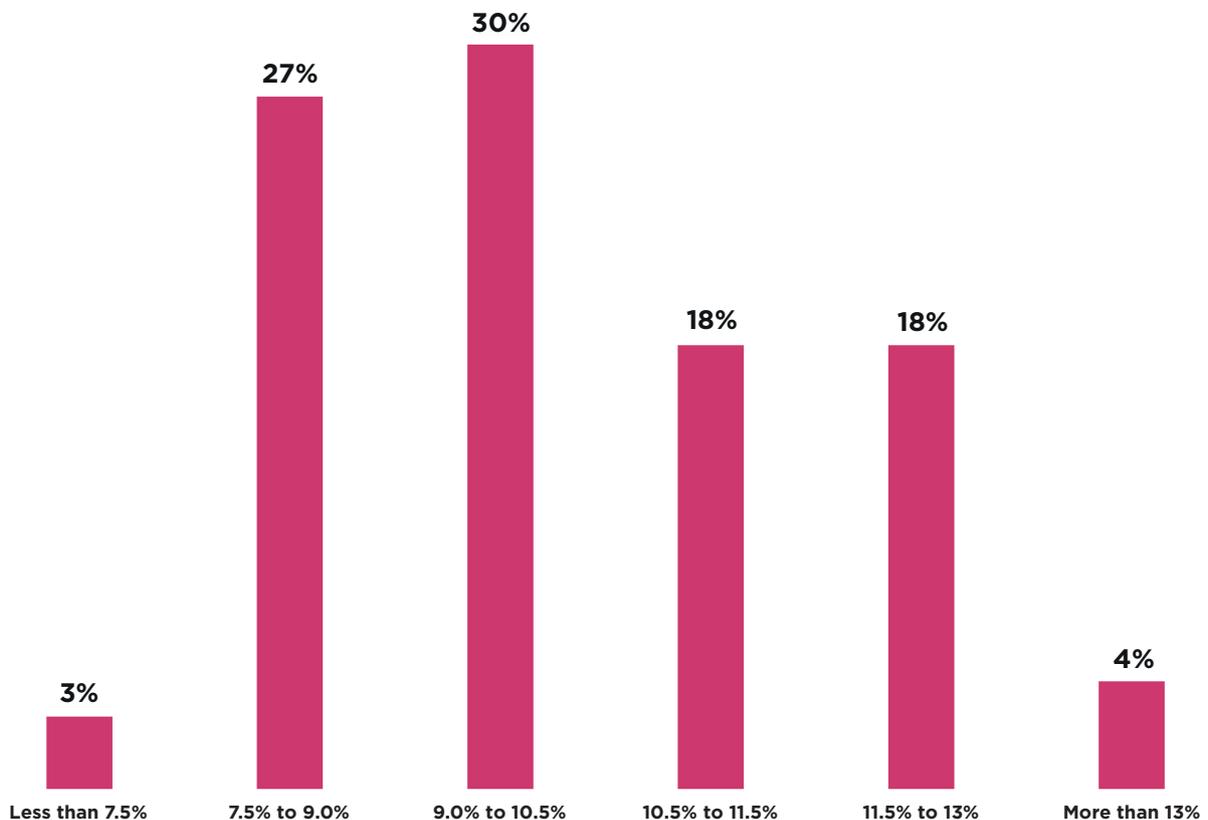


FOOTWEAR CONSUMPTION IN THE US NOT KEEPING PACE WITH THE REST OF THE WORLD



According to the World Footwear Yearbook, in 2019 the USA were responsible for 10.9% of the footwear consumption worldwide, in number of pairs, down from 13.4% in 2010. In light of this evolution, in the current edition of the survey we asked our panel about how much they expected the USA's share of world consumption to be in 2025.

Clearly, most of our experts expects this share to continue shrinking: 60% forecast it will account for less than 10.5% of footwear imports in 2025, and almost 30% answered "9% to 10.5%". On average, our experts forecast America's share of footwear consumption to reach 10% in 2025.

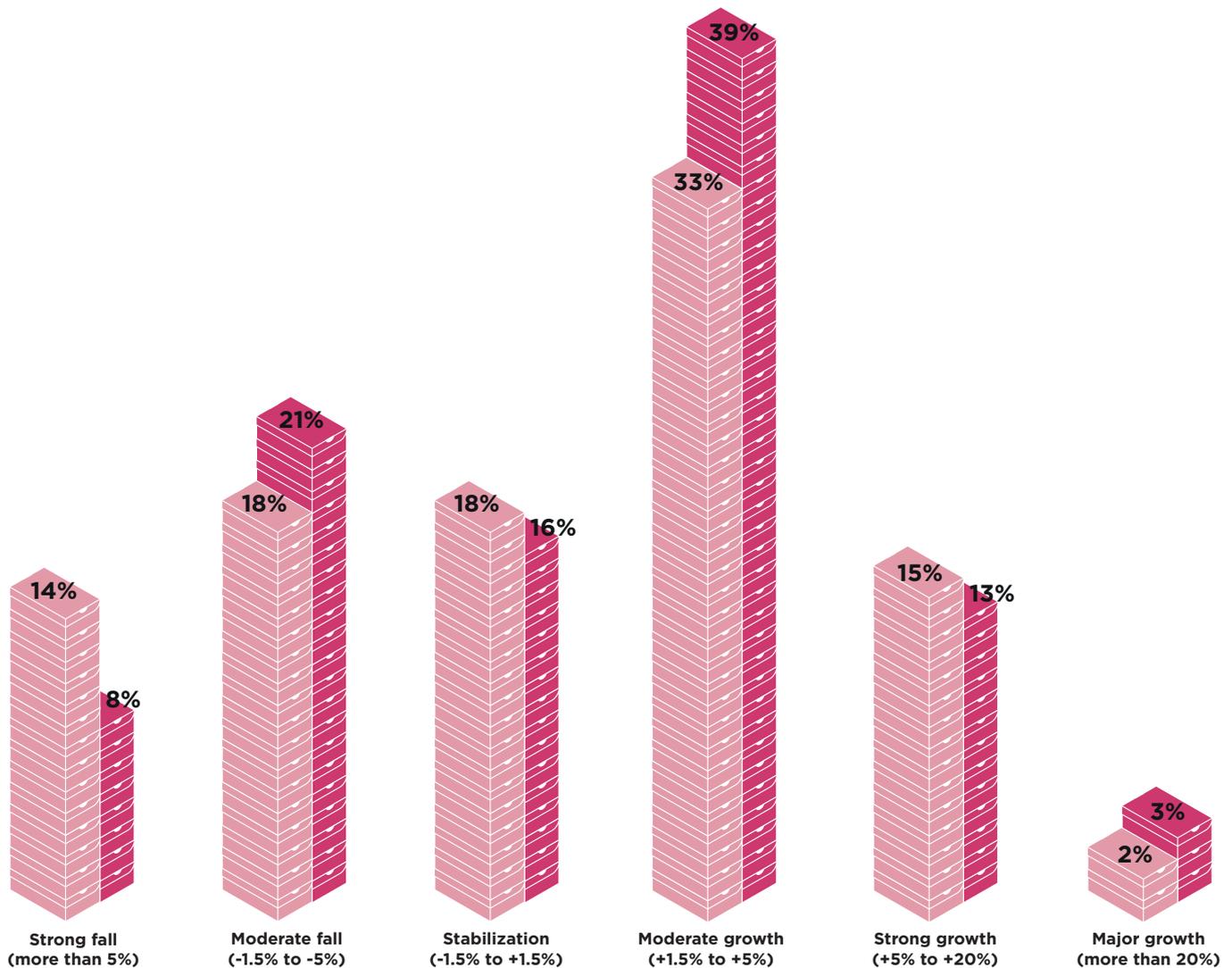


CONSUMPTION EXPECTATIONS

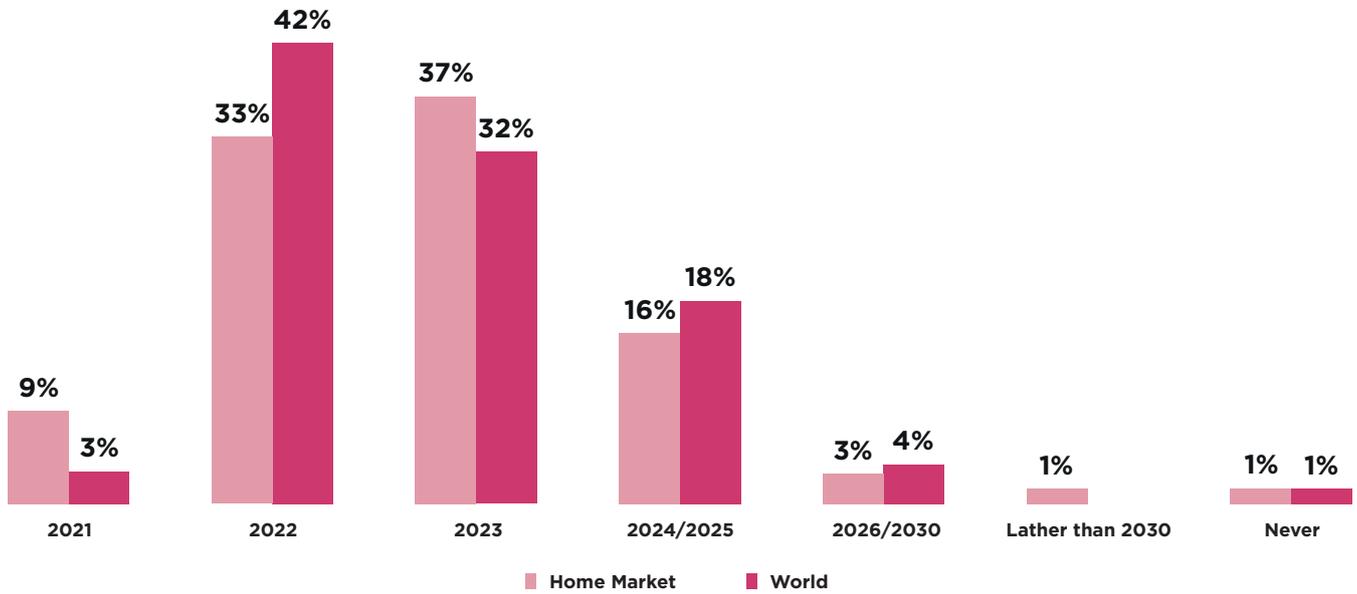
Taking in consideration that the consumption of footwear had a significative decrease in 2020, we questioned the members of our expert panel about their expectations on the evolution of footwear consumption in 2021 when compared to 2020.

The most common answer was that they expect a “moderate growth”, between 1.5% and 5%, both at home and globally. Although this represents a positive view on the evolution of footwear consumption in the current year, more respondents expect a moderate fall than stabilization or strong growth.

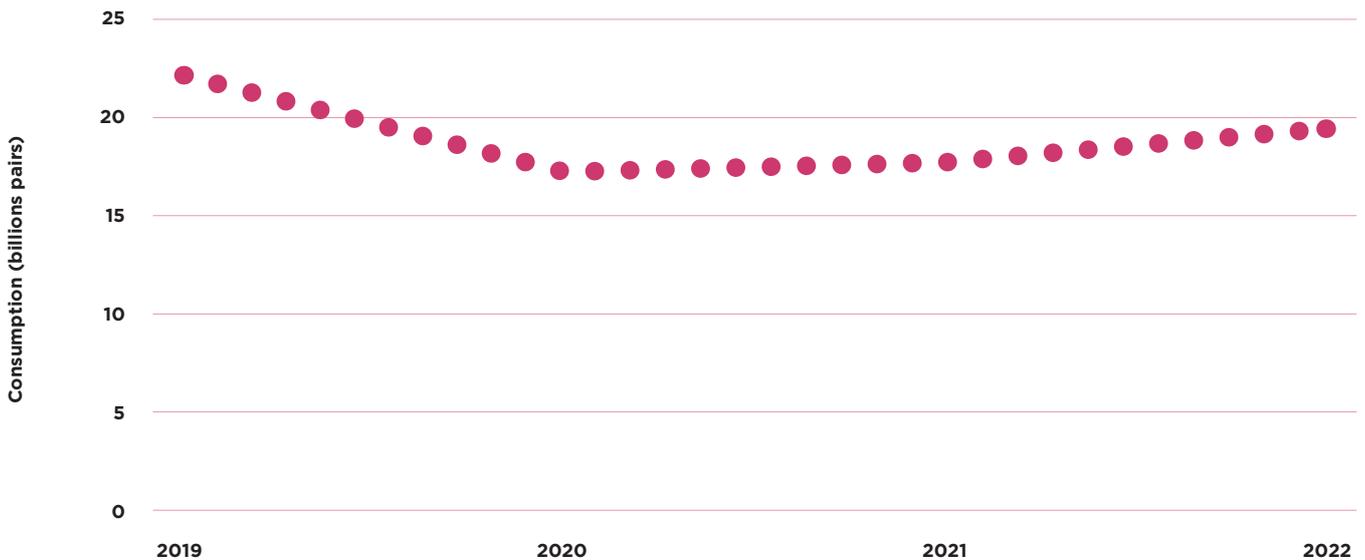
EXPECTED EVOLUTION OF FOOTWEAR CONSUMPTION (IN PAIRS) IN 2021



CONSUMPTION EXPECTATIONS



Our projection, based on the answers of our panel of experts, is that consumption could grow by 2.8% in 2021. It is also expected that in 2022 footwear consumption might still be below its pre-pandemic levels.

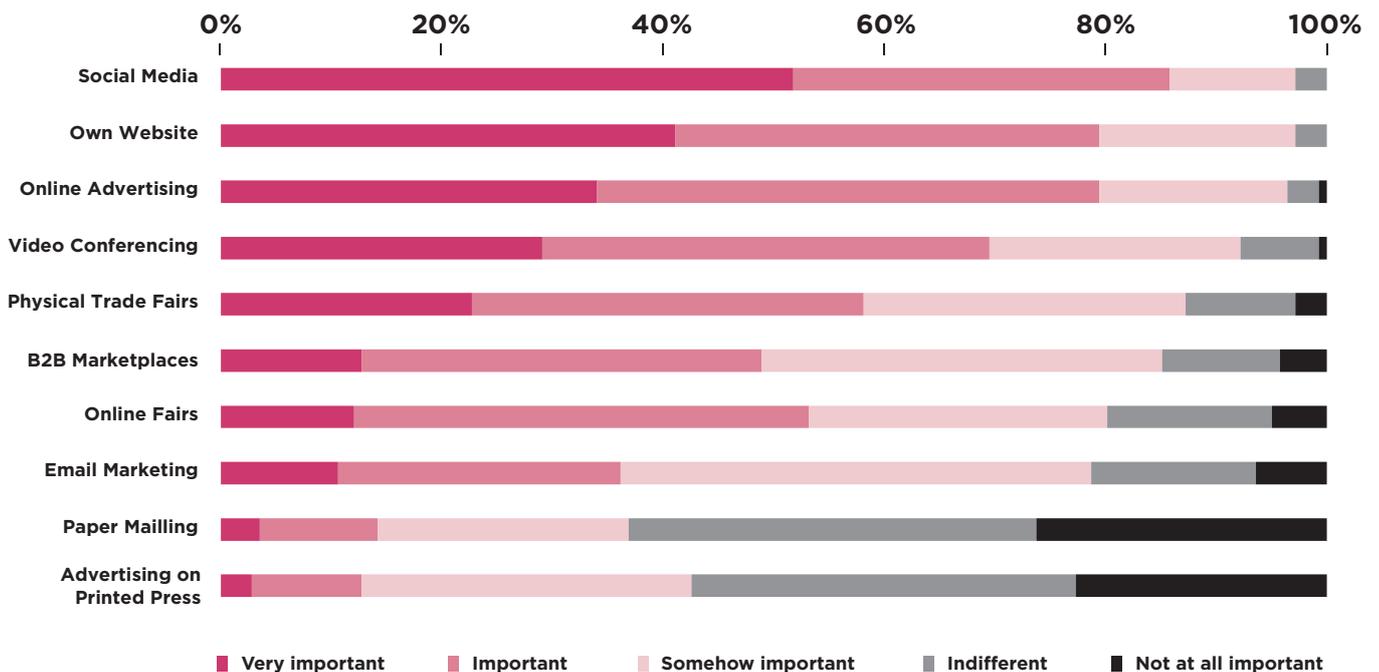


On average, our respondents expect consumption to return to its pre-pandemic levels during 2023.

THE IMPORTANCE OF DIFFERENT B2B MARKETING TOOLS

The pandemic forced companies, in the footwear sector as in every other, to reinvent their business practices. In this edition of the survey, we questioned our panel members on which business-to-business marketing tools will be more important for footwear businesses in the post-pandemic world.

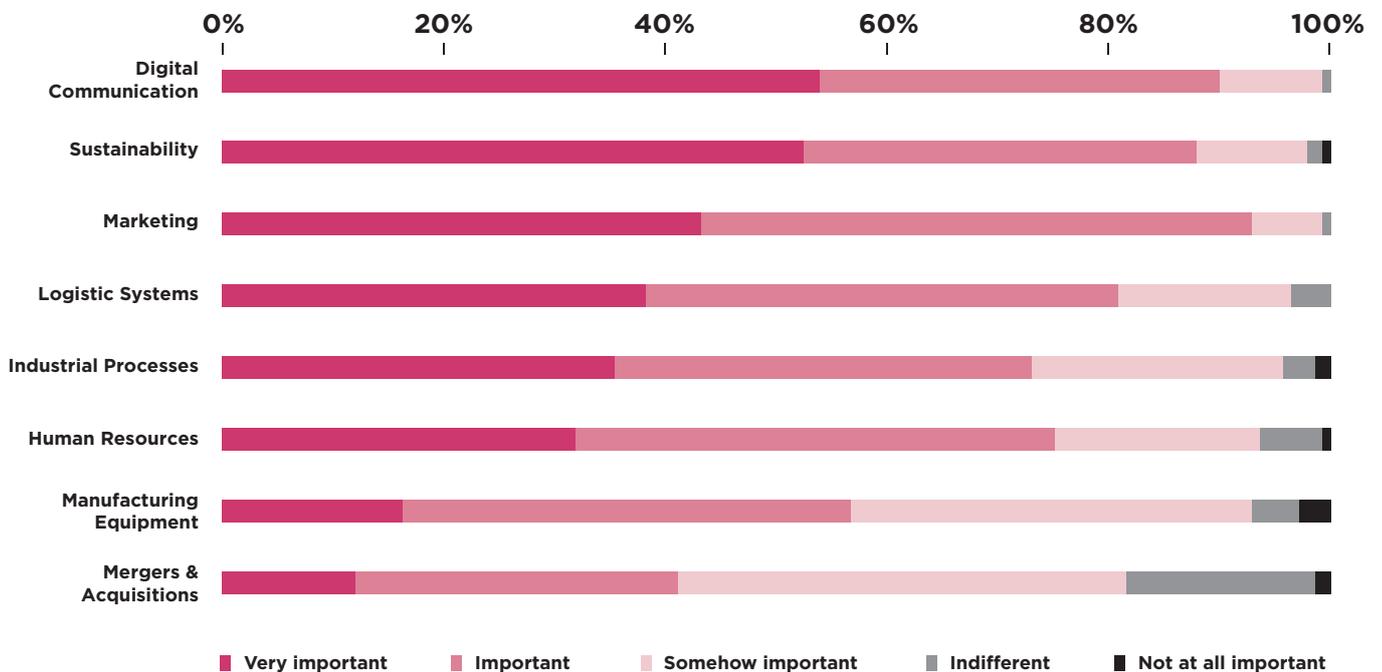
According to them, digital tools will be fundamental: 52% of the respondents say that social media will be very important, 41% say the same for corporate websites and 34% for online advertising. However, not every digital tool seems equally destined to succeed: only 12% of our experts think that online fairs will very important, less than the 23% that say the same about physical trade fairs, traditionally probably the most important tool for the footwear industry. Advertising on printed press comes last among the 10 tools considered.

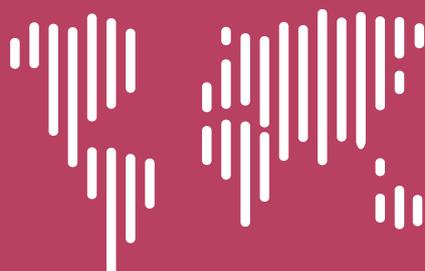


PRIORITIES FOR POST-COVID INVESTMENT

We have also asked our panel of experts about the priorities for investment in the post pandemic world.

The importance attributed to digital marketing tools explains that digital communication leads the priorities for investment identified by the members of the panel, being considered very important by 54% of them. However, almost the same number (52%) of experts think sustainability is very important. Among the 8 areas of investment about which they were questioned, the experts put manufacturing equipment next to last, only 16% of them classifying it as very important.





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