

# Through what channels can you get footwear onto the European market?

On Europe's fragmented footwear market, your challenge as a supplier is to find a specific segment with price levels and requirements you can match. Many segments – and the channels for reaching them – are confusingly similar, often even intercrossing. For example, e-commerce is shaking up the whole market and sports-oriented footwear is available from the low- to the high-end. So it is difficult but rewarding to find – or even create – that special niche in which your business will be at its best.

## Contents of this page

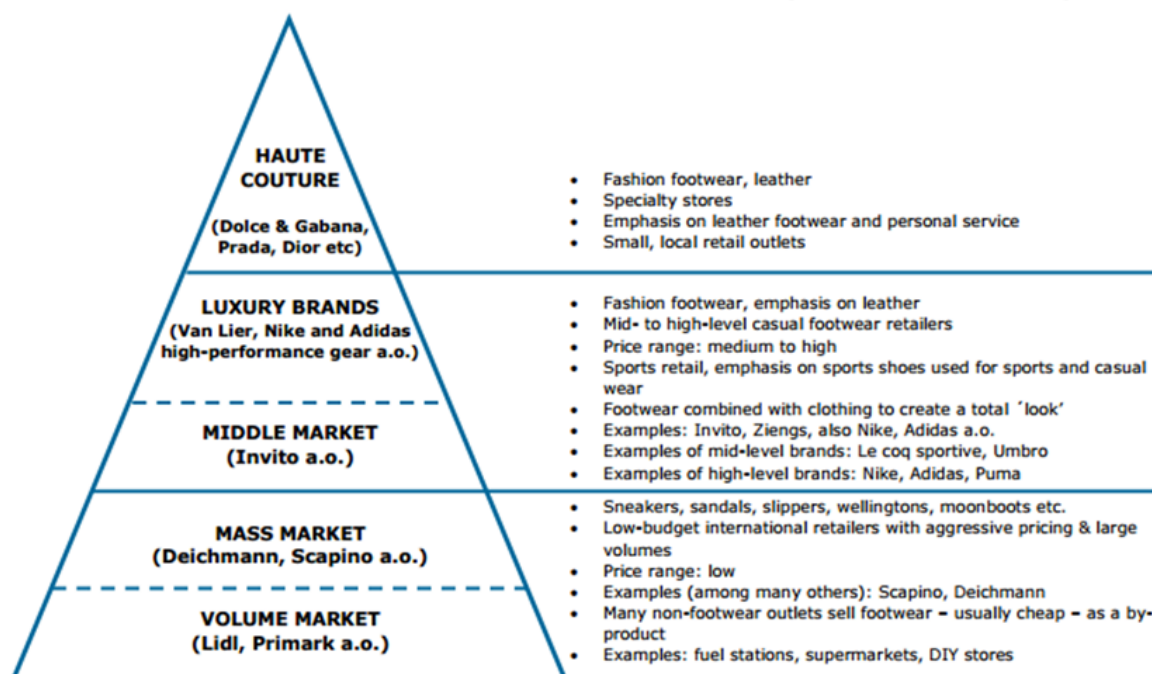
1. Which European market segments are most interesting for your footwear products?
2. Which channels should you use to reach the European footwear market?

## 1. Which European market segments are most interesting for your footwear products?

### The first segmentation you should make is price-based

Because it has become so fragmented, the European footwear market can be segmented in many different ways. You can distinguish segments on the basis of price, volume or demographics. You can also separate leather from textiles or synthetics, or sports from casual and fashion footwear, for instance. Figure 1 offers an overview of the traditional – and most easily recognizable – segments on the European footwear market. This segmentation is price-based. Price is usually the first factor you should look at.

Figure 1: Footwear market segmentation



#### • Haute couture and prêt-à-porter

Haute couture footwear is designed by the world's top designers and made-to-order for private clients, with only one or more fittings. Just below it lies the prêt-à-porter (ready-to-wear) segment. Still part of the high-end, prêt-à-porter footwear is designed by haute couture designers, but made available in more sizes and at slightly lower

prices.

- *Upper middle and middle segments*

Between the middle and the high end of the market lies the upper middle segment with footwear designed by lesser known designers and sold in independent specialty shops and luxury department stores. The middle segment offers single-brand fashion products sold by independent shops, footwear chains, department stores and mail-order companies.

- *Middle-low and low segments*

The middle-low segment is dominated by private labels sold by clothing chains, independent retailers, department stores and mail-order companies. At the low-end, low-price products are sold in high volumes through factory outlets, discounters or hyper- and supermarkets.

### **Tips:**

Your first priority in the process of identifying the most promising market segment(s) is to find the segment whose pricing best matches yours. This is the way most buyers and consumers look at the market first.

Check Figure 1 and compare your capabilities to the different price segments to get an idea where you might position your company.

Study the price levels and the products of prospective buyers before contacting them. If there is no match, contacting them will be waste of your time, and theirs.

Invest time and money in a shopping trip in Europe, or a tour of Europe. Look at shops to get an idea of their products, prices and concepts. This will help you define your own strengths. And your buyers will appreciate the investment you have made in understanding their companies and the challenges they face.

Also look at how much value you can add for your buyers. If at this point the best you can do is to produce exactly according to customer specifications, stick with that for now. This may mean looking for buyers who have their own large design and production facilities, usually in the lower-end mass market segments.

If you have your own design department and can regularly present new models, materials or outsoles to your buyers, look for business higher up the segmentation ladder. Find buyers prepared to pay for this added value.

If the price is equal, many buyers assess suppliers on the basis of their service levels and key performance indicators. These could be delivery speed, design knowledge or production discipline. Talk to potential buyers to find out what they are looking for. Then decide whether you can offer that, or whether you should search for buyers in another segment.

## **After looking at price, narrow down your segment by looking at other factors**

Once you've decided on the best price segment for your business, you can further narrow down your market. For example, you can look at geographic, demographic and economic features.

## Tips:

Find out whether you are a high-volume, low-cost player, or more of a niche player. Finding the right niche can be difficult, but niches usually offer higher margins and more stability.

Look at different types of footwear and find out which type you can best produce: men's, women's, casual, sports, work footwear, for example. Study the market, but make your own strengths your starting point. If you are experienced in manufacturing sports shoes, it probably is not a good idea to contact a buyer specialised in rubber boots.

Consider geographic segmentation. Europe is made up of very diverse countries. For instance, market trends or prices in southern Europe are not the same as those in north-western or eastern Europe. Find out the differences and decide which country or region matches your strategy and possibilities.

Consider demographic segmentation. Europe's diversity in religion, age, gender, income and education produces different buying habits. For example, highly educated people are generally more interested in corporate social responsibility. Get a clear idea of the consumer group best suited to your business, for example young families, elderly women or urban youth.

Consider economic segmentation. Economic differences in Europe can be significant. Countries experiencing economic growth are obviously easier to do business with, although your buyer may operate across many countries. Also, a struggling economy may be just the market for you. Again, it is a matter of finding the right match.

Note that e-commerce may affect or change your choice of segment. E-commerce is growing rapidly and buyers who are doing a lot of e-commerce have different service requirements. Often they want suppliers who can follow them up in design, sourcing and production, preferably in several countries.

Keep an eye on the fast growers in e-commerce. Because of their rapid growth, many of them are looking for suppliers willing and able to grow with them.

Learn more about the e-commerce trend and what it means for your business in our study on [trends on the European footwear market](#).

To find out more about buyer requirements, see our study on [buyer requirements on the European footwear market](#).

## Go beyond segmentation: use your own configuration of variables to create a unique niche

On today's European footwear market, even very specific characteristics you might choose to focus on may recur in very different market segments. This can be confusing, but it also presents a huge opportunity to you as a supplier.

For example, the materials you use – say, leather or synthetics – may be used in every segment, from low- to high-end. Or the models you produce may appear in high-fashion footwear shops as well as in cheap, mass-market retail stores. The Internet and social media play a role in this, as they expose consumers and buyers to market-wide and planet-wide trends and ideas. This blurs the boundaries of conventional segments and even markets, opening the door to new crossovers and hybrids.

As you get to know the European market better, you will discover that in all these similarities and crisscross segmentations, there are clear distinctions you can use to define your position. To an increasing degree, you may even recognise that your 'segment' is not some pre-defined corner of the market with a clear name on it that everyone knows about, but rather a unique – or at least very precise – configuration of different variables: your own niche.

### **Tips:**

Creating your own niche is a strong recipe for success. The variables you choose will usually be related to price, quality, style, production method and volume. But you may also tap into newly emerging variables, such as your sustainability performance, a special new technology, or some new crossover between footwear and health.

The key in creating your own niche is to use your own strengths and to find buyers or consumers attracted to those strengths. These customers may come from different conventional segments to form a new segment around your offer.

The more you fine-tune and specialise, the more likely it is that you will soon have created your very own niche. Here is a random example of such a configuration: medium-priced, textile-based, sports-oriented casual footwear produced under socially responsible conditions for seniors in the middle to upper middle market.

## **The survival of smaller segments depends on innovation and uniqueness**

It is getting more difficult for smaller segments, such as that of the smaller retailers (chains with one to one hundred stores), to compete with the large segments, such as that of leading retail chains like [Inditex](#), [H&M](#) and [Bestseller](#). The best way for them to survive is to specialise, using innovation to tap into emerging trends and needs. Doing this successfully can lead to strong growth.

The large players have a lot of supply chain knowledge. This means that for them cost price, quality and delivery times are fixed. They want suppliers who can follow their cues as faultlessly as possible. The big advantage of working with these buyers is that they buy large volumes. The main disadvantage is that margins are low.

Note that you can reach smaller market segments through the large players as well as the smaller ones. Many of the large retailers and brands have diversified their formula so as to serve different target groups and tap into different trends.

### **Tips:**

Figure out whether you will try and connect with the big players or try to sell to smaller players in niche markets. Check the advantages and disadvantages of each one and try to figure out your position.

To learn more about trends, see our study on [trends on the European footwear market](#).

There are many different ways of approaching market segmentation. What matters is that you realise that, as a developing country exporter, you need to identify clear segments before you can get ahead in exports. If you don't, you will soon find yourself aiming for everything and hitting nothing. Good market segmentation will help you develop a clear, effective strategy and secure real business.

## **2. Which channels should you use to reach the European footwear market?**

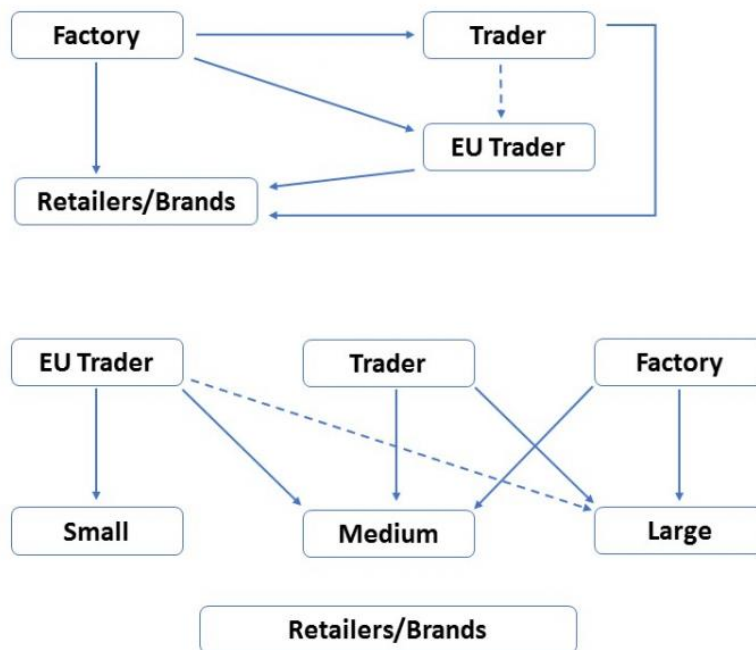


Figure 2. An overview of market channels on the European footwear market

As a manufacturer, you can choose from several ways of contacting buyers in Europe. Figure 2 gives an overview of the main channels.

1. The agent, trader or broker channel is the most common channel for products imported from developing countries to Europe. In this channel, you sell your products to an Asian or European agent, who sells to a wholesaler or retailer, who finally sells to the consumer or end user. The trader is responsible for selecting manufacturers and supervising the production process. Usually, you offer a trader a fixed fee for his involvement; you might also agree to pay him for orders he acquires. This is an indirect channel, as there are no intermediaries between you and the European buyer. The leading Asian traders are from countries like China, Hong Kong, Taiwan, Korea and Japan.
2. Selling to a wholesaler, distributor or importer, who then sells to a retailer in Europe, is another form of indirect sales. Importers and wholesalers take ownership and responsibility of the products they buy from you. Their emphasis tends to be on converting trends into collections, developing collections and on the whole process of production, import and delivery. Distributors are a type of intermediary that will purchase products from manufacturers, providing complete marketing services.
3. Direct contact with buyers is another option and a growing one. More and more department stores, other large retailers and footwear and fashion chains are doing this. Vertical integration and demand for faster and more flexible product delivery are driving this direct trade.
4. Some manufacturers are going one step further still and selling directly to consumers. Consumers in Europe are certainly open to this option. They are familiar with online shopping and the Internet reduces the distance between consumer and manufacturer. E-commerce is a big aid in this channel. A good example of a firm that has made the transition from production to direct factory-to-consumer sales is China's [Neo-Concept](#), a company that has evolved from a small-scale manufacturer to an international corporation with production, design and sales in China, Cambodia and Europe.
5. Of course, you can also operate in multiple channels to reach different segments, or use various combinations. Sometimes, you may initially contact an Asian trader, who will contact a European trader, who will contact a European buyer, who will then contact you and buy directly. Alternatively, your Asian trader may contact a buyer directly, who will then directly contact you.

### Tips:

Selling directly to consumers through your own web shop is a possibility, but consumers in Europe

may never find you. Findability is difficult for small to medium companies on a global market. Even if you are findable, consumers may not feel confident to buy from you, as they know nothing about you.

Another way to sell directly to customers from your factory is via a collective buying site. [Groupon](#), for example, offers online platforms where manufacturers can present their goods to consumers who want to buy the same item as a group. That way they pay less. One advantage for you as a supplier is a higher margin. But distributing directly to consumers in Europe can be troublesome, with return shipments causing extra cost and logistical problems.

Most online purchasing from the manufacturer happens on big web platforms, such as [Alibaba](#) and [AliExpress](#). These are gaining popularity in Europe, especially among young people seeking cheap products. These platforms can be a good place for you to start experimenting with online sales. They are well-known and they have a good distribution network.

## Direct sales are growing

A direct approach means higher margins, as no intermediary agents are involved. It can also give you more first-hand market insights. This will help you keep in step with European developments. But it can also have disadvantages. For example, you may have to put more money into distribution, promotion and sales activities.

If you use an indirect trade channel you will have lower margins, but also low marketing and distribution costs – and possibly higher sales volume. In many cases, you may not be able to do direct business with small-size customers. You need a trader to collect and bundle orders in order to have enough volume.

### Tips:

Depending on your product portfolio and production capacities, consider approaching European retailers directly. Think, for example, of department stores, big footwear chains and multi-brand chains.

If you do this, make sure your presentation, proposition and organisation are in tip-top shape. If they are not, it will be difficult, if not impossible, to get a second chance.

Work on every aspect of your offer: product uniqueness, pricing, marketing, organisation, and prepare a strong, credible and realistic marketing message.

Make sure you include all costs (including marketing and sales costs) in your pricing calculation.

## The ongoing emphasis on efficiency is reshaping channels

In today's footwear market, the ability to minimise the time you need to produce an entire order is a clear selling point. Your ability as a supplier to accelerate your product's journey up the supply chain means your buyers can respond to trends and developments more rapidly.

There are several ways in which you can do this as a developing country exporter. Skipping intermediaries is a clear other option for saving time. It is resulting in shorter, faster supply chains.

Another option is to optimise the efficiency in your manufacturing process or integrate new technologies. Many producers have been amazed at the efficiency improvements they have achieved with simple measures, such as regulating staff use of mobile phones and maintaining higher levels of hygiene and order in the workplace.

Other manufacturers are replacing traditional, linear production lines with U-shaped production lines. Among other advantages, this approach allows you to deploy your staff more flexibly, for instance, in response to volume changes.

Numerous new technologies are also cutting production times, such as laser pattern cutting machines, operated either manually or fully automatically. More efficiency makes you more attractive to (direct) buyers.

### Tips:

Here are some more examples of ways in which you can reduce your manufacturing time and get your product to buyers more quickly:

- Improve your inventory control systems, for instance by forecasting order demand more accurately;,
- Facilitate data communication with your buyers by implementing electronic data interchange;
- Implement web-based product order facilities, so buyers can check the status of their orders;
- Implement Radio frequency identification (RFID) together with Electronic Product Codes (EPCs) to optimise the logistic processes in your supply chain.

If you have improved – or are improving – your processes, let your buyers know about it. It may well bring in more orders.

## Each retail segment calls for its own approach from you as a supplier

Each of the main segments in the footwear market calls for a different approach to both production and sales (see Figure 3). Your approach may differ in terms of product range, volumes or number of buying moments per year.

*Figure 3: orders and delivery models in the footwear supply chain*

Retail segment	Type of product	Delivery strategy
Medium to large retailers & brands	Basic product (with little or no variation in price, look or quality)	<ul style="list-style-type: none"> <li>- Continual production &amp; supply</li> <li>- Low production cost, high volumes, maximum margins</li> </ul>
	Fashion items	<ul style="list-style-type: none"> <li>- Lower volumes</li> <li>- More frequent buying moments per year (often 4 moments, with 2 main collections and 2 interim collections)</li> <li>- Rapid trend response is often based on short delivery times from southern EU countries (Portugal, Spain, Italy)</li> </ul>
Small retailers & multi-brand stores	Basic branded product	<ul style="list-style-type: none"> <li>- Product range based on a brand whose popularity generates high volumes</li> </ul>
	Fashion items	<ul style="list-style-type: none"> <li>- Pre-orders consisting of existing collections are placed twice a year</li> <li>- Seasonal items can be added throughout the year</li> </ul>



## Large retailers like to control the supply chain

Large footwear retailers, such as [Deichmann](#), [Reno](#) and [Humanic](#), like to have maximum control over the supply chain. They try to avoid intermediaries and cut cost as rigorously as possible. They tend to be heavily involved in your production process. Because of their large order volumes, they largely determine your margins.

The advantage for you is that these retailers are well equipped to effectively manage margins, quality and profits for you. Also, they can more or less guarantee business. The big disadvantage is that your profits are minimised.

## Medium-sized retailers offer bigger margins and want more involvement

Medium-sized retailers do not tend to commit themselves to the kind of volumes that will bind suppliers or facilitate supply chain control. Their main focus is on the link in the supply chain nearest to themselves: the producer of the finished product. In this setup, suppliers are less loyal and the potential for profits is greater.

Also, these buyers rely more on input in terms of design, development and fabric sourcing. Brands and wholesalers operating in this segment will usually require sample support. This means that as a supplier you must have a sample room in which you can manufacture samples for these customers.

## Small retailers offer you the highest profit potential

Small, independent footwear retailers in Europe usually lack the volume needed for placing direct orders in Asian or other developing countries. Service levels are also different in this segment. The right of return, consignment agreements and extended payment terms are fairly common in this segment. The upside is that the profit potential is greater here than in any other segment. Suppliers in this segment are often importers who stock these smaller buyers under an independent brand.

## Brands like to buy several collections every year

Brands tend to operate closer to the fast fashion market. This means they will often buy multiple collections every year. Brands can operate in different segments, from high- to low-end. Doing business with brands means you must have short production and delivery times and offer a lot of flexibility to adapt to every new collection.

Typically, brands will want you to produce a salesman's sample (SMS). These are samples you have to make (often for a fee of FOB x 1.5 or 2) before the brand places an order. The brand's salesmen use them to collect orders that will finally be placed with you as a supplier.

### Tips:

Every customer group has its own approach. Make sure you carefully consider the balance between margin and risk.

Know your strengths and weaknesses and know your market – then you will best be able to find the right channels and segments.

If you want to do business with large retailers, don't focus too much on things like design and fabric sourcing. They are more interested in efficiency and (production) innovation.

An advantage of selling to brands is that you usually have a strong relationship with your buyer and a steady stream of orders throughout the year. A disadvantage may be that you have to invest in a good sample room.



## Free On Board (FOB) delivery is the most common delivery form in footwear

Here is an overview of the most important conditions to keep in mind as a manufacturer.

- *Free On Board (FOB)*

This is the most commonly used delivery form in footwear. It means you supply the shipment to the forwarder, along with all the necessary documentation. The buyer then arranges all transportation, insurance and clearance issues.

- *Cost and Freight (CFR)*

In the CFR model, you arrange and pay for the order to be shipped to the forwarder as well as for insurance and transportation to the port in the destination country, in accordance with your buyer's specifications. The buyer is then responsible for clearance at the port of arrival and for transportation to his storage facility.

- *Cost Insurance and Freight (CIF)*

Under CIF terms, you arrange and pay for the order to be shipped to the forwarder and for transportation to the port in the destination country, in accordance with your buyer's specifications. You do not however, cover insurance costs. The buyer is responsible for insurance, clearance at the port of arrival and transportation to his storage facility.

## More and more, buyers are demanding longer payment terms

As banks in Europe cut back their credit facilities, more and more buyers now are seeking suppliers who can give them the option to pay later than ever. The payment terms are becoming a form of credit.

Payment terms have been growing longer for several years. In the past, buyers would send you a Letter of Credit (LC), guaranteeing your payment along with the order. More recently, buyers began to prefer a Telegraphic Transfer (TT). This means you do not get your money until the order is ready to be shipped. The benefit for the buyer is that he can hold on to his money for longer.

Today, even the common TT is outdated, as far as buyers are concerned. Increasingly, they will require a payment condition of 'TT 90 days' or even 'TT 120 days'. The risk for you as a buyer can be significant, as this means you are not paid until well after shipping the order out of your factory and effectively losing ownership over it.

### Tips:

Whichever payment condition you choose, make sure you know the ins and outs of it – and especially when you will be paid. Let your buyer know you want assurance of payment and have carefully considered the pros and cons of different models.

For more information, see this [Bizmove overview of current payment conditions](#).

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