



CBI
Ministry of Foreign Affairs

CBI Understanding European Buyers:

Footwear

Sector introduction

The footwear branch is facing major changes. The market is under constant price pressure and competition is fierce. Demands on manufacturers and products are getting tougher due to media and consumer pressure. Poor judgment is punished immediately with a decrease in sales. The drive for profitability and margins is squeezing out the intermediaries in the supply chain, with retailers and brands increasingly placing orders directly with manufacturers, while wholesalers and importers seek to reinvent their roles. This development means both buyers and suppliers must adapt their organisations and their strategies. And for keen entrepreneurs, change means opportunity.

Market Brain

This section looks at external market factors, both macro- and micro-economic, that influence the business options and preferences of European buyers in this sector. Market factors, typically, are beyond the influence of both buyers and suppliers. The right-hand column presents practical considerations for exporters in relation to the trends discussed at left.

Buyers expect you to choose a specific market and strategy

The pace and complexity of today's markets have increasingly forced players up and down the supply chain to make deliberate choices, narrowing down their market to sometimes no more than a single segment, niche or product. Suppliers suggesting they can deliver 'almost anything' will not be taken seriously by European buyers. A clear and honest perception of one's company and its strengths and limitations as well as one's market is seen as an indispensable ingredient of success.

Considerations for action

- Perhaps the most crucial decision you can make as an exporter seeking access to European markets is to define a specific market and strategy to the sharpest of your ability. Invest in your strategy and have the courage to say no to what is not in line with it.
- Make sure your choice is firmly grounded in market research and a thorough analysis of your organisation, products, strengths and limitations.
- Be aware of the fact that accessing EU or USA markets means you will face the toughest requirements – both legislative and non-legislative – in the world. Make sure this fits your strategy. See also [Buyer Requirements]

EU footwear players are seeing sales drop and costs rise

The European footwear industry is seeing its sales decrease and its costs rise, largely due to the economic recession. The pressure on margins is heavy, forcing buyers to be creative in looking for cheaper alternatives: lower-cost sourcing, cheaper materials and so on.

Considerations for action

- Don't let the current crunch on the European market scare you away; on the contrary, be aware that it is a major opportunity for developing country (DC) suppliers like yourself, due to the relatively low production costs in DCs.
- If you are based in a country that enjoys free trade with the EU, make sure you communicate this advantage to buyers.
- If you can, access or develop new materials that are cheaper than leather or high-grade synthetics, for example, yet have a 'rich' look and feel.
- Bring whatever cost advantages you might have to the attention of buyers.

Retailers and brands are increasingly doing their own buying

Players on the European footwear market can be roughly divided into two categories: large retailers and brands on the one hand and wholesalers, or importers, on the other. Due to the aforementioned pressures, the former category in their search for lower-cost production opportunities, are increasingly sidestepping the intermediaries in the supply chain, i.e. wholesalers and/or importers. Instead, they are seeking to do business directly with low-cost suppliers, or, in some cases, developing their own production facilities in low-cost countries (see also Channel Brain).

Considerations for action

- Importers or wholesalers are no longer your only or most likely, point of connection with European markets: you might just as successfully establish a direct relationship with a major EU retailer or brand. Which of these you choose, depends on your strategy (see above).
- If you are aiming for direct sales to brands and/or retailers, be prepared for a steep learning curve. Make sure your staff have the willingness and ability to learn and adapt in order to keep in step with your target group.
- Make sure your company is visible and easy to find on the Internet, at trade fairs et cetera.
- Make sure you meet all the basic criteria for the particular segment or market you are focussing on.
- If you have a successful partnership with a brand or retailer, approach similar players, using your client as a reference. Success fuels success.

Buyers are increasingly looking beyond China

China, currently the world's largest exporter of footwear, is grappling with rising wages and growing domestic demand. In combination with staff shortages and the import duties Chinese exports face in Europe, the Chinese sector is struggling to keep its balance. China's footwear exporters are developing a competitive disadvantage in comparison with other footwear producing countries, such as Vietnam, Bangladesh and India. European buyers, aware of these markets shifts, are increasingly open to new sourcing countries – they have little choice, if they wish to spread risk. In exploring new countries, they will seek suppliers offering the best long-term proposition in terms of costs, quality, reliability and communication. Also, of course, GSP countries (Generalised Scheme of Preference) benefiting from favourable trade conditions with the European Union have an advantage.

Considerations for action

- Stop worrying about China and start building on the advantages you have over Chinese competitors.
- Attend European trade fairs under your own national flag: make your presence known as an alternative to China.

CSR requirements are no longer optional for EU buyers

The footwear market in Europe is highly transparent: as far as quality and production are concerned, it has very few secrets for buyers. The result of this transparency is that the market expects control and responsible production methods, regardless of where products come from. Incidents resulting from poor labour conditions in countries like Bangladesh have only served to increase pressure on Corporate Social Responsibility (CSR). Price-based buying without consideration of social and environmental factors is no longer an option for European buyers: manufacturers offering great prices but failing to comply with CSR requirements will be avoided.

Importantly, different buyers may use different CSR standards, depending on their strategies. Some buyers have their own standards and will only work with suppliers who comply with these. Details aside, however, the basic CSR requirements are the same across the industry. Child labour and excessive working hours, for instance, are off limits. Generally speaking, the international BSCI certification scheme (Business Social Compliance Initiative) is seen as Europe's main CSR programme.

The toughening of CSR requirements – fuelled by both the media and consumers – is another factor pushing up cost prices. Add to that the fact that footwear sales and margins in Europe are dropping and you will understand that buyers are facing difficult times.

Considerations for action

- Familiarise yourself with the ins and outs of corporate social responsibility (CSR) and its implications not only for your own organisation and staff, but also for your suppliers.
- Check where you are in terms of CSR and which improvements are both desirable and realistic.
- Compare your CSR performance and ambitions with those of various potential markets and segments to chart your possibilities. For instance, some markets in eastern and southern Europe are less demanding with regard to CSR than most of the markets in northwest Europe.
- A good place to begin finding out more about European CSR standards is the BSCI website: www.bsci-intl.org.

Compliance with chemicals regulations is a prerequisite

Like CSR compliance, adherence to regulations concerning the use of chemicals in footwear is a prerequisite for business to European buyers today. Manufacturers offering a great deal but failing to comply in this area will not be taken seriously. The REACH standard (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals), though presented with slight variations in different parts of the world, is non-negotiable.

Considerations for action

- As a footwear exporter, you cannot access EU markets without adopting with the REACH scheme, which deals with the use of chemicals in consumer goods. If you are not yet familiar with it or have not yet implemented it, check out what it involves and is a realistic compliance strategy for your company.
- For more information, see www.ec.europa.eu/enterprise/sectors/chemicals/reach.
- Implement the principles of REACH and a keen awareness of how EU buyers expect you to deal with chemicals and materials in your design phase.
- Make sure the materials you work with comply with the requirements of REACH.
- Minimise the risk of banned substances by purchasing larger volumes of (approved) materials and avoiding small volumes from local markets where tracing and compliance are poorly developed.

Buyers expect punctual delivery, quality and certification

On-time delivery, quality and certification are increasingly taken for granted by European buyers in the footwear business. They will not even consider an offer that does not meet these basic criteria.

Considerations for action

In order to gain the interest of a buyer in your price or collection, you must first make sure you meet all the basic conditions or doing business in Europe. These include the ability to deliver certified goods of consistent quality in good time.

Buyers are always looking for unique selling points

European buyers are always on the lookout for suppliers who meet the basic conditions for exporting to Europe, while at the same time offering interesting unique selling points (USPs).

Considerations for action

- Develop and communicate your business's USPs, such as:
 - design input;
 - price;
 - production and delivery speed (see also below).
- Other USPs may include:
 - having a compliance manager who ensures your company is a cut above the competition in compliance;
 - Having in-house lab facilities or having access to low-cost, high-quality lab services;
 - Having local European representation;
 - Being the very cheapest in your segment;
 - etc.

Short delivery times are seen as an interesting asset

The ability to guarantee high-speed production and delivery will attract interest among European footwear buyers. Fast deliveries in this branch are still uncommon and the term usually refers to orders from logistically favourable locations, such as Portugal and Turkey. The call for shorter delivery times is increasing, though as uncertain market conditions mean buyers prefer to postpone decisions until the last minute. However, accelerating the supply process is not easy, as many buyer organisations are characterised by slow decision-making and distribution processes. This means that even footwear delivered at high speed from its source country make take considerable time to reach European retail shelves.

Considerations for action

- Speeding up your production and delivery processes is an excellent way of pleasing EU buyers on a jittery market. There are several ways you can do this:
- Work with stock materials;
- Make agreements with buyers on reserving capacity and laying up supplies;
- Consider using ready-to-dye upper materials;
- Develop your design input and collections, making your organisation a vital extension of the customer's design department.

Buyers are looking at 3D printing as a cheap innovation

3D printing has not yet gone mainstream, but one sector in which it may have a large impact is footwear. Printing outsoles or moulds, for example, may be considerably cheaper and less time-consuming than the traditional method.

Considerations for action

- Stay tuned to new technological developments, such as 3D printing, and their implications for your market and business.
- Look into the cost and benefit of investing in a 3D printer capable of printing your outsoles or moulds.

Channel Brain

This section provides insight into key issues affecting the whole supply chain in this sector: product and process requirements and criteria applied by buyers in sourcing and trading. These issues are analysed and interpreted in order of importance and, in the right-hand column, converted into practical considerations for exporters.

Buyer roles are changing

As described above, the roles of the two main categories of players on the EU footwear market – large retailers and brands on the one hand and wholesalers, or importers, on the other – are changing. Compared to other sectors, such as fashion, the footwear industry is relatively traditional in that wholesalers still wield substantial power. They create their own collections, set the trend with new outsoles and gather in orders from various customers enabling them to place high-volume orders per model with their manufacturers. However, the balance of power is tilting. Although most retailers are not yet skilled in creating collections and outsoles, the market is pushing for change. Retailers are stepping forward in these areas, forcing wholesalers to choose directions by opening their own production facilities and taking on the role of manufacturers, or stepping back and limiting their reach as (traditional) wholesalers. In the latter scenario, a wholesaler might choose to focus on serving smaller retailers who lack the capacity or the financial strength to sidestep the wholesaler and place direct orders with suppliers.

Some wholesalers are currently taking the step forward, establishing their own distribution networks and expanding their business with their own outlets, Internet sales and/or private labels.

Considerations for action

Your choice of channel – wholesaler/importers or retailers/brands – depends on your strategy, which in turn depends on your knowledge of your strengths and weaknesses. For instance, if you wish to focus on efficient, low-cost production in larger volumes while staying away from design and collections, you may do better partnering with a wholesaler or importer. If your strength is in high quality, or design, you may do better partnering directly with a retailer or brand. Direct sales to retailers and brands will involve higher standards, more added value and higher margins. Working with a wholesaler or importer means less risk, lower standards and lower margins.

Purchasing know-how is dwindling due to budget cuts

The inevitability of budget cuts among retailers is having an adverse effect on the purchasing know-how and professionalism available within these organisations. More and more purchasers are merely acting on the basis of sales results and purchasing lists. They are losing contact with the market and with consumers and their business, increasingly, is dominated by rules, margins and prices. Purchasing 'success' is more about budget than about understanding the market, anticipating trends and responding quickly.

Considerations for action

If your organisation has a keen understanding of European markets, or the capacity to develop that kind of knowledge, capitalise on it by taking on a more assertive role in your relationships with buyers. In many cases, they will welcome your expertise. If you lack this capacity, find a wholesaler/importer who can compensate for you.

Market awareness is dwindling due to budget cuts

Awareness of market trends and developments is eroding among buyers in Europe for the same reason for which purchasing know-how is diminishing. Due to budget cuts and high workloads, many buyer organisations lack the capacity they need for competitive analysis, market research and trend watching. All too often, they do not see an opportunity until it has all but passed by.

Considerations for action

Do not restrict yourself to manufacturing, but instead keep a constant lookout for opportunities emerging in the market. Take time to study market reports and competitors and share knowledge and insights with your buyer. This added value will be much appreciated; much new business arises from problems and opportunities no one else has identified.

Money Brain

This section deals with the financial requirements and considerations you are likely to encounter in doing business with European buyers in your sector. Issues such as price setting and the cost of promotion and logistics are looked at from a buyer's perspective and interpreted for you as an exporter.

Liquidity issues can be a problem for buyers

Given the pressure on the footwear market and the reluctance of banks to finance orders, many buyers may face liquidity challenges. Normally, placing an order means opening a Letter of Credit (L/C), but increasingly, buyers are looking for ways to avoid the resulting financial pressure. Ordering (and financing) large quantities of basic footwear models, or outsoles, to be sold over a longer period of time can cause the kind of financial pressure most buyers would prefer to avoid. This means buyers are looking for ways to shift the burden of financing to their suppliers. The result is that supplier service levels as well as costs go up, while prices and buyer margins go down.

Considerations for action

- If you supply large volumes of basic footwear models, consider establishing storage facilities in Europe, so that you can make last-minute deliveries, while relieving your European customers of the liquidity problems involved in buying large quantities at once. Few suppliers are showing a willingness to do this; if you do, you will be a big step ahead of your competition.
- Another option is to pre-produce outsoles during the low season to make use of the price benefit. If you do this, of course, make sure you have a buyer's approval for the outsole before production.

Buyers are seeking to extend payment terms

In the current market, many buyers are seeking to extend the payment period to 90 or even 120 days. This means they do not have to pay for an order until 90 or 120 days from the end of the month in which the order is delivered. Various solutions for the problem of order financing are currently emerging. Financial institutions are offering warranties, while bank-to-bank solutions are also being offered, in which a customer's bank provides warranty for a fixed fee.

Considerations for action

- Money makes money. If as a supplier you have the capacity to finance orders for a prolonged period of time, customers will stand in line to place orders with you.
- If you do this, be aware of the risk. Bankruptcy due to liquidity problems, or quality complaints following delivery, are real possibilities.

Buyers expect competitive prices and increasing value addition

European buyers are increasingly taking certain forms of value addition for granted, such as CSR compliance and design. A good CSR policy or design team may be seen as a distinguishing factor, but buyers will not necessarily accept higher prices for these benefits.

The price/quality ratio is still, of course, a priority for buyers. However, suppliers who have a particular advantage are in a stronger position to negotiate better prices, provided the quality meets the usual requirements.

Considerations for action

- Make sure you have detailed and accurate costing for your products.
- Make sure your sales prices include sufficient gross margin to cover overheads and leave a reasonable profit.
- If other companies are more competitive than you are, examine the reasons for this. Where can you make savings? Where can you offer value-added services?
- Make sure you are targeting the right companies in the supply chain.
- Note that meeting safety or CSR requirements may well raise the cost of your product.

Communication Brain

This section is all about the 'human factor' in business. It highlights the communication behaviour of European buyers sourcing in DCs, offering insight into their expectations as well as practical suggestions as to how to meet those expectations as an exporter.

Buyers seek 'good chemistry' with suppliers

Good chemistry is a crucial element in the relationship between buyer and supplier. Buyers in the footwear market will often want to assess the development of a supplier organisation and follow up on references in order to find out whether

the supplier understands their product and their market. This understanding, in the eye of the buyer, is vital to the success of the relationship. Ultimately, what most buyers want is a relationship characterised by mutual understanding and efficient communication.

Considerations for action

- Research your export market and prospective buyers thoroughly before introducing yourself to a prospect. A good place to start your research is CBI's online Market Information Platform.
- Convince prospects with appropriate references as well as relevant product models and colours. Show them you understand the market and its trends, giving them the feeling there will be a sense of mutual understanding between their organisation and yours.

Buyers expect a quick and concise response to their queries

With today's communication technology, most European buyers want immediate answers to any questions they may have. This means they will not hesitate to send countless e-mails in a single day, expecting them all to be answered the same day or the next. They expect replies to be not only quick, but short and to the point as well: lengthy e-mails in which many words are used to explain minor details will be seen as a waste of time, a sign of poor chemistry and a possible hindrance to the development of a healthy relationship.

Face-to-face contact is ideal, if not always possible. However, European buyers, on the whole, value frequent communication by e-mail and telephone and, increasingly nowadays, by Skype or other VOIP methods. They also want to be reassured that a supplier is easy to reach – preferably 24/7, or at least during office hours. Buyers also often make use of trade fairs to meet with potential or existing suppliers.

Considerations for action

- Develop a clear system in your communication with buyers, using lists and overviews rather than writing separate e-mails for each minor detail.
- Always try to respond within 24 hours, even if only to let your customer know you do not yet have an answer to his question.
- Follow up on meetings or phone calls with a clear, brief, written summary of the conversation, containing all of the agreement and arrangements between you and the buyer.
- Consider order follow-up software as a means of streamlining communications and substantially reducing the number of e-mails you send out daily.
- Don't forget that regular personal contact, in the form of a visit or a phone call, may in the end make the difference between becoming a major supplier and a minor one.
- Having a local representation of your organisation in Europe as a major value adder.

Buyers expect suppliers to speak proper English

In dealing with offshore suppliers, European buyers will usually want to communicate in English. They will expect suppliers to speak and write English effectively. Poor English will be seen by most buyers as a recipe for poor business. All companies based in Europe and dealing in international trade have staff who speak English. Buyers are aware that in some DCs, particularly in South America, language can pose a significant barrier. They will always look for exporters who can communicate well in English or have a local, English-speaking agent in Europe, or, alternatively, are used to hiring interpreters.

Considerations for action

- Make sure all your communications with buyers are taken care of by competent staff who have a good command of English.
- Recruit English-speaking marketing and sales staff. As a director, learn English yourself, too.
- Outsource production of promotional materials to English-speaking companies.
- Have the material checked by a third party that speaks (native) English.

Buyers expect cultural awareness & understanding from suppliers

Buyers in Europe are generally aware of cultural differences in business communications and expect the same of suppliers. They will expect the marketing and sales staff of supplier companies, especially, to be aware of cultural differences and capable of coping with them in a professional, gracious manner.

Considerations for action

- In cross-cultural encounters, be friendly and open and keep communications simple.
- Your marketing and sales staff must recognise and be able to cope with cultural differences.

Knowing bad news up front is better than being surprised

Pro-active communication is very important. European buyers do not like surprises! For instance, if a supplier is at risk of missing the agreed delivery date, a buyer will want to know well in advance, so that he can contribute to solving the problem or think of an alternative. Honesty about problems will usually be respected and rather than damaging the business relationship, it can help actually build trust. Of course, buyers expect suppliers to learn from mistakes; repeated mistakes won't be tolerated.

Considerations for action

- If you are having trouble in keeping your side of an agreement, contact your buyer as quickly as you can and honestly explain the situation, while also seeking a solution.
- In all cross-cultural encounters, be friendly and open and keep communications simple.
- Create a critical path for your order follow-up to make sure you can immediately register a delay and inform your customer.

This survey was produced for the CBI by Giovanni Beatrice and Stephen Teeuwen with input from various (EU market) sources, including Scapino, Pwh and Jente Hageman of New World China.

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