

## What competition do you face on the European footwear market?

Because of the economic recession, the number of footwear manufacturers dropped in almost every segment of the European market in the last few years, while the stronger players saw their turnover and market share grow. Now the recession has slowed and many analysts say the economy is back at its pre-recession level. However, a lot of things have changed. The ongoing growth of e-commerce is affecting competition on Europe's internal footwear market. Some companies are very successful online, while others are losing market share. Overall, the footwear market is highly competitive, with a broad range of sellers and a vast diversity of products. Supply chain management is becoming more important as a means of keeping in step with European standards. If you can adapt quickly to ongoing changes you have the greatest chance of succeeding.

## Which opportunities and barriers will I face when I try to enter the market?

### Legislation

Footwear exporters from developing countries accessing European markets face tough legislation on issues such as the use of chemicals and dyes. The key chemicals standard in this area is called the [Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals \(REACH\)](#). It is non-negotiable and poses a barrier for some new entrants. The greatest challenge faced by many manufacturers is to find suppliers offering REACH-compliant raw materials, particularly the specific contrast materials needed in very small volumes.

### Free trade agreements

Europe's General System of Preference (GSP) has an even bigger influence on the competitiveness of new entrants. Europe bases its Free Trade Agreements (FTAs) on the GSP. Exporters located in countries that enjoy free trade with Europe benefit from the absence of import duties. This means their prices can be up to 12% lower than exporters based in countries excluded from free trade. This is one reason why China, which does not have an FTA with Europe, is struggling with its price position (Chinese labour costs are also rising). On the other hand, some emerging countries on the footwear market, like Bangladesh and Myanmar – with Vietnam to follow soon – do enjoy free trade with Europe. While the footwear industry in these countries is less developed than China's in terms of service levels, the advantage of free trade means that on price they can compete successfully with China.

### Tips:

- Make sure the materials you work with comply with the requirements of REACH. Increase your competitiveness by minimising the risk of banned substances.
- See our study on [buyer requirements for footwear](#) for a fuller overview of legal and non-legal demands in the European footwear industry.
- If you are based in a country that enjoys free trade with Europe, make sure your buyers know about the price advantage this brings.
- Check the [International Trade Centre's Market Access Map](#) for more information on your position and that of your competitors.

### Consolidation

Because of the recession, with decreasing sales and relentless pressure on margins, most footwear retailers and brands have a strategy of consolidation. This means that there are fewer manufacturers, while the turnover and market share of the strong ones are growing: buyers are clearly becoming more selective in who they buy from and some suppliers are being dropped.

With a surplus of suppliers on the market, buyers can gain negotiating power over manufacturers and raise their demands. Many are doing this, using a Key Performance Indicator (KPI) system to monitor

supplier performance. Underperformers are dropped and high performers are given more business. However, tough market conditions mean there are opportunities for all kinds of suppliers. If you can respond to the need for quality, good prices and on-time delivery, while also offering design and innovative skills, you will stand out from other market entrants.

#### *Attract retailers by offering innovation and more speed*

Another opportunity is to offer innovative products or concepts and to speed up your production and delivery times. By doing this you can attract retailers. Many retailers are losing market share, due to disappointing sales results and the strong growth of e-commerce. They are looking for alternatives, including novel approaches and shorter lead times, so that they can tap into short-term trends and win back business.

#### **Tips:**

- Watch (European) market developments closely and try to adapt your organisation accordingly. Examples of things you can work on include your delivery times, your ability to innovate, your use of innovative materials and your environmental performance.
- Reduce your production time to an absolute minimum. If you can offer competitive lead times, communicate this with your prospective buyers, especially retailers. They will see more speed as a clear competitive advantage.

#### **Internet sales**

Market entrants must also deal with a shift currently taking place in the European footwear market: with retail under pressure, Internet sales are gaining confidence and popularity among consumers. This new opportunity calls for a different kind of service. Quick delivery and stock are keywords. Manufacturers tapping into this new sales market with an adapted organisation are likely to see good results.

Most retailers by now have opened their own web shops or are using the outlets of established Internet players to sell their collections.

Interestingly, some Internet sellers are now opening physical footwear stores, primarily as a service point.

#### **Tips:**

- See our study on [market channels & segments in European footwear](#) for more information.
- Increase your Internet sales by conducting research on how to achieve shorter lead times and improve and accelerate your production process.
- Take a critical look at your website and company presentation materials, making sure they match what your buyers currently want to see.
- Support e-commerce for your buyers by upgrading your digital services, for example with more and better digital data, product photos and videos.

#### **Consumer awareness**

Another major factor entrants must be prepared for is consumer awareness. European consumers are highly – and increasingly – aware of price, quality, environmental standards, responsible production methods and origins. High turnover times for consumers' personal wardrobes are losing ground to responsible buying and quality. On the buyer side, this awareness, fuelled by aggressive media coverage, is resulting in tougher Corporate Social Responsibility (CSR) requirements. These are pushing up the cost price, but most consumers are not willing to pay more for 'responsible' products.

#### **Tips:**

- Realise that the way in which you respond to the CSR trend as a supplier will seriously affect your competitiveness.
- Produce, or partially produce, in Europe, aiming at quick delivery.

- Use responsible materials, such as organic cotton and recycled materials. Developing a specialisation in the use of these materials will result in a strong unique selling point.
- Don't see CSR as a threat, but as a way to distinguish yourself from other factories.
- Using eco-friendly materials and investigating trends in this field with a view to adapting your collection development is vital to remaining competitive as a supplier.

## What are substitute products?

### Less is more

Because of the various shifts occurring in the footwear industry, several forms of substitute buying are occurring. Overall, consumers are spending less on footwear, preferring to save money because of economic pressure. The only possible exception is low-cost sports-oriented footwear.

Fast fashion, with its characteristic high buying frequency, is being substituted by conscious consumption, as more consumers go shoe-shopping less frequently and focus more on durability and sustainability.

In the mid-market segment, many consumers are substituting mid-range purchases with cheaper, low-end footwear.

At the high end, European sales are dropping. Brands are seeking to make up for this loss by reaching into emerging non-European markets, such as China.

### New concepts replacing old ones

Sometimes, specific new products or concepts replace older ones. [Crocs](#) are a good example. When they emerged, they represented a new type of footwear, based on a slightly adapted method of production. To a certain extent, they have taken the place of outdoor slippers, toe slippers and casual slippers. The ability to identify similar opportunities, or at least to tap into them if someone else has thought of them first, is an important way of strengthening your competitive position and standing out from the crowd (see also the section on Trend spotting).

### Tips:

- Conscious consumption (environment, social conditions, quality) is an opportunity for growth. Tap into consumer consciousness to strengthen your competitive position. Consider eco certification, or other forms of certification, to emphasise your efforts in this area.
- At the low-end of the footwear market, cheap, low-quality offers stand a good chance, especially in sports-oriented footwear. If you are a price fighter, this is the segment to target.

### Established rivals and new entrants

As an exporter from a developing country, you will face very strong competition from established rivals on the European market, as well as from other new entrants. In fact, entering the market as a newcomer is very difficult at this time (see also the section on Company Competition). Those who succeed invariably have some feature or other that distinguishes them from the rest (see also our study on [understanding European footwear buyers](#)). This fiercely competitive climate means that mistakes are quickly punished: suppliers who fail in some area or other are easily replaced by new ones.

### Tips:

- The fierce rivalry on the supply side means buyers can afford to replace underperformers. If you are a newcomer, make sure potential buyers know who you are and what you can offer so that they can call on you as soon as one of their existing suppliers falls short. Relentless promotion pays off.
- If you are already exporting, do everything you can to avoid mistakes and to keep in step with your buyers' demands. If you anticipate problems, communicate clearly and openly with your buyer, inviting him to help you find a solution. Ultimately, buyers do not like switching to new suppliers because of the cost and risk involved.

### **Chromium-free leather**

A current development is the growing focus on raising the standards for tanning leather. The commonly used process of chrome tanning can be very harmful to the environment, depending on the specific type of chrome used. For example, Chromium VI is a hazardous substance that does not comply with the REACH standard. The industry is putting forward interesting alternatives. One example is Stahl's EasyWhite Tan, a chrome-free tanning system.

#### **Tip**

- Although sustainable leather solutions are more expensive than the conventional ones, and using them requires some hardware investments, they do increasingly offer you a way of distinguishing yourself from most tanneries and leather production companies serving the shoe industry.

### **Buyer & supplier bargaining power**

In the footwear industry, buyers have long been in a relatively powerful position. Many of them still are. Their increasing ability to calculate your exact cost price as a supplier makes it almost impossible for you to negotiate better margins.

But change is taking place. One change is that established supply countries, notably China, by now have enough money, expertise and flexibility to start setting demands of their own. This means some buyers are looking for alternatives – and will be prepared to listen to suppliers from other developing countries, as long as they have an interesting offer.

#### **Tips:**

- Low prices coupled with consistent quality and service levels – even if these levels in themselves are not high – can strengthen your competitive power as a supplier. It means you offer buyers an alternative to China and buyers will be inclined to listen to you. Consistency is key in this respect.
- Try to source materials that are unique and add value to the product. There are many new developments you can tap into to create unique selling points and to diversify. See our study on trends on the European footwear market for some examples.

### **Trend spotting**

The process of developing new footwear collections is subject to constant renewal in Europe. Add this fact to other global market trends and you will understand that keeping in step with the latest developments is vital to the survival of your export business. Among your strongest rivals on this market are the players who succeed in staying up-to-date; it is an important part of remaining competitive. Fortunately, the Internet has made this global trend watching a lot easier, regardless of where you are based.

#### **Tips**

- Trend spotting is an important part of being competitive. Make it an ongoing part of your strategy to be constantly on the lookout for new trends and developments across the entire breadth of the footwear industry. If buyers see that you understand trends, they will be more eager to work with you. For instance, trends may occur in any of the following areas:
  - Models
  - Colour
  - Quality
  - Technology
  - Shape
- Invest time and effort in understanding your customer and his market as well. It is the key to converting trends into business, as it will enable you to incorporate emerging trends in a way that matches his ideas.
- Work on redeveloping your business processes in consultation with your customers. This will result in the healthiest and most lasting relationships.
- Buyers view distinctive abilities – such as design skills – as important competitive factors. A relationship that starts with a joint response to current trends and leads to delivery of a saleable

product will add value to the whole customer supply chain. If you can deliver this kind of partnership, you will make yourself indispensable to your buyers.

- The more value you add within the supply chain, the more competitive you will be, the more business you can expect and the more difficult it will be for buyers to drop you.

## **How much power do I have as a supplier when negotiating with buyers and who are my rivals?**

### **Excel, innovate or specialise**

Competition in the footwear branch is fierce and will remain fierce for the time being. Increasingly, footwear production has become a measurable ‘science’ with buyers wanting more and more control over the process. This means there is little room for fat margins.

On top of this, buyers increasingly want to be able to monitor the performance of their suppliers. Make too many mistakes and your buyer will find a competitor to replace you. The tough market conditions in footwear, therefore, are not so much a result of huge numbers of suppliers jostling for a position, but rather of increasing transparency and performance monitoring up and down the whole supply chain. Buyers are taking more and more control over the supply chain and as a supplier you have to balance responding to their demands with developing your own strengths (for more information, see our study on [market channels and segments in European footwear](#)).

### **Tips:**

There are four ways of building a business in a pressured and constantly changing market:

1. Produce and deliver, doing what you do better than your competitors can do it.
2. Focus on your strengths.
3. Innovate, so you will be different from the rest.
4. Consolidate, becoming a specialist in a specific area able to cope with any price battle.

### **3-Dimensional printing**

Innovation is driven by new fashion trends, but also by new technologies. One example is 3-dimensional (3D) printing. This technology is already entering into manufacturing industries. For instance, [Puma now has a 3D-printed shoe](#) in its collection. Though not yet available in the footwear market, Dutch retailer [HEMA offers an online accessories printing service](#): consumers can have products printed and delivered according to their own design.

3D printing can be applied for fine details, but also for the production of moulds and possibly even uppers. It is not yet widely in use, but if you can work and experiment with 3D printing, you will certainly attract interest and add value in the eyes of European buyers.

### **Tips:**

- If you have access to 3D printing technology, use it! Explore new developments and experiment with them in your organisation.
- Develop the implementation of 3D printing hand in hand with your customers in order to create the kind unique selling points they want to see.

### **Step up your speed**

Another way of excelling in the eyes of buyers is to step up your speed. Demand for quick deliveries and flexibility is growing: in many segments today flexibility has become more leading than price. Your ability to get the right product to your customer’s shop at the right moment is a recipe for

success. The footwear industry is not as advanced in this area as the fashion industry is. This means there is a lot of room for pushing up your speed and getting ahead of competitors on this front. Many opportunities for accelerating production and delivery remain untried in footwear.

**Tip:**

- Investigate the possibilities at your disposal for time improvement in your supply chain and implement them. Being able to deliver rapidly, will rapidly lead to more orders.

**Formulate and present your unique selling point**

The next step in strengthening your competitiveness is to make sure your company's unique selling point is formulated clearly and presented effectively to all prospective customers who may be interested. Often, this means taking on a more assertive customer approach than you may be accustomed to. In this battle, any ways and means you can come up with are worth trying out. Buyers get phone calls every day from manufacturers saying their product is the best or the cheapest on the market. Because of this barrage of sales calls, it is increasingly difficult to get direct and instant contact with a buyer in Europe nowadays. You have to be smart and persevering. Only suppliers who approach their market with drive and urgency will be able to create opportunities in today's pressured conditions.

**Tips:**

- The challenge of getting buyer doors to open for you requires a long-term strategy and investment, including elements such as: using market specialists; exhibiting at trade fairs; engaging in other promotional events and activities.
- Remember that many first orders are the result of emergency situations: a buyer has a sudden problem and needs a solution – then he remembers a supplier who has been actively approaching him for business. Offering an attractive solution in a situation like this is often a door opener. To do this successfully, you have to be flexible and think out of the box.
- When you start approaching prospects, start in your own network. Social media, such as LinkedIn, offer good ways of establishing initial contact.
- Remember, the best form of promotion still is mouth to mouth advertising – so make sure the customers you already have are always more than satisfied.

**Which countries are the most competitive?**

In terms of price, few or no countries in the world can compete with developing countries in supplying footwear to Europe. However, the distance to market of most developing countries can be a reason for European buyers to prefer alternatives. This is why countries like Portugal are still popular among buyers: their prices are higher than those in developing countries, but their delivery times are also far shorter. These suppliers are often called on by buyers who wish to respond to sudden trends or shortages.

The leading developing countries supplying Europe with footwear are almost all in Asia: Myanmar, Bangladesh, Vietnam and, to a lesser extent, Pakistan and Cambodia. As we have seen, these countries tend to lag behind China in terms of quality and service levels, but their price levels, especially considering the effects of free trade, offer an advantage.

China still has a strong position in sportswear and sports-related footwear. However, competing with China is still challenging, as China offers high efficiency and maximum flexibility. Vietnam is stepping forward as a serious player in leather and vulcanised footwear.

In the longer term, lower-cost production countries like Ukraine and North Korea may pose a threat to other developing countries, if and when their political instability is resolved.

**Tip:**

- As an exporter from countries like Myanmar, Vietnam or Bangladesh, your first asset in competing with China or, say Portugal, is price competitiveness. Add other distinctive qualities and your competitive position will grow a lot.

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