

# Footwear industry analysis

Business



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The Footwear industry is a highly competitive and fragmented market, with manufactures settled all over the world seeking economies of scale and low cost labour factors in order to get higher margins. Always aiming on the final consumer satisfaction, this industry's major players are always looking for innovation on their products so they can successfully satisfy their customers' needs. Making part of a complex industry structure with a large number of players, marketing strategies, product categories and market segments, companies must overcome the different challenges that arouse.

Influence of trends, demographic factors and innovation breakthroughs are variables with which big and small player must consider when marketing their products. Despite industry slowdown in the last years of analysis it grew by 3, 5% in 2008 reaching a total amount of revenues of \$192, 3 Billion and keeps to be a growing and active industry where competitors must constantly look for innovation and adaptation to the new trends and consumption habits and behaviours.

## Introduction

This report objective is to analyse the footwear industry regarding it main characteristics and features, pointing out the most important issues related to demand, supply and industry structure. ? Environmental analysis at a Macro and Micro level, analyse the global demand trends and factors affecting it as well as a market segmentation and geographical distribution of the demand. ? Supply chain analysis, role of BRIC countries as industry suppliers, main competitors and influence of technological evolution on the

supply side. Industry strategic frameworks that help to analyse and identify key characteristics to succeed in the sector ?

### Demand Analysis

### Environmental Analysis Macro Analysis

Illegal market of counterfeiting products that mainly came from the South American and Asian countries and introduce fake products all over the world. Despite being undertaken numerous efforts to combat this parallel economy, fake products still represent a considerable portion of the market. Low labour-costs seeking behaviour took companies to implement their production processes in countries where labour force is cheaper, where labour laws allows labour conditions that can be seen as exploitation in developed countries •The current crisis forced developed countries to increase VAT as well as importation taxes, which led to a price increase and lower sales.

### Political and legal Economic

- Salaries stagnation, prevention measures are being taken by companies, and it reflects on lower incomes for workers.
- Growth rates. Current crisis is slowing down the industry growth. Unemployment rates are increasing as result of the crisis, companies need to cut costs in order to survive in the marketplace.
- Although the overall industry slowdown, the current world economic situation gave opportunity for developing countries ( specially BRIC) to increase their growth rates and to become more important player as

manufactures. Also in these countries, population is becoming important consumers, reflection of their emerging capabilities SocialCultural

- Crisis led to a more price sensitive behavior by customers, they look each day more and more for a better price-quality relation on products. Obsession for the “ healthy”, consumers are becoming more healthy consciousness not only related to themselves but also in a corporate perspective. Sustainable development, environmental concerns, social equity are issues that aroused in modern consumers minds. Companies need to play with this new mentalities and be aware of the impact their actions can have on buying decisions.
- Growing desire of product customization. Customers want to feel unique, and look for products that can make them different from the custom consumer. World trends, globalization, a global consumer culture that make people united by common devotion to celebrities, leisure activities, brand names made possible the standardization of the products offered by companies in a global scale.
- Busy lifestyle. The current busy lifestyle seen in developed countries made place for new consumption patterns focused on convenience and time saving .
- The role of digital revolution. Internet allows for a 24/7 shopping without leaving home.
- New technology adoption. With the use of internet it is easier for the companies to target and interact with customers. Virtual brand communities, blogs, consumer chat rooms are useful tools companies can use to better understand their customers.

- Technology innovation. Companies invest hard in R to provide the ultimate and more advanced tech applicable on shoes, specially sportshoes. Characteristics as shoe weight, durability and comfort are very important.
- High-tech shoes destiny to reduce back pain, or varicose veins and to provide a improved posture need the alignment of tech and design innovations. Technological 4 Micro Analysis Competitors High competitive environment. With several companies cracking the \$1 Billion sales barrier by the year of 2008. Major players are Nike, Adidas (Reebok), Puma, Asics and Geox.
- Fragmented market. With few major players but a lot of small players around the world struggling for considerable market shares.
- Major players are from Western countries Suppliers
- Although the major players in the industry are Western companies, the product supply is mainly based in developing countries from Asia and South America
- Labor work force costs are the main reason for the geographical placement of the suppliers. No specialization needed for custom shoes gave rise to a large number of suppliers in developing countries • In high end shoe industry the production is placed in western countries usually from EU (Italy, Spain, Portugal) or in US. Clients
- Europe, USA and China have the largest consumption levels of the shoe industry.
- Different occasions different shoes. People have different types of shoes according to their use. Sports, casual, work, specialized shoes...

- Income, age, time saving and so on, are important variables when the buying decision. Shoes are a first need good, everyone uses shoes (at least in developed countries) and usually people have more than one pair of shoes

## Segmentation

In order to better understand this industry adequate market segmentation must be done. This segmentation allows companies for a precise identification of market opportunities, weakness and strengths of their strategies and products and allows an adequate positioning of the company in the market place. Using product categories and crossing it with demographic factors which will influence the buying decision can give better a perception of the footwear industry main segments.

So firstly we distinguish the Athletic shoe from the non-athletic shoe (2 main categories in the industry), and within the non-athletic shoe there are casual shoes (routine day shoes), formal use shoes (to work, events and special occasions) and little niche segment ( Havaianas, Paez, Crocs... ).

Main segments of footwear industry: Casual use shoes Non-athletic Niches  
Footwear Industry Athletic Formal use shoes  
Secondly we cross this first segmentation with the demographic variables of Age and Gender. Both Athletic and non-athletic shoes can be decomposed into 3 other segments which are important to analyse the industry and the consumption habits. This second segmentation will subdivide the Athletic and nonathletic shoes in 3 new segments: Men, Women and children. Assuming Men and Women as adults and assuming no distinction in gender related to children.

Cross segmentation of footwear industry: Children Nonathletic Children Athletic Men Nonathletic Men Athletic Women Nonathletic Women Athletic 3.

3) Factors Affecting Demand However, we can point out different factors which affect the level of demand in the footwear industry. Those are the price, fashion trends and weather. Regarding price it is an important factor and has a relevant weight on the consumer buying decision making process.

Customers are becoming more pricesensitive and value a good relation between price and quality, regarding their budget. Fashion trends showed up to be other great influence on the footwear demand, it somehow manipulates the decision of buying this or that pair of shoes. Weather season, when making reference especially to the type of weather of the region is important for the decision of the customer, depending if it is a cold or warm climate different shoes satisfy the needs in these different climate regions. Seasonality led to an increase of sandals, flip-flops during spring and summer while boots and other warm and waterproof type of shoes have sales increase during autumn and winter.

Global Demand Going into a deeper analyse on the global demand of footwear industry, regarding the distribution channels, we conclude that the largest segment is the Footwear, Clothing, Sportswear, Accessories stores with 67, 6% of the market share. Department stores counted with 17, 5% of market share, while the remaining percentages is distributed among discount, variety, general merchandise stores; hypermarket, supermarket and discount stores; others.

Global Footwear (retailers; market share %) , 7% 7, 9% 4, 6% Footwear, clothing, sportswear Department 16, 2% Hypermarket, supermarket, discount Variety, General Merchandise 67, 6% Other However, and since this study focus on the analysis of a global scale industry, a geographical distribution of demand is relevant. With America and Europe with similar values in terms of size and the Asia segment with a lower percentage compared to the other 2 segments.

Global Footwear Demand Geographic Market Segmentation 18% 42%

America Europe 40% Asia 8 3. ) Attractiveness Drivers The attractiveness of the main segments can be measured by analysing four variables: Segment Value Growth Margin Risk Men's Athletic Women's athletic Men's nonathletics Women's nonathletic Children athletic Children nonathletic 9 Overall industry attractiveness Value (size, volume) • Total revenues of \$192, 3Billion (2008). HIGH value Growth (development, frequency)

- 3, 5% growth in 2008. According to forecast, the industry slowed down because of crisis effects, but it is forecasted a smooth growth. MEDIUM value Margins Geographical placement of industry main suppliers gave access to industries of scale low cost work force, which led to lower production cost and higher margins. However, transportation costs reduce margins. MEDIUM value Risk
- Footwear industry includes basic need products which represent a low levels of risk and exposed more to overall world economy volatility.

Supply Analysis

Footwear Industry Supply Chain

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The footwear industry has become to a point where the previous solid demand environment that companies in this industry were used to, gave place to a competitive and challenging environment. In this industry there are a lot of companies interacting on the design, manufacturing, marketing and providing footwear products to different segments of the market, always with an increase concern on costs and costumers' satisfaction.

Obviously that the production process includes the manufacture of the product itself, and there are, in the market companies who perform by themselves the entire process and companies who don't do so. With this, it is possible to say that footwear industry supply chain is naturally global, with the interaction of different partners from the designers, manufactures, suppliers marketing team and so on. However, many players are changing their supply chain strategy integrating themselves 10 the entire process in order to improve quality and design attributes.

Companies must adapt to the complexity of this industry planning. Footwear industry supply chain: Cutting Design and Product Development Sewing Pressing Assembling Quality testing Warehousing Retail Leather Production and Raw Material Chemical industry and tannery Planning in the footwear supply chain: Five years ago

- Small number of large volume orders
- Products with longer life cycles
- “ relaxed” lead times Currently
- More products
- More variety

- More frequent and small orders
- Continuous quality seeking behavior

Not so much effort on planning processes Need to invest on information technology 4. 2) BRICs and the global footwear industry According to data related to 2004-2008 time period, the footwear global industry registered a growth from \$153. 2 billion to \$192. 3 billion, however the 2007-2008 transition was the lowest variation. In a unit volume perspective, for the same period of time the global market registered an increase of 1986. 7 millions of pairs, from 2007 to 2008 the market suffered a negative variation mainly because of a decrease on the US market.

Global Footwear Retail Market, 2004–2008 (in billions \$) Global Footwear Retail Market Unit Volume, 2004–2008 (in millions of pairs) Last years footwear industry trends showed up the importance of the BRIC countries as important players in the marketplace, not only as producers but also as emerging economies as consumers. Numbers showed a increase on BRIC footwear market by 8, 4% between 2004 and 2008 to reach the \$40. 8 billion value.

Bric countries development data: Brazil In this country, the major part of large size companies is settled in the state of Rio Grande do Sul, however this industry production is being distributed to other poles all over the country. By the year of 2008 Brazil produced around 775 million pairs/years where 212 million were destined to exportations, is one of the industries which generates more job posts. Exporting to over 130 countries, Brazil takes advantage of the large variety of raw material, component suppliers, machinery, to be one of the biggest players in the footwear industry around <https://assignbuster.com/footwear-industry-analysis/>

the globe. Is high specialized in all different shoes variations, both for man and woman, children, athletic and non-athletic products.

Russia The Russia demand for shoes has in China its main supplier, since this country does not have the role as the other BRIC countries have in the footwear industry. As this industry as been in declining during the last years in Russia, this country cannot be considered as a world supplier of shoes.

India India is the 2nd world most populated country, where the leather industry plays an important role on that country's economy, this industry became core strength for the footwear industry, which led the country to the 2nd place of worldwide footwear supplier. Their competitive prices allied with the quality of their products made many companies to locate their production centers there.

Innovation on this sector manufacturing methods together with research and quality test infrastructures and institutions support and contribute to India's role as worldwide supplier. China 13 China is currently the most populated country in the world, in where is possible to identify 3 main segments within the urban residents: business owners, white-collar workers and (the largest segment) salaried class. Also a huge demographic dispersion can be seen from rural peasant to urban residents. China is the world largest producer in the footwear industry, however, is also the world's largest consumer of this industry's products.

The most populated country in the world presents as competitive advantages the expertise they have in copying products and produce it in

massive standardized orders, a reliable quality and really cheap source of shoes.

### Main competitors

In this highly competitive and fragmented industry, as it was already pointed out, there are main players with big market share and revenues in the marketplace. Nike: is considered the biggest company in athletic apparel, footwear and accessories, with innovative design, product development and worldwide marketing supported by manufacturing and distribution facilities.

With manufacture plants and suppliers located mainly in China, Vietnam, Indonesia and Thailand and other countries. Despite these countries being the main production centers, Nike also has factories in countries such as Argentina, Brazil, Italy and South Africa in order to satisfy these countries demand. With sports inspired lifestyle apparel to complement its footwear products, Nike is one major player in the industry.

Presenting a \$18627Million of revenues and a 10. % of profit margin by 2008 Adidas: is also one of the largest companies in the industry with more than 150 subsidiaries in EU, Asia and US each one specialized on a particular market or part of the manufacturing process. With three divisions of products (sport performance, sport heritage and sport style) Adidas delivers products through the Adidas brand 3 divisions (Adidas, Reebok and TaylorMade-adidas golf).

By the year of 2007, 377 14 independent manufacturing partners were sourced, where 71% was located in Asia, 17% in Europe and 12% in America.

With a revenues value of \$15, 8016Million and a profit margin of 5. 9% by the year of 2008. Asics: is a Japanese sports goods manufacture who offers not only sports footwear but also uniforms for a wide range of sports, with subsidiaries in China, Australia, Korea, Europe and US.

Asics counts with Japan for 60% of the sales. Headquartered in Kobe, Japan, had a \$2186Million in revenues and a profit margin of 5, 8% in the year of 2008. 4. 4) Industry Tech Technology evolution allowed this industry to overcome the efficiency problems that outcome from manual labour. Improvements on computer technologies shortened the product development drastically from years to months, improved areas such as design, style and high performance areas.

Quick response programs give the possibility to manufactures and retailers to have a closer working relation, also database systems helped the industry to develop its selling processes, the bar code conserves information on price, size, colour and so on. Stock management became a more accurate and easier task. Technological innovation allowed several companies to keep up with new trends in the market, to keep with the pace of the health obsession mentality. Many footwear produces present nowadays shoes that offer health benefits, correction of posture, ailments to back pains, burning calories and posterior toning of muscles.

## INDUSTRY STRUCTURE

### Industry Life Cycle

The footwear industry is currently at its maturity stage of the industry life cycle. The competitive environment increased and competitors struggle for market share, despite the overall industry slowdown, it keeps growing 15

Industry life cycle: 5. 2) Structural Return; Porter's 5 Forces Bargaining power of Buyers Threat of substitutes Rivalry Threat of new entrants

Bargaining power of Supplier 16 Bargaining Power of Supplier: currently this industry has a high number of countries manufacturing footwear. Countries with low cost labor factors are increasing the number of supplier, so the switching costs for big companies are low while for small players it could be harder to change from one supplier to another one.

- MEDIUM

Bargaining Power of Buyers: as footwear is a basic need product, the demand for shoes is present in every customer's behavior.

The number of companies operating in this market, offering a wide range of product categories reduces the buyer's bargaining power to a LOW level.

Threat of substitutes: considering footwear industry as an industry where first need products with constant demand are offered on the market it is difficult to point substitute products to it. However, the differentiation between the different segments of the industry and the different products from the many brands operating in the market represent a threat of substitution between segments.

Threat of new entrants: easy access to low-cost labor factors, low entry barriers. It is easy for new players to enter the market, there are not so much entry barriers. However to keep with good margins and to have a

growth in sales is critical a good brand identification and loyalties obtained through product differentiation, uniqueness, a well structure and efficient marketing campaigns. MEDIUM/HIGH Existing Rivalry: in this industry, fragmentation, distinguish the sector between the big and important major players, with big market shares who are constantly competing within this sphere of big players, with HIGH level of rivalry.

For those smaller players, for whom the entry barriers are low, the market structure allows their existence. For these companies the environment in where they operate is endowed of high rivalry among them, struggling to overcome the barriers of small players. HIGH 5.

### Key Success Factors

Other important theme of analysis when looking into the industry structure is the range of activities or management variables which when performed with accurate performance ensure the company's competitiveness, combining those elements that customers value most and the variables that led to the company's differentiation 7 Segments Casual Key Buying Factors Price Product renewal Versatility Competing variables Efficient value chain Shortened product life cycle Differentiation by design Key Success Factor Economies of scale Supply Chain Flexibility R&D Distinctiveness Careful selection of dist.

channels Differentiation by innovation Close control on manufacturing Distribution Network R&D (innovation) Quality Formal Comfort Product Quality Niche (Crocs, Havaianas, Paez) Fashion Lifestyle suitability closely follow emerging trends Product Line Broad distribution channels Availability <https://assignbuster.com/footwear-industry-analysis/>

Athletic Heavy advertising Differentiation by innovation Distribution network  
Communication R&D Brand attachment Performance

In the Casual shoes segment price as an important impact on decision making process, within an industry with so many different product categories and different brands, it is critical for a company to have a dominated control over the price, throughout the use of economies of scale cost reduction can be achieved and companies have larger space to maneuver over price issues. Constant changes on customers' needs and wants make pressure on companies' capability to constantly adapt and renew their portfolio.

Casual shoes users don't want a unique occasion shoes, they look for shoes for an everyday routine. The Formal shoe segment is directly related with the distinguish level of the product, uniqueness is an important attribute for this segment users. Comfort comes as a sub-need associated with the uniqueness attribute, for these customers, who usually pay a higher price, it is mandatory to feel comfortable.

Also the expectation clients have on quality is matter of focus. So companies should concentrate attentions on a carefully selection of the distribution channels, regarding product distinction. R efforts should be taken considering new designs, characteristics and manufacturing material to improve comfort and product quality. 18 For the Niche segment, the key buying factors affecting it is the impact of fashion trends and the consumer lifestyle. In this segment we include shoes that are innovative and have become a trend due to their usability and capability to fit different and emerging lifestyles.



A close procession of the market tendencies as well as a product line able to meet these segment needs and wants are essential. Finally for the Athletic segment, heavy advertising and marketing campaigns could increase brand awareness and brand image, which are important issues to reach the customer. Product availability asks for a precise and well structured distribution network. Keep with an active research over the market trends, industry's new discoveries and constantly development of new features, design and attributes will increase the contribution to a better performance that customers look in this kind of shoes.

### Strategic Groups

The global interaction of markets and supply, took many players in the industry to adopt similar strategies. The purpose of the strategic groups' analysis is to better understand and identify these groups of companies in the industry that follow specific patterns and achieve similar positioning. On the following were selected two factors that better differentiate the referenced groups: Geographical reach (X) and Product Line (Y). 19

### Strategic Issues Products-Markets

The first strategic question where a company should focus is whether it is going to aim its marketing efforts. Making a correlation between the industry segments and the products that can provide. Analysing with segments are in fact covered and which ones have potential to return benefits. A vertical integration analysis is useful in the footwear industry. Along the years this industry evolved constantly, innovation breakthroughs, low-cost factors seeking behaviour, and market pressures made from this industry a high

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competitive one. Developed countries expanded abroad, diversified, invested in heavy marketing campaigns, R projects and other resources allocations foreseeing growth and revenues.

At this point, companies (mainly from developed countries), should give place to a restructuring of the process. Companies should outsource activities which are not the core such as labour-intensive activities and focus more on distribution networks and R. The outsourcing together with low-cost production allows even higher margins. However, the core issues of the production process should be monitored by the company. Specializing in what is core and in what they do better. Diversification is one way of expanding the scope of the business of a company, when diversifying a key element for the sustainable growth of a company is achieved.

As firms get succeed in a market in which they've entered, grew and survived, they want to go abroad from their usually comfort zone. The footwear industry had slowdown compared to previous years, and many companies opted for a diversification strategy in a way to increase revenues and foster growth. Firms that once started as footwear supplier nowadays can be seen as supplier to other industries such as clothing, sports accessories and so on.

Usually this diversification is related with the industry technology and the use of its products. Companies with strong brand image diversified their portfolio producing and marketing bags, belts, ties, perfumes, watches, apparel. Companies like Nike and Adidas already have a broad range of products (clothing, accessories... ) representing a considerable volume of

sales. Internationalization As seen along this report, the footwear industry has players all over the world, the biggest companies are multinational corporations with manufacturing plants settled on a wide range of countries according their benefits for the company, expanding worldwide is with no doubt a sea of opportunities when the structure of the company allows for that huge step.

However the internationalization process can start with a less risky move. Exports and direct foreign investments are important factor for the growth and the understanding of the “ going” international process. International companies can make use of cross-market subsidization, in order to maintain their global presence and their competitiveness. 20