

**IN-DEPTH ASSESSMENT OF THE SITUATION
OF THE EUROPEAN FOOTWEAR SECTOR
AND PROSPECTS FOR ITS FUTURE DEVELOPMENT**

(CONTRACT NO ENTR/2010/16, LOT 2)

**Task 1: Survey on the Situation of the
European Footwear Sector and
Prospects for its Future Development**

Final Report

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EXECUTIVE SUMMARY

Introduction

The footwear sector is an important part of the European manufacturing industry and it plays a crucial role on the economy and social well-being in numerous localised regions within the EU27. The footwear market has annual sales of around 2.1 billion pairs and a value of around €49 billion; the EU alone accounts for about 5% of global production. The industry is dominated by small and medium sized enterprises (SMEs) and is particularly exposed to international competition. The main objective of this Task 1 report was to undertake a qualitative survey to assess the development of the footwear industry and highlight any trends.

This report therefore presents the key findings from the survey, along with the results of a literature review to provide a context for the survey results.

Market Structure

The footwear industry is a labour intensive industry heavily dominated by SMEs and most footwear companies comprise around 10-15 employees. The EU footwear industry has recorded large reductions in employment, following the closure of factories. Employment in the footwear industry fell by about 17% between 2004 and 2007 and the number of firms declined by around 10%.

Challenges faced by industry

One of the main challenges faced by the footwear industry is the increasing costs of production, which have led EU firms to relocate and outsource their products and processes to developing countries as a cost-reducing strategy. As a result, the remaining producers within the EU face increasing international competition from Asian economies such as China, India and Vietnam.

In the future, companies will continue to face challenges from high costs of production and competition from developing economies. However, evidence suggests that EU producers are also discovering they can find markets for (branded) luxury footwear in emerging economies such as Russia, China, Brazil, India and the Middle East. In China and India, the growing wealth implies half a billion consumers that will have a similar disposable income to consumers in the EU and USA, leading to increased consumption of luxury footwear.

Costs and Financing

Footwear manufacturers have a range of costs to manage with a particular focus on raw material and production costs (labour and machinery). Other important costs include regulatory compliance costs, logistics costs, general overheads (such as utilities) and marketing. Costs of production continue to be a challenge for companies and a large proportion of footwear manufacturers have outsourced their production totally or partially to subcontractors.

SMEs have also found it increasingly difficult to access finance. Micro-sized and small companies have found it more difficult to access finance than larger companies, due to the impacts of the global financial crisis and the resultant tightening of credit requirements by banks.

Competition

The European footwear industry is highly competitive, both within the EU market and in global markets, mostly due to its high quality, design and fashion attributes. However, the trade deficit in the footwear sector has more than doubled in five years, to €7.0 billion. Reasons contributing to the large trade deficit are the growing difficulties of EU industry to compete with countries with low labour costs and less regulation and the strength of the Euro. The main suppliers of footwear to the EU are China and Vietnam, which together account for more than 60% of footwear imports into the EU (by value).

Innovation

European footwear manufacturers have started to shift their focus to targeting niche markets and upgrading to higher value footwear. More and more firms pursue innovation strategies based on creativity, quality and differentiation of footwear products in order to succeed in the market place. Examples of key directions of innovation include focusing on comfort, design, niches and technology. Improvements in technology such as design software, logistics, marketing, new materials and new technology in cutting, all provide an innovative edge to footwear products and processes.

Employment and Training

The economic crisis of 2008/09, coupled with the increased competition and subsequent restructuring and modernisation processes has forced European footwear manufacturers to introduce cost cutting measures, which have included a significant reduction in employment within the footwear sector.

Training was identified as an important facet of employment, particularly in light of the finding that companies were experiencing skill shortages. In fact, some key footwear manufacturing skills appear to be endangered and training and development has become more of a priority. This is an area where research institutes and education centres have played an important role in recent years.