

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

(CONTRACT No. SI2.ACPROCE039209700)

Task 7: Synthesis Report

Revised Final Report

prepared for

DG Enterprise & Industry

RPA

July 2012

EXECUTIVE SUMMARY

Introduction

The European footwear industry has been subject to an elongated period of transition since the early 1990s. During these years, EU manufacturers have maintained their competitiveness by offshoring¹ the most costly production processes from their home countries to cheaper locations, both within and outside the EU, and introducing cost cutting measures, which have included a reduction in employment within the sector.

In response to the challenges the footwear industry is facing, the European Commission has contracted Risk & Policy Analysts Ltd (RPA) to undertake an assessment of the situation of the footwear sector in the EU and prospects for its future development. The study involved a combination of literature research, a questionnaire survey of key stakeholders in the sector and case studies in nine different footwear-producing regions in seven Member States of the EU.

Situation of the European Footwear Industry

The footwear sector is an important part of the European manufacturing industry and it plays a crucial part of the economy and social well-being in numerous regions within the EU27.

In 2010, the EU was the second largest market in the world by volume, with annual sales of over two billion pairs and a value of around €50 billion. The footwear market is subject to considerable fashion-related and seasonal fluctuations. Customers are seeking increasing variety in styling and price.

The European Union is a major producer and exporter of footwear and footwear related products, particularly in the luxury footwear segment. Total EU production in 2008 was valued at €18 billion (863 million pairs). Production declined sharply in 2009, but there was some recovery in 2010; the number of firms declined by around 25% between 2004 and 2009. Around two thirds of the total EU footwear production is concentrated in three key countries: Italy, Spain and Portugal, with Italy accounting for around 50%. The footwear industry is a labour intensive industry, heavily dominated by small and medium-sized enterprises (SMEs) and most footwear companies comprise around 10-15 employees.

The liberalisation of world trade has had a significant impact on the EU footwear sector. The footwear industry has become highly globalised, which has created strong competition, particularly between producers in the EU and in Asia. In 2010, China was the leading shoe exporting country in the world, accounting for 73% of the 13 billion pairs exported worldwide. Imports of footwear into the EU grew by 17% in

¹ *The term 'offshoring' refers to the relocation of an activity, such as footwear production, from the company's home country to another country, generally with lower costs. This includes 'nearshoring', to another EU Member State or proximity country, and 'farshoring', to distant countries such as China or India. Offshoring may take the form of outsourcing (sub-contracting activities to another company) or may be to factories owned by the company itself in offshore locations.*

both volume and value between 2006 and 2010, to a total of nearly 2.5 billion pairs with a value of over €14 billion. China is the largest source of footwear imports into the EU market; in 2010, it accounted for 50% in value and 76% in volume of all imports into the EU. Exports from the EU in 2010 consisted of 177 million pairs of shoes valued at €5 471 million. Despite a sharp downturn in 2009, the overall figures (for both volume and value) show a slight increase over the period 2006-2010. The USA, Switzerland and Russia are the most important markets by both value and volume.

Despite the increasing competitive pressures it faces, the EU footwear industry has a number of significant advantages. These include proximity to the largest footwear market in the world and a well-developed infrastructure including industry associations, trade unions, research development and innovation centres and training institutes. However, it faces a range of barriers including:

- competition and finding new markets;*
- the pace of fashion-related change;*
- environmental drivers;*
- counterfeiting and piracy;*
- costs and financing; and*
- availability of skilled staff.*

Restructuring and Modernisation in the EU Footwear Industry

The competitive pressures that the EU footwear industry has faced have resulted in significant restructuring of the sector. Restructuring can involve a range of activities, as footwear companies seek to address the barriers they face. The main restructuring activities of the EU footwear sector have involved:

- **operational restructuring:** the current focus is on innovation in equipment to enable greater flexibility, as well as organisation of factories and more effective production management to meet the demand for smaller batches and faster response times;*
- for companies that continue to manufacture in the EU, primarily SMEs, the focus in **product restructuring** has been on moving into markets where price is less of a consideration. Innovative design is a key factor, including rapid response to fashion trends and a greater range of styles and colours. EU manufacturers are also targeting niche markets, such as safety footwear;*
- the key elements in **reorganising sales channels** are developing new sales channels and moving into new markets. This includes companies opening their own stores as a way of ensuring access to sales channels and focusing on exporting. Although some companies are embracing internet retailing, others are more reluctant due to concerns about competing with retail customers and the practicality of internet retailing for footwear;*

- **locational restructuring** has been a feature of all of the case study regions, with companies offshoring production from their home countries to cheaper locations, both within the EU (e.g. the Czech Republic, Hungary and Romania) and outside (particularly China). One interesting recent trend is for some companies to move at least some of their production back from China, in particular to the lower cost areas of Europe. The main reasons for this are the rising costs in China and the increasing importance of proximity to the market;
- **closure** of footwear companies has been a feature of all of the case study regions; and **mergers and acquisitions** have also been important.

Over the last 10 to 15 years, restructuring of the EU footwear industry has led to steady reductions in production, in the number of companies in operation and in employment. These job losses are partly attributable to investment in modernisation but also to the transfer of production sites to non-EU countries with lower labour costs and the closure of companies that could not compete in current market conditions. This has been experienced in all the case-study regions, particularly in Rhône-Alpes, where only a few footwear companies remain. The economic crisis exacerbated the barriers already being faced by the footwear sector. Competition has been the key driver of restructuring; despite technology advances, footwear manufacture remains highly labour intensive so is vulnerable to competition from low-wage economies.

Despite the turmoil of recent years in the footwear sector, and the difficult economic outlook, the overall view of most companies and organisations that we interviewed was quite positive. The major stages of restructuring appear to be largely complete; the level of output, the number of firms and employment appear to be stabilising. A number of different factors had contributed to this, particularly the close partnerships that exist in regions such as Norte and Veneto, both within industry and with government. Where such partnerships do not exist, as in Southern Poland, the restructuring process faces further problems. Also important are flexibility of companies in adapting to the new market conditions, the ability to differentiate products, focusing on fashion, comfort and safety and ensuring access to marketing channels. Most companies we interviewed see the focus of the next few years as consolidating their position in the market. Nevertheless, companies recognise that they need to continually adapt to market changes to stay in business.

Research, Development and Innovation

Research, development and innovation (RDI) have a strategic importance for the competitiveness of EU Industry. Footwear manufacturing has benefited from both process and product innovations. These include innovations made to the production line that improve the efficiency and effectiveness of footwear production and that of complementary services.

There has also been significant investment into the development of new materials, components and technologies, especially for specialist footwear such orthopaedic, protective and sports footwear. The importance of RDI was recognised as a key

factor to sustainable and economic growth in each of the case study regions. In all the case study regions, product-related developments are being combined with improved business models and marketing innovations.

Another important trend was the increasing pace of incorporating IT into footwear production. This includes the use of IT in the production process, to facilitate small production runs and to customise the products in a cost effective way, as well as in sales and logistics. Some footwear companies are also exploring different sales and marketing strategies and trying to approach international markets in different ways, including internet sales, to maximise opportunities to sell their goods.

In regions where RDI in the footwear sector has been successful, such as Norte in Portugal and Lombardia in Italy, it is actively supported through partnerships between companies and with research centres. Such partnerships cover the full supply chain. For example, producers of shoe manufacturing machinery have focused on developing technological improvements that offer more flexibility to their customers in the process of shoe production and maintain high quality products. The close geographical proximity of machinery firms contributes to the spread of knowledge to footwear firms in each cluster.

The footwear research centres can play a key role in this process, by bringing together different organisations that can then work together on implementation. Their close partnerships, not only with footwear companies but with the wider supply chain, enable them to do this. Companies have also worked closely with their suppliers and customers to ensure that RDI meets the market needs of the industry.

Where there is no such pattern of partnerships, RDI has been less successful. For example, in Southern Poland there is a formal ‘technology platform’ for the leather industry which was established to encourage technological development and co-operation between industry, institutes and academia with a focus on conducting research and implementation of the results. However, in practice, there appeared to be a very limited amount of partnering between companies and institutions with respect to RDI.

Training

Training within the footwear sector plays an essential role as manufacturing companies look to strengthen their position in European and other markets. Design skills are especially important for companies that produce their own brand; however, the main barrier is in recruiting skilled production staff. Marketing, sales and customer service are also important for the industry in all case study regions. Some loss of customer service and sales skills has been experienced, because some retailers have scaled back on employee training in response to the economic crisis.

There is a variety of training institutes in the case study regions, although in Timis (a case-study region for SMEs) there were no specialist training institutes and few training programmes available. Training is available from secondary to tertiary level, with specialist courses ranging from design to marketing and IT. Apprenticeships and

on-the-job training play an important role. This is one area that has been impacted by the reduction in manufacturing operations in Europe. In addition, the less significant an industry becomes in terms of production capacity, the less emphasis the education and training system will put on related courses.

Training institutes, and their partnerships with industry, provide opportunities for students to participate in research projects, exhibitions, competitions and apprenticeships. These partnerships are particularly close in Veneto and Rheinland-Pfalz. Partnerships with industry can also serve as a vital source of information for policy makers and training institutes on the changing skill requirements of the industry. An additional important aspect is the potential to develop projects that can encourage young people to seek employment in the sector. A number of best practice initiatives were identified in the case study regions which could be transferred elsewhere. As with RDI, these involved close partnerships between training institutes and local footwear companies, and with companies in the wider supply chain.

One of the most serious barriers for the industry in the EU is the aging workforce and the difficulties in attracting young workers. This is a particular problem in Veneto, where young people are turning away from the footwear manufacturing sector for various reasons, including that the nature of manual work in the footwear manufacturing sector is not appealing, salaries are uncompetitive and the industry is seen as having no future. An example of best practice to address this barrier involved publicity campaigns involving the industry associations, training institutes and research centres in Rheinland-Pfalz.

Small and Medium-Sized Enterprises

While the footwear sector in general is working to adjust to the changing market environment, the economic constraints have had a particular impact on SMEs which make up the majority of footwear firms. Increased competition, together with the economic crisis of recent years, has forced many SMEs out of business. However, current footwear market conditions can also offer opportunities for SMEs. Identifying niche markets and upcoming trends and responding to these in a timely fashion could help footwear SMEs to take advantage of these opportunities.

*In response to the barriers they face, the SMEs in the case study regions have adopted various business strategies. For Emilia-Romagna and Valencia, these include seeking reorganising market access, by expanding exports and new marketing approaches, including e-commerce; product restructuring by moving to higher quality and price segment and stopping production of low-performing product lines, and some outsourcing of production, either to other companies within the region or offshoring it to a lower-cost country. By contrast, Timis is heavily reliant on production for foreign (mainly Italian) companies, under the *lohn* system.*

Traditional industrial clusters, composed of manufacturers, suppliers and other participants in the supply chain, can play a key role in assisting SMEs to address the barriers they face, by developing partnerships. Where clusters of footwear manufacturers can negotiate with a supplier, this may also result in better payment

terms and potentially lower prices. The clusters in Emilia-Romagna and Valencia have worked successfully, whereas in Timis there is effectively an Italian cluster, with limited benefits for local companies.

The supporting services most frequently used by SMEs within the case study regions to help them maintain and develop their businesses include access to technology and training institutes. Partnerships with regional institutes to develop training programmes and on research and innovation projects have been successful in Emilia-Romagna and Valencia but in Timis there is little scope for such partnerships as the majority of the training institutes have closed. Export assistance services have also proved important including, in particular, subsidies to attend export fairs to identify new markets. Industry-led campaigns in Spain and Italy to promote locally-manufactured products were also valued by SMEs as a useful contribution to their marketing and brand identity efforts.

Conclusions and Recommendations

The EU footwear industry has undergone a period of major restructuring over the past 40 years, in response to significant changes in the international market. This has resulted in a major contraction of the industry, with reductions in numbers of companies, output and employment across many EU countries.

The major stages of restructuring appear to be largely complete, and the level of output, the number of firms and employment appear to be stabilising. Most companies we interviewed see their focus in the next few years as consolidating their position in the market. This is one reason why the economic crisis appears to have had a short-term effect and the industry appeared to be recovering by 2011/12.

Nevertheless, footwear companies recognise that they need to continually adapt to changes in the market in order to stay in business. The key success factors for the industry include a move to the higher quality end of the market and focus on exporting, the presence of clusters and effective partnerships between stakeholders, the availability of support services and an effective infrastructure for innovation.

It is clear from our case studies that international competition has been the key driver of restructuring in the EU. Because of their more limited resources, SMEs are likely to be most impacted by changes in market conditions. Another major barrier is a growing issue of skill shortages. The current workforce has a high proportion of older workers and it is proving difficult to attract young people into the industry. Innovative approaches will be needed to overcome the perception by young people that footwear is an industry with no future. Access to finance is also an important factor.

Innovation is critically important to the industry to address the continuing competitive pressures it faces, but there are a number of barriers. These include the difficulty of involving SMEs in research and the increasingly short timescales to which the industry works. Despite the apparent successes in transferring the results of RDI into marketable products, stakeholders agreed that more needs to be done to ensure the

uptake of innovation by the European footwear industry, to help to ensure its long term competitiveness.

Together, the case studies show that, while the footwear industry does face significant barriers, there are strategies that can help to overcome these. Choosing the right market niche, operating flexibly and working closely with the supply chain can help companies to remain profitable. Companies in most regions have concluded that competing on cost alone is not a viable option long-term. Table.1 summarises the strengths, weaknesses, opportunities and threats for the EU footwear industry in future.

Strengths	Weaknesses
<ul style="list-style-type: none"> • <i>Restructuring has left the industry resilient, more stable and more efficient</i> • <i>Proximity to one of the major world footwear markets</i> • <i>Closeness to the most influential centres of fashion</i> • <i>Skills and experience in high-quality design and production</i> • <i>Well-developed research and training infrastructure</i> • <i>Established footwear clusters providing mutual support</i> • <i>Well developed and innovative supply infrastructure (including equipment supply, leather and chemicals)</i> 	<ul style="list-style-type: none"> • <i>The industry has shrunk significantly in size, employment and output and is no longer a leading producer</i> • <i>Remains a highly labour-intensive industry in a labour-cost economy so always vulnerable to cost competition</i> • <i>Footwear is part of a highly-developed world market but most companies remain highly dependent on EU markets</i> • <i>Low wages and a history of redundancies make the industry unattractive to younger people</i>
Opportunities	Threats
<ul style="list-style-type: none"> • <i>The markets for quality and fashion footwear appear relatively unaffected by the global recession and provide an attractive opportunity for expansion</i> • <i>Targeting niche markets, which may be too small for large producers, provides opportunities for smaller firms</i> • <i>The trend to fast fashion, a wider range of styles and shorter production runs can be met more easily by local EU firms than importers</i> • <i>Increasing focus by Chinese producers on domestic markets may make switching production back to the EU more attractive</i> 	<ul style="list-style-type: none"> • <i>Development of fashion capabilities in China could challenge EU producers at the top end of the market</i> • <i>Improved production efficiency and quality in non-EU suppliers could increase competition in future</i> • <i>Continuing recession in Europe threatens local markets and affects the availability of finance</i> • <i>The ageing workforce and failure to attract young people could limit production in the EU</i> • <i>Competition for raw materials, and consequent price rises, could add to the cost burden</i>

The study has highlighted that the EU footwear industry will continue to face a series of barriers in the coming years. The study has therefore identified ways in which the various stakeholders could assist the industry to address these barriers whilst supporting its strengths, particularly the well-developed infrastructure and the high level of partnerships between different actors. These are summarised in Table 2.

Table 2: Study Recommendations for Additional Support to Footwear Sector

Barrier	Solution	Recommendation	Delivery Partner
<i>Increased international competition</i>	<i>Develop new export markets</i>	<i>Raise awareness of accessible information on export markets (including tariffs, customer requirements, distribution structure), for example the DG Trade Market Access Database</i>	<i>European Commission, Industry associations, national and regional governments</i>
		<i>Provide export credit guarantees</i>	<i>National and regional governments</i>
		<i>Provide funding support to SMEs to attend trade fairs to regions where it is not already available and ensure SMEs are aware of the availability of support</i>	<i>National and regional governments, industry associations</i>
		<i>Provide training in export management</i>	<i>Industry associations, education institutes</i>
		<i>Encourage SMEs to work with existing exporters to take advantage of their partnerships</i>	<i>Industry associations, regional governments</i>
	<i>New marketing approaches</i>	<i>Provide training in marketing and sales</i>	<i>Industry associations, education institutes</i>
		<i>Showcase the industry's products and qualities at key locations</i>	<i>Industry associations, national and regional governments</i>
	<i>Strengthen brand identity</i>	<i>Provide assistance in market research, branding and accessing niche markets through 'best practice' seminars</i>	<i>National governments, industry associations</i>
	<i>Skill shortages</i>	<i>Improved staff training</i>	<i>Encourage partnerships between industry and training institutes to customise training to local needs</i>
<i>Encourage cross-border initiatives between training and educational institutes to exchange experience</i>			<i>European Commission, training institutes</i>
<i>Evaluate funding mechanisms for training to ensure support is properly targeted at industry needs</i>			<i>National and regional governments</i>
<i>Promotion of the industry to young people</i>		<i>Develop promotional campaigns aimed at young people, focusing on opportunities within the industry</i>	<i>Training institutes, industry associations, national and regional governments</i>
		<i>Provide advice on recruitment and HR management techniques</i>	<i>Training institutes, industry associations</i>
<i>Access to private sector finance</i>	<i>Provide advice on finance for SMEs</i>	<i>Provide information on mechanisms to finance new equipment purchase, e.g. leasing</i>	<i>Industry associations, national and regional governments</i>
		<i>Improve communication with banks, e.g. through inviting bank representatives to industry activities</i>	<i>Industry associations</i>
		<i>Encourage SMEs to negotiate with suppliers through clusters</i>	<i>Industry associations, national and regional governments</i>
<i>Access to public funding support mechanisms</i>	<i>Improve targeting of, and access to, public funding</i>	<i>Provide better information on available funding support mechanisms</i>	<i>Industry associations, national and regional governments</i>
		<i>Reduce the administrative burden on accessing funding</i>	<i>European Commission, national and regional governments</i>

Table 2: Study Recommendations for Additional Support to Footwear Sector

Barrier	Solution	Recommendation	Delivery Partner
<i>The need for innovation</i>	<i>Focus R&D to cover the full scope of industry needs</i>	<i>Ensure research centre activities address the significant future issues, including innovation in customer service and marketing</i>	<i>Research centres, industry associations</i>
		<i>Continue to focus EU funding on more ambitious projects, which are unlikely to receive funding from other sources</i>	<i>European Commission</i>
		<i>Require EU-funded projects to develop methods for effective dissemination of results</i>	<i>European Commission</i>
	<i>Ensure effective partnerships between stakeholders</i>	<i>Focus on communication and partnerships with SMEs. This requires a different approach to that adopted for large firms.</i>	<i>Research centres, industry associations</i>
		<i>Consider developing virtual ‘Centres of Excellence’ to encourage closer cooperation between existing researcher centres, educational institutes, industry and policy-makers</i>	<i>Research centres, national and regional governments, education institutes, industry associations</i>
		<i>Encourage greater cross-border exchange of experience between research centres</i>	<i>European Commission</i>
	<i>Facilitate participation in RDI, especially by SMEs</i>	<i>Develop innovation training, especially for SMEs, through modifying existing training programmes and providing new short courses</i>	<i>Industry associations, research centres</i>
		<i>Provide easily accessible advice and online support tools to assist companies to take advantage of e-commerce opportunities</i>	<i>Industry associations, research centres</i>
	<i>Support protection of innovations</i>	<i>Provide advice and administrative support for companies wishing to apply for patents</i>	<i>Industry associations, research centres, national and regional governments</i>
	<i>Variations in support infrastructure</i>	<i>Strengthen infrastructure</i>	<i>Encourage a proactive role by industry associations</i>
<i>Consider the development of ‘virtual clusters’, in the form of online platforms to exchange information, for isolated companies, especially SMEs</i>			<i>Industry associations, national and regional governments</i>
<i>Assist succession planning for family firms</i>		<i>Develop information platforms to bring together family firms lacking succession planning and potential buyers/partners</i>	<i>National and regional governments, industry associations</i>
		<i>Provide risk capital to support staff buy-outs of family firms</i>	<i>National and regional governments</i>
		<i>Train footwear students in management techniques and encourage them to take on businesses</i>	<i>Education institutes</i>
<i>Assist firms to move production back to the EU</i>		<i>Consider developing a more effective platform to bring producers and potential EU subcontractors together</i>	<i>European Commission, national and regional governments, industry associations</i>

