Global Footwear Leaders -- Perspectives for Latin Entrepreneurs

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Peter T. Mangione
Managing Director
Global Footwear Partnerships LLC
ptmangione@gmail.com

Global Footwear Leaders – Perspectives

- Global Consumption and Souring
- US Market Overview – Recovery, Footwear Fundamentals, and Sourcing
- US Shoe Retailing Companies –
  - Who They Are,
  - How They Are Doing,
  - Their Sourcing Relationships
- China Shoe Retailers – New Kids on the Block
- EU Sourcing Overview
- Conclusions

Major Shoe Producers/ Imports/ Exports 2009

COUNTRY	PRODUCTION	IMPORTS	EXPORTS	I/P
U.S.	30.0*	2,067.2	45.3	99%
CANADA	7.8*	162.7*	6.6*	99%
AUSTRALIA	6.2*	94.1*	0.8*	95%
EU	508.4*	2,233.6*	154.4*	88%
JAPAN	90.5	589.8	1.7	87%
KOREA	65.0*	147.3	10.3	73%
TAIWAN	40.0*	60.6	13.7	70%
VIETNAM	800.0*	56.8*	750.0*	42%
MEXICO	244.0	56.0*	15.0*	20%
THAILAND	246.0*	24.0*	120.0*	16%
BRAZIL	813.6	30.4	127.0	4%
INDIA	2,065.0*	86.0*	115.0	4%
INDONESIA	609.0	15.0*	193.0	4%
CHINA	11,500.0*	29.0	8,170.0	1%

Global Footwear Consumption 2009

COUNTRY	APPARENT CONSUMPTION	POPULATION	ANNUAL PAIRS PER PERSON
U.S.	2,051.9	307.2	6.7
EU	2,587.6	497.7	5.2
JAPAN	678.6	127.1	5.2
CANADA	163.9	33.2	4.9
AUSTRALIA	99.5	21.3	4.7
KOREA	202.	48.5	4.1
TAIWAN	86.9	22.9	3.8
BRAZIL	717.0	198.7	3.6
MEXICO	285.0	109.9	2.6
CHINA	3,359.0	1,338.6	2.5
THAILAND	150.0	65.9	2.3
INDIA	2,035.0	1,166.1	1.8
INDONESIA VIETNAM	431.9 133.4	240.3 86.5	1.8 1.6

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EU Footwear Imports 2009

Country	Pairs	% Change	Value/Euros	% Change	Unit Value	% Change
China (75%)	1,664.3	-5.5	5,883.7	1.8	3.54	7.7
Vietnam (9.7%)	217.1	-25.8	1,834.6	-17.9	8.45	10.6
Indonesia (3.4%)	75.9	0.5	733.5	10.5	9.67	9.9
India (3.2%)	71.0	6.6	790.9	2.8	11.15	-3.5
Brazil (1.2%)	26.5	-24.9	361.1	-17.5	13.62	10.0
Tunisia (1.1%)	23.8	-8.3	301.6	-6.9	13.79	1.6
Thailand (1.0%)	23.4	-13.6	228.0	-8.8	11.27	5.5
Turkey (0.9%)	19.4	-17.8	73.1	-15.6	3.78	2.7
Cambodia (0.7%)	16.0	17.3	144.1	27.3	9.01	8.5
Morocco (0.7%)	14.9	-8.5	201.9	6.2	14.86	16.0
Bosnia-Herz (0.6%)	12.0	-4.3	144.7	0.7	12.05	5.2
Bangladesh (0.5%)	11.7	12.0	88.9	18.3	7.59	5.6
Hong Kong (0.4%)	9.2	-27.6	90.0	-8.2	9.75	26.8
World Total	2,233.6	-8.1	11,644.3	-3.0	5.21	5.5

US Footwear Retailers and Brands

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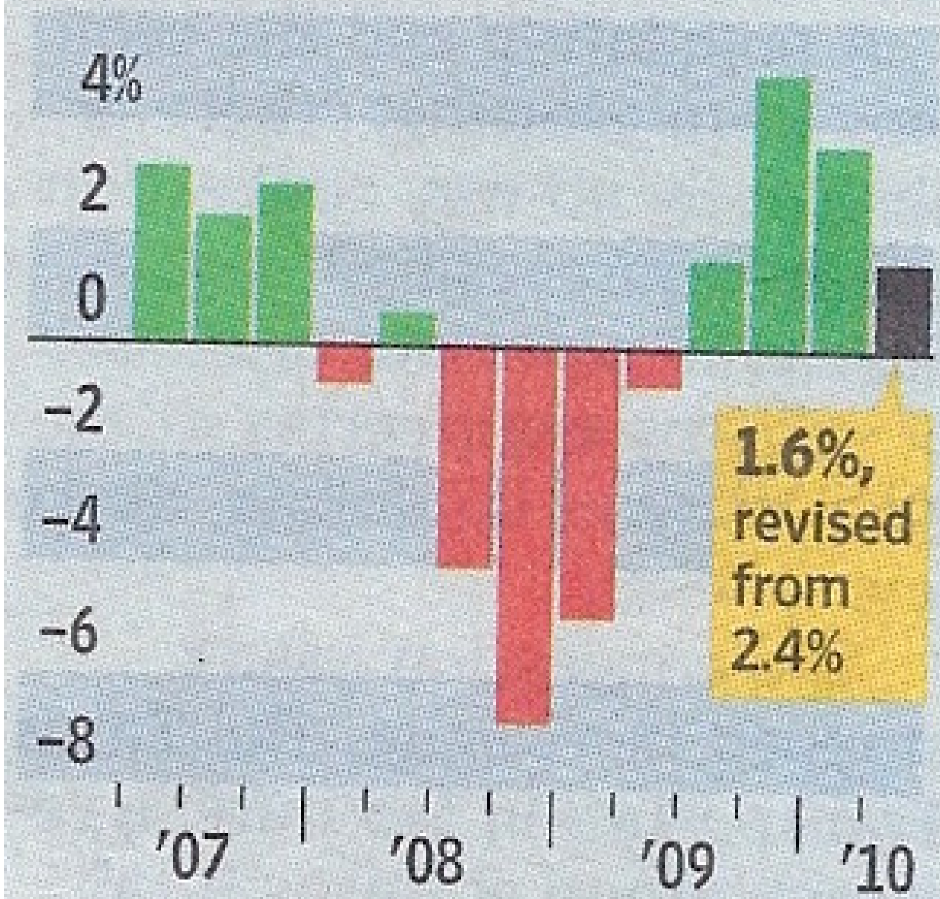
Clouds over a US Recovery: Growth and Jobs Hindered

- **US economy slowly growing, but with 15 million unemployed, it will take years to recover**
- Banks, hurt by toxic mortgages are still deleveraging and not lending to most businesses and consumers --- only government, foreigners, and Wall Street have access to capital
- Households battered by too much debt, lost value in homes, are delaying purchases
- **Hiring held back due to overhang of huge new government imposed costs for health care, financial regulation, and prospect of much higher taxes to pay for all the bailout and stimulus spending**
- Massive injections of Fed money in banking system raise specter of future inflation and slow growth, as private borrowers are 'crowded out'
- Zero interest rates are killing the dollar and pushing US investment overseas, hurting job creation and recovery at home
- New **CULTURE OF THRIFT** has taken hold in the US, and spending levels by consumers, that accounts for 70% of GDP, may never reach pre-crisis rates

Slipping Down

Quarterly change at an annual rate in U.S. GDP



Source: Commerce Department

US Footwear Market: The Fundamentals

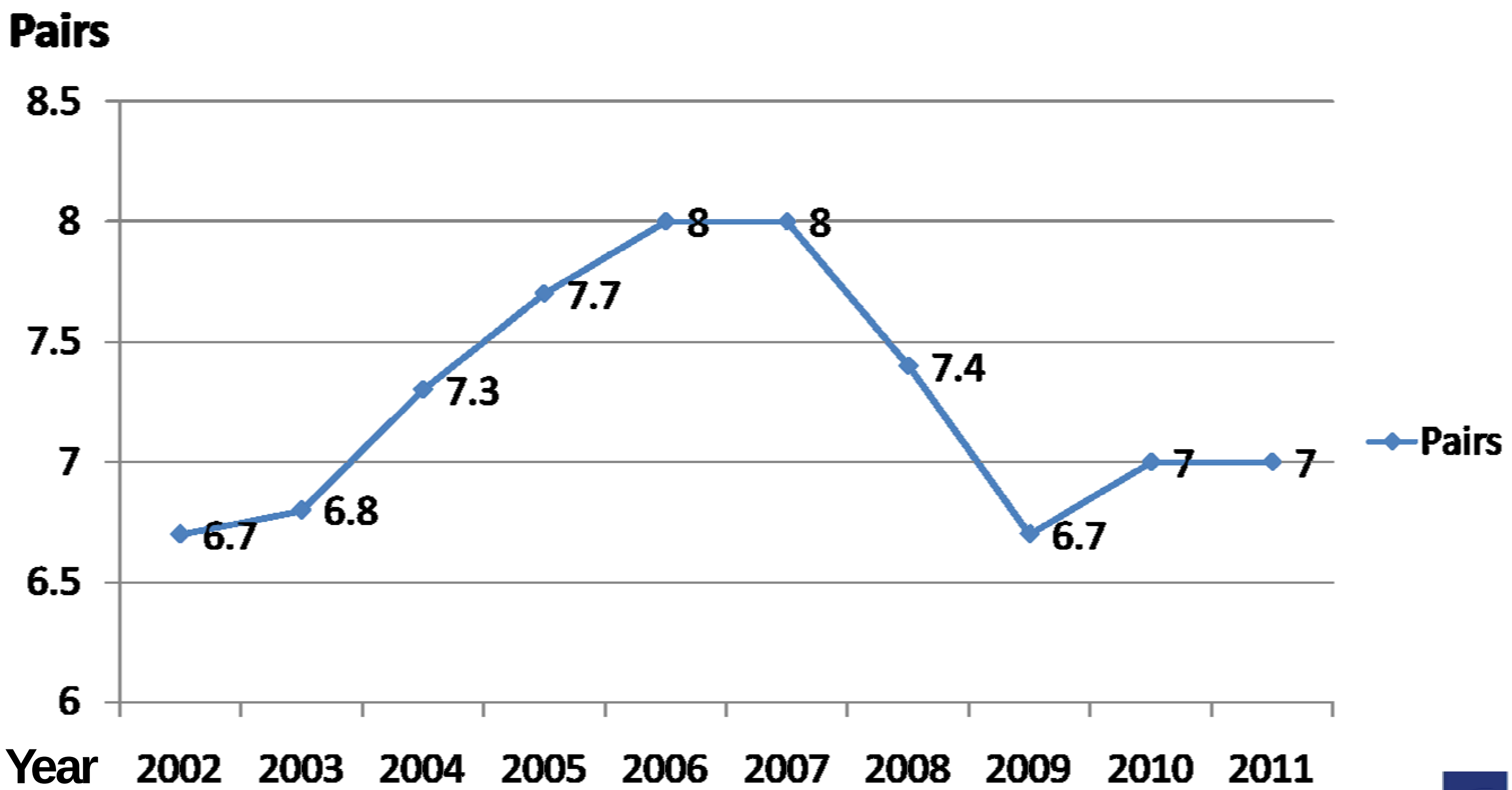
- Some $60 billion in annual retail shoe sales
  - *On average, some 7 pair person sold annually, more than 2.2 billion pair*
- Highly concentrated retail and brands, dominated by mega firms
  - *Nearly half of all retail shoe sales by Wal-mart, Payless, Target, K-mart, etc.*
- Some 45% of all shoe sales are athletic, mostly Nike, adidas, New Balance
- National brands, those sold by numerous retailers, have less than 50% market share
  - *All national brands sold in the US are US based, just a handful of exceptions*
- Only about a third of shoe sales are leather items, rest are synthetic and textile

Key Points

- In the last 40 years, only one event has impacted footwear consumption - athletic.
- Footwear (apparel) continues to lose share to other personal consumption categories.
- Casualization and demographics have dampened footwear consumption.
- Retail landscape has changed dramatically.
- Footwear is a zero sum market share game.

US Footwear Consumption 2002-2011

(Pairs Per Person)

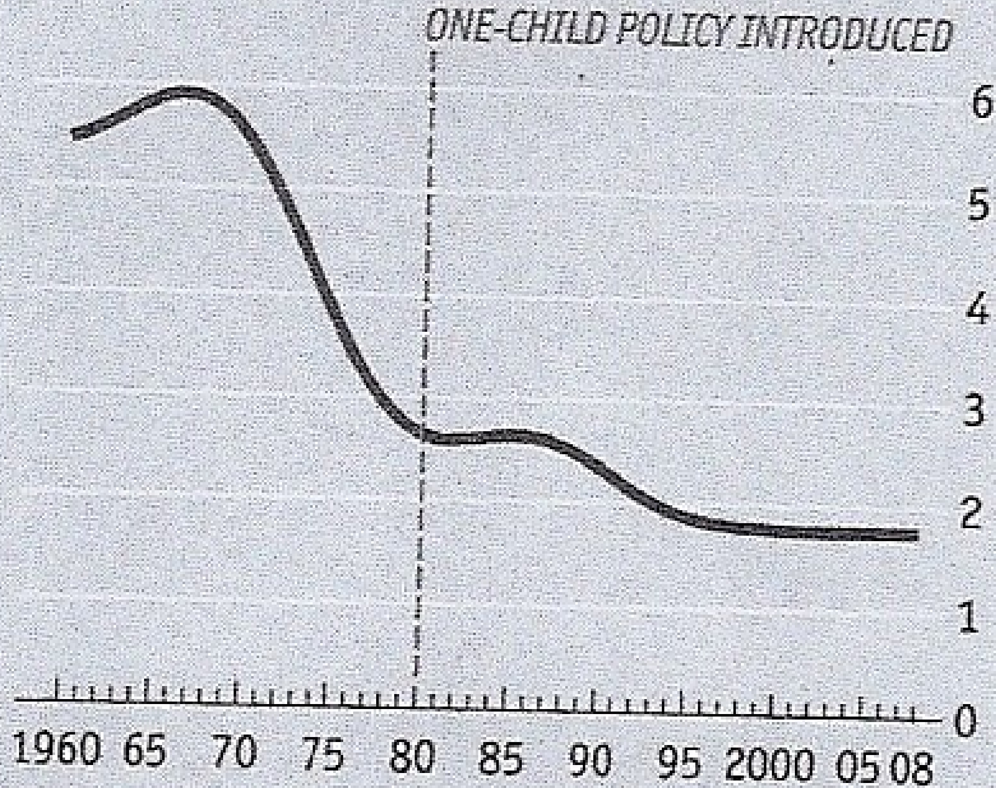


Understanding US Footwear Sourcing

- China is the key for all sectors, close to 90% total share
- China is unrivalled in synthetic, textile and low priced items
  - *Some athletic comes from Vietnam, Indo and Thailand, and some women's leather from Europe, Brazil and India*
- Despite higher costs, labor problems, stronger RMB, etc., China, although not necessarily the Pearl River Delta, will likely be the overwhelming source country for US buyers for many years (although all other options are on the table)
  - *The main reason is the huge investment in shoe industry capacity and infrastructure, nowhere else has anything like it, and none is on the horizon*

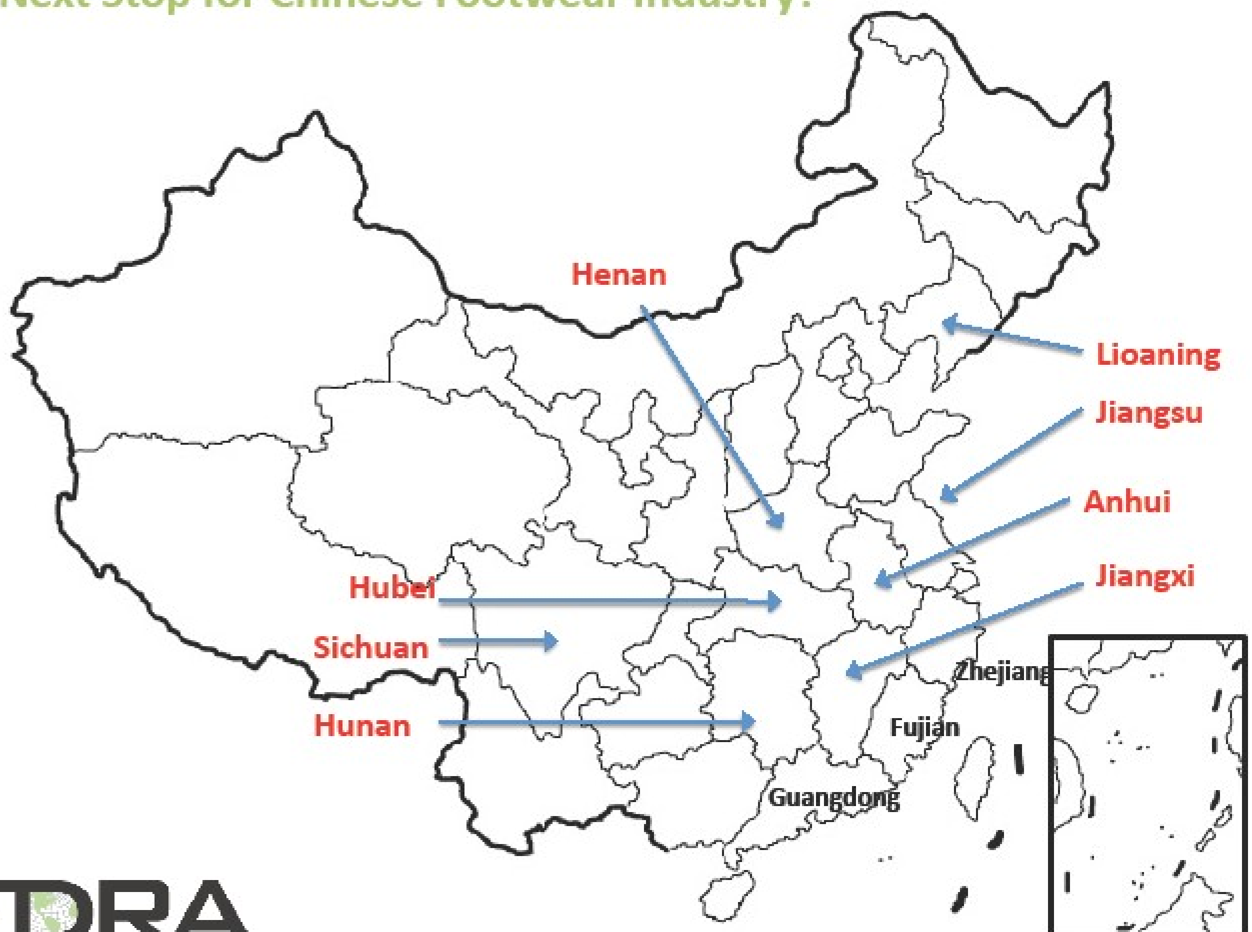
Disappearing act

China's fertility rate, live births per woman



Source: World Bank

Next Stop for Chinese Footwear Industry?



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FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

China Labor Costs by Cluster

(Total cost per hour in USDs)

- Guangzhou 1.39
- Wenzhou 1.17
- Dongguan 1.07
- Fujian/Putian 1.00
- Hunan 0.90
- Jiangxi 0.59

- Weighted
  Average 1.16

Nike–adidas sourcing allocation

Country	2008		2009	
	adidas	Nike	adidas	Nike
China	44%	35%	40%	32%
VN	31%	35%	31%	32%
Indo	18%	24%	22%	28%
Others	7%	6%	7%	6%

Shoe Industry Worker Productivity Comparison 2010

Country	Cost per Hour (1)	Industrial Factories (2)	Investment Climate (3)
India	0.34	3	Expensive
Ethiopia	0.39	0	NA
Vietnam	0.45	20	Expensive
Indonesia	0.97	10	Expensive
Thailand	1.08	5	Expensive
China	1.16	500	Good
Mexico	3.10	2	Difficult
Brazil	3.85	10	Very Expensive
Italy	12.84	2	Expensive
Japan	25.98	0	Difficult

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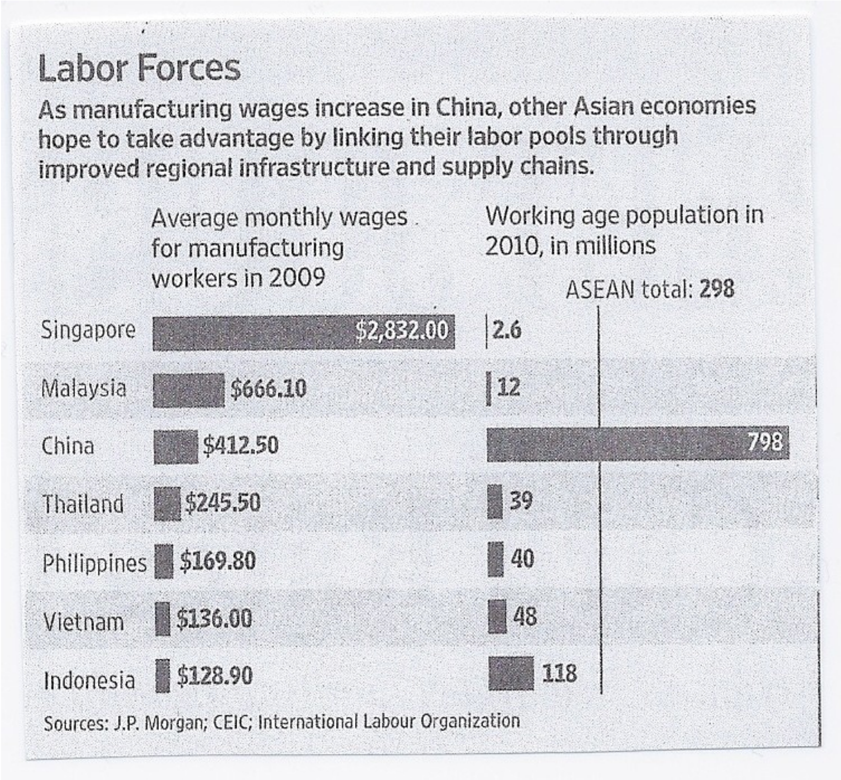
Shoe Industry Worker Productivity Comparison 2010

(1)U.S. dollar cost, typical factory cost per worker (wages, social costs, etc.) and typical monthly working hours including overtime, based on industry estimates, current exchange rates.

(2)Approximate number of factories that can achieve high economies of scale, ones that produce at least 5.0 million pair per year (or about 20,000 per day).

(3)Assessment of capital availability to finance production, productivity and expansion.
July 27, 2010

Asia Labor Costs and Labor Pools



Rates of Exchange vs. US Dollar

Country	July 1, 2005	October 20, 2010	Percent Change Exchange Rate
CHINA	8.28	6.64	19.8
VIETNAM	15870	19495	-22.8
INDONESIA	9770	8927	8.6
BRAZIL	2.34	1.68	28.3
EU	1.21	1.37	13.2
THAILAND	41.36	29.99	27.5
INDIA	43.60	44.35	-1.7
MEXICO	10.75	12.53	-16.6

The "Weak" Dollar – Outlook

- Bleak
- Big risk: collapse due to inflation, weak banks, etc. – loss of confidence in dollar and U.S. economy
- Short-term: dollar is actually somewhat strong due to U.S. treasuries "safe haven" – but will it last?
- Hope: economic stimulus and lower commodity prices, rate cuts stabilize banks and reignite growth
- Huge, unprecedented federal bailout, stimulus and new social spending (on health care, stimulus, environment, etc.) creates crushing U.S. debt, and now QE2!, more Fed 'flood'.
- Likely outcome: long-term weak dollar value, lower U.S. standard of living, slower global growth
- Seminal shift of wealth away from U.S.

RMB vs U.S. Dollar

- Appreciation (controls external inflation, hurts exports, draws in 'hot money' and causes 'bubbles')
- Higher wages (drives local demand and inflation, promotes productivity and social stability)
- Together – 'magnifies' both, crushing exports
- Higher interest rates (slows growth, helps savers/consumption, avoids revaluation)

US Footwear Imports 2009

Country	Pairs	% Change	Value	% Change	Unit Value	% Change
China (87%)	1,788.4	-8.6	13,197.6	-7.0	7.38	1.7
Vietnam (6.0%)	124.7	11.8	1,322.1	9.1	10.60	-2.5
Indonesia (1.9%)	40.5	8.6	445.7	11.25	11.25	3.0
Brazil (1.5%)	30.3	-20.9	380.9	-26.0	12.57	-6.4
Italy (0.6%)	13.9	-32.9	764.6	-31.7	55.07	2.1
Thailand (0.6%)	12.6	-31.7	156.4	-35.7	12.41	-6.6
India (0.5%)	9.6	-9.4	163.3	-12.9	17.00	-3.8
Mexico (0.5%)	11.3	24.2	211.5	3.9	18.72	-15.3
Taiwan (0.3%)	7.8	-42.6	62.1	-58.2	7.96	-27.2
Hong Kong (0.2%)	6.4	-13.5	34.6	-39.8	5.41	-30.6
Dom Rep (0.2%)	4.4	-26.7	107.6	-39.8	24.45	21.0
Spain (0.1%)	2.1	-36.3	105.8	-37.6	50.38	-1.9
Other (0.08%)	18.9	27.7	492.5	-15.57	26.06	17.57
World Total	2,067.2	-8.1	17,342.2	-9.1	8.39	-1.0

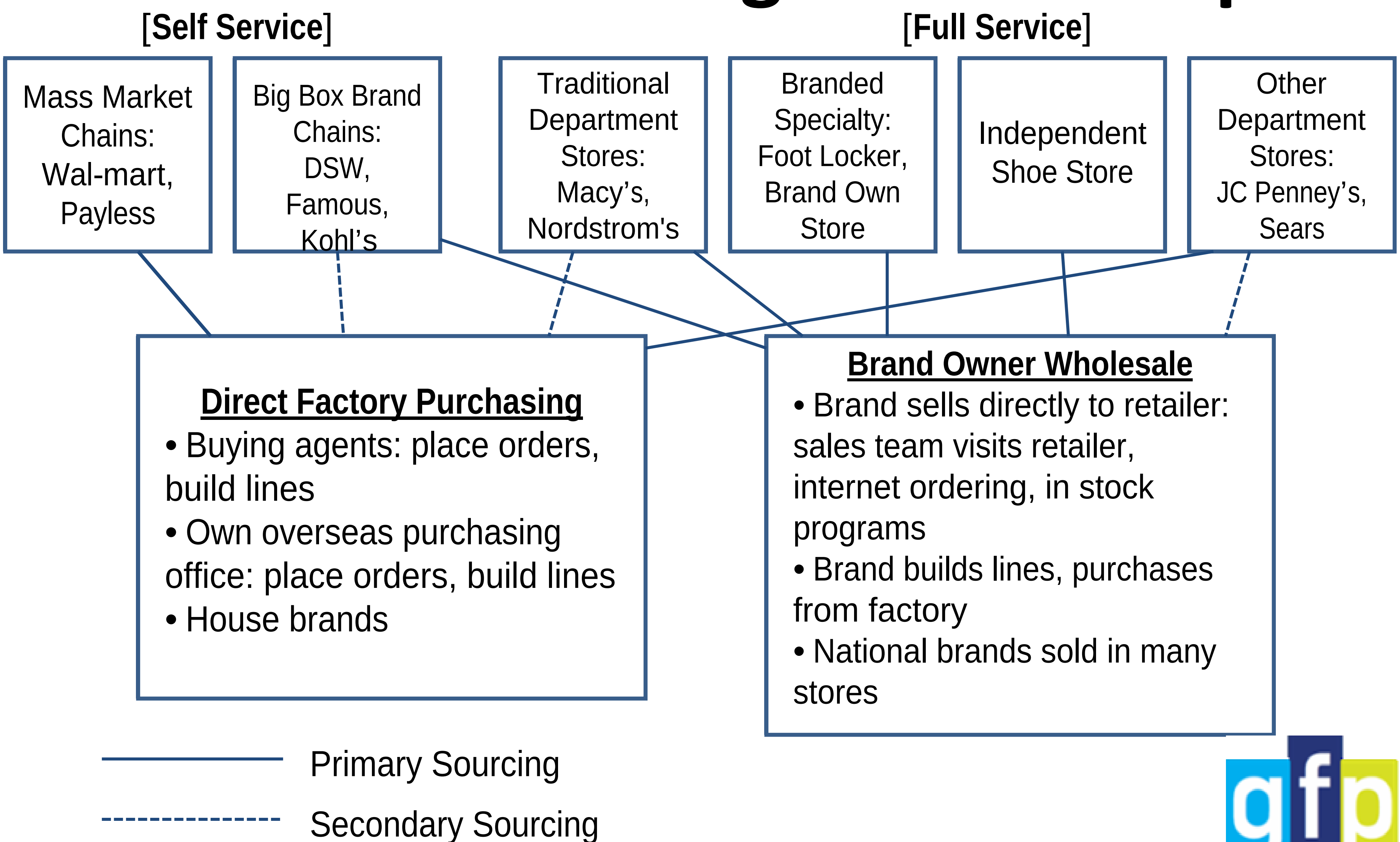
US Footwear Imports Jan – June 2010

Country	Pairs	% Change	Value	% Change	Unit Value	% Change
China (87%)	1,088.1	14.2	7,009.7	9.0	6.42	-4.9
Vietnam (5.6%)	69.7	4.2	762.6	5.9	10.94	1.7
Indonesia (2.2%)	26.9	23.4	301.4	27.0	11.20	2.9
Brazil (1.9%)	23.4	16.4	195.5	-1.6	8.36	-15.4
Italy (0.6%)	8.0	5.3	398.3	7.7	49.79	2.1
Thailand (0.4%)	4.8	-38.5	58.5	-37.6	12.19	-1.5
India (0.4%)	5.8	11.5	84.3	3.7	14.53	-7.1
Mexico (0.6%)	7.1	65.1	119.2	40.2	16.79	-15.1
Taiwan (0.3%)	3.9	-7.1	27.9	-13.6	7.15	-7.0
Hong Kong (0.3%)	4.1	95.2	23.7	76.9	5.76	-9.7
Dom Rep (0.1%)	2.2	10.8	53.5	12.6	24.65	1.8
Spain (0.1%)	1.2	11.3	59.0	11.9	49.08	3.5
Other (1.2%)	7.7	2.8	100.2	-15.57	13.01	17.57
World Total	1,253.2	13.6	9,290.4	8.6	7.41	-4.1

Understanding US Footwear Brands Leadership

- **Brands capture "space of mind", validating the product with consumers**
  - *How many shoe factories do US shoe brands own? None (a handful of exceptions)*
  - *Why do successful shoe brands not own factories?*
- **Making is different from selling—each is fully absorbing**
  - *US shoe brands separate these functions*
- **US shoe brands devote all of their financial and human capital to product development, marketing, promotion, retailing—in short, to brand development/selling**
  - *US shoe brands partner with contract factories that devote their resources to manufacturing*
- How many foreign shoe brands are successful in the US? What has happened to foreign shoe brands trying to sell in the US?

US Retail Sourcing Relationships



US Footwear Retail Leaders

U.S. Footwear Retail/Brands

Percent of Change 2009/ 2010

Company	4th Quarter	1st Quarter	Retail YTD	Total Stores	Sales 2009
DSW*	12.9	16.2	3.2	307	$1,602.6
Payless*	1.0	-2.2	-2.3	4,900	$3,400.0
Famous*	9.0	15.5	0.5	1,129	$1,3364.0
Genesco*	0.0	7.0	-2.0	2,234	$1,547.0
Finish Line*	10.0	10.9	-0.5	667	$1,170.0
Footlocker*	-2.3	4.8	-6.3	3,500	$4,854.0
Brands					
Nike+	7.0	8.0	-2.0	210	$19,176.0
adidas+	1.3	3.7	-4.0	N/A	$13,495.0
Brown Shoe(|)	5.8	3.5	-10.2	306	$2,242.0
Steve Madden+	17.1	22.5	10.2	92	$503.6
Sketchers+	30.4	43.5	0.0	204	$1,436.0

*Comparable stores sales for retailer. Retail YTD = Fiscal 2009.
(|) Wholesale only.
+Wholesale and total retails for brands.
Retail year ends January 30, while brands have various closings.

Departments Stores

- *US department stores are mega emporiums that are the leading outlets for most nationally brand shoes, especially women's.*
- ***No US shoe brand can claim to be well known with consumers without being prominently represented in the key stores.***
- *The only truly nationwide one is* ***Macy's****, which operates some 850 stores in nearly all states and has sales of some $25 billion. It has been struggling a lot lately, losing several billion dollars in 2008, and same store sales for the three quarters of 2009 at minus 7.5%.* ***Shoe sales represent about 10% of sales or some $2.5 billion.***
- ***Nordstrom****, which operates some169 stores, mostly on the two coasts, had sales of $8.3 billion in 2008, with* ***shoes representing some 21% of sales or nearly $1.7 billion.*** *The company had operating profit of about 9% in 2008, but same store sales were down 6.5% in the first three quarters of 2009.*
- ***Dillards*** *operates some 300 stores, mostly in the center of the country, had sales of $7.0 billion in 2008, negative profit of 5.6%, and weak same store sales of minus 9.0% for the first three quarters of 2009.* ***Shoes represent 13% of sales or some $900 million in 2008.***
- *There are about a dozen more regional and local department stores in the US.*
- *They are 'must' customers for all the brands, but their mark down money polices and other rules based charge back regimes often make turning a profit for the brands a daunting challenge.*
- *Increasingly, these stores are doing direct factory buying overseas to secure the higher margin of selling house brands and typically rely on leading brand wholesalers to develop a direct product program for them.*
- *Other department stores like* ***J.C.Penney, Sears, Kohls,*** *etc. sell some national brand shoes, but rely mostly on house brands exclusive to their store.*

Leading US Department Stores

	2009 Sales		Number of Stores	Average Square Footage	2009 Operating Profit	Shoes % of Total Sale	2010 YTD 1stQuarter
Nordstroms	$8,258	(4.2%)	169	130,000	8.1%	21%	7.5%
Macy's	$23,489	(5.3%)	850	182,000	1.5%	36%*	5.5%
Dilllards	$6,094	(10%)	315	171,000	1.1	14%	2.0%

* Includes women's accessories, cosmetics, and intimate apparel as well as shoes.

Note that sales percent of change is based on comparable sales for the entire store, not just shoe sales.

Retail Stores of Leading Shoe Brands

Nearly all US shoe brands have their own retail stores selling only their brand.

- *Nine West*
- *Brown Show (Naturalizer)*
- *Sketchers*
- *Steve Madden*
- *Clarks*
- *Kenneth Cole*
- *Cole Haan*
- *Nike (except malls)*
- *adidas*
- *Puma*
- *Ecco*
- *Rockport*
- *Reebok*

Most have stores in outlet centers, where they sell both closeouts and special make up product. These are highly profitable operations, as there is no middle man and rents are much lower than enclosed malls.

Leading Shoe Brand Stores

- *Many also have stores in regional shopping malls, where stiff rent and competition with department stores that carry the same goods often makes turning a profit a challenge.*
- *Still, owned retailing is often a much more profitable channel than the department stores offer.*
- ***Department stores typically insist on guaranteed gross margins, which if not reached due to mark downs, must be made up by the brand providing 'markdown' payments to make up the difference.***
- ***Still, department stores are the best and often the only place where a brand can develop credibility for its brand with the consumer.***
- *Branded wholesale is profitable business with markups on landed cost at about 50% (so if the landed cost is $10.00, the wholesale would be $15.)*
- *But given the mark down money demanded by department stores, which can run around 25% in some cases, branded firms are very interested in selling independents, where allowances are modest in comparison*
- *Retailers typically operate with a 50-60% margin to the retail price as their initial price (so if the wholesale price is $15.00, the initial retail price would be $30.00 to $40.00) , but price reductions at retail are typical in about a third or more of final sales, with markdowns starting at 20%, but can range to 50% or more*
- *Promotions of buy one and get 50% off the second pair are typical*

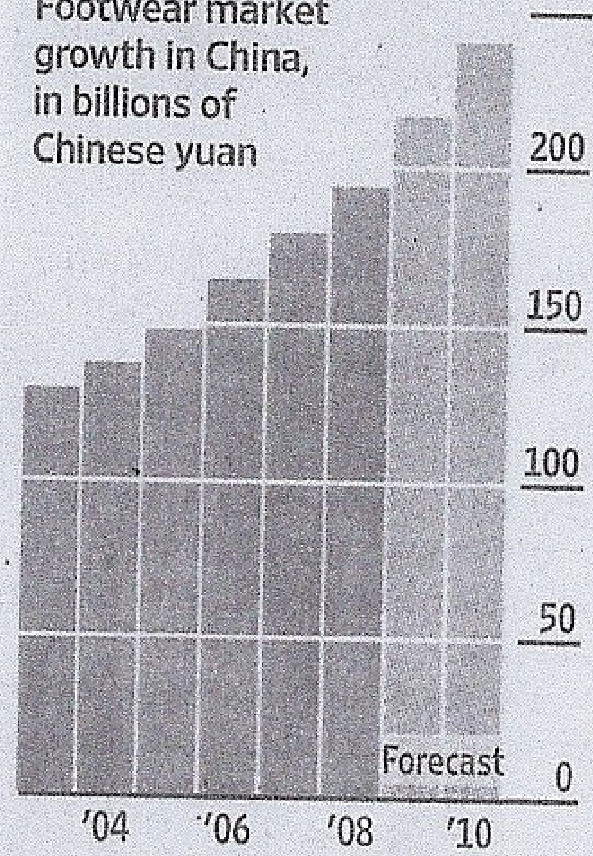
China's Shoe Retailing Revolution

China's Shoe Retailing Revolution

- *A **huge consumer middle class** has burst upon the scene in China in the last decade and now accounts for perhaps 400 million or more customers with good paying jobs, computers, cars, and , importantly, a thirst for mid and upper level ensemble products.*
- ***Auto sales top 13 million** in 2009, more than the US led by GM, VW, Toyota, and several Chinese brands.*
- *Residential real estate market has taken off again with record construction and sale of apartments.*
- ***Shopping malls are now visible in all top and middle level cities**, as well as in intensive street shopping, now present in all cities and towns.*
- *Following on the heels of **Starbucks, McDonalds, KFC, Pizza Hut, Wal-mart, TESCO, C&A, Metro**, etc., a flock of international apparel and shoe chains/brands have flooded into China recently.*
- ***Zara, H&M, Next, Topshop, Gap, Urban Outfitters, have joined Nike, adidas, Clarks, Naturalizer, Nine West, Sketchers, etc.***
- *While **Nike** has some 5,000-7,000 stores/counters and **adidas** some 5,000(both nearly all franchisees) , some of these guys have catching up to do as the shoe retail scene is largely filled by a troupe of Chinese chains/brands that dominate the market and are now top leaders in the global shoe retailing business.*
- *Athletic shoes/apparel accounted for nearly $8.0 in sales in 2008, with **Nike** at 18.8%, **adidas** at 14.9% and **Li Ning** at 11.1%.*
- ***The market is huge for shoes --- one survey suggests that the overall local market in China is now some 6 to 8 billion pair annually or about 4 to 6 pair per person. (Note that the EU market is only about 2.8 billion and the US about 2.2 billion), an other suggests retail of $40.0 billion or some 2.5 pairs per person or about 3.2 billion pair sold annually.***

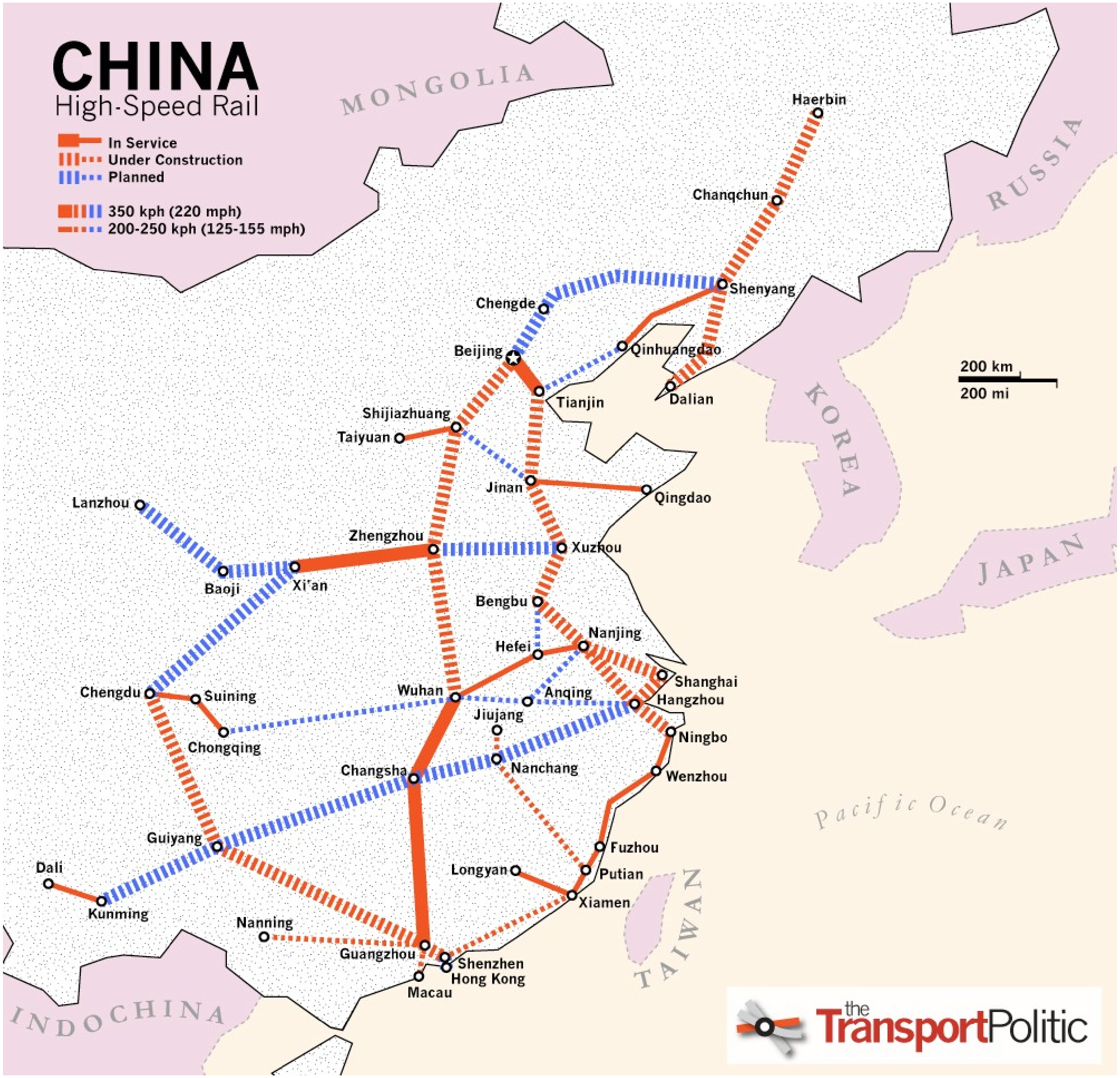
Run-Up

Footwear market growth in China, in billions of Chinese yuan



Note: 100 billion yuan = $14.76 billion

Source: Euromonitor International


CHINA
High-Speed Rail
In Service
Under Construction
Planned
350 kph (220 mph)
200-250 kph (125-155 mph)
MONGOLIA
RUSSIA
KOREA
JAPAN
TAIWAN
INDOCHINA
Pacific Ocean
200 km
200 mi
Haerbin
Chanqchun
Shenyang
Chengde
Beijing
Qinhuangdao
Dalian
Tianjin
Shijiazhuang
Taiyuan
Jinan
Qingdao
Lanzhou
Zhengzhou
Xuzhou
Baoji
Xi'an
Bengbu
Nanjing
Hefei
Shanghai
Hangzhou
Chengdu
Suining
Wuhan
Anqing
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Chongqing
Changsha
Nanchang
Wenzhou
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China Shoe Retailing's Unique Structure

- ***Vertically integrated shoe firms run just about all shoe retailing in China.***
- *Unlike the US, EU, etc. where shoe chains and department stores buy product from brands and sell multiple brands to their customers,* ***retailers in China sell a single brand direct****ly and exclusively to the public --*
    - *(1) through their own (or licensed) brand, street or mall stores and/or*
    - *(2) in their own leased space in department stores (which collect all receipts through their POS systems and claim a stiff percentage of sales -- typically 20-30% -- as the main part of the lease obligation).*
- ***Franchising/licensing is also a key strategy for brands*** *not owned by the retailer, especially for international ones, who partner with companies that operate single brand stores/counters in department stores, to whom product is furnished on a wholesale basis. The licensor brand typically sets the retail price and sells wholesale to the franchisee at one third the retail price.*
- *Thus, there are no commercial 'buyers' of shoes in the traditional sense, and, accordingly no major shoe shows in China to service the huge local market.*


PARKSON 百盛
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达芙妮 DAPHNE

Belle International

- *This Hong Kong based giant now operates more than 9,000 full service shoe stores all over China, as well as several hundred more in Hong Kong.*
- ***Sales topped $2.9 billion USDs in 2009 with operating profit at 14.3% (!!)***
- *About 6,000 units are their own mostly single brand stores including* ***Belle, Teenmix, Tata, Staccato, Senda, Millie's, Mirabell,*** *etc., and licensed/franchised brands which include* ***Bata, Geox, Clarks****,* ***Mephisto, BCBG, Merrill, Sebago, Caterpillar****, etc.*
- *Another 3,000 units are shops devoted to one sports brand including* ***Nike, adidas, Reebok, Converse, Puma, and Li Ning****.*
- *Note that the leading sports brands license multiple franchisees, so it is not unusual to see a half dozen* ***Nike or adidas*** *shops in central business district shopping areas or even in malls, each with slightly different offerings*
- *For its own brands, it does all product development and outsources about half of its production with all product made in China. For t he most part, it acquires its licensed /franchised product on a wholesale basis from the brand owner.*
- *Most stores and leased areas are relatively small and inventory turn is modest at about 2.5 annually.*
- *Stores carry relatively little inventory due to limited space, but some 50%of sales is through reorders, which typically have a 21 day turnaround.*
- *Part of the reason for restrained sell through is intense completion, the other is the high prices --- shoes in Belle are about $90 and boots $150 USD and up.*
- *But given the rents, 20 to 35% of sales, and the 17% VAT included in the retail price, it is not surprising that prices are so high.*


BeLLE 百丽
arrivals
7.
gfp

Yue Yuen (Pou Chen)

- *The $5.0 billion in sales mega manufacturer of athletic shoes for **Nike, adidas**, etc., is also a huge shoe retailer in China, operating some 5,000 street stores and counters in department stores topping $850.0 million in sales in 2008.*
- *Their YY Sports chain sells most major sports brands of shoes and apparel.*
- *They are also a major operator of shops under the **Nike, adidas, Converse, Hush Puppies, 'AEE', Ameda**, etc. brands.*

Daphne

- *Led by a prominent Taiwanese OEM shoe producer, this retailer of women's shoes operates about 4,000 stores in China under the* ***Daphne, and Shoebox brands.***
- *They are phasing out of licensed operations with* ***Nike and adidas****, but are now opening stores for* ***Arezzo, Sofft and Born.***
- *Notably, this group is expanding its store count by franchising its concepts to other operators, while still handling all product development and souring in China from its own factories, and many outsource locations, the latter which account for about two thirds of its needs.*
- *Shoes in Daphne are in $100 range and boots at $200.*
- ***Sales were some $700 million USD in 2009, reflecting operating profit of some 14% and 2.0 times annual inventory turnover.***


达芙妮 DAPHNE

gfp

Other China Shoe Retail Leaders

- ***Anta*** *is the top local athletic brand/retailer operating some 5,600 outlets, mostly street stores with sales on $678 million in 2008.*
- ***Li Ning*** *(6,800 stores),* ***361, Erke,*** *and several others are also top local athletic retailers/brands.*
- ***Kangnai, Aokang,*** *and others each operate thousands of men's stores all over China.*
- ***Top Gloria, Harson, KMD, JC Collectione,*** *are just a few more prominent ones.*
- ***Stella****, the leading manufacturer of men's and women's casual shoes for export, now has nearly 200 stores selling the very high end in women's fashion with shoes at $150 and boots at $300 and up.*
- *US women's giant,* ***Brown Shoe,*** *now operates some 50* ***Naturalizer*** *stores and counters in top cites in China, and may be the first US brand to run own operation, albeit with a joint venture partner for some locations.*


Clarks
AVON
Naturesque


naturalizer
naturalizer

Conclusions

Commercialization: U.S. Market

- **Partnership** with brands and/or chain retailers for direct business
  - On-site monitoring essential: usually means local office or agent for factory interface, quality control.
- **Buying agent**: represents buyer, who pays percentage commission to the agent for design and market input etc.
  - Kids character licenses, women's fashion, athletic, etc.
  - Typically has local presence for which factory pays commission on sales.
- **Independent retailers**: only 10% of U.S. market and 95% are sales of brands; very small direct buying from factories.

Commercialization: U.S. Market

- **Big plus** is concentration in geographical area: Dongguan, Novo Hamburgo, Bangkok, Leon, Marche, etc. Local office can handle numerous factories.
- **Factory** dedicated to exports:
  - local market sales impose overhead costs for line building, sales and marketing at home, which burden export sales, since they provide no value to overseas buyer (who provides own design and specifications)
- **Focus** on market niche
- **Trade shows**: mostly public relations.
- **Wholesalers** without their own brand; none

Conclusions

- *Chain retailers dominate homogenous markets like the US and China but are weaker in fragmented markets like the EU*
- *The US favors nationally branded retailers that sell multiple brands, while China employs retail that sells a single brand exclusively*
- *Leadership by wholesale brand owners in the US in product development, sourcing, advertising and promotion, gives them unique strengths, but are being heavily tested by their leading customers, the department stores, who are moving to more house brands*
- *Department stores in the US face growing attack from the big box, branded discounters, who now have all the key brands, and can offer great values, due to their self service mode and huge buying power*
- *Mass market shoe sales account for nearly half of US shoe sales today, and their improved product offerings, and low prices, make them a growth mode in the declining shoe sales segment*
- *Independents in the US are largely limited to niche markets and need national brands to attract customers, and are in a death struggle with the department stores deep discounts (facilitated by mark down money) and the big box firms that offer immense selection*
- *In a declining shoe consumption era, only the most astute retailers will prosper in the US*
- *In China, the social revolution that is brings tens of millions into the middle class each year will drive continued huge grow in shoe retailing, likely establishing the new norms for the sector in the future*
- ***For Latin shoe entrepreneurs the future seems strongest in the local market, which is poised for powerful growth, and in the international market, especially in the U.S. where partnership with key brands and retailers offer great opportunities**.*

Global Footwear Partnerships (GFP) LLC

GFP provides clients with consulting advice and analysis on all aspects of the footwear sector.

The firm is especially well suited to lead and/or contribute to

- strategic footwear marketing projects,
- company and country competitive assessments, and
- industry and company initiatives to enhance social responsibility and product safety capabilities.

The firm is also highly qualified to advise clients on

- all aspects of the U.S. footwear market including current sales trends, brand and retail status, consumption levels, etc.,
- country and global shoe sourcing capabilities, consumption levels, and sourcing country productivity, etc., and
- footwear government relations projects dealing with international trade regulation issues in the U.S. and in the capital of foreign shoe producing countries.

GFP was founded by and is led by Peter T. Mangione. He brings his unique 30 years of experience in all aspects of the U.S. and global footwear sector to every GFP engagement.

Thank you.