

# FOOTWEAR CONSUMER 2030

Incorporating Global Trends to Foresight Footwear Market



[www.worldfootwear.com](http://www.worldfootwear.com)



**WORLD FOOTWEAR**  
by Portuguese Shoes

A background study  
commissioned by



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APICCAPS 2014

**Who we are**

APICCAPS is the Portuguese Footwear, Components and Leather Goods Manufacturers' Association. The World Footwear project is an initiative of APICCAPS which includes an electronic platform with updated industry news ([www.worldfootwear.com](http://www.worldfootwear.com)) and an annual edition of the World Footwear Yearbook.

The World Footwear website is updated daily with articles relating to the footwear sector, with particular emphasis on production, trade and market dynamics, as well as relevant information about footwear companies. The World Footwear Yearbook is a comprehensive report that analyses the main trends within the footwear sector around the world. The aim of the publication is to analyze the position of relevant countries of the footwear industry in terms of different variables evaluating the strategic positioning of the different sector players.

**Disclaimer**

The content of this document reflects APICCAPS' interpretation of important elements of the market and consumer dynamics. Although due care was taken in the preparation of this document, APICCAPS offers no guarantee as to the completeness of the statements contained within the document and is not to be deemed responsible for any error or loss resulting from its use. Other organisations quoted herein are in no way responsible for the content of the report or the consequences of its use.

## Presentation Note

This document is the result of a challenge directed by the Organisation of the 5th World Footwear Congress to APICCAPS and in particular to the worldfootwear.com team to identify the most impactful consumer trends over the forthcoming decades.

The challenge to carry out this reflection followed an invitation to Professor Alberto de Castro from the Portuguese Catholic University to be a key speaker at the first day of the Congress, and to contribute with his vision about the different expectations of global footwear consumers.

In this context the worldfootwear.com team gathered relevant insight about global trends that are already in progress and impacting our society across the globe. With this in mind we have tried to anticipate some key changes for the footwear industry and the relevant foreseeable impacts on companies, brands and consumers.

The content of this document should be complemented with the discussion panels at the World Footwear Congress in León, as the combination of these contributions will certainly empower participants to achieve a better knowledge and understanding of the current status of the footwear industry and its expected future development.

# Contents

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**Rebalancing**

Page 7

**Ageing**

Page 12

**Female Power**

Page 18

**New Globalisation**

Page 22

**Online**

Page 27

**Sustainability**

Page 33

**Low Cost Shortage**

Page 38

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In a society with an economy characterised by change and volatility, World Footwear proposes a reflection based on the trends that will impact on our world over the next few years. As a result of this exercise we will offer some insights into economic, demographic, social and cultural trends, while we consider their implications not only from a global point of view, but also focusing on the impacts in the footwear industry in particular.

It is not our objective to forecast how the world will perform in economic or political terms, and we do not wish to quantify the impact of such tendencies in terms of industrial output or economic growth. We won't reflect on geopolitical shifts of power, and it is not our intention to anticipate the direction public spending or government policies will follow. The aim is not to present numerical predictions of any kind but what we propose to do is to identify existing trends and reflect upon them, as we believe they have potential to gain further momentum over the next decades.

We will focus on topics such as globalisation, ageing and a growing middle class, as these trends are already undeniably in course. We believe such trends will have strong impact in the way products are developed, commercialised and used.

All these changes will occur in a global economy, in which access to information becomes more democratized and where consumers all over the world contact with the same messages, images and knowledge. Technology is developing fast, and access to the internet and major media channels results in consumer empowerment, impacting on the way buyers interact with the brands they acquire the products from. This also gives companies and brands the opportunity to develop an emotional bond with existing and potential clients all over the globe, greatly supported by social networks and online platforms.

While economic growth continues, a new middle class is starting to appear in emerging economies and this will have significant implications for demand, consumption and ultimately in production. Businesses will have to understand where the potential to grow their activity is and how and where can they potentially gain more clients. More than working to keep a share in the local market, companies will have to think forward and understand where their consumers are located, regardless of the political borders that separate them. New markets in distant countries might become key destinations for brands and companies, resulting in diverse locations with customers with difference preferences and a varied demand with implications in the design of the products, which will require a constant attention devoted by companies to the product's requirements.

**Consumer preferences and behaviours will evolve as a result of changes in demography, economic growth and with the massification of information and communication**

Another element to bear in mind in this scenario is without any doubt the growing ageing population, which is not a recent phenomenon, and will continue to intensify. Countries from different continents are starting to face the consequences of having an older population, and although this is much more associated to developed western countries such as the United States or Europe, emerging and developing countries won't be immune to the trend. On the contrary, China, for example, is one of the nations that will have to start to act upon this as it will be hit with the consequences of a rapidly ageing population over the next few years.

The only certainty one might have about the future is that it will be uncertain. However, despite all the unpredictability that lies in the years to come, one thing can be taken for granted: consumer preferences and behaviours will evolve as a result of changes in demography, economic growth and with the massification of information and communication. Businesses, companies and brands cannot ignore these facts, and it will be vital for them to act in anticipation instead of reacting quickly.

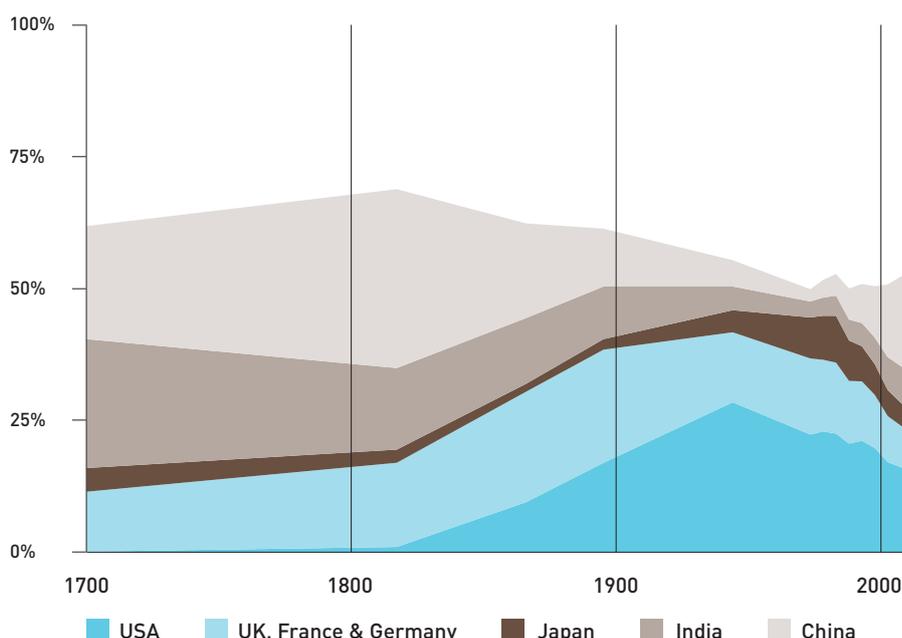
# REBALANCING

## Is economic power shifting back to Asia?

### REBALANCING

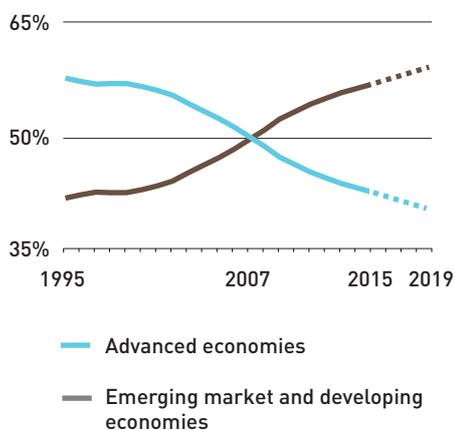
The rebalancing of the economy is a trend fundamentally linked to economic growth and to the realignment of powers caused by the dynamics of development. Nowadays there is a profound discussion about the rising of the Asian superpowers, but what most fail to acknowledge is that this won't be the debut of Asia as a leading region in the economic stage.

Figure 1  
**Distribution of Income (1700 to 2019)**  
Share of World GDP



Source: Groningen Growth and Development Centre and International Monetary Fund, World Economic Outlook Database, October 2014

Figure 2  
**Share of World GDP (PPP)**  
Percentage



If we go back to 1700, India represented roughly 25% of the world GDP, China had a little more than 20%, Japan less than 5%, a set of three European countries (UK, Germany and France) had a share just slightly above 10%, and the US had a residual share. In 1950 the US peaked with a share of the world GDP slightly above 25%, corresponding to an historical minimum contribution by China (just below 5%). At that time, India was still registering a decline in its contribution to global GDP. In 2000 China and India presented growing trends, while the other three blocs continued to decline their share of the world GDP, a trend which is expected to continue in the years to come.

Emerging markets and developing economies have been more dynamic in the recent evolution of GDP. The forecasts for the next few years indicate the maintenance of this trend. By 2019 advanced economies will represent 40% of the world GDP, ie, at a level slightly below the contribution of emerging and developing economies in 1995.

Source: International Monetary Fund, World Economic Outlook Database, October 2014

## The growth of consumer spending is more intense in emerging economies

This obviously represents a change in the commonly accepted paradigm, as throughout the last decades consumption and production presented dynamics of growth that were geographically distinctive: consumer spending growth was mainly associated to the US, Japan and European countries and manufacturing activity was mainly identified with Asian countries. As the US and EU economies were hit with recession and now grow at a slower pace, they will tend to import less (while focusing on increasing exports), and China and other Asian economies will have to shift away from the current model of economic growth based on exports to focus on their domestic market. As a result a significant share of the global growth of consumer spending will take place in emerging markets, and this will have implications for companies and brands worldwide.

Ferragamo and Prada, famous luxury product's retailers are already taking advantage of this dynamic, having increased their sales in the Asian region over the last years.

### Luxury brands shift their attention to Asia

#### Ferragamo

Salvatore Ferragamo S.p.A., founded in 1927, is the parent company of the Ferragamo Group, a key player in the luxury goods industry.

The group focuses on the creation, manufacture and sale of footwear, leather goods, clothing, silk products, other accessories and perfumes, eyewear and watches. With an extensive network of more than 600 single-brand stores by the end of 2012 (338 directly operated stores and 268 third-party operated stores or spaces), the group complements this with a strong presence in high-level multi-brand department stores and specialty stores. Ferragamo products can be found in Italy and in over 90 countries across the European, American and Asian markets.

As of 31st December 2007, the Asia Pacific region (excluding Japan) represented 26.1% in total revenue from the core business of the Ferragamo. Recent numbers presented by the group confirm a share of 37.8% for the Asia Pacific market in total revenue as of 30th June of the current year. Growing by 6% in the first half of the current fiscal year, revenue in Asia Pacific increased from 165.9 million euros in fiscal 2006 to 466.5 million euros in the financial year ending at the 31st January 2014, a growth rate of over 180%.

#### Prada

Prada S.p.A. and its subsidiaries are known as Prada Group, and are a global player in the design, production and distribution of luxury items, including leather goods, handbags, footwear, apparel, accessories, eyewear and fragrances. Its products are sold in 70 countries worldwide through a network of directly operated stores and a selected network of luxury department stores, independent retailers and franchise stores.

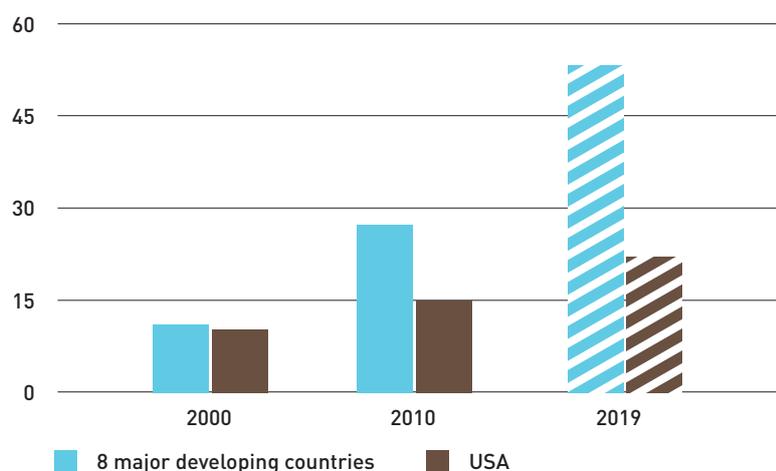
The Asia Pacific region represented 36.4% of the revenue generated by the Prada Group as of the end of January 2014, confirming it as the group's top market in terms of revenue. To the excellent sales

performance in Asia, with an 11.4% growth during fiscal 2013, much contributed the 27 net new openings in the region. Out of a total of 79 new stores worldwide, Asia Pacific attracted roughly 35% of the new openings. If we go further back to the beginning of 2009 (31st January) revenue generated in the Asia Pacific region reached 282.7 million euros, growing more than 350% in just 5 years to reach 1 292.8 million euros by the end of January 2014.

### Combined demographic and economic growth

Although potential to economic growth is important it cannot be analysed in isolation. If we take into consideration the eight major emerging countries (Brazil, Russia, India, China, Indonesia, Mexico, Turkey and Vietnam) we see that they represent roughly 49.4% of the world's population. This set of eight countries together generates a GDP that is twice the US GDP, but they have a population ten times greater than that of the US. This means that currently almost half of the world population is earning a very low per capita GDP. Also, these countries are the ones presenting the most dynamic demographic and economic growth, and the combination of both dynamics offers a huge potential for future growth of per capita GDP.

Figure 3  
**GDP (PPP) Trend**  
Trillion Dollars



Source: International Monetary Fund, World Economic Outlook Database, October 2014

### Poverty reduction is on the way

As income rises and as economic growth consolidates, those living in extreme poverty start to have access to new opportunities that allow them to escape that status and push down poverty levels. Reduce poverty, its causes and manifestations, has been on the political agendas over recent years and in September 2000 at the UN Millennium Summit, the world's leaders set it as a goal for the Millennium development agenda. According to UNESCO's definition, the international standard of extreme poverty is set at an income of less than 1.25 US dollars a day.

With this in mind, some studies point to a reduction by 50% between 2010 and 2030. The drop in the number of those living in extreme poverty has been quite substantial in East Asia already, especially in China, where more than half its population was living below the poverty line (60.2%) in 1990.

**Middle class growth will intensify**

That percentage declined dramatically in nine years reaching 35.6% in 1999, according to statistics made available by the United Nations. In a similar way, other developing countries are expected to follow the same route decreasing poverty levels, as their income rises.

Economic growth and increasing income will be an opportunity not only for those living under the poverty line, but will also result in a growing middle class. According to a study presented by Ernst & Young, in 2009 there were 1.8 billion people considered middle class. By 2030 that number is expected to almost triple and reach 4.8 billion people, representing roughly 3 billion new consumers joining the middle class. As this number grows, purchasing power will tend to increase resulting in additional consumption, and even increment of savings.

The middle class growth will be made at the expenses of the reduction of the number of poor people living in the planet, and projections seem to indicate that by 2030 most of the world's population will be part of the middle class, improving their status from a current situation in which the majority of the world's population is poor.

Figure 4  
**World Population by Income Class**  
Billion People

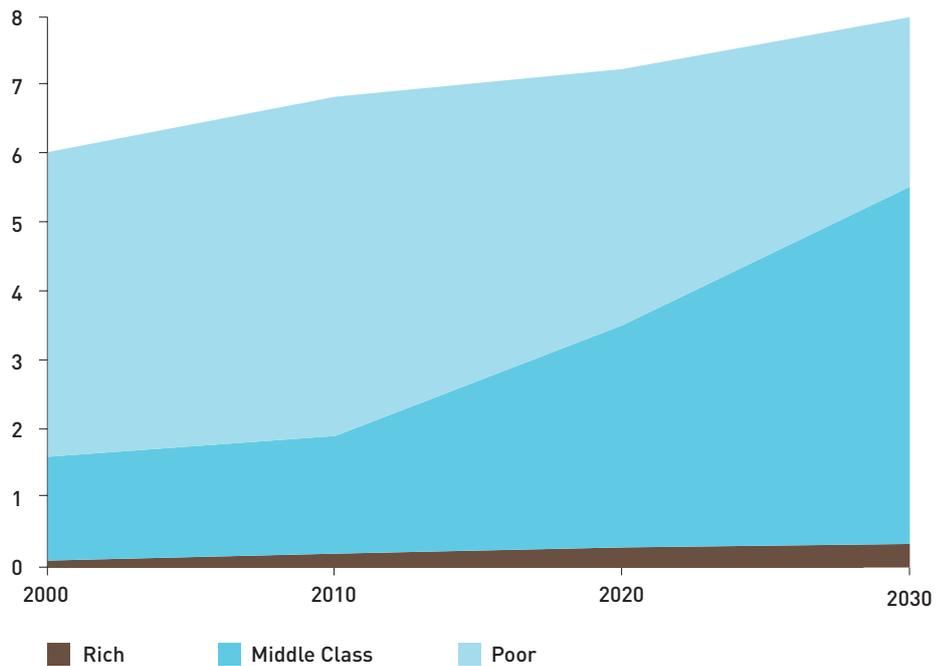
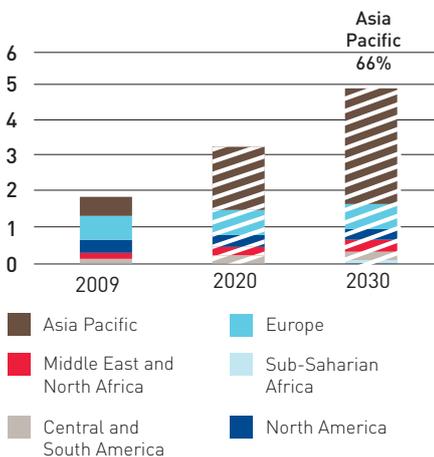


Figure 5  
**Middle Class Population by Region**  
Billion People



Source: The World Bank and IEMS; Kharas and Gertz, 2010

The conjunction of the different elements of this scenario in developing and emerging countries, with the middle class growing while the number of people shifting poverty increases and the economy as a whole develops, result in huge additional consumption within the next few years, which makes these very important and attractive markets for companies and brands.

Source: IEMS; Kharas and Gertz, 2010

# Rebalancing

## CHANGE

### **Economic growth in emerging countries**

Economic growth will be registered outside the traditional developed world (US, Europe, Japan) and will be concentrated in the emerging countries (Asian countries)

### **Demographic dynamics in emerging economies**

Demographic dynamics will be most striking in emergent economies as a result of a more dynamic labour market combined with economic growth and increasing purchase power

### **The gap is closing**

Countries in the developing world are quickly catching up, not only in economic terms, but also in other aspects, such as the use of new technologies

## IMPACT

### **Consumption shift**

Emerging markets will rise and grow, becoming attractive destinations for many companies and brands. Consumption growth will shift from conventional traditional developed markets to emerging ones

### **Different consumer preferences**

As new markets emerge on the global economy platform different consumer preferences surface and demand for certain products increases at the expense of more traditional ones. This will have an impact on the product's development

### **Close to production markets, distant from traditional consumption market**

With the current economic issues impacting the European and American economies, companies from these countries will focus their attention on Asian markets where they already have manufacturing units, which approximates production to market. However, a close to production status will mean a higher distance from traditional consumption markets

### **Concentration in consumption markets**

This approximation to production will occur in markets where strong local competitive players (some with thousands of selling points) already market their products, benefiting from in-depth know how about the local market

### **Geographically disperse**

Some of the new developing countries such as China, have markets that are geographically disperse, which requires a huge investment and a significant financial effort from companies to approach them

### **Different price tags**

Developed economies placing their products in emerging markets will face different price strategies: they will compete with local manufacturers with low price products produced in those countries; they will position products manufactured in the developed world and commercialised in emerging markets at a higher price range

# AGEING

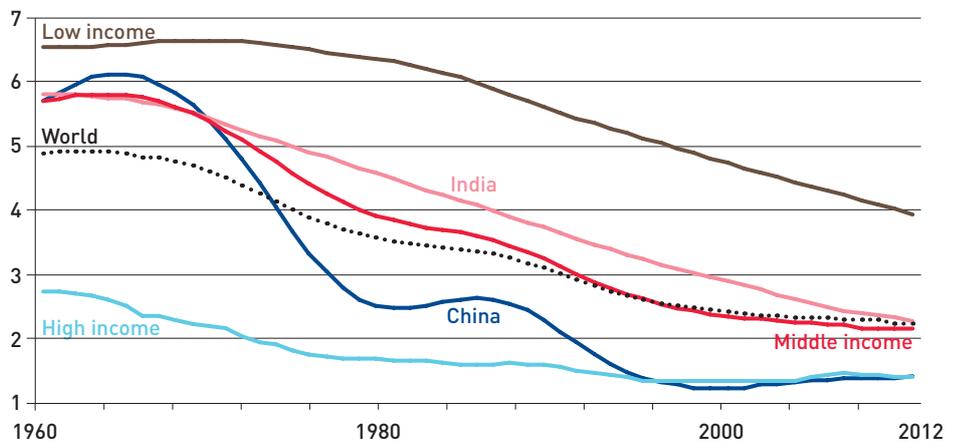
## Is the world getting older?

### AGEING

According to recent statistics by The World Bank, the average world fertility rate is 2.47 births per woman. This is the reflection of a massive drop in the average fertility rate from the 4.98 births in 1960 to 2.49 in 2010. Although this is a tendency across the globe, impacting low income countries as well as middle and high income ones, the reduction rate was different. If we take China as an example, in 1960 the fertility rate was 5.76, a number that started to drop significantly in the eighties following the implementation of the one child policy, and which resulted in a 1.66 births per woman in recent years.

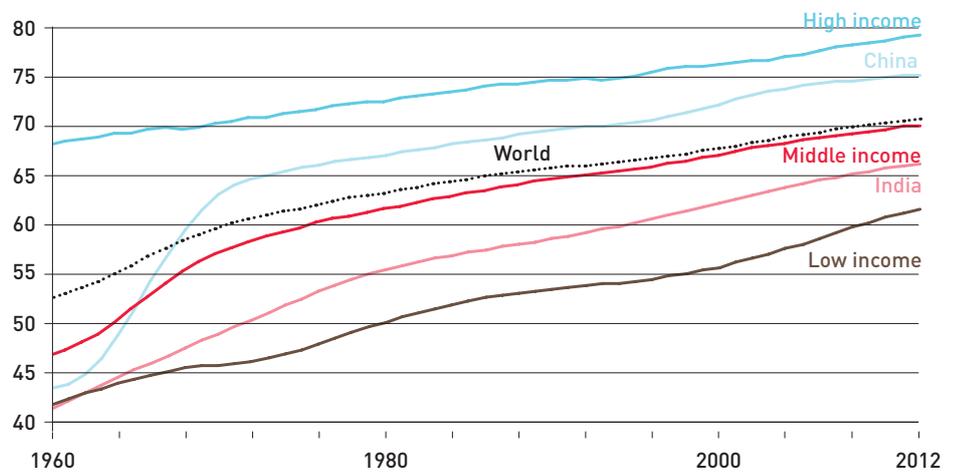
Figure 6  
**Fertility Rate**  
 Number of children per Woman

### Global fertility rate is converging



Source: The World Bank, World Development Indicators

Figure 7  
**Life Expectancy at Birth**  
 Years



Source: The World Bank, World Development Indicators

While fertility rate decreases across the globe, progresses in the field of health such as new diagnosis and treatment methods, new medicines, techniques and the massification of health treatments has enabled people to live longer lives. If we look at the average global life expectancy age at birth, currently standing at 70.8 years, this has improved massively since 1960 (improvement of 20.3 years). The evolution of this indicator is even more impressive if, again, we look at the numbers in China. In 1960 their life expectancy rate at birth was only 43.5 years, and in just over 50 years the country managed to improve this by 31.7 years, now reaching 75.2 years, 4.4 years above the world average.

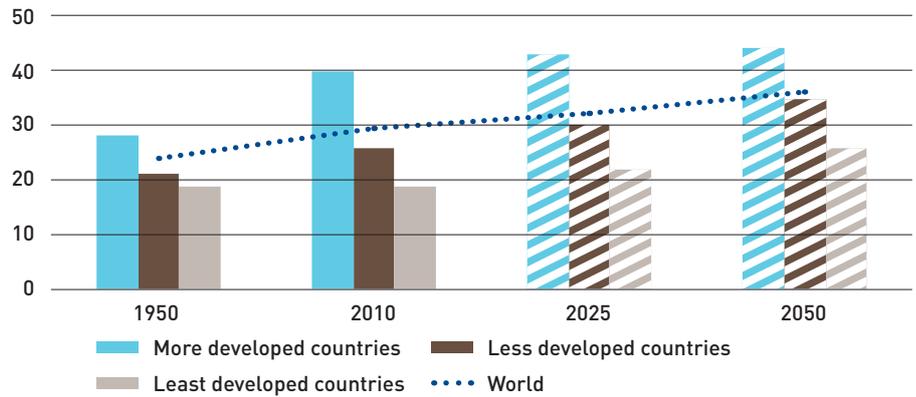
This path characterised by the decrease of the fertility rate and the increase of the life expectancy at birth is common to all countries, but its rhythm and its timings differ. Despite similar starting points across the globe, the group of high income countries managed to reduce the fertility rate at a faster pace than low and middle income nations, while increasing life expectancy at birth. Although improvements in these areas are expected to continue, especially in low and middle income countries, the future evolution is not expected to have the same breadth and pace.

Another demonstration of the ageing population is the shift in the median age, with this being the age that divides the younger from the older half of the population. At a global level, the median age, changed from 24 year in 1950 to 29 years in 2010, and The United Nations predict that this will develop to 36 years in 2050.

### **Median age is growing very fast**

An analysis based on income areas, shows that less developed regions will have a big shift in the median age over the next decades, moving from 26 years in 2010 to 35 years in 2050. As for the developed regions, the pace is expected to slow down, and the movement should total only four years increment from 2010 to 2050, after a rapid increase from 28 years to 40 in the period 1950-2010. In the least developed countries the mean age in 2010 was 19 years old, exactly the same as 16 decades earlier, with the indicator recording no progress at all during that period. A more favourable evolution is expected to occur until 2050, when the mean age in these areas should reach 26.

Figure 8  
**Median Age**  
 Years



Source: United Nations, World Population Ageing 2013

Not surprisingly, developed countries record better performance under all these indicators. If this is the result or the cause of a higher education is difficult to establish, as development and education can be seen as cause and effect of each other. Development offers more opportunities for a higher number of people to access education and contributes to a higher participation on the workforce and labour markets. In this scenario people tend to marry later, have children later and have fewer children which results in lower fertility rates and a shrinking population. From a different perspective a discouragement from having (more) children can be attributed to the rising costs of education, as the higher degree of sophistication inherent to a developed economy demands more skills from workers and higher education levels.

### Education and medicine improvements play a critical role

Besides the correlation between development and education, progresses in the field of health such as new diagnosis and treatment methods, new medicines, techniques and the massification of health treatments have to mentioned as they have enabled people to live longer lives. Consequently, the share of elderly people in the society has increased, raising new problems and demanding new solutions. A low birth rate have also led to a decline in the working age population and to a larger proportion of middle-aged workers.

The demography dynamics are interlinked and it is very complicated to analyse them in isolation and to identify which elements are the causes and which are the consequences. Besides, regardless of what causes what, the fact is that fertility rates have decreased significantly over the last decades, while average life expectancy has increased. There is no sign that any of this will start to invert.

## Chinese one child policy rises special problems

China, already mentioned by its excellent performance in terms of life expectancy gains over the last five decades, is one of the countries that will have to start to take action to deal with the ageing population problem as it will be hit with the consequences over the next few years. Due to their one child policy China has the 1-2-4 problem, as most households have a structure that includes one child, two parents and 4 grandparents and where a significant part of its population will soon have to support economic and social charges related to a family structure characterised by the strong presence of older relatives.

As the world population rapidly ages, the psychological, individual, and social value judgments that shape consumers' behaviours also change. Senior citizens value usability, reliability, and the adequate style of products and services, but that will tend to be complemented with concerns not to compromise lifestyle. These will create new business opportunities for companies focusing on products for older people, namely footwear.

Other businesses related to services aimed at older people or people with certain health limitations caused by ageing will continue to come forward and develop and footwear with specific characteristics aimed at reducing the impact of certain limitations will continue to expand at a fast rhythm.

On the other hand, as life expectancy increases and the population ages, the health industry will continue to evolve and health related expenses met by governments and individuals will keep its increasing trajectory. As more people work in the health sector, such as doctors, nurses and other helping staff, requirements for specific shoes aimed at these occupations will continue to increase, creating new opportunities for the footwear industry.

### A new demand for medical and therapeutic footwear

Several types of footwear with characteristics focused on older people or patients with chronic disease states are in development and some items are already being marketed. These incorporate the specificities of such conditions.

With advancing age, there is a tendency for the foot to show increased soft tissue stiffness, decreased strength and range of motion and a more pronated posture. A pronated foot, for example, has more weight on the inside edge of the foot, which can give the appearance of the ankles bending slightly toward each other. This changed shape of the feet would require a different fit of shoes. A study by Hylton B. Menz of the Lower Extremity and Gait Studies Program in the School of Allied Health at La Trobe University in Melbourne, concluded that adults over the age 65 with disabling foot pain, when fitted with extra-depth footwear witnessed reduced pain and improved function. The extra-depth footwear users were more likely to confirm moderate or improved pain over the period of the study while developing fewer keratotic lesions, like corns or calluses. This type of footwear is often marketed to people with diabetic foot ailments, however, the underlying cause of the foot pain seems to be quite irrelevant to evaluate the results of the extra-depth shoes. The reason seems to be that regular footwear is generally too shallow and narrow to accommodate bunions, hammertoes and clawtoes, so the friction that develops within the shoe leads to pain and reduced function, and well fitted shoes won't rub or pressure as easily sensitive areas.

Also, Alzheimer and other dementia demand a re-engineering process for existing products, which is now very focused in the so called smart shoes with GPS incorporation. This kind of footwear aimed at specific market segments already exists, as footwear for dementia sufferers or children whose movements some parents want to keep track of is currently available and commercialised. Shoes for people with certain allergies, anti-bacterial footwear and products orientated for overweight individuals met an increasing popularity in recent years, and this will continue as manufacturing innovations continue to be developed and applied to this type of products.

However, footwear for people suffering from diabetes is one of the most commonly used examples to illustrate the growing importance given to this segment. In the United States, for example, the Medicare program sponsors a pair of these medical shoes per year, which is quite revealing of the importance attributed to footwear specially orientated to health issues.

Even Crocs claimed their shoes have therapeutic benefits and got a certification by the U.S. Ergonomics Council and the American Podiatric Medical Association. The famous clog's brand claims the spare room and antibacterial properties of their shoes help combat the reduced circulation in the feet of patients suffering from diabetes and reduce the risk for open sores and wound infection.

These products will continue to be developed as the older age group continues to flourish, and some will evolve from niche orientated businesses to have a broader reach; however some issues will need to be addressed.

One is the problem associated with the image of medical or therapeutic footwear, as there might be some resistance or reluctance showed by patients, especially women, to wear it because of its unattractive appearance. This however, creates new opportunities for companies to develop products that managed to gather medical characteristics with elements of style and design.

Another problem results from the necessity to have a prior clinical evaluation within scientifically acceptable conditions in order to ensure doctors can clearly recommend certain medical shoes, and this is what is missing in many brands with products claiming therapeutic or health benefits. One element that might compensate this is the increasing public scrutiny with individual consumers and organisations actively seeking information about the products available. Vibram, the maker of the famous FiveFingers barefoot-style running shoes is an example of the consequences of this increasing awareness. After claims filed against the company by one individual defending there was no science evidence to back up the health benefits claims, the famous brand reached an agreement of 3.75 million US dollars in May 2014 to terminate the lawsuit hovering over them.

# Ageing

## CHANGE

### Older population

On average the world population will be older and older, as a result of life expectancy improvement and lower fertility rate, which characterise the developed world and which started to impact the developing economies

### Global problem

The ageing problem will impact almost all the countries in the world and will have to be on the agenda for developing and emerging countries

### China's 1-2-4 problem

China in particular, will be under specific pressure as a result of more than three decades of the one child policy which created the 1-2-4 problem. Consequences of this will start to be pressing within the coming decades as many of the parents (the 2) retire from the labour market

## IMPACT

### Combine comfort and lifestyle

As consumers get mature their demand for footwear will focus on comfort shoes without compromising lifestyle

### Different characteristics will be valued

Usability, reliability and a long life cycle are characteristics of the product valued by mature consumers and will rule consumption of footwear

### Higher price sensitivity demand

While looking for the above listed characteristics, mature consumers will be more sensitive to price variations

### Footwear adapted to health problems

New types of footwear and new models of shoes design to suit customers with different health problems (shoes for diabetics, shoes for people suffering from dementia, shoes for people with specific allergies)

### Evolution of the foot shape

The size and shape of people's feet might alter as a result of transformations occurring in the body's ligaments and tendons through the ageing process. As societies age there will be higher demand for shoes adapted to the altered foot

### Footwear for the health sector professionals

A new important segment will emerge, with the increasing importance of the health sector. Professionals from this sector require footwear with specific characteristics and as this sector develops and gains more importance, demand for this type of footwear will grow

# FEMALE POWER

## The gap in male and female education is closing

### Another billion on the way

#### FEMALE POWER

The economic empowerment of women across most developed economies is a remarkable change of the past fifty years. Millions of people were once dependent on men, and that changed in just a few decades.

Improved technology reduced the amount of time needed for the traditional female tasks of cleaning the house and cooking, creating the ability and will for women to work outside home. On the other hand, as countries developed access to education becomes more democratic and widespread and in this process more girls attended school and started to work, resulting in a strong empowering movement.

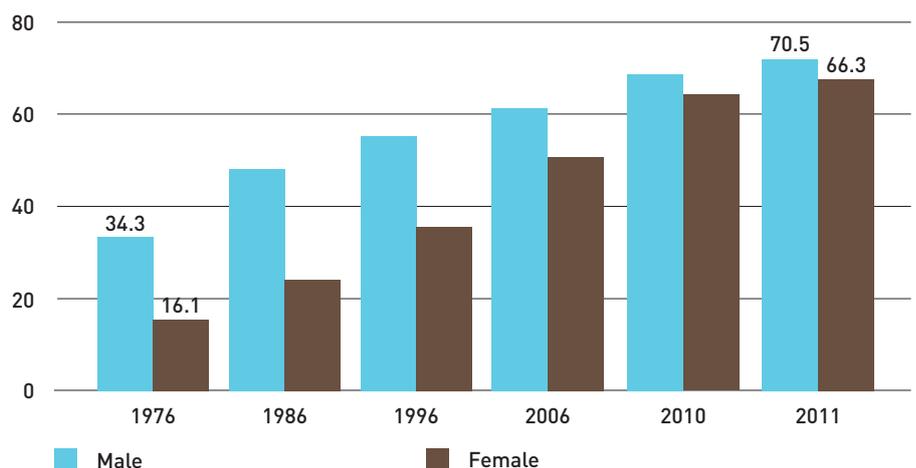
Once girls complete their education they will wish to incorporate the market workforce instead of working in the household as their mothers did. They will have a strong wish to be more independent financially and that will drive them towards the labour market. This will result in a larger workforce available in countries where girls attend school.

India can be used to illustrate this dynamic. Back in 1976 India had very low levels of enrolment on secondary educational level, both for male and female, although men achieve a percentage (34%) twice the enrolment of women (16%). Over the next two decades male enrolment improved significantly, and the share of male enrolled on secondary education increased to 55% by 1996, while women's share was roughly 36%. Recent data from 2011 show that female and male enrolment is now very similar, respectively 71% and 66%. In just four decades, India managed to close the gap in the enrolment on secondary education between men and women, and as these educated women join the workforce in the next years, the impacts of the investment in education will start to be seen.

Figure 9

#### Indian enrolment on secondary education level

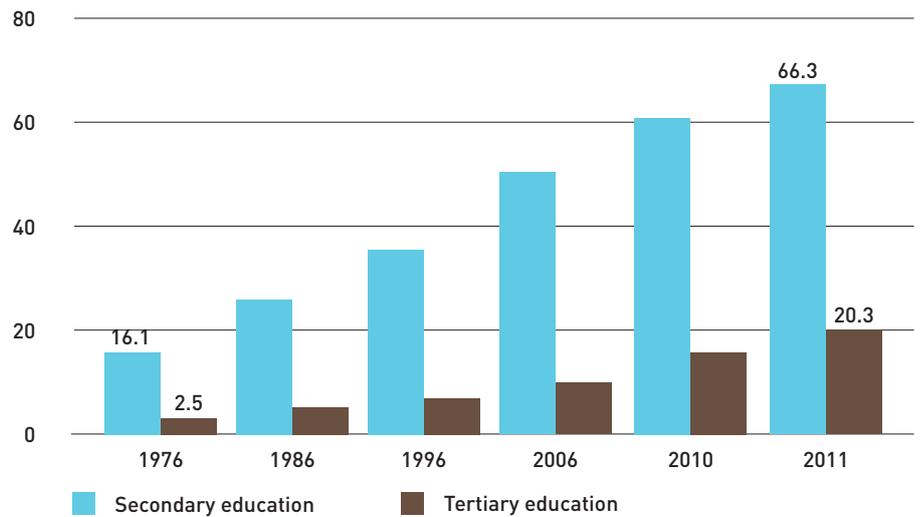
Percentage of total population



Source: United Nations, UIS Data Centre

Although the improvement in the enrolment of women on secondary education has been quite impressive in India, female tertiary education enrolment is still very low, and improvement was mainly witnessed in the last few years, with the share going from 15% in 2010 to 20% in 2011. If women's enrolment in tertiary education continues at this rhythm it is expected that within a decade the Indian labour market will collect the benefits of an increasing workforce with higher education levels, with more skills and better prepared for work.

Figure 10  
**Indian Female Educational Enrolment Ratio**  
 Percentage of total population



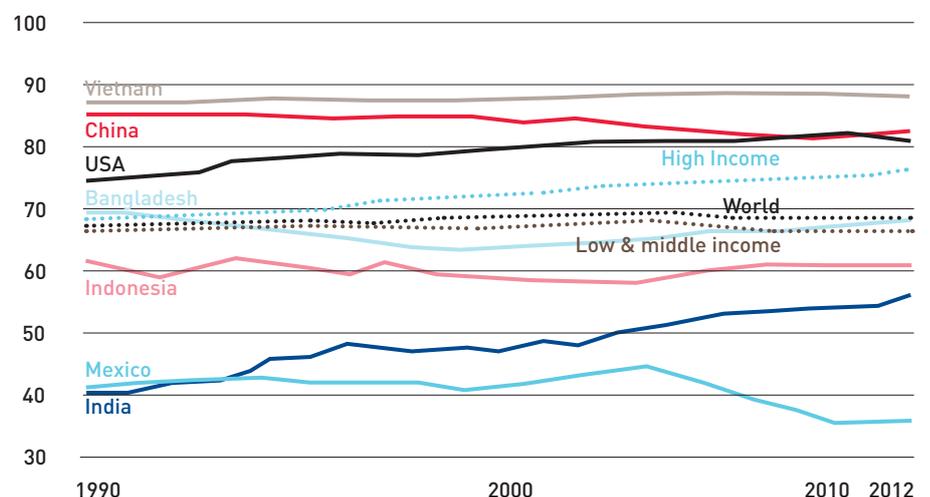
Source: United Nations, UIS Data Centre

**Higher education levels empower women**

In fact, in the past the expansion of higher education has also boosted job options for women, improving their value on the market and shifting their role models. As women have gain greater access to education they will wish to work outside the house, to earn better salaries and be able to acquire certain items. As women become more active in society they will also empower themselves.

The world average women’s participation in the labour force has been quite stable over the last two decades (from 67.4% in 1990 to 68.4% in 2012), however their presence has increased dramatically in high income countries, going up from a share of 68.9% in 1990 to 76.9% in 2012. India, a country with significant economic growth potential for the next years, currently presents very low women’s participation in the labour market, (35.6%), but female enrolment in different educational levels seems to indicate this country will have an excellent opportunity to witness a significant increment on the number of women entering the labour market within the next decades.

Figure 11  
**Ratio of Female to Male Labour Force Participation Rate**  
 Percentage



Source: The World Bank, World Development Indicators

## One billion women will be empowered in one decade

Some studies point out that one billion women will enter the economic mainstream within the next decade as a result of increasing migration to cities, as education opportunities improve across the globe (and in particular in developing countries), and with changes in the legal and social framework resulting from the globalisation process. Although it is arguable that these women will have the same access conditions to jobs and salaries, the increasing female participation in the workforce will result in higher disposable income in their households. On the other hand, as women start to work outside the house their economic independence is complemented by social, political and cultural empowerment, and they become more active decision makers.

## Women as the primary decision-makers for household spending

This takes particular relevance as women are the primary decision-makers when it comes to daily household spending and bulk purchases for their families. Even for goods and products to be worn by men, there is a huge involvement of women in the decision making process, and they are also inclined to invest more in their children's education.

Some companies are already working this segment of low income women and working on strategies to approach them. Bata, the global footwear company, has a campaign in Bangladesh focusing on very low income families, which consists of door-to-door sales accessing remote areas of the country. More than a sales strategy aimed at increasing revenue significantly, what Bata is doing is investing in a strong marketing and brand awareness tool with potential to result in a strong customer's loyalty rate as these women move up the income ladder.

### Marketing 1 US dollar shoes to below poverty line population

Bata is a key player in the footwear sector, producing and commercializing shoes and accessories for women, men and children across the globe. Employing more than 30 000 people in 36 countries, of which more than 20 are in the emerging markets. There are 25 company operated production facilities across 20 countries and 5 000 stores across 60 countries. Bata's reach is worldwide, however the company favours a local presence, with different factories located around the world to focus on the domestic markets, through local joint ventures. This is simultaneously a cost-cutting strategy and a cultural statement of the company who aims to know its customers better and create the best possible products to meet their needs.

The Aparajita's programme, allowing easier access to areas with poor infrastructures, it's a key brand awareness tool for Bata. The programme is an attempt to go around certain constraints such as high levels of rural poverty, badly functioning markets, lack of rural investment climate and weakness of local institutions, by applying an unconventional retail model based on thousands of village-based vendors. In Bangladesh, local women walk several kilometres every day to sell the products door-to-door, receiving a commission. The name for the programme – Aparajitas -, meaning "women who never accept defeat", comes from here. The operating model is simple: there are regional distribution centres around the country, and from these hubs the local representatives deliver the products to the village vendors.

The programme is run in partnership with CARE, an NGO operating in the country since 1949, who has significant field knowledge. The initiative can be seen as an example of a base of the pyramid (BoP) scheme, whose aim is to reach consumers at the base of the pyramid who live with less than 2 US dollars per day. From a business' perspective these programs align business goals with sustainability actions, but they also allow brand awareness and loyalty management. Bata confirms: the approach is empowering local sales people, and from a commercial point of view, there has been a "steady increase" in sales. The company also claims that its low-income customers are its most loyal, so brand awareness is a key issue of the program, and will revert in more sales as low income customers grow into middle class. From a sustainability and social responsibility points of view, Bata underlines the benefits of having accessible shoes to low-income people: the use of plastic shoes helps prevent illnesses, increases school attendance (as shoe ownership is a requirement of many schools) and gives people dignity. Once these customers increase their income they will tend to continue costumers of Bata, acquiring more expensive products from high end lines.

## Female Power

### CHANGE

#### **Higher female education levels**

Women will have higher education attendance acquiring new and developed skills to access the labour market

#### **One billion new workers**

One billion new female workers is on its way to join the workforce

#### **Rise in disposable income**

As more women start to work outside the house across the globe, and especially in the developing countries, female's disposable income will rise. This will result in growing purchase power

### IMPACT

#### **Increasing demand for women shoes**

As more women start to work outside the house, there will be an increasing demand for women's shoes

#### **Fashion, fashion, fashion**

Importance of fashion trends, particularly amongst young professional women, will result in a demand for more fashionable women's shoes and accessories

#### **Looking for better fits**

Women are more aware of fashion and more image conscious, bearing more attention to style, which will result in growing demand for better fitting products

# NEW NEW GLOBALISATION

## Do we all want the same things?

### NEW GLOBALISATION

The globalisation process started in the 1400s with the Portuguese and Spanish discoveries and for centuries it was mainly based on international trade relations. This prevailed until the Second World War, when there was a shift in the globalisation paradigm and this started to be seen as a process by which shifts in the value chain would occur. In the period that followed, technological advances have lowered costs across the different stages of development, production and shipping of products to a level where companies could have different stages of their manufacturing process located in different countries. Logistics and transport became less expensive and travel around the world became accessible to a significant part of the population.

With the internet and the massification of communication, access to information and knowledge was also facilitated, as most global information flows through mass media, and nowadays, side by side with economic interdependence, cultural globalisation is gaining force. Cultural globalisation is a consequence of what The World Bank defines as globalisation, which means, the growing interdependence of countries resulting from the increasing integration of trade, finance, people and ideas in one global market place. This cultural globalisation is a further deepening of this and refers to "the emergence of a specific set of values and beliefs that are largely shared around the planet", as defined by M. Castells.

As a result of this, in most countries of the world people born in the 2000's will have a tendency to naturally think and act globally. More than citizens of a specific country these young people will feel and act like citizens of the world, working in different countries along their careers and travelling often, for pleasure and work reasons.

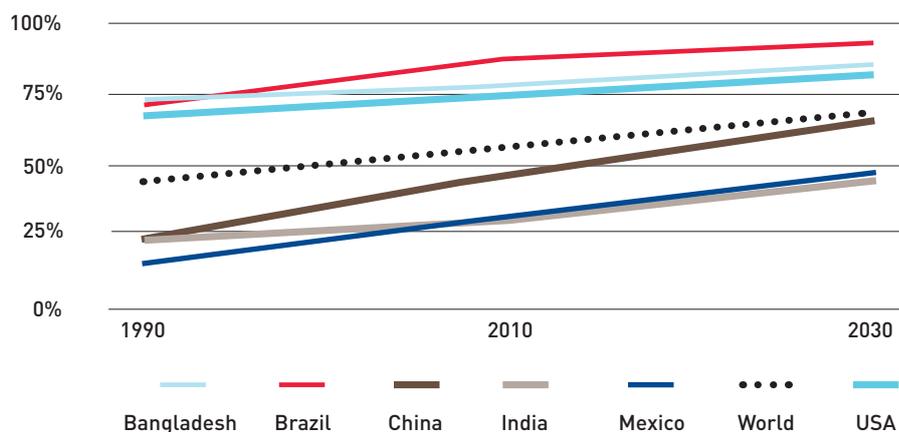
### Migration flows will continue

Cross border or international migration is expected to grow even faster as a result of globalisation as countries will continue to present different age structures which results in different dynamics in the labour market. Income inequalities and the existence of migrant networks will further contribute to migration. In fact, as inequality persists between economies, or cities, there will be an incentive to migrate and move elsewhere in search of better opportunities and increasing income.

### The attraction of urban areas

Side by side with cross border migration, people will continue to migrate inside a country from rural to urban areas. Currently, 51.5% of the world population is located in urban areas, and this will continue to grow. According to The World Bank, 60.3% of the world population will live in urban areas by 2030. This concentration in cities will be particularly strong in countries such as Brazil (90.5%) and Mexico (81.9%). Although, countries like Bangladesh and India present lower concentration rates in urban areas, their evolution must be highlighted by the rhythm at which things are changing in those countries. In 1990 only 19.8% population of Bangladesh was located in cities and 25.5% in India. By 2030 these shares are expected to grow to 44.3% and 40.9% respectively.

Figure 12  
**Urban Population**  
 Percentage in Total Population



Source: The World Bank, World Development Indicators

This movement towards cities happens globally, as there is a common tendency for people to migrate to urban areas, as these are usually associated with better economic conditions and more job opportunities. Although economic reasons are usually pointed as the main driver for migration, environmental factors and climate change might play a part in this as well, as some regions of the planet are constantly affected by floods and natural catastrophes. Scarcity of resources might play a part on this as well.

From the perspective of the country or city receiving the new migrants, there is a potential to increase fertility and reshape the population structure, and in this scenario migration in countries with aged population structures might be a compensation for declines registered in the local workforces.

### The movement of individuals occurs towards rich and sophisticated areas

In this context of an ever growing globalisation and migration to richer areas (cross border and rural-urban) global brands will find enormous potential for growth. This migrant population, who moves around and gets in touch with different realities, and diverse cultures, is more adaptable to new things, becomes more influenced by fashion phenomena, more willing to spend money on clothes, shoes, culture, giving more importance to image, brands and being more sensitive to social issues. The movement tends to happen in the direction of richer, fast paced and more sophisticated places where more importance is given to style and image, and where trend setters are given significant airtime. In this context, brands are a mean to reach an end, as they allow their users to go up in the social ladder, improving status.

### **Fly London : The brand of universal youth fashion culture**

Fly London is a brand owned by Kyaia, the largest Portuguese footwear group born 30 years ago. The brand's moto says it all. Fly London is closely identified with social trends, focused on the urban style with an universal thinking and global positioning ever in line with fashion trends. All of this wrapped up in a strategy very focused on social and cultural movements. To achieve this Fly London has selling points in the most diverse parts of the world, is present on Amazon.com and has at their service a group of young designers who incorporate in their creations the most recent worldwide fashion trends, adding to the new lines all the elements to achieve best sellers: prime quality, attractive design, fashion and a good quality price balance.

After a first decade of existence entirely dedicated to private label manufacturing the two partners, Fortunato Frederico and Amilcar Monteiro, decided it was time to start a project with their own brand. They were at a trade fair in Düsseldorf when they saw an abandoned stand, with a fly printed and named Fly London: "They told us that the partners had separated and wanted to sell the brand. We bought the brand immediately. The Fly London was exactly what we were looking for".

In the first year, the brand only sold 1 800 pairs, and with a factory prepared to receive large orders, sales fluctuated during the early years. It took it five years in the market to witness the significant rise on sales. 20 years later, the brand continues to break records. Over the last year, 800 000 pairs of shoes were sold, and the expectation is that the 1 million barrier will be crossed during the current year.

Kyaia footwear currently reaches 56 countries and the group currently produces 4 500 pairs of shoes per day, distributing production around the factory in Guimarães and 3 other plants in Paredes de Coura, both regions in the North of Portugal, where the footwear industry has its roots and where most Portuguese footwear production is based. The group believes they will be on the top 5 of European manufacturers by 2024, reaching a daily production of 9 000 pairs.

## Status, style and image favour the development of global brands

While in more rural areas, durability, functionality and quality are the key elements in the buying decision process, fashion reigns in the cities and urban regions. Quantity becomes important and even more relevant than quality, is the perception of a certain status and the potential to have higher levels of recognition associated to the possession of a certain item.

In this scenario global brands will be born and grow within business organisation and from its inception they will seek to derive significant competitive advantage from the sale of their products in multiple countries. adidas and Clarks are two global brands with activities in several countries, and both are implementing strategies to take full advantage of the dynamic increase in footwear consumption forecasted for China and India. These two countries also head the top of countries with more cities with 5 million inhabitants, giving them an enormous potential for global brands with more relevant demand in urban areas.

### Partnerships to consolidate growth in cities

China and India are expected to be the economies with the most dynamic increase in footwear consumption, which will be motivated by both the largest slice of available income (as the country gets richer) and by movements of population.

China has a total of 15 cities with more than 5 million inhabitants (excluding Hong Kong and Taiwan), where more than 150 million people live. India follows with 8 cities with more than 5 million inhabitants (concentrating in that group of cities more than 96 million people).

During the summer of 2014 giant sport's brand adidas, with 7 600 shops across 1 000 Chinese cities announced they intend to consolidate their location coverage in the major cities as well as increasing their footprint in China by expanding to another 400 cities by the end of 2015, with special focus on opportunities in middle sized cities. In order to roll out their China expansion strategy, adidas has partnered with international retail planning experts GMAP Marketing Consulting (Shanghai) Ltd., with the aim of maximizing the impacts of the strategy and focusing on the right locations.

Around the same time, Clarks Future Footwear Ltd, a 50:50 joint venture between Future Lifestyle Fashions Ltd (part of Future Group) and footwear company C&J Clark International, announced their plans to take its store strength in India to 100 over the next two years as demand grows for premium footwear brands. Clarks described the partnership as its strongest worldwide, and revenue generated by the joint venture is expected to hit 33.4 million US dollars this fiscal year.

## New Globalisation

### CHANGE

#### **Concentration in cities continues**

Cities will continue to attract people from rural areas, at a growing rhythm

#### **Intense migration movements**

Migration, inside the country's political borders and across borders, will increase as free movement of people becomes the norm and as travelling costs decrease

#### **Cultural globalisation**

Globalisation will take a different shape, shifting from economic globalisation based on trade relations to an uniformity of consumer's preferences and a standardisation of behaviours. These will be highly influenced by social phenomena and global citizenship

### IMPACT

#### **Brands become more important**

As global trends gain importance, brands become more relevant and important

#### **Organisation of retail in urban areas**

Retail is more easily organised in cities. Mono brand stores are mainly located in cities and urban areas, where there is huge concentration of inhabitants and where a more sophisticated type of consumers lives and shops

#### **Style sensitive**

As consumers are more located in cities and urban areas, where fashion, and image are key elements in people's lives, consumption will become more style sensitive

#### **Fashion, fashion, fashion**

In a world where fashion and style are more important, more and more people will be fashion trend followers. Fashion will influence buying options more than utility or necessity

#### **Higher average number of pairs**

In urban areas characterised by strong retail chains and a diverse supply of products, the average number of consumed pairs will tend to increase

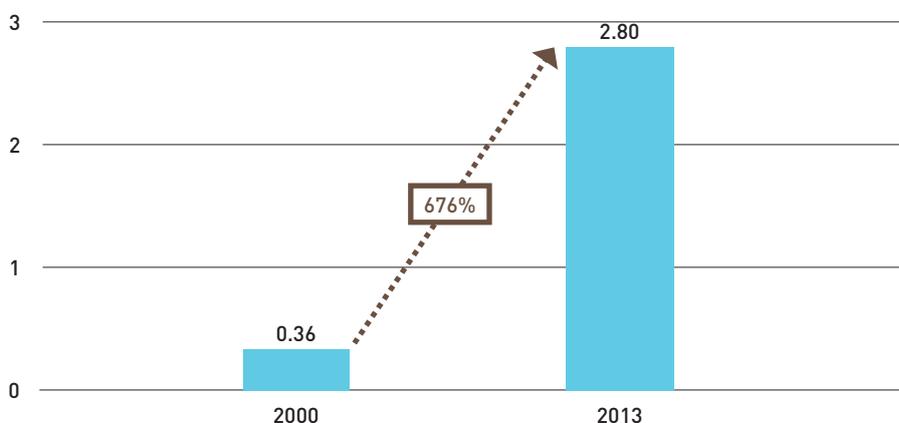
# ONLINE

## Are we moving online?

### ONLINE

If there is an area where progress has been undeniable dynamic in the most recent years, internet massification across the globe and the increasing presence of individuals and brands in the online world is the one. Statistics by the Internet World Stats, show that by the end of 2013, 39% of the world population had internet access, representing a total of 2.8 billion users. These numbers are impressive and result from a global growth rate of 676% over the 360 million users in 2000.

Figure 13  
**Population with internet access**  
 Billion people



Source: Internet World Stats

### Widespread of online solutions

By definition, to be online is to be connected to a computer network with internet access. With the fast growing widespread of the internet across the globe the virtual presence is now a reality for a growing number of people. Users of the internet can access libraries from Universities physically located miles away, or make virtual tours through collections from worldwide museums, read newspapers, magazines and blogs from people living on the other side of the planet, and all they need is a computer or a smart phone / tablet. With wifi connections massively available and with the popularity of smart phones and tablets people are constantly connected to the virtual world, liking photos and posts on Facebook, posting photos on Instagram, commenting on Twitter, looking for new ideas on Pinterest, reading reviews and booking hotels through Bookings, amongst other activities.

### Ecommerce is the natural evolution of an increasing virtual presence of individuals and brands

From mere social activities, people are moving into virtual commerce. Convenience, inexistence of the opening hour's restraint, variety of options, the ability to compare prices and the easy access to other customer's reviews are some of the advantages commonly listed when evaluating the experience of buying online. These explain the increasing interest in online shopping.

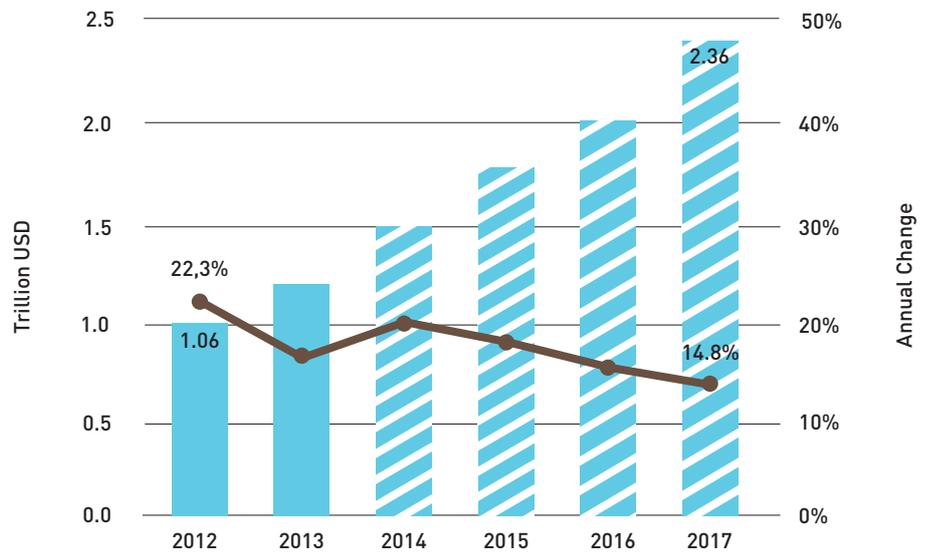
**Online versus brick and mortar shopping**

There are several examples of sectors once considered traditional, who have subsequently evolved into exclusively online. One example of this is the movie rental business, dominated at some point by giant Blockbuster, who in 2006 was said to have a market value of roughly 500 million US dollars, and which ended up closing all its stores in 2013. This business was completely replaced by online renting, online download and online streaming. A similar process is impacting the music business, with well know chain stores selling CDs closing or downsizing operations, such as the Virgin Megastores, originally founded by Sir Richard Branson. The company had hundreds of stores worldwide in the 1990s, but has lost a large number of stores in recent years, and current operations are mainly concentrated in the Middle East.

Examples such as these are common and have led to a heated debate around the growing importance of the online commerce. Fears that the brick and mortar business might be endangered by the popularity of online sales have been on the news in the last few years. Although, there is a tendency to see increases on ecommerce amongst several brands, we believe that online commerce won't replace the sales experience at a high street or shopping centre stores.

In 2013, global B2C ecommerce sales reached 1.25 trillion US dollars, growing by 18.3% from the previous year. eMarketer forecasts this will evolve to annually at two digit growth rates, resulting in 2.36 trillion US dollars' worth of ecommerce sales by 2017.

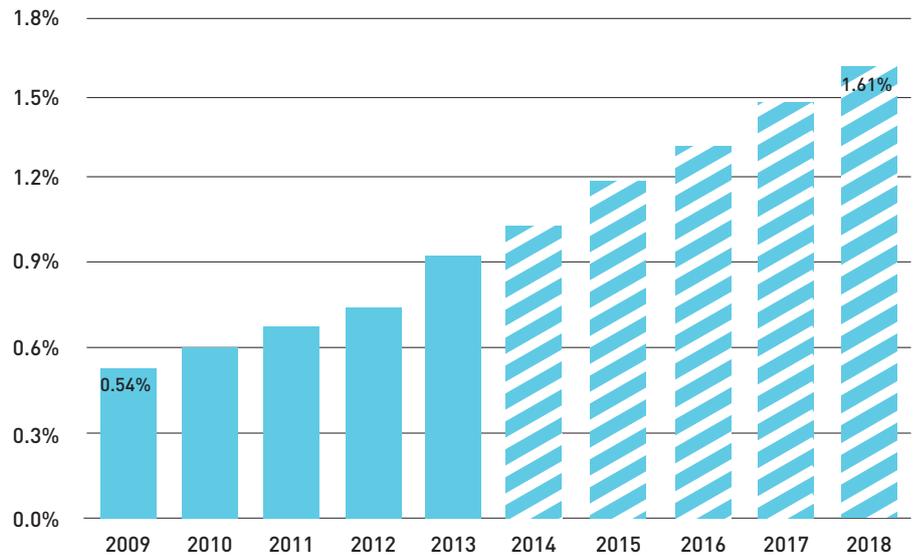
Figure 14  
**Worldwide Business to Consumer eCommerce Sales**  
 Trillions US dollars



Source: eMarketer

In the last five years, B2C ecommerce as a percentage of global GDP has been increasing steady, from a 0.54% in 2009 to a 0.92% in 2013. Forecasts by Statista indicate this growing ecommerce activity will continue and should reach 1.61% of the global GDP by 2018.

Figure 15  
**Business to Consumer eCommerce Importance to GDP**  
 Share of World GDP



Source: Statista

Although, this increase on ecommerce sales cannot be neglected, as it reflects a growing importance of the online channel for sales, it is far from illustrating a situation where the online completely replaces the brick and mortar segment.

Online commerce has a strong potential for new businesses and niche oriented products, as it allows start up and micro businesses to access the worldwide market via a cheaper channel where rents and salaries are not an associated fixed costs as in brick and mortar.

For established brands and companies the online presence is unavoidable and seems to be addressed as a complement to the physical presence of a chain of stores. From this perspective being online is seen much more as a marketing tool than a commercial strategy.

### The importance of big data tools

In a world where many conversation topics emerge from social networks and web based media channels, communication with consumers can use this democratic way of wide spreading information. Some companies and brands are already taking advantage of this phenomenon by setting up integrated strategies to use ecommerce as a loyalty management tool, creating areas dedicated to customers with special offers on their websites, issuing customer cards with special features and linked to websites and social media pages, managing discount schemes based on points obtained from previous purchases, setting up campaigns running on social media, amongst others.

### Omnichannel retail strategies will dominate

In this context, what seems to be the trend is a movement towards the omnichannel retailing, an evolution of multi-channel retailing, concentrating all available shopping channels making marketing more efficient with offers that are relative to a specific consumer determined by purchase patterns, social network affinities, website visits, loyalty programmes, and other data mining techniques.

Online presence also allows companies to get access to invaluable information about client's behaviour, which can be used to develop marketing strategies and to be incorporated in product's development.

Some companies are already focusing their attention on omnichannel strategies and making significant financial investments in marketing strategies that link the traditional shopping experience at the physical store with IT and online features, such as adidas and Foot Locker, and Steve Madden.

### **The a standard by Foot Locker and adidas**

The US based retailer Foot Locker has recently partnered with the German giant adidas to launch "The a Standard" at select locations, taking advantage from the omnichannel retailing tools. A new shop-in-shop retail concept that will carry premium products from both adidas' sport and lifestyle collections. Exclusively at Foot Locker locations, "The a Standard" features an on going rotation of products from Adidas, integrated with interactive technology and a dynamic touch screen delivering in-depth information about the product. A kind of "store within a store" experience consisting of interactive technology and touchscreen displays, providing customers with detailed product facts, useful customer reviews, 3D images, and performance features of the most premium adidas shoes and apparel available in the Foot locker stores and online. By taking advantage of the power of touchscreen technology in-store, Foot Locker is focusing on the empowerment of customers offering them the possibility to learn more about the products on offer. Immediate advantages of the interactive display technology are the ability to grab customer's attention, while creating improved customer satisfaction. This is expected to result in increasing sales and in-store traffic (as brand loyalty with customers develops).

The technology also has the ability to collect analytic data of most-popular viewed items, and most requested information— enabling the retailer to act on inventory adjustments and anticipate buyer actions.

Foot Locker, Inc. is a leading global retailer of athletically inspired shoes and apparel. Headquartered in New York City, the company operates more than 3 300 retail stores in more than 20 countries in North America, Europe, Australia and New Zealand under various brand names. The company operates in two segments: Athletic Stores and Direct-to-Customers. The Athletic Stores segment is an athletic footwear and apparel retailer whose formats include Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Footaction, and CCS. The Direct-to-Customers segment includes Footlocker.com, Inc. and other affiliates (such as Eastbay, Inc. and CCS), which sell to customers through Internet websites, mobile devices, and catalogs.

The sportswear group adidas has a broad portfolio of footwear, apparel and hardware for sports and lifestyle and owns core brands adidas, Reebok, TaylorMade and Rockport. The company's headquarters are in Germany, and in 2013 the group employed more than 50 700 people worldwide.

### Steve Madden focus on Omnichannel strategy

In the summer of 2014 Steve Madden announced a new partnership with Certona, a company specialised in real time omnichannel personalisation. Steve Madden announced they expect to identify new and specific customer segments, and then strategically target content by segment. As shoppers navigate Steve Madden's interactive digital system, they will receive targeted content and product recommendations that most appeal to their individual tastes. Again, the key element is to connect with customers and present them with the fashion and products they love, in a way that is personal, unique and targeted toward their personalities. The brand believes this kind of strategy allows a personalisation and superior shopping experience that will add value and differentiate them from competitors.

Steve Madden designs, sources and markets fashion-forward footwear and accessories for women, men and children. In addition to marketing products under its owned brands, the company also designs and sources products under private label brand names for various retailers. Products are marketed through retail stores and e-commerce websites, as well as department stores, major department stores, mid-tier department stores, specialty stores, luxury retailers, value priced retailers, national chains, mass market merchants and catalog retailers throughout the United States and Canada. The company has distribution arrangements for the marketing of their products in Asia, Europe, the Middle East, Mexico, Australia, South Africa, South America and India.

### New challenges will emerge from online massification

There is another element to consider on the growing importance of the online segment, as the existence of a virtual store requires an adaptation of the delivery systems, which has also resulted in changes in the business of transportation and express services. These companies are now managing supply chains, adding new tasks to their core activities such as acting as warehouses for online stores. To adapt to the online era carriers have revolutionized their business. Obviously new challenges arise from this movement, namely, delivery timings, returns management and online integration with brick and mortar, just to name a few. Some of these questions will be key for the development of the online channel. Companies will have to resolve straightforward customer's issues, such as how long and how easy is the returning process for a customer in Thailand buying a product based in Italy?

Another aspect of huge importance in the online movements that needs to be highlighted in certain industries, such as the footwear sector. More than being a tool used to increment sales, or collect information about clients, the online presence is key in promoting brands and models and to connect customers to social phenomenon and movements closely linked to fashion. Footwear brands cannot ignore the power of the social networks and will have to think about original ways do have a dynamic online presence as a key brand awareness element, grabbing consumer's attention and motivating them to buy their products.

# Online

## CHANGE

### **Growing online presence**

The online presence of companies and brands will continue to grow as more people have access to the internet, especially in emerging and developing countries

### **Online as a sales channel**

The online segment will continue to be a sales channel which cannot be ignored by companies. Comfort, convenience and price comparisons could be key elements to bear in mind in certain shopping decisions

### **Online as a marketing tool**

Another dimension of the online segment is the ability to be a strong marketing tool, as companies can use social networks to launch strong brand awareness campaigns with an extended range targeted at existing and potential customers

## IMPACT

### **Different dynamic**

Online sales will have a different dynamic from traditional brick and mortar, in terms of markets, products and brands

### **New questions raised by the online**

Online will raise important and delicate questions, requiring a specific approach to elements such as channel price differentiation, stock management, omnichannel integration

### **New buying experience**

The omnichannel integration, combining the traditional retail chain, IT components at the stores and online elements will lead to a new buying experience

### **Multiplatform**

Brand loyalty management across a multiplatform integrated with a common aim: to retain customers

### **Global network of customers**

Worldwide access for small businesses and very specific segments and potential to create a global network of new customers

## The increasing value of green and responsible labels

### SUSTAINABILITY

Environmental causes have been on the agenda of individuals and companies for at least the last five decades, with different concerns grabbing the public's attention depending, in many instances, on its media coverage.

Nowadays, we assist to numerous manifestations of sustainability and eco concerns, reflected on a growing call for transparency from society as a whole. More than ever, consumers are conscious of the impacts that certain activities have on the planet and its resources, pressuring companies to assume their responsibilities.

It is not easy to measure how conscious or aware consumers are as compared with how they were a few decades ago. However, regardless of the level of awareness that consumers currently have, it is likely that they will live under more sustainable rules over the next decades. The impact of the growing cost of non-renewable resources will certainly explain part of that growing consciousness, as extraction, transportation and other indirect costs will continue to impact on the manufacturing process, and so be reflected in the products' prices.

On the other hand, increasing levels of education will undoubtedly influence the way people relate to the environment and with sustainability questions, as they will be more prone to change consumption habits including options about food, energy, transportation, clothing, electronics, energy and recycling. Also, consumers might start looking for more value for long term savings and might choose certain products that are more expensive but are seen as investments offering future savings.

Apart from any personal view held by an individual on a specific topic, consumers are also influenced by their membership of the wider social and cultural community and this will also have impact in this area. As sustainability and eco concerns are made social causes, messages around these themes become effective, strong and powerful communication and marketing strategies.

In this sense, the adoption of more sustainable lifestyles will be strongly pushed by companies, industries and brands, as they will use sustainability as a source of innovation, developing new solutions and new products. Communicating this shift to consumers in an effective way, as part of wider marketing campaigns, will represent a fundamental change in the way brands operate and plan their strategies. This will ultimately influence the behaviour of consumers, regulators and even other companies.

**Sustainable innovation at the core of marketing strategies**

## There is a global call for transparency on businesses

While this happens, consumers will increasingly look for companies to integrate their Corporate Social Responsibility practices within operations and financial reporting in order to drive real change. In fact, nowadays there is a growing expectation for companies to report the impacts of their activity and for these results to be widely shared via social media, and this will continue resulting in an increased demand for products that have a reduced carbon footprint, reduced packaging, and take less water consumption to produce. At the same time there are individuals and organisations from all over the world claiming better working conditions for manufacturing workers, especially in contracted factories in Asia supplying the European and American giant brands, a trend with intensified magnitude after recent accidents as the deadliest collapse of a building one occurred in Bangladesh in 2013.

### **An accident in Savar with an worldwide audience**

On 24 April 2013, Rana Plaza, an eight-story commercial building, collapsed in Savar, a sub-district in Dhaka, the capital of Bangladesh. Operations to rescue the survivors and recover the bodies ended three weeks later and the total 1 129 deaths and 2 515 injured people made this the deadliest accident of its kind.

The building contained clothing factories, a bank, apartments, and several other shops. The shops and the bank on the lower floors closed immediately once cracks were discovered in the building, but warnings to avoid using the building were ignored by the factories' managers and garment workers were ordered to return the following day. The building collapsed during the morning rush-hour the next day.

The factories manufactured apparel for most of the European giant brands, including Benetton, Bonmarché, the Children's Place, El Corte Inglés, Joe Fresh, Monsoon, Accessorize, Mango, Matalan, Primark. The Savar building collapse focused worldwide attention on the hazardous conditions in Bangladesh's low-cost garment industry and strengthened pressure for reforms. Protests occurred in Bangladesh and all over the world. Organisations and individuals claimed more responsibility from the major brands sourcing part of their manufacturing process in Asian countries and demanded further transparency around the work conditions. Major US and Europe based brands created standards of production which are imposed to the contracted factories with an aim to move away from the image created by the accident in Savar.

Trying to anticipate what will happen in terms of environmental and social concerns is not straightforward. Firstly because these concerns have been on society's agenda for decades, and although they are still active it is not clear how they will develop. Also, in the case of existing disputes between two opponent parties, it is very hard to completely understand the impacts of both solutions and analyze the pros and cons. This is the case in the current discussion about the environmental benefits and disadvantages of leather versus synthetic and plastic footwear.

## Opinion makers and pressure groups will influence businesses decisions

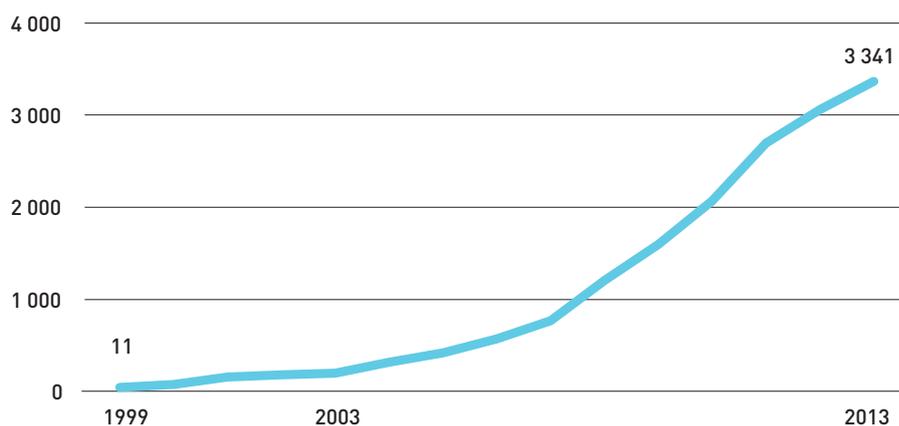
One thing is certain, opinion makers and pressure groups are extremely organised and are very efficient in the way they circulate their messages, using the massification offered by the internet and the power of social networks, to circulate strong messages with the potential to become viral in just a few days, reaching millions of people across the globe. Example of this is a recent video campaign made available on You tube, using Lego toys and based on the message that Shell was “polluting our kids’ imaginations” and claiming the end of the association between the kid’s toys brand and the oil company, which became viral on Facebook in a few days, and was powerfull enough to terminate a business relationship of decades.

## Public scrutiny will impose new responsibilities

Companies are aware of this reality and they know they are under constant monitoring by consumers. As a result they are active in the implementation of the so called good practices, and the sustainability reports are the known face of the way these efforts are communicated and evaluated on an ongoing basis.

According to data released by the Global Reporting Initiative (GRI) and its Sustainability Disclosure Database, the number of reports published has increased massively in the last decade, demonstrating that companies are keener to focus on transparency and with an aim to give visibility to their sustainability orientated actions. In 1999 there were only 19 reports available at the GRI database and in 2003 the total number of reports made public increased to 166. In the following decade the number of reports published grew by 20 times, reaching a total of 3341 reports published in 2013.

Figure 16  
**Worldwide Sustainability Reporting**  
 Number of Reports Published at GRI



Source: Global Reporting Initiative

### **Putting sustainable innovation at the heart of the manufacturing process**

Sustainability and innovation are the flags of Nike's present communication and image strategies. However, the company had to work significantly to achieve the position it currently owns in the international arena.

At the beginning of the 90s a report was issued documenting the company's common practices of low wages and poor working conditions in their factories in Asia. In the middle of that decade another announcement damaged even more the company's image and reputation: one of their product lines was made using child labour.

The following years were marked by significant protests against the brand and the damage was such that in 1998, Phil Knight, then-CEO, stated in a speech: "The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse".

This breakthrough statement is recognized as the beginning of one of the greatest image turnarounds in recent decades. Since then the brand has made significant efforts to improve their reputation, and sustainability has been the mean to achieve it. However, more than a mere defense mechanism this strategy has been a true opportunity to innovate and lead the way in the industry by setting new standards. While being active in changing their processes to incorporate new standards, Nike has been a master of communication, by putting sustainability is at the core of their campaigns. "Sustainability is a catalyst for revolutionizing the way NIKE, Inc. does business - by innovating better solutions to create a limitless future that benefits athletes, the company and the world" is the statement on their website opening the door to a journey through an endless list of sustainable innovations and measures taken to reduce manufacturing impacts. Nike' sustainability initiatives range from waste reduction programs - such as the NIKE Flyknit technology and manufacturing process introduced in 2012 allowing a reduction of footwear waste in the upper by 80% on average compared with traditional production method - to concerted initiatives to reduce Co2 emissions, or the Reuse-A-Shoe campaign - through which million pairs of used athletic shoes are collected, recycled and turned into new performance gear and incorporated into thousands of sports surfaces.

Nike has management tools such as the Sourcing & Manufacturing Sustainability Index, used to evaluate key working conditions at the contracted factories, which can be seen as bet on transparency and a clear response to the incidents occurred three decades ago.

As a company as famous as Nike decides to improve its environmental and sustainability standards, putting a significant effort to communicate it to the public, other athletic apparel and footwear companies will follow and this will have impact in the way consumers evaluate certain elements of the product.

# Sustainability

## CHANGE

### **Massive public scrutiny**

With the massification of the internet usage and the usage of web based social networks, brands and companies will have millions of people

### **Sustainable rules will increase**

This will result from new impositions from regulators, or by increasing standards set by the companies as part of their internal strategies, or by a more informed group of customers

### **Supply chain tracking**

The consumer will demand information about the manufacturing process, and questions will range from the origin of the materials and products, to details about the working conditions. Common queries relating the leather will include questions about the conditions under which the cattle was raised and the process used to treat the raw material before manufacturing, similarly to what happened to food industry where some products have to include indication on the packaging about the entire supply chain

## IMPACT

### **Social norms will be effective wheels of change**

More than a list of benefits associated to the behaviour change, simple statement around the social norm will trigger change

### **Shift in consumer patterns**

Some purchases will be seen as present investments as a way to achieve future savings

### **Leather Vs Synthetic. Which are greener?**

The discussion will emerge but a final scientific conclusion will be difficult to reach. The equation is extremely complex and the consumer question might remain without a final decision.

# LOW COST SHORTAGE

## New Low Cost Production Areas Needed

### LOW COST SHORTAGE

Up until the 1970s products were produced near the consumption markets, with most part of the manufacturing process concentrated within the same area. Around this time a relocation process was initiated with companies moving towards countries with available lower costs' workforce. An example of this is the relocation process that occurred with companies from North Europe that moved some of their manufacturing units to countries in the south of the continent, such as Portugal.

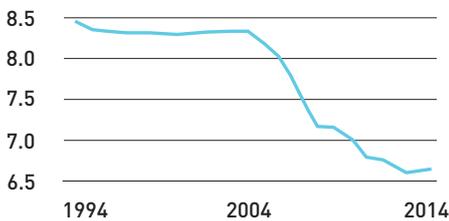
Three decades later, as China became a member of the World Trade Organisation the picture of the manufacturing world changed (again) and that Asian country became the most competitive country for production with its low salaries and a large available workforce. These strengths attracted investors from all over the world to China and hundreds of companies relocated their manufacturing units, or started to sub contract locally.

In a few years this continuous movement resulted in a huge demand of workers, with consequences on the increase of labour costs, and obviously, in the overall production costs. This is an urging reality and something of which Chinese authorities are aware. Su Chaoying, President of CLIA - China Leather Industry Association recently said in an interview to the worldfootwear.com that the labour cost rise and shortage of labour in some areas, especially in coastal areas, are two of the main challenges presented to their national industry.

### China's workers claim benefits

As China assists to its economic growth, the income status of its active population improves and they become less willing to receive low salaries. In April 2014 workers in the southern province of Guangdong were on strike for days, and although it is difficult to quote official numbers, several sources claimed that 10 000 employees from one of Yue Yuen Industrial (Holdings) Limited plants were involved in the event. The claims of the workers were echoed over the international press: missing social insurance contributions and failed payments referring to housing fund contributions, which reveals more consciousness of the labour force in China who is now willing to fight for better paying conditions.

Figure 17  
**United States Dollar to Chinese Yuan Exchange Rate**  
 CNY to 1 USD



Source: Bloomberg

China's economic growth and the consequences in labour costs are not the only elements to bear in mind in the rising production costs in the country's industries. The Chinese currency, the Yuan, is on an upward movement of appreciation against the dollar. Going back to 1994 1 US dollar was worth 8.5 Chinese Yuan. In the period 1994-2004 China promoted a fixed exchange rate policy, and in the following decade the Chinese national currency valued significantly against the US dollar. This evolution of the Chinese Yuan, valuating over 25% in the last decade, results in an annual average exchange rate that is currently slightly above 6 US dollars.

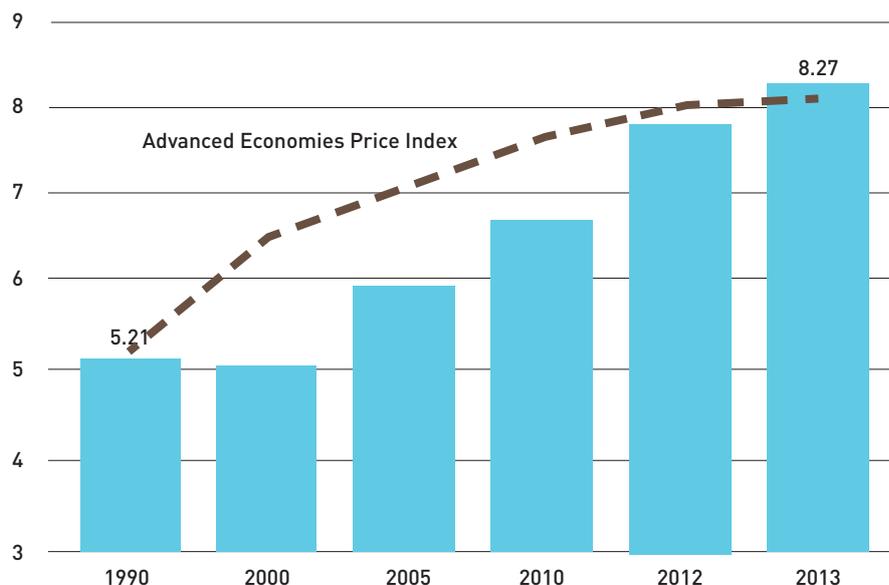
## Higher world footwear export price

As a consequence of all of this, the world footwear export price increased significantly from 2005 onwards, from 5.92 US dollars in 2005 to 8.27 US dollars in 2012, representing a 4.9% growth year on year. This compares to a 0.9% annual growth rate in the period between 1990 (5.21 US dollars) and 2005. The main driver for this performance was the pressure from leather prices. In fact, prices of rubber and plastic footwear had a growth rate of 2.7% in the period 2003-2013, while leather footwear became 7.5% more expensive in that period.

Figure 18

### Worldwide Footwear Prices and Inflation

World Average Export Price (USD)



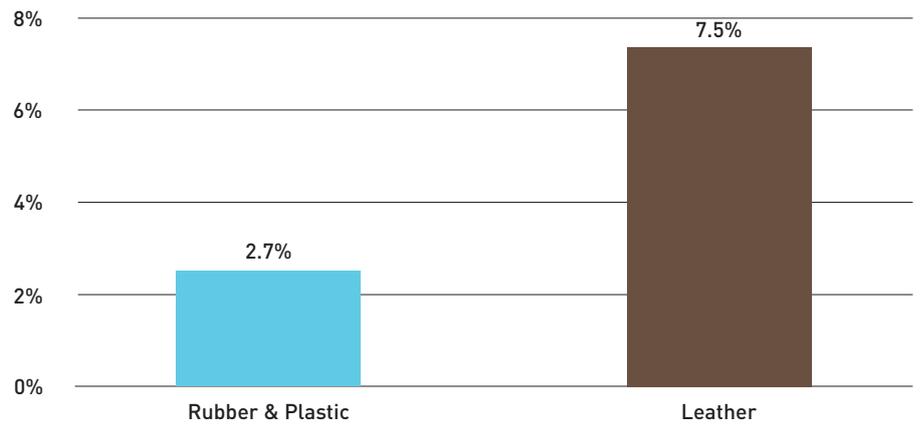
Source: International Monetary Fund, World Economic Outlook Database, October 2014

## Change in the mix of products

This shift on the average export price had an impact on the mix of products sold, with a sharp decline on leather footwear exports, both in volume and value, and a steady increase on exports of rubber and plastic shoes.

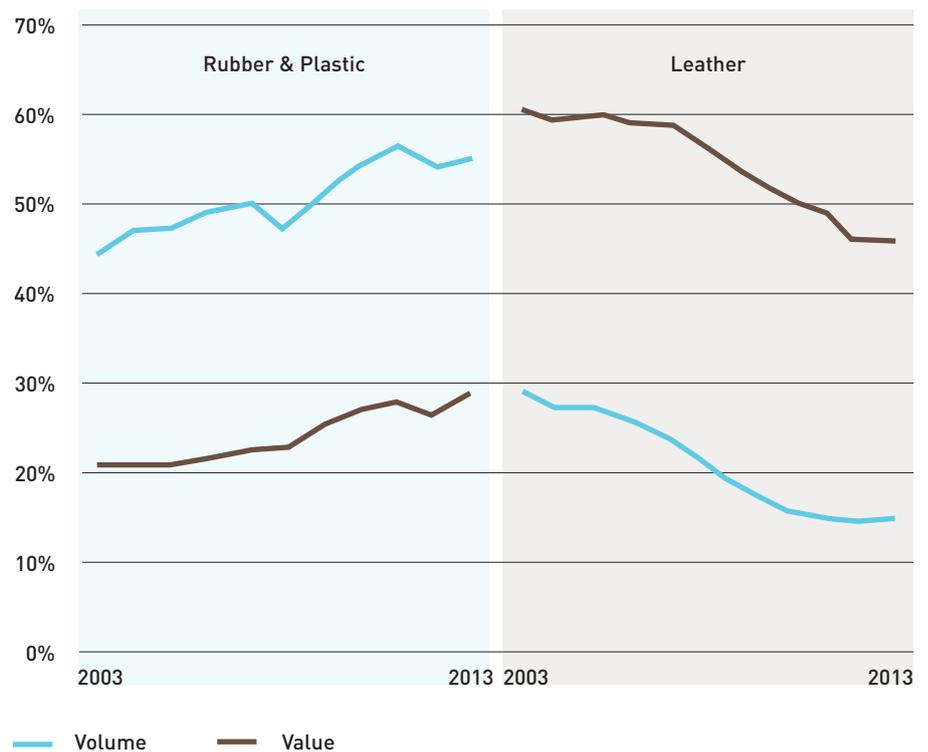
Leather footwear represented almost 30% of all footwear exported in 2003, and its value totaled more than 60% of the global value of exports. Rubber and plastic footwear had a residual value of 20% in total footwear exports. In just one decade, this picture was inverted, and leather footwear represents less than 20% of all pairs exported and its value has declined significantly to below 50%.

Figure 19  
**Footwear Export Price Growth Rates 2003-2013**  
 Growth rates 2003-2013 CAGR



Source: World Footwear Yearbook 2014

Figure 20  
**Moving from Leather to Rubber & Plastic Footwear**  
 Share of Total Footwear Exported



Source: World Footwear Yearbook 2014

**New business opportunities as prices of leather footwear increase**

The growing production costs will generate an increase in the retail price, with impact on quantities sold. If the price of shoes is increasing it is expected that consumers buy less quantities, and consequently people might be less prone to discard footwear away. Consumers will look for ways to extend the shoes life cycle, especially if the products have higher prices. Buying expensive leather shoes might be seen as an investment more than an instinctive consumption practice, and as such these consumers will favour a long life cycle. This will create new business opportunities for repair services and businesses related to products and services intended to extend the life of their shoes.

### Leather Spa – Extending the life of shoes and accessories

Leather Spa is a business dedicated to luxury accessory repair and care in New York. Leather Spa is the evolution of the Shoe Service Plus owned by Carlos and David Mesquita. With over 30 years of experience in luxury accessories repair and reconditioning, they successfully joined expertise into the successful Shoe Service Plus, moving to the next level of accessory care: Leather Spa.

Service is available in three different locations in New York (on 55 West 55th Street, at the Plaza Hotel and at the Grand Central Terminal) and over a mail in repair service. Women and men' shoes and handbag repairs comprise the list of services available. At the Leather Spa an extensive list of products is also on sale, such as innersoles (arch supports or cushions), leather creams, shine brushes, protection creams (against water and stains), wax polish and shoe accessories (lace & shoe horn).

Amongst their customers are some of New York's most demanding clientele, as Leather Spa is the designated establishment for customization and repair for notable luxury stores and brands such as Manolo Blahnik, Christian Louboutin, Jimmy Choo, Chanel, Gucci, Fendi, Jeffery`s, Barney`s New York, and Salvatore Ferragamo.

The former Shoe Service Plus has been recognized for its excellence by Vogue, Allure, New York Magazine, New York Magazine Weddings, The New York Observer, InStyle, Glamour. Carlos Mesquita was also touted as "the celebrated shoe doctor of choice to the rich and picky," by Time Out New York.

### Rising production costs will result in relocation movements

As production costs continue to increase in China there might be a tendency to relocate to other countries with available workforces and with lower labour costs. Mr Su Chaoying recognizes this tendency exists and will continue: "The rapid growth of the export average price showed the overall cost rise in footwear sector in one hand... and this trend is expected to continue in the next few years, but the growth rate will be smaller. With the rise in overall cost and corresponding rise in footwear export price, the manufacturing of low value added shoes will be shifted to southeast countries. Actually, some buyers who favour low price shoes have already placed their orders in countries like Vietnam, rather than from China."

According to the World Footwear Yearbook, in 2012 China was responsible for 74.1% of the world footwear exports and in 2013 that number decreased to 73.4%. Other Asian countries are moving in the opposite direction, such as Vietnam, whose quota moved from 4.1% in 2012 to 4.5% in 2013.

The same source estimated that in 2010 China represented 87% of the US footwear imports in terms of volume, and last year that percentage decreased to 81%. Moving in the opposite direction, Vietnam and Indonesia, respectively the source of 8% and 2% of the US imports in 2010 increase their markets shares to 10% and 4% in just three years. China is losing some importance to mainly other Asian countries.

## Near shore trends might intensify

There is a recent echo on the international footwear industry claiming that companies will tend to move production near shore. Several factors are pointed to justify the movement. Companies consider key to have the production near their main consumption markets, as travelling timings from distant parts of the world are not acceptable in some instances. Also, companies in China deal with orders of thousands of pairs and are not focused on small orders with quick delivery, which is becoming the core business of some industry players in Europe.

Despite this common voice, when we look at the numbers these don't seem to support a massive shift in the way production is organised around the world. According to the World Footwear Yearbook, in the US, near to the market production has only increased from 2% to 3% during the last 5 years. This could be a trend for the future, however its dimension is still surrounded in uncertainty.

Figure 21

### Footwear Import Origins for the United States

Rank (Value)

RANK	1981	CHANGE	2013
China	11 <sup>o</sup>	▲	1 <sup>o</sup>
Mexico	7 <sup>o</sup>	▲	5 <sup>o</sup>
Rep. Korea	2 <sup>o</sup>	▼	26 <sup>o</sup>
Japan	13 <sup>o</sup>	▼	41 <sup>o</sup>

Source: World Footwear Yearbook 2014

What seems to be the case is a movement into the direction of the location of low labour costs. Looking into the US footwear imports by countries of origin, in 1981 China was the 11th supplier, and in 2000 it was already the leading supplier to that market. Mexico, taking the 7th place in 1981, is now the 5th most important supplier of footwear. Moving in the opposite direction is Japan, the main footwear supplier of the US alongside Italy at the beginning of the 60s, taking the 41st position in 2013.

**ECCO – acting locally to achieve global efficiency**

Founded in 1963, ECCO is a world leading brand of shoes, which positioned its products over the years as a combination of style and comfort. The company claims to be one of the few major shoe manufacturers in the world to own and manage every step of the shoemaking process. The company is family owned and is currently led by Hanni Toosbuy Kasprzak, the daughter of founder Karl Toosbuy.

The company announced 2013 as its busiest year ever, while rebuilding its tannery in Indonesia and completing a new one in the Netherlands to focus on the manufacture of luxury leather. The company also restructured its shoe production footprint, by reducing the Thailand factory production capacity by 30%, a decision in line with its strategy to reduce risk limiting each factory to no more than 20% of ECCO's total production. In accordance with this strategy, production capacity was reduced in Slovakia, increased in China, split in two units in Indonesia, and re-started in Portugal.

A deep reorganisation of the production footprint and a decentralization of the company's production, explained by Dieter Kasprzak, ECCO's CEO: "After our Thai factory was flooded in 2011, ECCO decided to change its factories, so no factory represented more than 20% of total capacity. This necessitated the move of 35% of ECCO's production machinery. This again created a need for a tight control of ECCO's growth to balance this against available capacity. We were successful in executing this during the year, and the operating margin improved from 15.0% to 16.2%. Controlled growth has been the key to ECCO's success in 2013 and we will continue this strategy in 2014."

## Low Cost Shortage

### CHANGE

#### **Low cost countries as suppliers**

Developed economies' markets have been supplied by low cost countries

#### **Increasing labour costs**

Since 2005 footwear prices have increased above general inflation levels due to increasing production costs, as labour costs grow and there is a lack of alternative countries which combine low costs workforce, a huge supply of staff and the scale to implement production units

#### **Increasing leather prices**

An increase in leather demand from other sectors is pushing prices up

### IMPACT

#### **Change in the product mix**

Change in the product mix, with leather potentially becoming a niche orientated product

#### **Emergence of new materials**

Higher leather prices will allow new materials to emerge, such as plastics and synthetics

#### **Growth in consumption**

Per capita consumption will peak in the developed world and most of the growth in consumption will be located in the emerging and developing economies

# What will characterise the footwear market in two decades' time?

- Fast changing world
- Demographics will change consumer behaviour
- New markets will be more brand sensitive
- Emerging markets will create new challenges with dispersion as a new rule
- Online will provide new marketing instruments
- Management of client brand relation and loyalty will emerge
- Uncertainty in relation to the size of close to market manufacturing
- Will China peak?
- What will be the alternatives to China?
- Will prices push product substitution even further?

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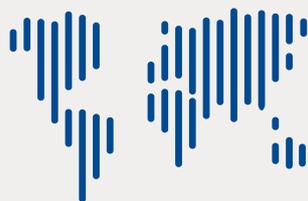


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