

# Footwear



August 2010      US\$395

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# FOOTWEAR

## *Supplier capability in China*

### EXECUTIVE SUMMARY

China's footwear industry is confronting internal and external pressures that may limit export growth. Suppliers are confident, however, that sales will rise between 10 and 20 percent in 2010.

Recent figures for foreign sales indicate this is a realistic target. The country's shipments for the first five months of the year increased 24 percent to 1.6 billion kilograms. Overseas revenue climbed 20 percent to \$11.5 billion.

Escalating labor and material disbursements are threatening viability. The former is mainly due to a lack of migrant workers. Reforms in tanning processes are contributing to the inflation of animal hide values.

Obstacles also include the extension and introduction of tariffs in the EU and other countries, and more stringent requirements for chemical composition and functionality.

The following are some of the key developments we see in China's footwear industry:

- Companies are raising the age limit for employment from 35 to 50 years old to fill vacant positions. Businesses are offering incentives to workers who can recruit new trainees and motivate them to stay.
- Businesses are capping price increases at 10 percent to maintain existing customers. Material costs are anticipated to rise at a slower pace in the next six months, allowing for minimal adjustment.
- With the EU still levying anti-dumping duties on genuine leather footwear, suppliers are promoting their products to the US and Southeast Asia. The China-ASEAN Free Trade Area agreement also encourages them to develop clientele in the latter.
- Companies are going to charge buyers the additional expenses for procuring inputs and testing models if conformance to new safety and ecological guidelines is required.

China suppliers of footwear offer slippers, flip-flops, and casual, dress, sports, work, safety and occupational shoes and boots. These are also the scope of this report.

Each product category has its own section with details on the features and prices of low-end, midrange and high-end models. Design trends, and the manufacturing and QC processes are discussed as well.

The Industry Overview explains the various challenges that makers are facing, including the labor shortage, higher material rates, trade sanctions and more rigorous quality standards. It also details the steps companies are taking to address these difficulties.

Further, the section elaborates on the composition of the supplier pool, highlighting key characteristics of the different types of companies.

Projections for the next six to 12 months on overseas sales, capability improvement, capital expenditure plans and R&D focus are detailed in the Supplier Survey.

Small and midsize companies comprise the majority of China's footwear manufacturing base. Approximately 80 percent of all exporters are private locally owned businesses, and the rest are foreign-invested or state-owned.

The provinces of Fujian, Zhejiang and Guangdong are the main production centers.

Reflecting this structure, 89 percent of suppliers profiled in this report are private locally owned. About 7 percent has funding from Hong Kong.

More than one-half of featured companies come from Fujian. Nearly one-fourth is located in Guangdong and 4 percent consists of Zhejiang-based exporters.

Roughly 65 percent of the suppliers in this report have been in the manufacturing and export industry for more than a decade.

### In this report

- 28 in-depth company profiles
- 129 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

### METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that are verified by Global Sources.

Each supplier is confirmed to be authentic with a legally registered business. All companies are visited three or more times to ensure they are export-ready and have real offices and products.

The listed contact person has been verified to represent the registered company. In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry. All survey questions are single choice.

Suppliers are ranked based on a 6-star ranking system. Companies with a higher star ranking provide more business information and verification reports on their Global Sources online homepages.

Suppliers rated 5 or 6 stars have a Credit Check report from First Advantage or Sino-Trust and a Supplier Capability Assessment report provided by Bureau Veritas online.

The rankings are correct at the time of publication and may be subject to change.

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## INDUSTRY OVERVIEW

China suppliers of footwear are upbeat that overseas sales will continue to improve despite the various challenges putting extreme pressure on the industry.

Shipments in the line from January to May 2010 amounted to 1.6 billion kilograms worth \$11.5 billion, an increase of 24 and 20 percent in terms of volume and value YoY. Makers expect between 10 and 20 percent growth by year-end.

Manpower scarcity is one of the difficulties companies are facing. With exports picking up gradually, factories are struggling to fulfill orders utilizing their current workforce.

The provinces of Guangdong, Fujian, Zhejiang and Shandong, where most shoe manufacturers are based, have lost a significant number of personnel after the 2010 Chinese New Year holiday. At several plants, between 100 and 200 staff members did not return from their break.

Migrants are now less willing to relocate to the southern region, especially since various industrial and infrastructure developments paved the way for more jobs inland. Apart from being closer to home, they choose to stay upcountry because living expenses there are lower. Those based in coastal hubs usually spend half their salary on basic needs.

The new generation of employees are also looking for the latitude to travel, study, socialize and raise a family. Younger citizens are favoring sectors that offer better wages, benefits and working conditions.

In electronics production, for instance, facilities are often air-conditioned and equipped with computerized assembly lines. Conversely, the personnel at footwear plants have to carry out tasks in a hot or cold environment. They also need to endure the smell of leather and glue.

Because companies depend on volume fabrication, staff members are often required to put in long hours as

well. This limits the time available for extracurricular activities.

In addition, many shoemakers operate at 5 percent profit margins. As a result, very few can provide social security or medical insurance. Workers also do not want such coverage if it involves corresponding salary deductions.

Local governments modified minimum wage guidelines to help factories retain their staff. The standard monthly remuneration in Fujian is currently 900 yuan, while Guangdong and Zhejiang companies offer 1,100 yuan. Baseline compensation has increased at least 15 percent.

Some businesses even augmented pay by about 40 percent. The age limit for personnel is also changing from 35 to 50 years old. A few suppliers give bonuses to employees who are

### Supplier summary

Suppliers surveyed	28
Export sales	\$350.4mn
Export ratio	41%
OEM business	64%
Capacity utilized	36%
Annual R&D spending	\$25.5mn
Full-time employees	24,315

Data: All surveyed suppliers

able to recruit new hands. Additional incentives are provided if the trainee stays more than six months.

Material outlay is rising as well. As the global economy recovers gradually, rebounding consumer demand is stimulating input values, including that of crude oil.

As a result, one ton of PVC now goes for 7,200 to 7,900 yuan, up 10 percent YoY. PU leather increased 18 percent in the same period.

### Major customers

Company	
A&J	Point Zero (Canada), Chess (Chile), Sanrio (Japan), Lavoro (Portugal), Modyf (Italy)
Atom	Andre, Eram (France); Wal-Mart (US); Merkal (Spain)
Crystal Path	Vincent (Sweden, US), Gemo (France)
Fujian Putian Power Rich	Target, Wal-Mart, Family Dollar, Sears, Meldisco (US)
Fujian Quanzhou Yonghui Airfit	Lidl (Germany), Wal-Mart (US)
Fujian Singyee	Polo Ralph Lauren, Quicksilver, Tommy Hilfiger, Levi Strauss (US); Valentino (Italy); Montagut (France)
Golden Lily	Analpa (Russia), Candela (US), Joyca (Spain)
Jiaxing East	Jane Norman, Montana Silversmiths, La Senza (UK)
Maylink	Mattel (Italy)
New Rising Star	Wal-Mart, Payless, Michael Kors, Sears, Steve Madden (US)
Putian Gaily	Primark, Dunnes (UK)
Putian Wingate	Wal-Mart, Mattel (US); Carrefour (France)
Shanghai Light	Auchan, Carrefour (France); Lidl (Germany)
Shantou Chengguo	Bata (Singapore)
Xiamen Biyate	Disney (US), Bata (Canada)

Data: All surveyed suppliers

## A&J Import & Export Co. Ltd



Private locally owned A&J generated \$6 million in total revenue last year. About 20 percent came from sales of men's and women's footwear, while the rest was for children's shoes.

The featured line includes casual, dress, work, occupational, safety and sports variants, slippers, and flip-flops. An average of 13,000 pairs are turned out each month.

All yield is sent to North America, the EU, the Asia-Pacific region and Chile. Roughly 60 percent of orders are ODM-based, and the balance is comprised of OEM models.

The ISO 9001:2000-compliant supplier has five factories with a total area of 50,000sqm. The plants are fitted with mechanical sewing, cutting, and heel-seat, side and toe lasting machines. There are also 10 assembly lines, and facilities for making molds and rubber outsoles.

Operations are carried out by 550 full-time workers, including 20 QC inspectors and 19 R&D specialists.

A&J expects overseas revenue to increase between 10 and 20 percent in the next 12 months. The EU will be the target market during this period.

### Company facts

Year established	2007
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Jinjiang (Fujian)
Number of factories	5
Factory location(s)	Jinjiang (Fujian)
Total factory area	50,000sqm
No. of full-time employees	550
No. of R&D/design staff	19
No. of QC staff	20
Annual sales (all products)	\$6.0mn
Annual R&D spending	\$350,000
ISO certification	Yes

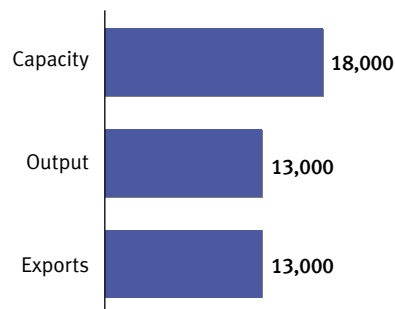
### Sales & output: Footwear

Annual sales	\$1.2mn
Share of total sales	20%
Annual export sales	\$1.2mn
Total monthly capacity	18,000 pairs
Average monthly output	13,000 pairs
Capacity utilized	72%
Average monthly exports	13,000 pairs
Export ratio	100%
OEM % of exports	40%
ODM % of exports	60%
OEM % of exports	—
Major customers	Point Zero (Canada), Chess (Chile), Sanrio (Japan), Lavoro (Portugal), Modyf (Italy)
Other products made	Children's shoes

### Profile

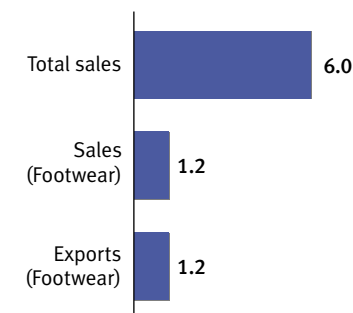
#### Production

pairs/mth



#### Sales

\$mn/yr



### Contact details

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## Capability

### Production checklist

Assembly lines	10
Cutting machines	20
Heel-seat lasting machines	5
Makes molds in-house	Yes
Makes rubber outsoles in-house	Yes
Mechanical sewing machines	400
Plastic-injection machines	—
Side lasting machines	20
Toe lasting machines	20
Vulcanizing machines	—

### Exports by product

Casual footwear	55%
Dress shoes	10%
Slippers & flip-flops	5%
Sports/athletic footwear	20%
Work, occupational & safety footwear	10%

### Exports by market

North America	10%
European Union	70%
Europe (non-EU)	—
Asia-Pacific	10%
Middle East	—
Chile	10%

## Survey

- **Export prices**  
Increased
- **Export price increase**  
11-15%
- **Export sales**  
Increase 10-20%
- **Target market**  
European Union
- **Capital expenditure**  
Increase up to 50%
- **Major challenge**  
Labor costs
- **Export capability**  
Improve operating efficiency
- **R&D focus**  
Improved breathability or durability

## Popular export models



### Women's sneaker

Model	AJ-1013
MOQ	1,500 pairs
Packaging	Colored, printed box
Delivery	50 days
Price	\$5.00

**Description:** PU leather upper; mesh lining; rubber outsole; sizes 35 to 42; dark purple, black or white



### Women's boot

Model	AJ-1022
MOQ	1,500 pairs
Packaging	Colored, printed box
Delivery	50 days
Price	\$13.00

**Description:** Action leather upper; plush lining; rubber outsole; sizes 35 to 42; brown or black



### Men's high-top sneaker

Model	AJ-1015
MOQ	1,500 pairs
Packaging	Colored, printed box
Delivery	50 days
Price	\$5.30

**Description:** Suede upper; mesh lining; rubber outsole; sizes 41 to 47; olive, black, white or brown

## PRODUCT GALLERY

### Casual footwear



**A&J**  
(profile page 32)  
**Model:** AJ-1013  
**MOQ:** 1,500 pairs  
**Packaging:** Colored, printed box  
**Delivery:** 50 days  
**Price:** \$5.00  
**Description:** Women's sneaker; PU leather upper; mesh lining; rubber outsole; sizes 35 to 42; dark purple, black or white



**A&J**  
(profile page 32)  
**Model:** AJ-1022  
**MOQ:** 1,500 pairs  
**Packaging:** Colored, printed box  
**Delivery:** 50 days  
**Price:** \$13.00  
**Description:** Women's boot; action leather upper; plush lining; rubber outsole; sizes 35 to 42; brown or black



**A&J**  
(profile page 32)  
**Model:** AJ-1015  
**MOQ:** 1,500 pairs  
**Packaging:** Colored, printed box  
**Delivery:** 50 days  
**Price:** \$5.30  
**Description:** Men's high-top sneaker; suede upper; mesh lining; rubber outsole; sizes 41 to 47; olive, black, white or brown



**A&J**  
(profile page 32)  
**Model:** AJ-1014  
**MOQ:** 1,500 pairs  
**Packaging:** Colored, printed box  
**Delivery:** 50 days  
**Price:** \$4.30  
**Description:** Women's sneaker; PU upper; mesh lining; rubber outsole; sizes 35 to 42; black, dark gray or dark purple



**Atom**  
(profile page 34)  
**Model:** AT82091  
**MOQ:** 3,600 pairs in three colors  
**Packaging:** Colored box  
**Delivery:** 50 days  
**Price:** •  
**Description:** Sneaker; PU leather, suede and fabric upper; mesh lining; TPR outsole; sizes 36 to 41; in various colors; children's version available



**Atom**  
(profile page 34)  
**Model:** AT0601  
**MOQ:** 3,600 pairs  
**Packaging:** Colored box  
**Delivery:** 50 days  
**Price:** •  
**Description:** Sandal; action leather upper; fabric lining; PU outsole; sizes 36 to 41; in various colors

• Information not disclosed

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