

Footwear



September 2009 US\$395

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FOOTWEAR

Supplier capability in China

EXECUTIVE SUMMARY

China's footwear industry is optimistic of export sales growth, despite weak overseas demand.

The global financial downturn and the EU's anti-dumping duties on leather shoes have affected China's footwear overseas revenue negatively. From an average 20 percent export growth, the increase of foreign sales slowed to less than 3 percent in 2008.

Even so, economic indicators pointing to sustained recovery in markets worldwide are leading many suppliers to project as much as 20 percent growth in the next 12 months.

In addition, measures implemented during the past year to stave off further contraction have been helping companies weather challenges.

Although projections are positive, most makers continue to enforce cost-cutting measures that will help them remain financially viable in case expenses escalate.

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

- Despite anti-dumping duties, the majority of manufacturers continue to regard the EU as their main export destination for the months ahead. Releases are still influenced by trends in the market. A range of novel finishes are employed and different visual effects are achieved via scrubbing, crinkling, washing and other treatments.

- To circumvent the levies, many businesses targeting the EU are turning to synthetic leather. Apart from its low cost, the plastic-based alternative can feature textures and effects normally seen on genuine hides. The use of textiles is gaining ground as well, particularly for casual footwear.

- A growing number of enterprises, particularly those with sound credit, are transferring production facilities to inland provinces in the country. Unlike pioneering companies, however, such businesses are moving only their

highly labor-intensive operations to the interior.

Immature logistics and support industries, and a dearth of skilled workers make it impractical to relocate midrange and high-end lines there.

China suppliers produce baby, casual, dress, sports, athletic, work, safety and occupational footwear, slippers, and flip-flops. 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. The manufacturing and QC processes are discussed for the key products as well.

The Industry Overview illustrates the steps suppliers are taking to overcome global economic challenges. Further, it discusses how and why companies are relocating to low cost production centers within China and abroad.

The section also elaborates on the industry composition, highlighting key characteristics of the different types of companies.

About 90 percent of the footwear export manufacturing industry in China is comprised of small and midsize companies. Approximately 70 percent of all suppliers are private locally owned companies, and the rest have foreign participation or are state-owned.

The provinces of Guangdong, Fujian and Zhejiang are the main production centers. Together, these hubs contribute more than 80 percent of national exports in the line.

Reflecting this structure, nearly 90 percent of suppliers profiled in this report are private local businesses. Ten percent has participation from Hong Kong companies and the rest is foreign-invested. Roughly 60 percent of featured companies come from Fujian, 20 percent from Zhejiang and 13 percent are from Guangdong.

In this report

- 30 in-depth company profiles
- 122 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 may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth company profiles, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capability of each supplier.

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. Results were calculated based on the actual number of valid responses to each question.

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Published by Publishers Representatives Limited (on behalf of Trade Media Limited)
4th Floor, Century Yard, Cricket Square, Elgin Avenue, P.O. Box 32322 SMB, George Town, Grand Cayman, Cayman Islands
c/o 22/F Vita Tower, 29 Wong Chuk Hang Road, Aberdeen, Hong Kong

ISBN 978-988-8004-96-6

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INDUSTRY OVERVIEW

A multipronged approach to overcome challenges posed by the global financial downturn is fueling optimism in China's footwear industry.

Upgrading management systems and production facilities for greater efficiency and cost savings is one of the measures being taken. In doing so, companies hope to sustain their competitiveness and financial viability amid the economic slowdown. Many are also expecting the strategy will allow them to keep prices at current levels in the event that the cost of key manufacturing inputs increases.

A number of enterprises have invested in ERP systems to streamline operations and are holding relevant training for personnel. To motivate workers further and keep turnover down, several have implemented a position responsibility approach wherein employees are appraised and rewarded based on specific job objectives. When hiring, at least two years of experience in a related area is required to minimize training time and expenses.

At several factories, energy-saving bulbs and automatic faucets are being installed to reduce electricity and water consumption. Workers are given instructions on how to conserve resources, and these directives are reiterated in posters or slogans pasted in workshops and other sections of the plant.

Cost-saving measures such as those mentioned have become critical to the survival of many businesses. In 2008, the footwear supplier base shrank by at least 10 percent due to soaring raw material and labor expenses, and the stronger yuan.

PVC costs, in particular, surged 50 percent in July 2008. Quotes dropped in September but only by 20 percent. Pigskin increased 60 percent in 2008 as well. Although it fell between \$0.07 and \$0.15 per square foot after the Chinese New Year, costs are not expected to drop further in the months

ahead. Most of the tanneries have already indicated quotes are at their lowest possible level.

In contrast, the cost of synthetic leather dropped drastically alongside falling crude oil prices. Quotes have stabilized in recent months and are not expected to rise, despite fluctuating petroleum costs, because of cutthroat competition.

This, coupled with the 16.5 percent anti-dumping duty imposed by the EU, is leading many suppliers of dress and casual footwear to adopt synthetic versions in lieu of genuine hides.

The European Commission has initiated an expiry review of the levies, which is scheduled to last until January 2010. Until then, the tax will remain in place. If the commission finds evidence of incessant dumping at the end of the review period, the duty could be extended for an additional five years.

To ensure financial viability in the months ahead, suppliers targeting the EU are boosting sales of synthetic leather models, which are not covered by the anti-dumping duty. Those intending to strengthen their presence in the US and other markets are doing so as well, since the line can be priced competitively with less strain on margins.

Casual footwear makers favor synthetic versions over fabric because the former can be treated with finishes commonly used on genuine leather.

Between PVC and PU leather, the latter has become the material of choice. Although more expensive, it is friendlier to the environment. As a result, casual shoes with PU leather uppers now account for about 65 percent of production in the line. Their share is expected to grow further in the months ahead.

In addition, about 70 percent of dress shoe suppliers employ synthetic leather as their primary material. Although the rest concentrates on genuine leather models, several makers

Supplier summary

Suppliers surveyed	30
Export sales	\$622.1mn
Export ratio	59%
OEM business	72%
Capacity utilized	46%
Annual R&D spending	\$91.5mn
Full-time employees	28,978

Data: All surveyed suppliers

have allocated part of their resources to these plastic-based alternatives.

To enhance competitiveness further, many companies are moving away from contending solely on price. These businesses are trying to achieve a differentiation advantage that will minimize sensitivity to fluctuation in raw material costs, a critical step in an industry where most businesses have a pretax profit of only 5 percent.

In line with the strategy, several manufacturers have become more proactive in developing their own designs, with some even raising R&D investment by 10 to 20 percent. Additionally, a few operations have opened retail outlets in the EU, the US and other key markets to promote products under in-house brands.

Financial aid tempers slowdown

Aware that many export-oriented industries are in need of help, the China government implemented a series of measures aimed at staving off further export decline and renewing overseas sales growth.

Raising the export tax rebate is one of the primary steps enforced to ease the financial strain on suppliers across all industries. For footwear, the refund was increased 2 percentage points to 13 percent in December 2008. But customs data shows this has brought little relief to the industry.

In January 2009, a month after the rebate was increased, exports grew almost 8 percent to exceed \$2.5 billion compared with the same month in 2008. This came even as the volume of shipments fell a staggering 58 percent.

Afta Footwear (H.K.) Ltd

Established in 1998, Afta exports \$9.5 million worth of footwear each year. The selection consists of casual, sports and dress shoes, slippers, and flip-flops.

Sales in the line account for about 95 percent of the supplier's \$10 million annual revenue. The rest is for gloves and hats.

The export markets are the EU, Central and South America, and the Asia-Pacific region.

The two ISO 9001:2000-certified factories have a combined production capacity of 250,000 pairs each month.

They run at 60 percent of capacity, churning out 150,000 pairs monthly. All output is exported.

The 600 in-house workers include 39 R&D specialists. The team receives an annual budget of \$200,000. Upcoming models will feature more colorful patterns.

The company plans to increase its annual capital expenditure by up to 50 percent in the next 12 months. By boosting exports to Central and South America, it expects overseas sales to increase between 10 and 20 percent in the same period.

Company facts

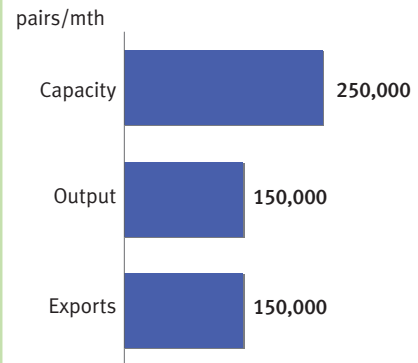
Year established	1998
Business type	Manufacturer
Company ownership	Hong Kong-invested
Head office location	Jinjiang (Fujian)
Number of factories	2
Factory location(s)	Jinjiang (Fujian)
Total factory area	10,000sqm
No. of full-time employees	600
No. of R&D/design staff	39
No. of QC staff	50
Annual sales (all products)	\$10.0mn
Annual R&D spending	\$200,000
ISO certification	Yes

Sales & output: Footwear

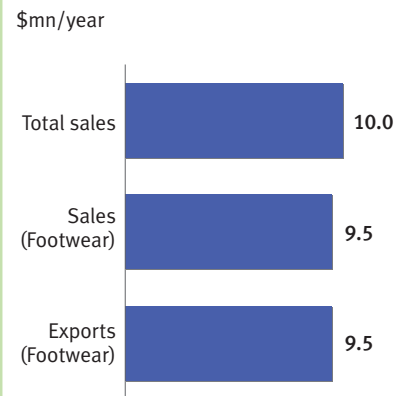
Annual sales	\$9.5mn
Share of total sales	95%
Annual export sales	\$9.5mn
Total monthly capacity	250,000 pairs
Average monthly output	150,000 pairs
Capacity utilized	60%
Average monthly exports	150,000 pairs
Export ratio	100%
OEM % of exports	80%
ODM % of exports	10%
OBM % of exports	10%
Major customers	Bata (Colombia, Australia); Spend-less, Pacific Brands (Australia); Target (US)
Other products made	Gloves, hats

Profile

Production



Sales



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Capability

Production checklist

Assembly lines	2
Cutting machines	5
Heel-seat lasting machines	2
Makes molds in-house	Yes
Makes rubber outsoles in-house	No
Mechanical sewing machines	100
Plastic-injection machines	—
Side lasting machines	4
Toe lasting machines	4
Vulcanizing machines	—

Exports by product

Baby shoes	—
Casual footwear	40%
Dress shoes	5%
Slippers & flip-flops	5%
Sports/athletic footwear	50%
Work, occupational & safety footwear	—

Exports by market

North America	—
European Union	10%
Europe (non-EU)	—
Asia-Pacific	50%
Middle East	—
Central/South America	40%

Survey

- **Export prices**
Decreased
- **Export price decrease**
Less than 5%
- **Export sales**
Increase 10-20%
- **Target market**
Central/South America
- **Capital expenditure**
Increase up to 50%
- **Major challenge**
Price competition
- **Export capability**
Reduce production costs
- **R&D focus**
More colorful patterns and designs

Popular export models



Men's sports shoe

Model	5417
Minimum order	1,000 pairs
Packaging type	Box
Delivery time	45 days
Indicated price	\$5.20

Description: PU upper; mesh lining; TPR footbed, midsole, outsole; lace-up closure; sizes 40 to 45; custom colors



Women's sneaker

Model	5211
Minimum order	1,000 pairs
Packaging type	Box
Delivery time	45 days
Indicated price	\$5.20

Description: PU, nylon upper; mesh lining; rubber midsole, outsole; lace-up closure; sizes 35 to 40; custom colors



Sports shoe

Model	5457
Minimum order	1,000 pairs
Packaging type	Box
Delivery time	45 days
Indicated price	\$6.80

Description: PU upper; mesh lining; EVA midsole; TPR outsole; lace-up closure; sizes 35 to 45; custom colors

PRODUCT GALLERY

Casual footwear



Afta
(profile page 36)
Model: 5211
Minimum order: 1,000 pairs
Packaging type: Box
Delivery time: 45 days
Indicated price: \$5.20
Description: Women's sneaker; PU, nylon upper; mesh lining; rubber midsole, outsole; lace-up closure; sizes 35 to 40; custom colors



Atom
(profile page 38)
Model: AT45358
Minimum order: 600 pairs
Packaging type: Box
Delivery time: 30 days
Indicated price: \$3.90
Description: Children's sneaker; synthetic leather upper, lining; pigskin midsole; TPR outsole; hook-and-loop closure; breathable; sizes 23 to 34; custom colors



Atom
(profile page 38)
Model: AT70201
Minimum order: 600 pairs
Packaging type: Box
Delivery time: 35 days
Indicated price: \$4.50
Description: Sneaker; synthetic leather, suede upper; mesh lining; EVA, mesh midsole; rubber outsole; lace-up closure; sizes 36 to 46; custom colors



Crystal Path
(profile page 42)
Model: CPI09-KD-121
Minimum order: 1,000 pairs
Packaging type: Polybag, box
Delivery time: 35 days
Indicated price: \$5.50
Description: Children's rain boot; 100% natural rubber upper, outsole; 70% cotton, 30% polyester lining, insole; knitted acrylic collar; CPSIA lead-free; abrasion-resistant to 25,000 cycles; slip-resistant; US sizes 10 to 13, 1 to 4; EU sizes 26 to 34; in black



Crystal Path
(profile page 42)
Model: CPI09-KD-077
Minimum order: 1,000 pairs
Packaging type: Polybag, box
Delivery time: 35 days
Indicated price: \$5.50
Description: Children's rain boot; 100% natural rubber upper, outsole; 70% cotton, 30% polyester lining, insole; metal buckle closure; CPSIA lead-free; abrasion-resistant to 25,000 cycles; slip-resistant; US sizes 10 to 13, 1 to 4; EU sizes 26 to 34; in pink



Crystal Path
(profile page 42)
Model: CPI09-KD-124-Brown
Minimum order: 1,000 pairs
Packaging type: Polybag, box
Delivery time: 35 days
Indicated price: \$5.50
Description: Children's rain boot; 100% natural rubber upper, outsole; 70% cotton, 30% polyester lining, insole; lace-up closure; CPSIA lead-free; abrasion-resistant to 25,000 cycles; slip-resistant; US sizes 10 to 13, 1 to 4; EU sizes 26 to 34; in brown