The US footwear industry consists of about 100 manufacturers; 1,500 wholesalers; and 30,000 retail outlets; as well as shoe departments in other stores. The annual revenue of shoe retailers is close to $25 billion. The major shoe companies in the US, including Nike, Reebok, Brown Shoe, and Timberland, are mainly owners of brand names that "source" their shoes from independent manufacturers. The retail segment includes owners of large chains, like Venator Group (Foot Locker) and thousands of small local retailers. The retail segment is highly concentrated, with the largest 50 chains holding about 80 percent of the market. Many shoe companies operate in both the wholesale and retail segments.

COMPETITIVE LANDSCAPE

Demand is driven by fashion and demographics. The profitability of individual companies depends on their ability to design and market attractive shoe models. Big companies have economies of scale in distribution and marketing. Small companies can compete successfully through superior design or marketing.

PRODUCTS, OPERATIONS & TECHNOLOGY

Major product segments are athletic shoes, women's shoes, and men's shoes. Athletic shoes account for about 40 percent of the retail market, women's shoes for 25 percent, and men's shoes for 15 percent.

Domestic manufacture of shoes has been rapidly declining and is now worth less than $3 billion annually. The typical US shoe manufacturer is small, with annual revenue of $10 million and fewer than 100 employees. US-made products are mostly private-label men's shoes. Average revenue per employee is $100,000. Materials, mainly leather, amount to 50 percent of costs. Shoe manufacture has moved to low-cost countries like China because of the large labor content in the manufacturing process, especially for athletic shoes. Despite advances in automation, shoes are still largely assembled by hand, using cutting, glueing, and stitching machinery.

Retailers include regional and national shoe store chains, department and discount stores, and many independent local retailers. Chains typically locate stores in strip or enclosed malls, or as stand-alone operations. The retail shoe market is heavily segmented by type of consumer (sex, age, income level, urban/suburban, etc.) and price level. The basic Florsheim brand, for example, is aimed at men who will
pay from $90 to $120 for shoes, while Florsheim Imperial brand retails from $130 to $200, and the FLS brand retails from $60 to $80. Each brand includes numerous styles. With many choices of product, retailers develop "store model stocks" (the product mix) that will appeal to their target consumer audience.

The logistics of delivering product to retailers is extremely important for shoe companies, especially in view of the many brands, private labels, styles, colors, and sizes involved. Most shoe companies have several distribution centers, typically 500,000 to 1 million square feet, and sophisticated computer systems to track inventory, orders, and deliveries. Large retailers have similar distribution networks to service their retail outlets, usually with the aid of point-of-sale (POS) entry systems (scanners) at cash registers to track sales at individual outlets. Some shoe companies use electronic data interchange (EDI) or, more frequently, the Internet, to allow wholesale customers to place orders electronically. Problems with computer systems can have large financial consequences.

SALES & MARKETING

Retail marketing makes heavy use of local print, TV and radio advertising, and instore displays. Brand name companies often provide promotional money to retailers. To move slower selling models, periodic price discounting is common. Retailers usually expend much effort to train sales personnel, the majority of whom work part-time at fairly low wages. Turnover of retail employees can be high.

Brand names are the most valuable asset of shoe companies, which design shoes, arrange for manufacture, and sell them to retailers. Shoes are sold to retailers using an in-house sales force and independent sales representatives. Many companies operate showrooms for wholesale buyers, and exhibit at regional and international trade shows, such as the New York Shoe Expo. Retailers usually place orders with shoe companies three to four months ahead of expected delivery time. Shoe companies, in turn, order raw materials and place orders with their (mainly foreign) manufacturers. Large shoe companies maintain a quality control staff near their foreign manufacturers. There are almost no long-term contracts in the industry, although long-term relationships are very important.

FINANCE & REGULATION

Retail revenues are seasonal, with peaks in the back-to-school, Christmas, and spring seasons. Retailers have low receivables but high inventories, as much as 120 days' sales. Manufacturers periodically need to invest in advanced manufacturing equipment. Retailers often have capital needs to refurbish stores, because the image of a store is an important component of marketing.

The industry is subject to the usual state and federal regulations governing retailers, mainly to guard against deceptive marketing and price-fixing. Import and international trade regulations have become a larger industry concern as the bulk of US shoes are now imported.

REGIONAL & INTERNATIONAL ISSUES

Imports account for close to 90 percent of US retail shoes sales, including almost 100 percent of athletic shoes. Annual imports total close to $16 billion, of which almost 70 percent come from China. Italy and Brazil are other large importers.

HUMAN RESOURCES

Most jobs in shoe retail stores require few special skills and accordingly pay fairly low wages, under $10 per hour in 2004, compared to $15 for all US workers. Because of uneven shopping demand during the day, week, and year, stores use are large number of part-time workers. Because of the low wages and uneven work schedules, personnel turnover can be 50 percent per year or more.
Adidas Acquires Reebok in $3.8 Billion Deal - In a surprise move and with rival Nike clearly in its sights, Adidas acquired Reebok for $3.8 billion in a debt-and-equity deal in August. Combined annual sales for the new company will reach $11.1 billion, according to Adidas, compared to Nike’s $13.7 billion. While Adidas is quite confident that it can build both brands and take on Nike, some analysts aren’t as sure and doubt the new company will do much to erode Nike’s dominant market share. One analyst doesn’t believe the deal, at least in the all-important US market that Nike rules, will yield significant growth or profitability for either brand, especially in footwear.

Initial Back-to-School Results Weak - Back-to-school figures for July were weaker than expected for footwear retailers, although August's figures are expected to increase. Evansville, Ind.-based Shoe Carnival saw July comparable-store sales (“comps”) drop 4.8 percent; overall sales fell only 0.4 percent to $46.2 million. In early July, the company saw increases in comps, but a falloff during the fourth week and into the first week of August, indicating a slow start to the back-to-school season. Topeka-based Payless ShoeSource also saw a decline: comps fell 2.4 percent during July over prior-year, with total sales dropping 3.5 percent to $177.9 million.

CAFTA Becomes Law - In August, President Bush signed the Central American Free Trade Agreement (CAFTA) into law, reducing or eliminating, effective January 1, 2006, the tariff on goods sold between the US and those Central American countries that have also ratified it. At the time of the US signing, only El Salvador, Guatemala, and Honduras had also signed the pact. The cost of materials used to manufacture footwear could drop significantly under CAFTA. With the elimination of global quotas at the end of 2005, CAFTA was widely controversial. Ultimately, Republican legislators from textile-producing states pushed it through a much divided House, resulting in an inordinately large number of side deals.

Teens Lining Up for Nike’s Jordan Retro Shoes - Each month, Nike releases Michael Jordan Retro 10 Edition shoes in two new color combinations, one for boys and one for girls, and despite the $125 price tag, stores usually sell out within hours. Notified of the release date by Nike ads, teens begin lining up before stores open, sometimes surprising employees who have forgotten the exact date. The shoes’ rarity is a great part of the appeal, but so is the dominance of the Nike brand. According to Teenage Research
Unlimited, teens spent $169 billion on retail purchases in 2004 and Nike was the most popular retail brand.

Jobs Continue to Fall, Wages Inch Upward - The size of the US footwear workforce continued to drop, falling 4.5 percent to 18,900 employees in July from year-ago. In July 1995, the industry employed 58,800, almost three times current levels; wages stabilized after a period of significant growth one year earlier. The average hourly rate for a US footwear worker was $11.40 in July, inching up a mere 1.1 percent from year-ago. In the past ten years, industry pay rates have increased 42.9 percent.

CRITICAL ISSUES

Flat Prices: Greater Emphasis on Marketing - The profitability of US shoe companies depends on marketing skills because retail shoe prices have been flat for the past decade. From 1995 to 2005, retail prices declined 4 percent. With prices flat, manufacturers and retailers have had to rely on superior styling and marketing to increase sales' volume.

- Consumer prices for shoes in August 2005 rose 3.8 percent from the year-ago level.

Reliance on Foreign Manufacture - US retailers depend on foreign manufacturers for most of their product. Imports hold about 90 percent of the US market. Because of the high labor content, most manufacturing is in low-cost countries, especially China. The large dependence on foreign manufacturers increases the risk of supply disruptions and political interference.

- Footwear imports rose 7.7 percent in first half of 2005, with China firmly in control of the market.

OTHER BUSINESS CHALLENGES

Vulnerability to Fashion Changes - Retail shoe sales are subject to uncertain consumer demand, which can leave manufacturers and retailers holding sizable inventories of unwanted goods. Consumer tastes are difficult to understand or predict. The development cycle in the industry, from initial shoe design to retail sale is about a year, long enough so that styles can become unpopular.

Inventory Control Problems - Inventory control is difficult for footwear manufacturers, wholesalers, and retailers. As a result of just-in-time manufacturing and lean inventories, producers can be caught out-of-stock when retailers call for more of a popular shoe. Independent retailers are often concerned about availability of popular footwear. Inventory turnover, on average, is just seven times per year.

Greater Competition from Large Chains - Shoe chains have grown in recent years, while single-brand shoe stores have faded. Consolidation has been driven partly by efficiencies of scale. Chains can more easily maintain and manage a large inventory than can independent stores, routing individual products to stores where they're selling best and running a lower risk of inventory obsolescence. Chains can also negotiate lower prices for high volume orders.

BUSINESS TRENDS

Brand Name Licensing - The successful branding of athletes' names with shoes in the past 20 years led to an extension of the licensing of famous names. Reebok produced shoes under the Ralph Lauren and Polo brands; Brown Shoe licensed the Barbie, Spider-Man, and Sammy Sosa names; Florsheim produced a line of John Deere shoes. The athletic segment of the shoe market has recently had less success marketing "hero" or "icon" shoe lines, partly because of the retirement of Michael Jordan and other famous stars. Large endorsement deals with a few top athletes have given way to a wide range of small endorsement arrangements with athletes in many different sports.

More Casual Styles - The greater informality of dress at work and the spread of "casual Fridays" have cut into the market for expensive dress shoes, creating intense price competition. On the positive side, the demand for more casual shoes styles has increased, especially for styles that are a cross between formal
and athletic.

**Athletic Footwear Market** - Running, basketball, cross training, and walking are the top selling categories of athletic footwear in America, according to *US Athletic Footwear Market Today*. Over one-third of all spending for athletic footwear is by 5 percent of the total population, those 13 to 24. Sneaker customers seem to be gravitating to less expensive brands, such as Skeechers and New Balance. High-end athletic shoes have been very profitable, but are declining in popularity.

**More Comfortable Shoes** - Aging baby boomers are demanding more stylish but comfortable footwear. Manufacturers are seeing more demand for wider widths, bigger sizes, and more cushioning from 38-to-56 year olds. Brands like Naturalizer and Easy Spirit, known for extra cushioning and flexible soles, are overhauling their dowdy images by offering more youthful and fashionable styles. New shoe companies specializing in catering to boomers have formed as well.

**Less Metal** - The war against terrorism has impacted the use of metal in shoemaking. Heightened airport security has pushed the $3.1 billion US men's dress-shoe market into finding substitutes for steel shanks (the thin metal strip that supports the heel and ball of the foot). Shoe manufacturers are reconsidering steel toes, and metal grommets or eyes, all commonly used on work and recreation boots. Deluged with customer complaints, many manufacturers are starting to use plastic or fiberglass instead of metal.

**INDUSTRY OPPORTUNITIES**

**Internet Sales** - Many shoe companies and retailers operate consumer Internet sites that allow online shopping. These sites are most successful for men's products, since women's shoes are more difficult to evaluate in pictures. Many shoe companies use sites to allow wholesale customers to place orders. Internet consumer sales are especially important to smaller brands that can get only a limited selection into national chain stores. Nike allows consumers at its Internet site to custom design the colors on a shoe and add a personal logo for an extra charge of $10, with a two- to three-week delivery time.

**International Sales** - The popularity of American brands in international markets has provided a growth opportunity beyond the mature US market, especially for athletic shoes, high-end men's dress shoes, and specialty shoes like work boots. Big companies like Nike get almost 50 percent of revenue from international sales, but even Red Wing Shoe, a work boot manufacturer, gets 15 percent of its $375 million sales from overseas.

**Brand Extensions** - Successful shoe brands easily lend themselves to the branding of clothes and other products. Athletic shoe companies have been most successful at expanding branding, but other brands like Timberland, Buster Brown, and many more, are now found on clothes and accessories. Nike gets 30 percent of its US revenue from clothing and other product sales, Timberland 23 percent.

**Frequent Buyer Programs** - Some retailers have increased buyer loyalty through frequent buyer programs that provide free merchandise, preferred treatment, and other benefits.

**Targeting Teenagers** - Larger footwear companies are targeting teenagers, both in product design and marketing. The youth market continues to drive the sales of high-end athletic footwear, according to National Sporting Goods Association (NSGA). Teens are increasingly shopping at discounters and off-the-mall retailers like Kohl's, TJX, and Ross Stores.

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**Call Preparation Questions**

Provides several business-related questions to ask business owners. Excellent for call planning.

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**CONVERSATION STARTERS**

**What strategy does the company have for growth in the mature US market?**

The profitability of US shoe companies depends on marketing skills because retail shoe prices have been flat for the past decade.

**Does the company worry about restrictions on US shoe imports?**

US retailers depend on foreign manufacturers for most of their product. Imports hold about 90 percent of the US market.

**How does the company manage shifts in consumer fashion trends?**

Retail shoe sales are subject to uncertain consumer demand, which can leave manufacturers and retailers...
holding sizable inventories of unwanted goods.

What benefits or challenges have the company experienced using online sales? Many shoe companies and retailers operate consumer Internet sites that allow online shopping.

What plans does the company have for entering or expanding into international markets? The popularity of American brands in international markets has provided a growth opportunity beyond the mature US market, especially for athletic shoes, high-end men's dress shoes, and specialty shoes like work boots.

Has the company considered extending its brands to clothing and other products? Successful shoe brands easily lend themselves to the branding of clothes and other products.

QUARTERLY INDUSTRY UPDATE QUESTIONS

What impact will the Adidas-Reebok merger have on the company? In a surprise move and with rival Nike clearly in its sights, Adidas acquired Reebok for $3.8 billion in a debt-and-equity deal in August.

What effect will CAFTA have on the company? In August, President Bush signed the Central American Free Trade Agreement (CAFTA) into law, reducing or eliminating, effective January 1, 2006, the tariff on goods sold between the US and Central American countries.

OPERATIONS, PRODUCTS AND FACILITIES QUESTIONS

Is the company a shoe producer or retailer? Many producers also operate retail stores, often as factory outlets.

How much product is branded versus private label? For Producers:

Does the company manufacture in the US or overseas? Where overseas? How many factories? More than 90 percent of US shoes are imported.

Does the company own factories or contract with independent manufacturers? How many? Contracting is most common.

Does the company design its own products? Large producers constantly design new products; small companies may hire a design firm.

Does the company produce men's, women's, or children's shoes? Athletic or casual and dress shoes? Athletic shoemakers make men's, women's, and children's shoes, but casual and dress shoemakers usually specialize.

Does the company operate distribution centers? How large? Typically, distribution centers are over 500,000 square feet. Large producers may operate several.

Does the company have a refurbishment program for defective or damaged products? A quality footwear refurbishment program can inspect and rework defective goods, saving valuable revenues for footwear firms. Many third-party refurbishment companies offer footwear rework, repair, and inspection for manufacturers, importers, retailers.

For Retailers:

How many stores does the company operate? Are these single-brand or multi-brand stores? Single-brand stores, formerly the industry norm, are rapidly disappearing.

Are the stores in strip malls, enclosed malls, outlet malls, urban locations?
What is the average store size?
Stores vary from 1,000 to 6,000 square feet. Superstores may be 20,000 square feet.

How many brands do the stores carry?
Stores usually carry from 200 to 700 styles.

Do the stores sell men's, women's, or children's shoes?
Many stores specialize in one segment.

Does the company operate distribution centers?
Most chains have their own distribution system.

CUSTOMERS, MARKETING, PRICING, COMPETITION QUESTIONS

How does the company market to specific demographic segments, like teenagers?
Larger footwear companies are targeting teenagers more, both in product design and marketing.

How does the company compete in a more price-oriented and promotional marketplace?
To target certain market segments, manufacturers and retailers have created special outlets, like Niketown concept stores and Nike Goddess outlets for women.

For Producers:

How many retail accounts does the company sell to?

Does the company sell mainly to shoe chains or to department or discount stores with shoe departments?

Does the company use an internal sales force or independent representatives?

Does the company exhibit at trade shows?

Does the company issue special limited edition products?
Manufacturers are increasingly issuing limited editions of high-fashion or very high-tech models. These limited editions, treasured by a small group of fashion insiders, are frequently released in small quantities without advance warning, reports Footwear News.

Does the company have exclusive rights agreements with retail chain stores?
Manufacturers and retailers are increasingly collaborating, with agreements for some retail chains to have exclusive rights to special shoe designs or colors.

For Retailers:

Who are the major competitors? Who is the price leader?

What type of customer is the company trying to sell to?
Sex, age, income, fashion consciousness are key categories.

What price points does the company sell to?
Different brands usually have styles with prices within a well-defined range.

What sort of marketing does the company do?
Print, TV, and radio advertising are heavily used. Instore promotions and promotional events are used mainly by athletic shoe stores.

What methods of differentiation can the company use other than price?
Fashion design, branding, and comfort are three methods of differentiation.

REGULATIONS, R&D, IMPORTS, AND EXPORTS QUESTIONS

Does the company export products?

What percentage of sales does the company spend on R&D for new designs and fashions?
Breakthrough design and fashion are very important for footwear companies.

ORGANIZATION AND MANAGEMENT QUESTIONS

Does the company have different management teams for different brands?

For Retailers:

How does the company recruit and train new personnel?
Employee turnover in the retail business is typically high, but a knowledgeable sales staff is very important.

What percentage of workers is part-time?
Usually the majority are part-time workers.

How much independence do store managers have about product mix and inventory levels?
Local tastes can be very different.

FINANCIAL ANALYSIS QUESTIONS

Has the company been profitable in recent years?
Many shoe companies have faltered as imports and changing consumer tastes have altered the market.

Is cash flow uneven throughout the year?
The strongest selling seasons are back-to-school, Christmas, and Easter.

How does the company finance inventory?
Inventory management is a major concern of producers and retailers.

Has the company ever have to write-off significant amounts of inventory?
Estimating how many shoes in what styles can be sold is very difficult, especially when product must be ordered three to four months in advance.

BUSINESS AND TECHNOLOGY STRATEGIES QUESTIONS

What strategy does the company have for growth?
Product design and marketing have been the drivers of growth for many companies.

Does the company plan to add brand name products or house brands?
Brand name products have been most successful in the athletic shoe segment.

What sort of logistics system does the company use? What sort of computer system?
Because of the large numbers of individual items that must be tracked, sophisticated computer systems and automated warehouses are important.

Does the company use electronic data interchange (EDI) or the Internet to communicate with vendors/customers?
Some producers have websites where retailers can order products.

Does the company sell its products online?
Although overall volume is still small, many producers and retailers operate business-to-consumer websites.

Indstry Forecast
Delivers a longer term view of the projected growth of the industry

US personal consumption expenditures for shoes, a major driver for footwear manufacturing, wholesaling, and retail, are forecast to grow at an annual compounded rate of 6.2 percent between 2005 and 2008.

Strong Consumer Spending on Shoes
First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM’s “interindustry-macro” approach to modeling the economy captures the links between industries and the aggregate economy.

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