

SHOE INDUSTRY ANALYSIS – FYR MACEDONIA



prepared for:

SEED

Southeast Europe Enterprise Development
Makedonija 9-11/III, 1000 Skopje
FYR Macedonia

prepared by:

SECO Sector Consulting
Frankfurter Str. 21 – 25
65760 Eschborn/Frankfurt

January 30, 2004

1. OBJECTIVES / TASKS / REALISATION

The main objectives of this consultancy project are:

- Undertake a brief analysis of the Macedonian shoe sector based on a field research with company visits
- Provide direct hands- on recommendation to SEED and the companies
- Analysis of the existing SEED industry approach, concepts of companies, and SEED activities
- Develop recommendations for SEED: "How to Improve Industry Cluster Development and increase Increasing International Competitiveness"
- Conclude a number of initial contracts with potential buyers

Since there is already an existing General Cluster Analysis, this consulting report is putting a stronger emphasis on the industry perspective with the current Macedonian situation taken into consideration by providing a benchmark and operational advice to SEED.

In order to fulfil the tasks mentioned and provide implementation recommendations Mr. Dietmar Stiel and Mr. Thomas Döderlein realised a consulting mission to Macedonia from December 8th till 13th, 2003 (Mr. Stiel) and December 7th till 14th 2003, Mr. Döderlein.

This survey is based on the following approach and sources:

- Personnel interviews/talks with approx. 14 companies of the sector
- Interviews with experts, entrepreneurs, etc.
- Desk research of data from international sources
- Brief desk research of existing studies and partial communication with the experts, buyers
- Market and industry experience
- Other sources

A briefing on content and results of the study / consultancy was given to the SEED staff during the mission "Project Briefing Meetings" on December 12, 2003.

2. OVERVIEW OF THE MACEDONIAN SHOE SECTOR

2.1 Market Situation for Shoe-Industry and LOHN (CMT) Services

The overall economic situation, incl. private consumption, is strongly regressive. The shoe retail experienced a real drop of approx. 4-6% during 2002 and 2003. This is especially disconcerting regarding the upper price segment. Here the turnover has shrunk even more. A considerable part of the production capacity was reduced by the market situation and consequently reduced prices.

The situation had especially influenced the high-price shoe sector; mainly in the field of “classical ladies shoes”. Due to the above mentioned price pressure, the trend in shoe manufacturing has been and will be continue in that facilities will be located further afield into Asia (Vietnam, China, Bangladesh, etc.).

Other countries as for example Romania have felt this tendency due to migration of the production from Eastern Europe to the Far East. The CTM-costs in Asia are even lower (30%) than in Eastern Europe. Here the industry migrates only in regional and economically underdeveloped regions in East- and South-Romania.

The companies in Eastern Europe have to invest in efficiency increase, quality management, product development and marketing, so that the industry development will continue and be secured in the medium-/long-term.

The enhancement of the competitiveness and the “Cluster Development” in Macedonia is a very important factor for the production in CTM and own collections.

Apart from the “Industry Cluster”, there is another important aspect in the analysis of the current status and position of the shoe industry called “Type of co-operation”.

The “Type of Cooperation” describes the status of industry, its relation to the market/buyer, and added value generating potential and therefore, future potential for surviving in a certain environment. It furthermore gives a clear picture regarding the strengths and weaknesses of the sector.

The following table gives an overview regarding different types of business in the shoe industry.

Types of Co-operations in the Shoe Sector

Type	Products / Services	Target Groups / Buyer
CM (cutting-making)	<ul style="list-style-type: none"> Production (cutting, sewing, etc.) 	<ul style="list-style-type: none"> Industry (manufacturer / converter)
CMT (cutting-making-trimming)	<ul style="list-style-type: none"> Production Procurement of trimming 	<ul style="list-style-type: none"> Industry (manufacturer / converter)
RTU (ready-to-use)	<ul style="list-style-type: none"> Production Procurement of major material and trimmings 	<ul style="list-style-type: none"> Industry (converter) Sales intermediaries¹⁾ Large retail²⁾
RTS (ready-to-sell)	<ul style="list-style-type: none"> Product development (Basic product) Production Procurement 	<ul style="list-style-type: none"> Sales intermediaries¹⁾ Large retail²⁾
Collection	<ul style="list-style-type: none"> Product development (product line) Procurement Product marketing 	<ul style="list-style-type: none"> Specialist retail/shoe boutiques Shoe chain stores³⁾ Shoe Purchasing Association⁴⁾
Industry Label	<ul style="list-style-type: none"> Product-Management Product development (product line) Label-Management 	<ul style="list-style-type: none"> Specialist retail Shoe chain stores Shoe Purchasing Association⁴⁾
Consumer Brand	<ul style="list-style-type: none"> Brand-Management Product-Management Product development (brand and product line) 	<ul style="list-style-type: none"> Specialist retail/shoe boutiques Brand stores (own and franchise)⁵⁾ Brand department stores

Source: SECO Sector Consulting 'Company Effectiveness Concept'

1) Importer / Wholesaler / Distributor

2) Department Stores / Mail Order / Budget Stores / Grocery Chains

3) Goertz / Salamander / Deichmann / RENO

4) Nordwestring, etc.

5) Bally / TODDS / others

2.2 The Shoe Subcontracting Business and Industry Situation in Macedonia

In order to analyse the possibilities for building a future for this industry, the following points have to be taken into a serious consideration.

The shoe subcontracting industry is driven by the main factors also named as 'Industry Cluster' situation:

- Low labour and "Production Costs" (see point 3 / page 11)
- Favourable general business, investment and framework conditions
- Industry supply, availability and access to raw materials, services, etc.
- Geographical proximity to markets and /or - position
- Production know-how and historic development of the shoe industry
- "Type of Co-operation" in the Industry

In recent years, the decreasing market for shoe consumer request has resulted in an ever growing demand for lower prices and consequently in lower production and material costs.

A strong combination of a number of positive existing factors provides a "fertile ground" for a growing and successful industry development. This has been recognized in a number of countries including Macedonia, but recently very much so in Romania and Bulgaria due to low labor costs.

Therefore competitive countries, combining a large number of factors mentioned in an "Optimal Mix", have been favoured by international "Full-Import" buyers as China, India, Vietnam, but also Romania, Bulgaria for CTM LOHN Production.

2.3 Situation in the Shoe Industry in Macedonia

The Macedonian shoe industry has already been analysed by SEED, Mrs. Valentina Paskalova under the title: "Shoe Industry in Kumanovo", Milan/Italy September 16, 2002. This sector analysis already showed important information for the industry structure and a basic SWOT analysis for the shoe business in Macedonia.

The shoe sector is an important manufacturing and export business providing over 6.000 industrial jobs in Macedonia. The sector has seen some good developments especially in the region of Kumanovo and provided a spur to the Macedonian economy and exports.

The shoe business has more than 100 mainly export oriented companies. The industry has a high degree of very capable companies; however most of them operate under CTM/Subcontracting agreements, mainly for Italian and German manufacturers.

A part of the shoe sectors is considered as an industry with considerable competitive advantages for Macedonia due to skilled labour and productive manufacturing plants. Major weaknesses however are the utilisation of existing production plants mainly due to poor market access, marketing know-how and poor future market concepts.

Hence existing information “Benchmark Analysis has additional” (see pt. 3, page 10) been developed in order to compare the current situation in Macedonia with its local and regional international competitors, since Macedonian companies also work in CTM and try to sell their products regionally and in the Central-EU market.

2.3.1 Situation regarding Management and Work Force

During the company visits it was interesting to identify that the industry has a large number of skilled and professional workers. Generally speaking, from the labour and production handling point of view, companies make a very professional and relatively well organised impression.

This is interesting, because it was not always the fact in the neighbouring countries and their factories, visited by the experts in recent years. This is especially true in countries like Romania and Bulgaria, most companies are not as equipped and have poor working processes.

Talks with management of different production plants and shoe factories showed that the personnel in the visited companies have good experience and are well skilled in shoe manufacturing. Most of the processes are organised well. Companies by and large show a productive and efficient working manufacturing process.

2.3.2 Cost Situation

Companies in Macedonia can be compared to factories in Hungary and Slovenia in terms of their organisation, quality, and working procedures. However, In Macedonia costs are slightly lower.

It is a well-known fact that Macedonia is not ranked as the lowest labour cost country in the shoe industry in the region. However, average costs of about EUR 270 – 330 for a semiskilled, and of about EUR 400 – 600 for production manager labour costs are still low.

Romania as the largest competitor for shoe manufacturing, can be subdivided into three major regions in manufacturing. Here the labour costs are lower, but people are not as skilled and professionally trained as is the situation in Macedonia. In Romania the average monthly costs are approx. EUR 130 – 180 for a semiskilled worker, and a professional production manager’s income is approx. EUR 270 – 370 per month incl. social benefits of approx. 60%.

For more information please see labour costs comparison in pt. 3, page 11.

2.3.3 Production Facilities and Equipment Situation

Unfortunately, not all companies were working during the visits. Production flow, organisation, used equipment and product quality in the companies that were working made a professional impression. Most facilities had sufficient space for production, logistics and intermediary storage. Macedonian businessmen tend to invest large amount of capital into buildings and real estate.

In terms of production, maintenance of equipment in most companies must be improved. Machines were often dirty and not well maintained, which leads to lower manufacturing quality and hampers productivity. Generally, companies are well equipped with sophisticated and specialised machines and equipment. Workers are skilled and trained to use them for producing in many cases upmarket qualities.

Currently there is no need for further investment in machines and equipment.

2.3.4 Supply Situation

Due to the current strong situation in the CTM business in Macedonia, most companies are used to receiving raw materials from the contractor, so as to manufacture them as uppers or also to export finished products.

When it comes to sourcing and availability of supplies, the interviewed companies made a professional and knowledgeable impression. Despite the fact that most materials are locally available, they are imported from Italy, Germany or Turkey and Greece as the major suppliers for the shoe industry. There are only a very limited number of local manufactures, which are concentrated in PVC soles and some tanneries. However, in comparison, prices are not really competitive and the quality could be improved in order to supply the companies with competitive and well-structured raw materials.

However, this situation does not influence the companies too much, since there is a large number of local importers and suppliers available to satisfy the manufacturing companies' needs for raw materials and supplies for their production.

This supply know-how and sourcing capabilities is a very important aspect in order to improve the industry cluster's positioning and increase the full export potential for the Macedonian shoe industry.

2.3.5 Meso - Organisations

This part of the 'Cluster' has not been analysed yet and should be covered during the next mission to Macedonia.

2.4 Direct Links to Potential Buyer

Based on available information and photo materials, a number of buyers and companies were contacted. The results are as follows:

- Macedonia is not well known as a shoe production place/country
- Macedonia has an image of insecurity and conflict
- Companies believe that labour costs and production costs are much higher than in other South-East-European countries (Rep. Moldova, Romania, etc.)
- For detailed business offers the following points are lacking:
 - Companies have no concept, distribution, service office in target markets
 - Current offers/products are sent without price references in quantities, etc.
 - No-small information regarding order sizes, quantities, delivery times, order systems, etc.
 - Background of companies: business reference, etc.
- Potential CTM-customers want to see physical samples and will visit factories in most cases

2.5 SWOT-Analysis

The review of the mentioned study "Shoe Industry in Kumanovo", the results of fieldwork, market analysis, and interviews with experts in the industry have led to the following SWOT- (Strength/Weakness/ Opportunities/Threats) Analysis of the status of Macedonian shoe sector.

Strengths

- Well trained labour and management and available personnel
- Well equipped factories
- Experience in production, product development (partly), sourcing
- Good links to existing LOHN customer
- Own facilities and buildings

Weaknesses

- Lack of marketing and market know-how, especially in own product and collections
- Unsystematic market approach, no concept, “just doing” mentality
- Comparatively high prices for CTM-production
- Lack of concept and finance to set-up marketing organisation abroad
- High investment in a real estate in large factory buildings
- Partial lack of basic supplies as electricity during production hours

Opportunities

- Good production situation must be promoted into the markets for RTU/RTS-business
- High added-value CTM-customers must be brought to Macedonia
- Further trend for production relocation especially in Italy and Spain
- Future trend for shorter fashion cycles and “Pronto Moda” in the shoe industry

Threats

- Macedonia has not a good image, since TV and the press still report about the conflict which happened a few years ago
- Increasing price pressure will swift more production to Asia and cheaper South-East-European countries
- Most companies lack marketing and sales know-how
- Shortage of working capital for market build-up activities
- Small local market with limited purchasing power
- A high technical trade barriers and protection of other regional markets as Rep. Yugoslavia, Bosnia and Herzegovina, Serbia/Montenegro

3. Benchmark and International Comparison of Major Factors “Industry Cluster” in the Shoe and Shoe Subcontracting Industry

Factors: “Industry Cluster”	Low Labour and Operation Costs	Favourable general Business, Investment, and Framework Conditions	Supply, Availability and Access to Raw Materials, Services, etc.	Geographical Closeness to Markets and Geographic Locations	Type of Co-operation in the Industry	Production Know-how and Historically Developed Shoe Industry
Countries:						
Turkey						
- west	C	B	A	C	A	RTS / COLL
- east	B	C	C	D	C	CMT
Czech Republic	D	B	B	A	A	RTU / RTS
Macedonia	C	B	B	B	A	CMT / RTS
Hungary	C	B	B	B	B	RTU / RTS
Romania						
- west	A	B	C	B	C	CMT / CM / RTU
- east	B	C	D	C	D	CM
Yugoslavia	C	C	B	B	B	CMT / RTU

A = very good / strong B = good / strong C = fair / average D = poor/bad

Source: SECO Sector Consulting Factory Survey 2003
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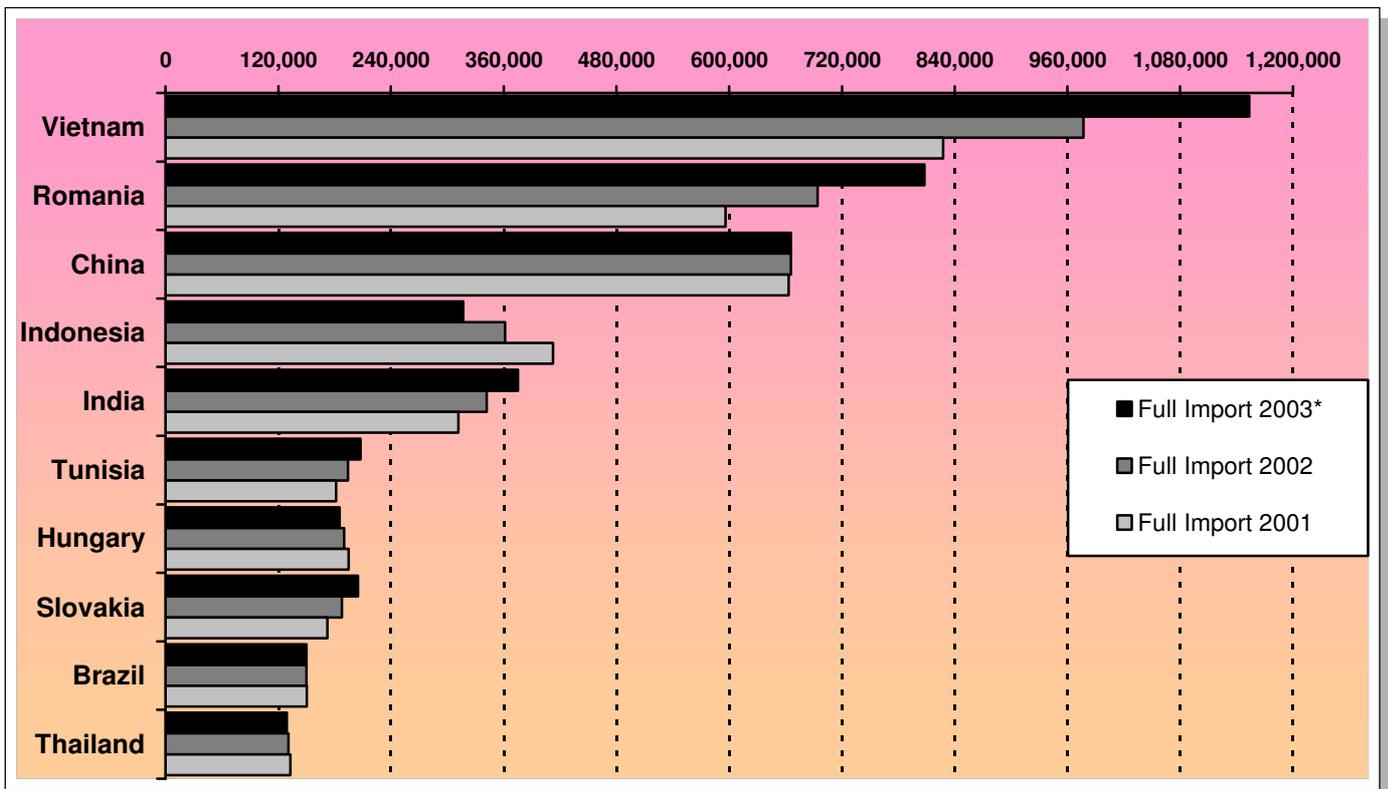
4. Production Costs Benchmark and Survey of the International Competition Situation in the Shoe Industry

This data shows that Macedonian production prices rank within the middle to higher level of listed countries in the shoe industry.

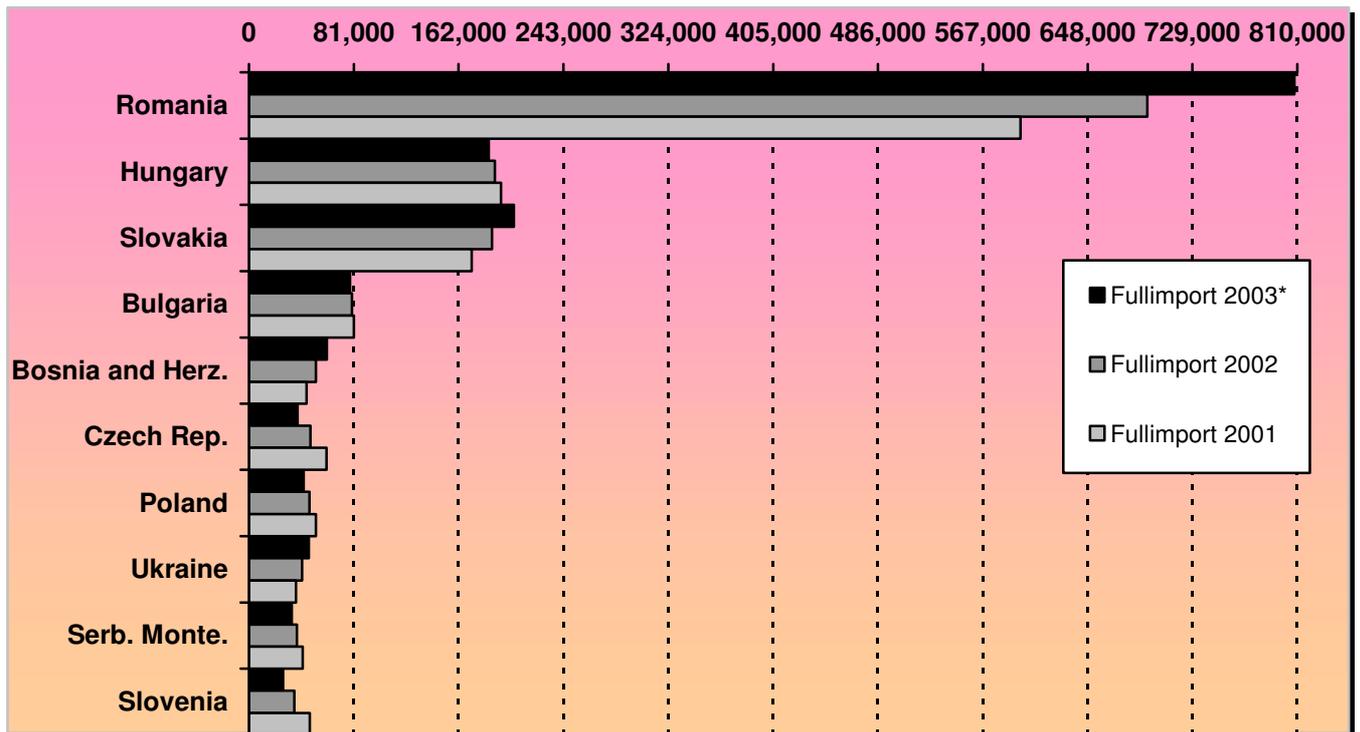
Country	Subcontracting costs per minute in €	Trend 2003 / 2004
Eastern Europe		
Albania	0,06	decreasing
Belarussia	0,07	constant
Bulgaria	0,09	constant
Hungary	0,19	increasing
Macedonia	0,15	increasing
Poland	0,17	increasing
Rep. Moldova	0,07	constant
Romania	0,10	decreasing
Russia (European part)	0,16	constant
Ukraine	0,07	constant
Asia		
Bangladesh	0,05	decreasing
China		
- south/east	0,09	increasing
- north/west	0,06	constant
India		
- north/east	0,08	Increasing
- north/west	0,09	constant
- south/east	0,09	constant
Indonesia	0,08	decreasing
Vietnam	0,07	Increasing

Source: SECO Sector Consulting Factory Survey 2003
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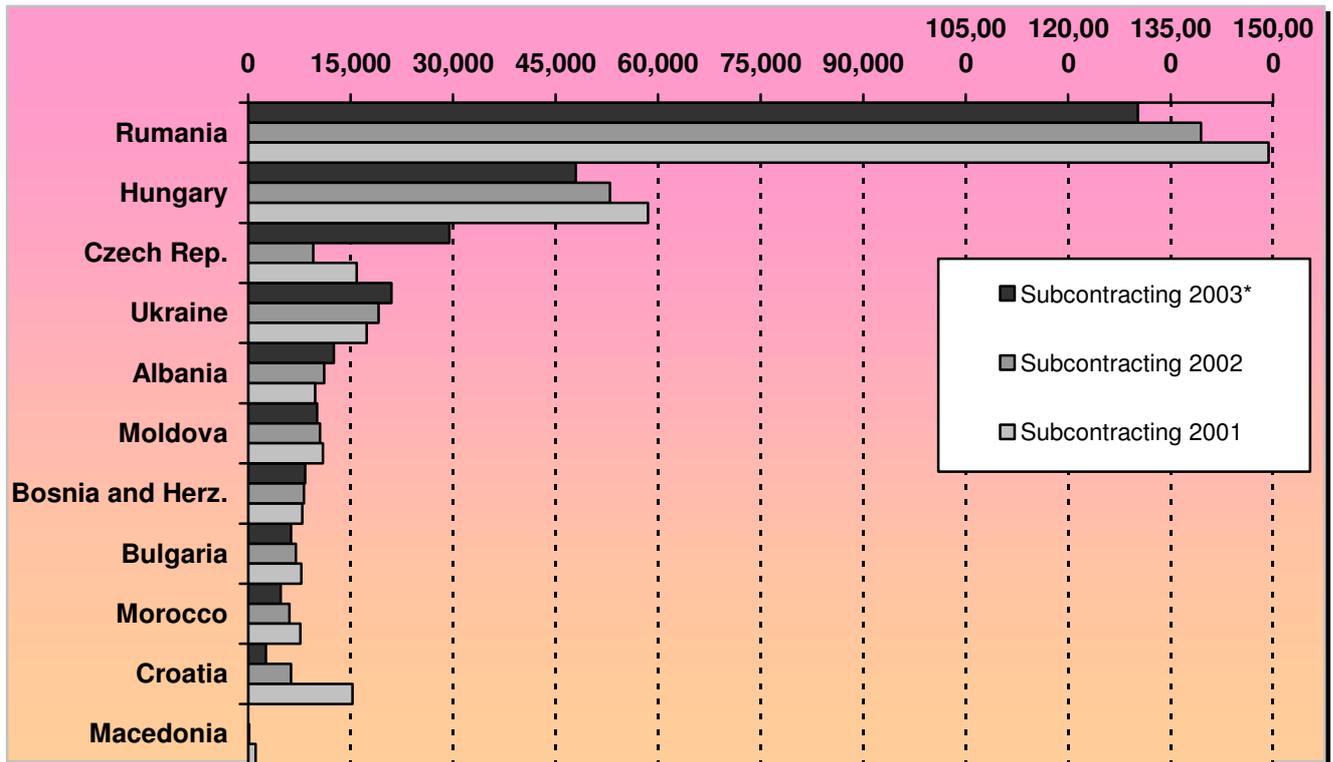
Full Import of Footwear of Upper Material of 100% Leather from Worldwide to the EU (total) in EUR 1,000



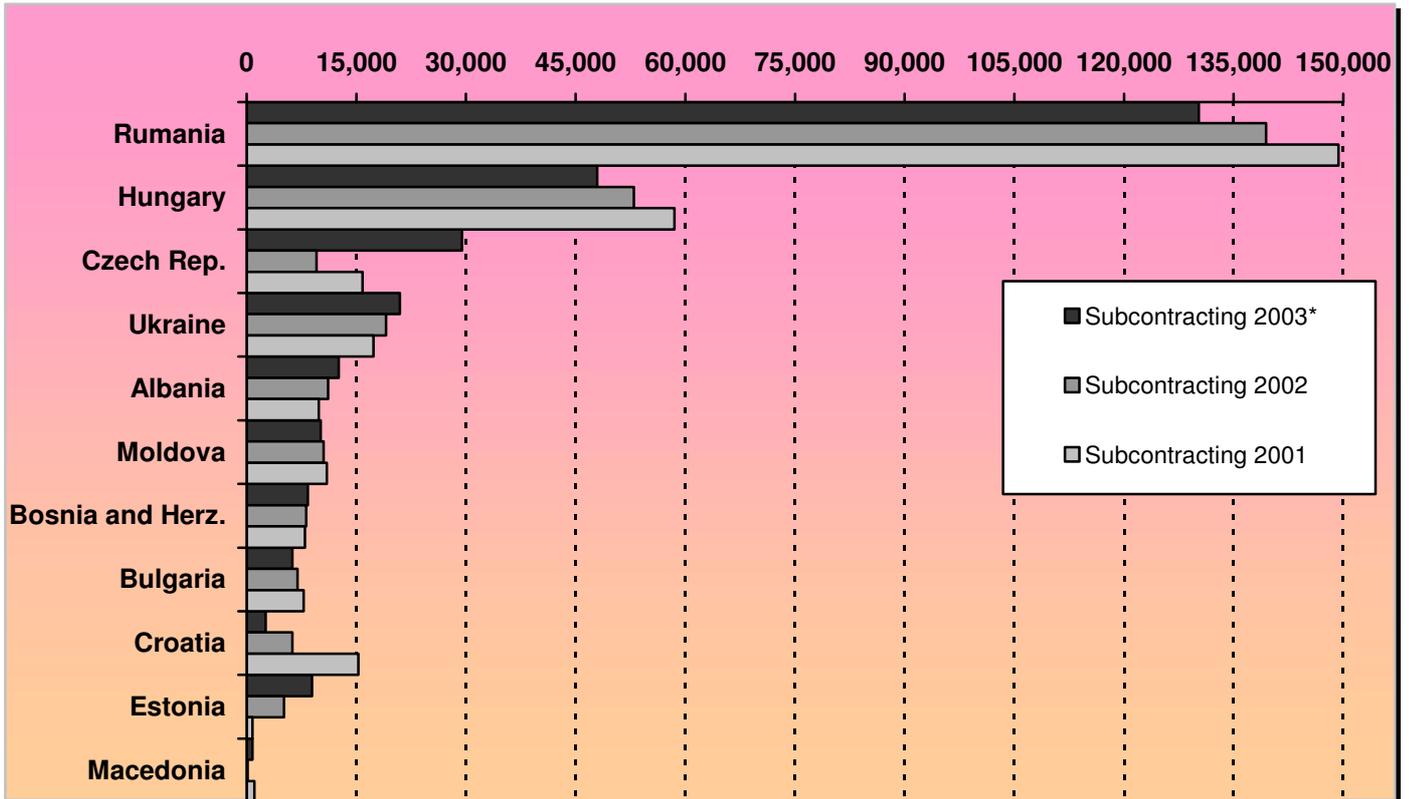
Full Import of Footwear of Upper Material of 100% Leather from Eastern Europe to the EU (total) in EUR 1,000



Subcontracting of Footwear of Upper Material of 100% Leather from Worldwide to the EU (total) in EUR 1,000



Subcontracting of Footwear of Upper Material of 100% Leather Eastern Europe to the EU (total) in EUR 1,000



5. COMPANIES AND SEED RECOMMENDATIONS

Based on the company visits, analysis, contacts to German buyer/partner the general company situation is as follows in Pt. 5.1.

For details please see individual company analysis and recommendations in the Annex.

5.1 Companies

Management

- Most companies are financially weak; they invested into buildings instead of marketing, design, and access to markets. This must be changed and market orientation must be strongly improved.
- Companies must start working even if there is no or very small profit on CTM production, especially if they are “not working”.
- Companies must improve “Type of Co-operation” or at least go for “Added-Value”.
- Top management need some new ideas since they are strongly involved in daily operations to freshen-up concepts.

Marketing / Sales

- Link to “Added-Value Buyers” or RTU co-operations for weaker companies and start to build-up markets for “Collection” business
- Possibility for regional market penetration must be analysed carefully since Central-EU is difficult and expensive to penetrate
- Organise joint missions to meet buyers / subcontracting-partners / investors

Production

- Nonetheless, working companies have to start production to show their know-how and capability even if prices are low
- There are some (not all) who have to improve work-flow and efficiency
- All companies must soon shift from low price level items: work shoes, protection shoes, children shoes, sportive shoes, to more added items as high quality lady’s and men’s shoes
- Improve equipment and know-how for production of high quality/price shoes
- Increase flexibility of production planning and manufacturing to smaller order handling
- Information on trends, new materials and design must be improved

5.2 SEED - RECOMENDATIONS

Overview of Company Situation and Concepts

Based on the company visits, analysis and findings we found that most companies have good quality production and skills, and also, in most cases technical facilities are available.

Most of the visited companies have marketing and sales difficulties since they work in the regional and local market or want to penetrate the even more competitive EU Market.

There are three types of companies:

A) *“CTM-Companies (CM/CMT)”* which basically supply subcontracting services. Most of them work for cheap children shoes companies, or for some ‘bad paying’ Italian firms. Most of these companies don’t really make profit, since their CTM prices are very tight.

They have to come out of this low price business by supplying better paying customer; still in LOHN.

B) *“RTS / Product Line companies”* producing “basic collections” for EU export markets as worker shoes. Such companies have to enlarge their market base and find new customer.

C) *“Collection companies”* are very much regional and local market oriented. Entry into the EU market is particularly difficult for them since they are competing with Italian and German companies as well as better established Chinese and Turkish shoe manufacturer.

Companies doing collection business in the EU market must have a very well developed collection and attractive prices. The set-up of a very close relation with an established importer/distributor will be very important. .

SEED-Recommendations for Improvement of Shoe Sector Industry Cluster

The major problem of the Macedonian shoe industry is the weakness in marketing. Most companies are well equipped and technically able to produce a good product. This in fact, is not the case in other competing countries as Romania f.e.

Aside effect of this lack of marketing is the situation where buyers and companies looking for subcontracting are not aware of the opportunities in Macedonia. Furthermore the country's image is still "conflict" dominated. SEED should try to initiate an activity to improve this situation. This could be done via a kind of informative "Industry Directory" where brief company profiles are given, but also by providing industry and country information. This "Directory" will be then offered to potential buyers and companies looking for subcontracting. An internet version of the "Directory" should be also available.

Most of the other problems are company based and individual. Each company has a different situation and must develop individual concept to overcome the problems it is facing.

Tendency to invest heavily into buildings and equipment is very common among Macedonian companies.

When it comes to the most important aspects, such as product development and marketing, no money is left. Here SEED should provide information via seminar of individual consultancy.

We also recommend to offer a range of marketing seminars: "How to sell CTM-business!?" "How to sell your own collection in the EU / regional markets!?". They should be very much "hands on", not just theoretical marketing approaches.

SEED should not follow classic unprofessional approach of companies: "We want an agent or a buyer!" Here some more detailed activities are needed.

Promotion and Sales Support

Furthermore some activities are recommended:

- Selection of a number of really interested and capable companies (SECO ranking A and B) to support them in marketing and promotion, February 2004
- Hold seminar as mentioned and supply individual assistance for market concept, product development (limited) and start-up with the production in March 2004
- Development of individual company market approach based on strengths and weaknesses and willingness to co-operate with SEED
- Undertake a brief market survey on other regional markets as Hungary, Poland, Romania, etc., April 2004

- Select two/three groups of each 3-4 company to organise different promotion tours according to market approach: start-up, high added CTM, “collection”, etc. in Italy and Germany
- Organise incoming buyer mission for CTM contracts from Italy, Germany to link companies to added-value contractors in July 2004
- Visit trade fairs in Bologna and Düsseldorf for market research and contacts, August to September 2004
- Cost structures of most companies are diffuse! Here SEED should improve situation by offering some seminars and supplying training and assistance!
- Press work to improve image of Macedonia and knowledge about shoe industry capability and potential for exports into Central- and South-EU during 2004

ANNEX.:

- Brief Reports of Individual Company Visits with Recommendations.