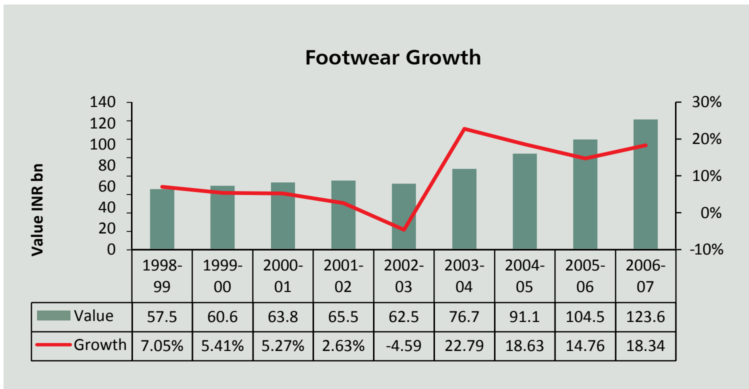
Catwalk

Indian Footwear and Accessories Industry: A Case Study

The global footwear market is estimated to be worth $192.3 bn[1] in 2008, a growth of 2% over the 2007 value. The Indian footwear industry is estimated to be worth just INR 160 bn or $4 bn[2]. It is the second largest global producer of footwear after China, accounting for more than 14 % of global footwear production of 14.52 bn pairs.

The table below charts the growth of the Indian footwear market.



	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Value	57.5	60.6	63.8	65.5	62.5	76.7	91.1	104.5	123.6
Growth	7.05%	5.41%	5.27%	2.63%	-4.59	22.79	18.63	14.76	18.34

Values in INR bn
Source: DGCI$S

The Indian footwear market is expected to worth INR 475 bn by 2025, representing a compounded annual growth rate of 7%.

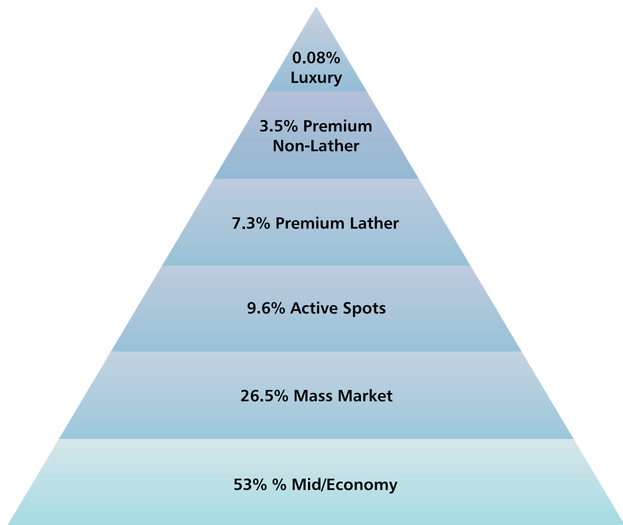
The footwear industry is majorly dominated by the men's segment which comprises almost 60% of the market. The remaining 40% share comprises of the ladies and kids segment. Within this segment the kids segment accounts for more than 50% share. This is particularly surprising considering that the world's major production is in ladies footwear. This inconsistency provides a huge opportunity for the ladies footwear industry in India.

The table below depicts the small size of the footwear and accessories segment in the total retail pie. However on the other hand, it is one of the most organised sectors vis-à-vis other segments including the entire retail industry in general.

Sources:
Images report on Indian Footwear industry 2007-08
IILF 09 Happenings
Indian Footwear Industry – A Vision Document 2010
National Highways Authority of India
[1]Packaged Facts; [2]$1 = INR 40

Retail Segment	Total Market Value (INR bn)	Organized Market (INR bn)	Organized Market (%)	Value Share in Total Market (%)	Value Share in Organized Market (%)
Footwear	**160**	**77.4**	**48.38%**	**1.20%**	**9.89%**
Bags	14.7	1.4	9.52%	0.11%	0.18%
Belts	8.4	0.2	2.38%	0.06%	0.03%
Total Shoes and Accessories	**183.1**	**79**	**43.15%**	**1.38%**	**10.09%**
Clothing and Fashionable Accessories	1,313	298	22.70%	9.87%	38.06%
Other Retail Segments	11,804	406	3.44%	88.75%	51.85%
Grand Total	**13,300**	**783**	**5.89%**	**100.00%**	**100.00%**

The classification of the footwear & accessories industry is based on the following segments: Luxury (Gucci, Louis Vuitton); Premium Non-Leather (Catwalk, ALDO, Charles and Keith etc.); Premium Leather; Active Sports (Nike, Adidas, etc); Mass Market and the Mid/Economy segment.



India along with China is expected to be the fore bearers of growth in the next few decades and would thus be one of the largest consumers. This has prompted many international players to set up base in these countries and tap the latent demand. Pavers England has already made its presence felt, having set up shop. Many others are expected to arrive within a short span of time. India produces close to 2.06 bn pairs of footwear including leather shoes (909 mn pairs), leather shoe uppers (100 mn pairs) and non-leather footwear (1,056 mn pairs).

The major production centers in India are Tamil Nadu, Uttar Pradesh, Punjab and Delhi. Apart from these hubs there are hordes of small centres that act as suppliers for the fast growing footwear industry.

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As far as consumption is concerned, more than 95 % of the production is for meeting the domestic demand. The ensuing result; India hardly exports any leather goods which explains its low share in the global leather trade.

However, footwear export is growing in India at more than 18% annually. Footwear exports accounted for US$ 1,212.79 mn in FY07. This attributed for a major chunk of India's total leather trade, around 41%.

Although current export figures show an increasing trend, the present infrastructure situation is not immense. The manufacturing sector is completely unorganised with negligible presence of any major manufacturer.

There is also a dearth of latest technology and state-of-the-art manufacturing facilities. The lack of such facilities has impacted the quality of products that are being purchased by customers. These factors have had a major effect on the supply chain of retail companies. It takes approximately 60 days for a manufacturer to deliver his products which means in India if a new collection is launched every 3 months, companies are not in a position to make any mid-season corrections.

India currently has over 3.3 mn kms of road network. Almost 65% of the total freight is carried by roads. Only 2% of the total road length constitutes of national highways, while it carries over 40% of the total road traffic. This has major ramifications on the current logistics situation in the country. This, despite the fact that the Government of India has allowed 100% FDI through the automatic route in projects such as construction and maintenance of roads, highways, vehicular bridges & tunnels, ports, harbors, etc.

The lack of good manufacturing facilities coupled with the poor road network has hampered the supply chain for many of the footwear players, especially players that have a pan India presence.
However all is not lost for the footwear industry. The footwear sector is now a de-reserved and de-licensed sector. This paves the way for investments in the manufacturing facilities on lines with those available in the developed economies i.e. we can now have manufacturing units with state-of-the-art equipment, helping to significantly reduce the lead times. To accentuate the speed of investments and setting up of the facilities, the government has permitted Foreign Direct Investment up to 100% through the automatic route in the footwear sector.

A case in point is the Footwear Park being established in Tamil Nadu. The park will be developed in line with global standards, with infrastructure facilities such as common design studio, testing and on-site training facilities, display center-cum-warehouse, non-conventional energy and other energy saving appliances, etc.

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Catwalk and other leading players are also hopeful that the infrastructure development viz. roads, rail, energy, etc is speeded by the Government and hence will ease supply chain woes apart from fueling growth.

India is currently the second fastest growing economy in the world. More and more people are moving to urban areas and many small towns have seen a rise in urbanisation.

The rise in urbanisation as well as the increasing reach of the media has led to huge exposure towards the western markets and has resulted in consumers turning brand conscious. These changes are aptly reflected in the success of brands like Nike, Reebok, etc. The latest styles and trends in the west now are replicated almost immediately in the Indian market.

Over the last few years, Tier I, II and III cities have seen a spurt in malls and MBO's. Their presence has accentuated the growth of many retailers, even more for the organised players in the footwear category. Players like Catwalk, ALDO, Charles and Keith have jumped on this bandwagon and have tapped the latent demand of the consumers of these cities, especially Catwalk which now has its presence in over 30 cities all over India including places as far as Siliguri in north-eastern India.

The current economic crisis however has played truant in the growth of the Indian retail sector. Rising costs coupled with lack of credit and the liquidity squeeze has forced big retailers like the Future Group, Shopper's Stop, Reliance to shelve or put on hold a lot of their expansion plans. This has affected the sales of many of the organised footwear retailers, mainly those that depend on the shop-in-shop formats and hence are highly dependent on these big retail players for their growth.

However players like Catwalk, Metro, etc who also have boutique stores seem less affected by the slow pace of expansion of the big retailers than others. A decision has to be made whether to go alone or with the other retailers since boutique stores put pressure on the bottom line of the firms.

The Indian footwear industry employs 1.1 mn people, both directly and indirectly. Majority of these people are from the weaker sections of the society. Of them, only 20% are in the organised sector, of which 40% are female workers. The remaining 80% of the workforce comprises of rural artisans, cottage and household units. With improvement in the manufacturing facilities more and more people will be part of the organised sector resulting in better working environment for the workers. The improvement will also benefit the pockets of these workers. It will enable them to spend money which will eventually fire the rural growth that our country needs, which is the future market for all the retailers.

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