FOOTWEAR

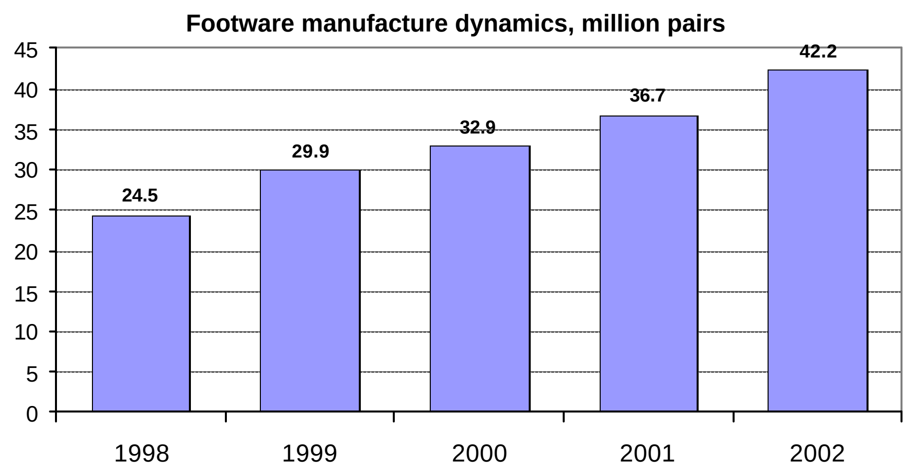
FOOTWEAR PRODUCTION

In this section we are first going to consider the situation on the Russian **footwear market as a whole** and then analyze the **leather footwear** market in more detail.

There was a steady growth in Russian footwear production over the past few years. According to official data, in 2002 the footwear production increased by 15% to become 42.2 million pairs. This means that only one domestic shoe pair has been manufactured per three Russians.

However, according to experts, the amount of unaccounted footwear production is equal to the official amount. Thus, the real amount of footwear manufactured in Russia in 2002 can be estimated about 80 million pairs.

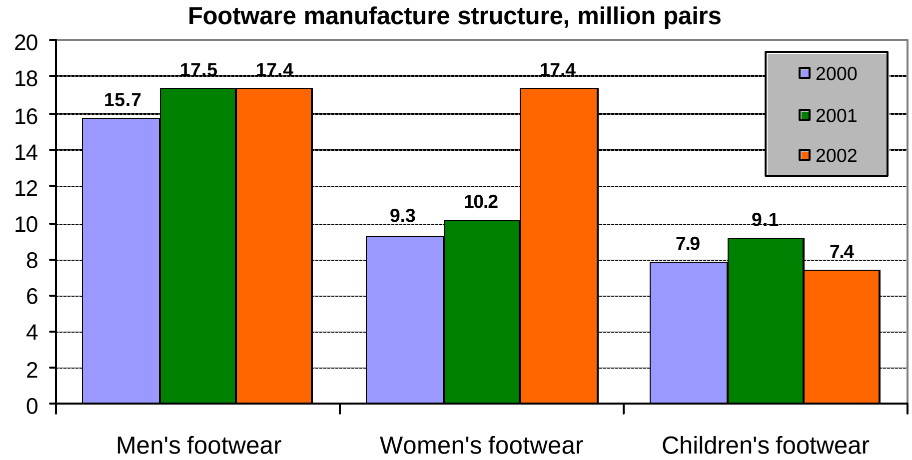
Fig. 1



Source: Goskomstat

It can be seen from Fig. 2 that the 15% increase in footwear production in 2002 occurred exclusively owing to women's footwear: its production increased by 71%, namely from 10.2 to 17.4 million shoe pairs per year. The production of men's shoes remained almost unchanged, whereas that of children's shoes decreased by 18%.

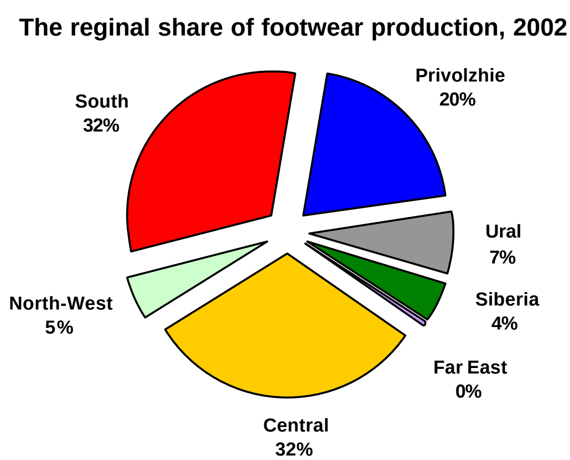
Fig. 2



Source: Goskomstat

Two-third of Russian footwear is manufactured in two federal districts, namely, the Central (32%) and South districts (32%). Another 20% is manufactured in the Volga district. The contributions of the remaining regions in the overall production volume are insignificant.

Fig. 3



Source: Goskomstat

The production volume has remained almost unchanged over the past three years in all the districts except the South district. In the **South** district, it increased 2.3-fold in 2001 and again increased 2.1-fold in 2002. The overall increase over these two years was 370%: while 2.9 million shoe pairs were produced in the South district in 2000, 13.5 million shoe pairs were made in 2002.

This growth occurred owing to one enterprise that has appeared recently, namely Bris-Bosfor LLC (Krasnodar territory). In 2002, it manufactured 9.1 million pairs, or 22% of the total footwear production. The increase in production at this enterprise was 5.5 million pairs, which equals the overall increase in the country (5.5 million pairs). Bris-Bosfor LLC makes inexpensive footwear from imported shoe uppers with high degree of finishing, *i.e.*, with sewed-in insoles.

Footwear was produced at 206 factories. Of them, 31 factories produced 66% of the total volume. Largest footwear manufacturers in 2002 are:

Table 1

Enterprise	Production, thousand pairs		Change rate, %
	2002	2001	
Total	**42,237**	**36,746**	**111.8**
LLC "Briz -Bosfor" (Krasnodar territory)	9,134	3,600	254
CJSC "Obuvnaya firma "Yunichel" (Chelyabinsk region)	1,215	1,173	104
JSC "Torzhokskaya obuvnaya fabrika" (Tver region)	1,158	655	177
State unitary enterprise (GUP) "Davlekanovskaya obuvnaya fabrika" (Bashkortostan)	1,148	1,067	108
OJSC "Kuznetskobuv" (Penza region)	1,035	1,422	73

Source: "Kozhevennaya I obuvnaya promyshlennost" journal.

FOOTWEAR EXPORTS

The footwear export in 2002 (without the export to Belarus) increased by 23.5% in comparison with 2001 and amounted to 1.7 million pairs; of these, 48% was leather footwear, 34% was footwear with textile or artificial leather uppers, and 18% was other types of footwear. The export to far abroad countries included 41% of footwear with leather uppers and 46% of footwear with textile uppers.

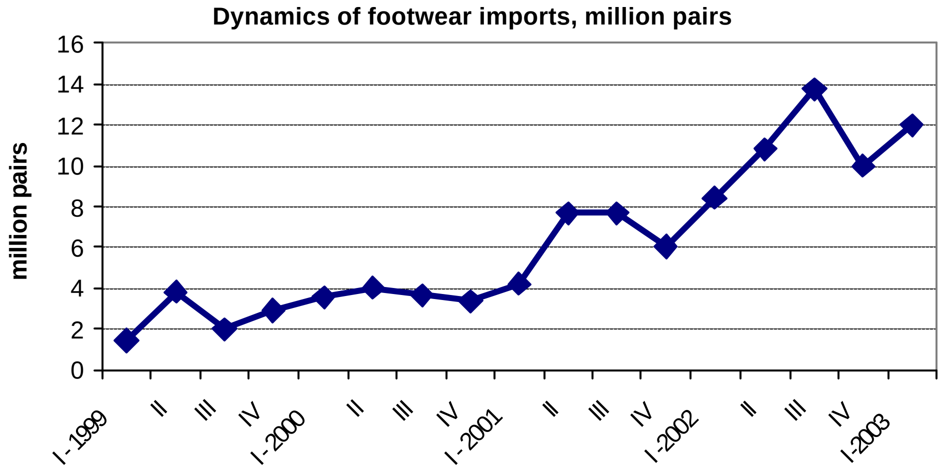
There is no information on Belarus in the customs statistics, but the exports amounted to a huge value (2.0 million pairs) in 2001 according to Goskomstat data. This is 39% more than the total exports to other countries.

Beside finished footwear, 2460 tons of shoe parts and uppers to the amount of 4.2 million USD were exported in 2002, which is 40% more than in 2001. Again, this does not include the exports to Belarus, which amounted to 4.7 million USD in 2001.

FOOTWEAR IMPORTS

Footwear imports have increased considerably in Russia over the past few years as well as production. According to official data, 43 million shoe pairs were imported to Russia, which almost equals the amount manufactured within the country.

Fig. 4



Source: Goskomstat

Experts estimate the share of footwear shadow exports to be 65-70% of the overall footwear exports. In 2002, footwear shadow imports amounted to about 120 million pairs.

In addition to leather footwear, Russia also imports parts for footwear production to be used by domestic manufacturers. In 2002 the RF State Customs Committee published data on footwear parts imports subdivided into three categories:

- 640610 – footwear uppers and footwear parts;
- 640620 – undersides and heelpieces made of rubber or polymeric materials;
- 640699 – other footwear parts (set-in insoles, foot brackets, etc.).

There is no such division for 2000 and 2001; only information for the entire category 6406 (parts of footwear) is available. The statistics for this category are only available in monetary units.

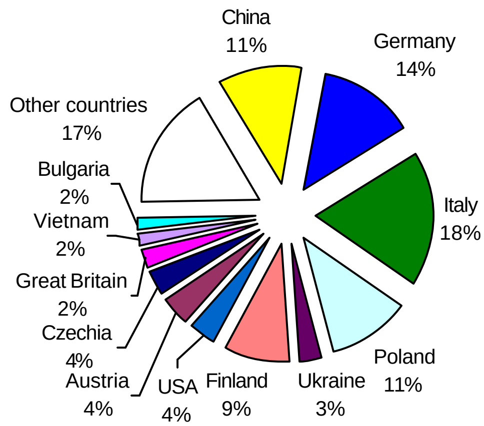
In total, footwear parts were imported to Russia in 2002 to the amount of 32.4 million USD.

European are the main importers of footwear parts used to manufacture footwear. Only China (11%) and Vietnam (2%) are relatively large Asian suppliers, but they occupy only a small share of the market. On the other hand, Italy (18%), Germany (14%), Poland (11%), and Finland (9%) together occupy more than half of the entire imports of footwear parts.

This suggests that Russian enterprises prefer higher-quality leather from Europe, even though it is more expensive than medium-quality leather from Asia.

Fig. 5

Imports of footwear parts in 2002 (in value)

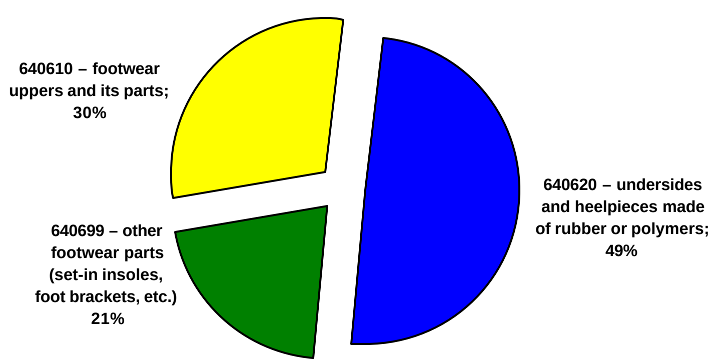


Source: RF State Customs Committee

In 2002, about half of the total imports of shoe uppers consisted of undersides and heelpieces made of rubber or polymers (16.0 million USD). The imports of footwear uppers and its parts amounted to 30% (9.6 million USD). The share of other footwear parts (set-in insoles, foot brackets, etc.) was 21% (6.7 million USD).

Fig. 6

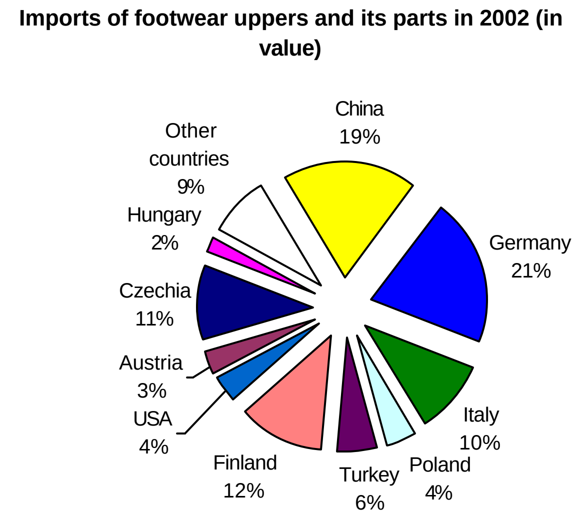
Imports of footwear parts in 2002 (in value)



Source: RF State Customs Committee

The main countries importing footwear uppers and its parts in 2002 included Germany (21%), China (19%), Finland (12%), Czechia (11%), and Italy (10%).

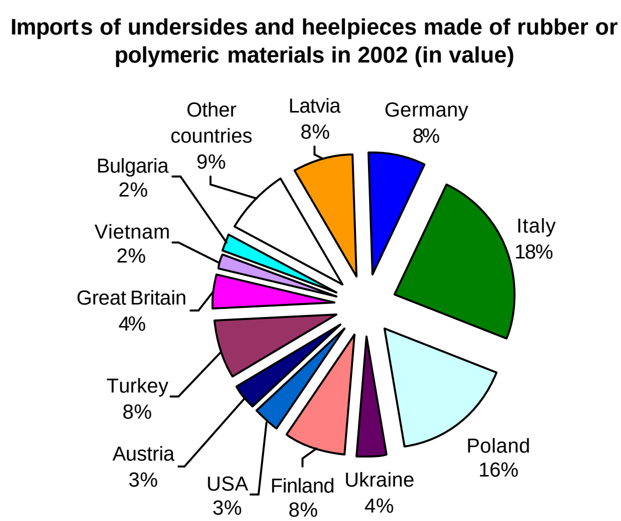
Fig. 7



Source: RF State Customs Committee

The structure of countries importing undersides and heelpieces made of rubber or polymeric materials is essentially different. Italy (18%) and Poland (16%) play the major roles here. The shares of four countries, namely Germany, Finland, Latvia and Turkey, are 8% each.

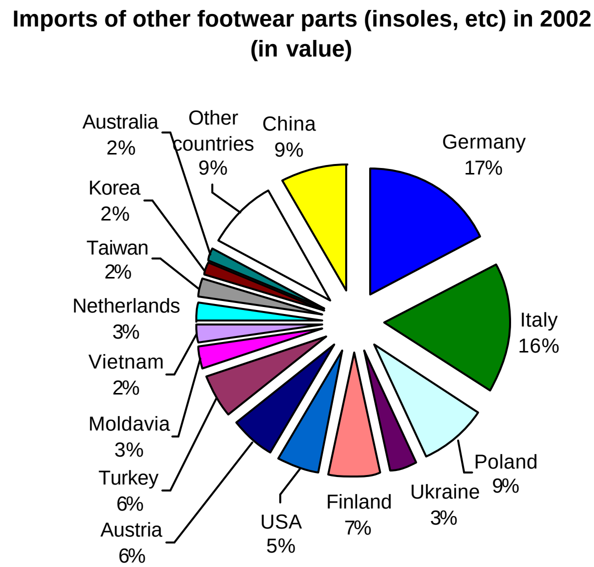
Fig. 8



Source: RF State Customs Committee

Other footwear parts (set-in insoles, foot brackets, etc.) are mostly imported to Russia from Germany (17%) and Italy (16%). Furthermore, the shares of the following countries are also considerable: Poland, China (9% each), Finland (7%), Austria, Turkey (6%), and USA (5%).

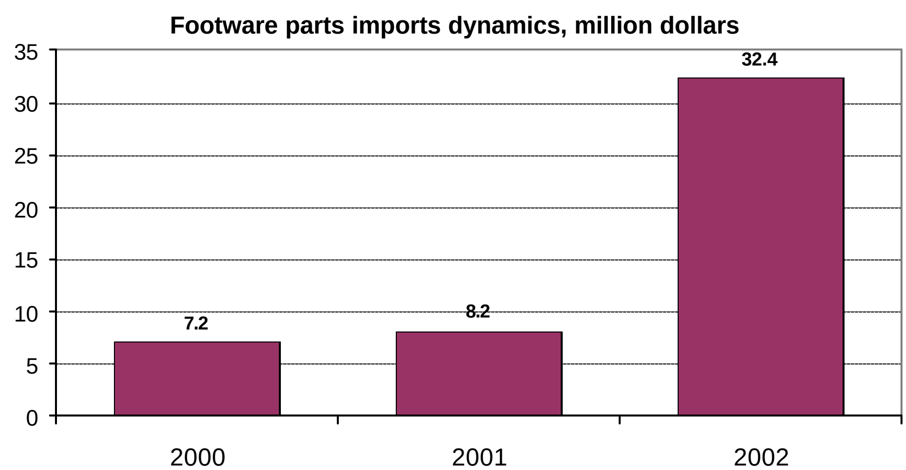
Fig. 9



Source: RF State Customs Committee

In 2002, the imports of footwear parts to Russia increased fourfold: from 8.2 to 32.4 million USD.

Fig. 10

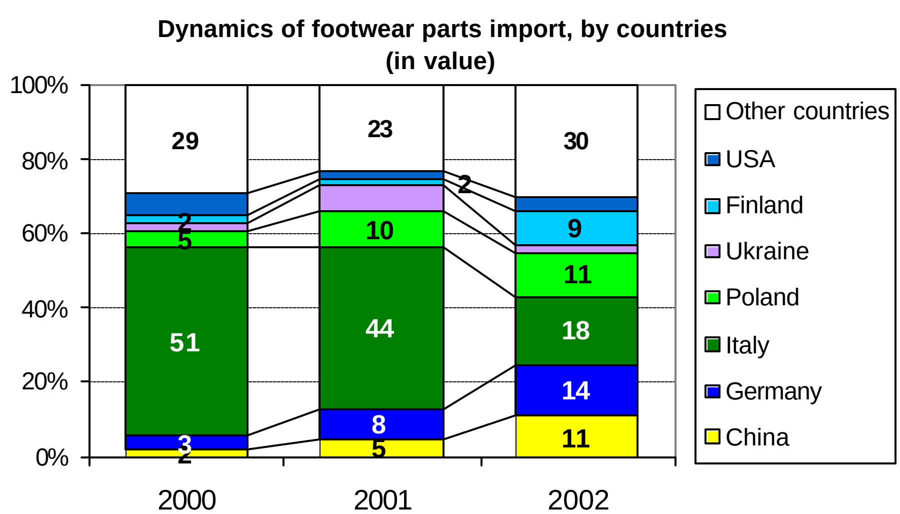


Source: RF State Customs Committeev

The share of Italian suppliers decreased considerably despite the fact that the imports of shoe uppers from Italy increased by 66% in 2002. The shares of Germany, China, Poland, and Finland had been increasing over all the three years. The growth in imports from these countries in 2002 exceeded essentially the growth in imports from Italy. Imports increased from the following countries:

- from Poland – 4.6-fold;
- from Germany – 6.6-fold;
- from China – 9.7-fold;
- from Finland – 18.1-fold.

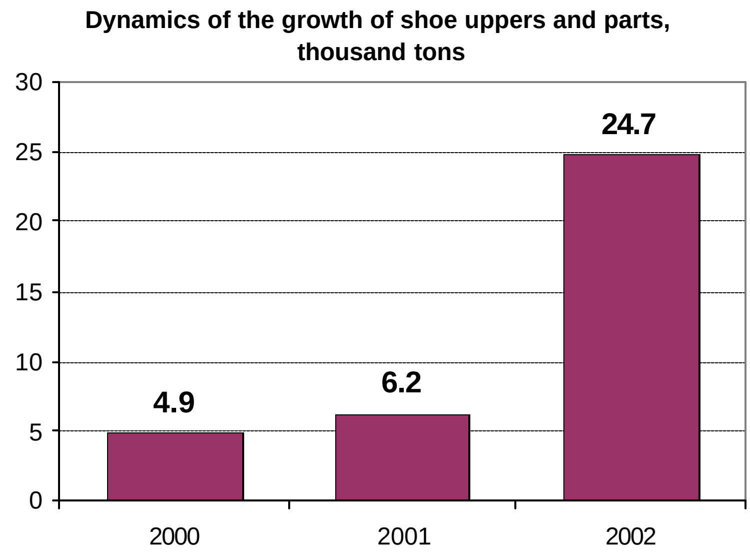
Fig. 11



Source: RF State Customs Committee

As for the imports of shoe uppers and parts, its dynamics (in tons) is shown in Fig. 12. A fourfold increase in the imports of this type of shoe uppers was observed in 2002.

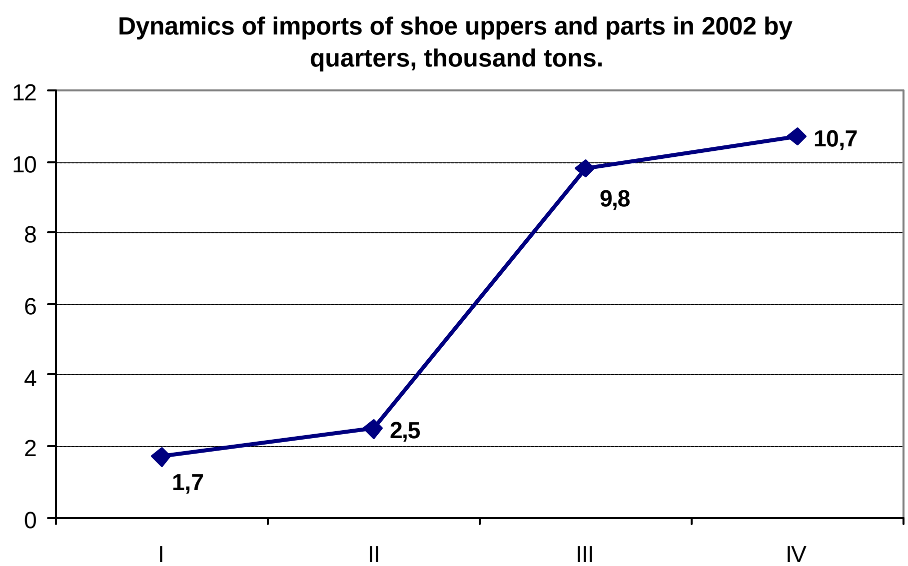
Fig. 12



Source: Goskomstat

An intense growth in the imports of shoe uppers has occurred in the second half of 2002.

Fig. 13

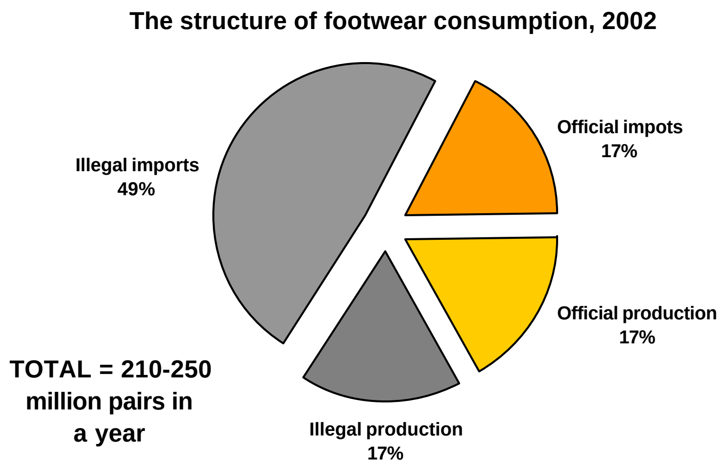


Source: Goskomstat

RUSSIAN FOOTWEAR MARKET: STRUCTURE, CAPACITY

According to expert estimates, the capacity of the Russian footwear market is 210-250 million pairs per year. Thus, the share of each Russia's citizen is 1.4 to 1.7 shoe pairs per year. The major part of footwear consumed in Russia is manufactured or imported illegally (Fig. 14).

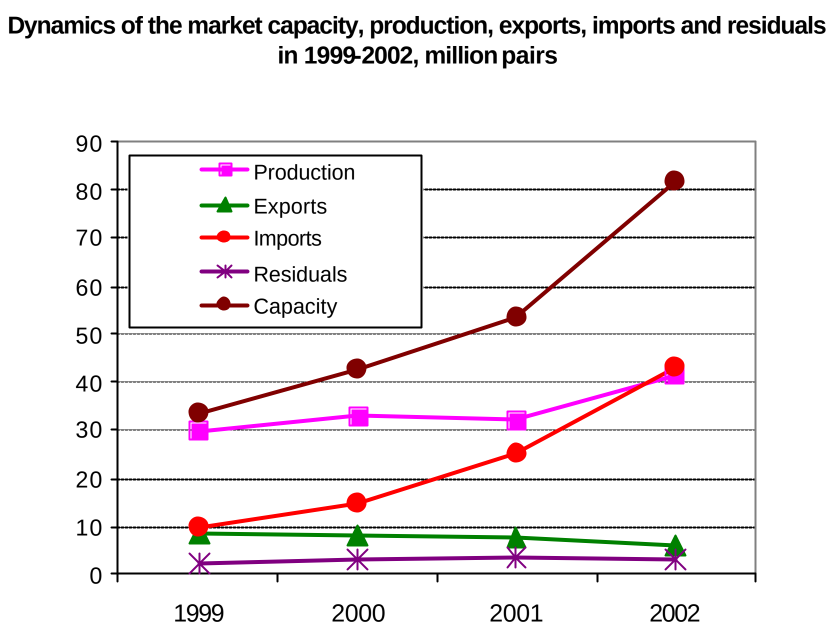
Fig. 14



Source: experts' estimations.

Over the past three years, the imports of footwear market has been growing faster than production. The market capacity grows, first, because some importers and manufacturers "emerge from shadow", and second, because of a growth in prosperity of the population and, accordingly, an increase in the demand for high-quality footwear.

Fig. 15



Source: "Kozhevennaya promyshlennost" journal (official data)

FOOTWEAR CONSUMPTION

The footwear consumption by Russia citizens is analyzed using R-TGI data. R-TGI is a regular survey with quarterly collection of data. The annual sample size is 35,000 respondents aged 10+ (or about 14,000 households) evenly distributed between 4 waves of measurements. The sample represents the population of Russia living in cities with a population of 100+ thousand residents. The data obtained is representative of 60 million people and of 23 million households of Russia. For more detailed information, please see the "Introduction" section.

Analysis is made using data for two half-years:

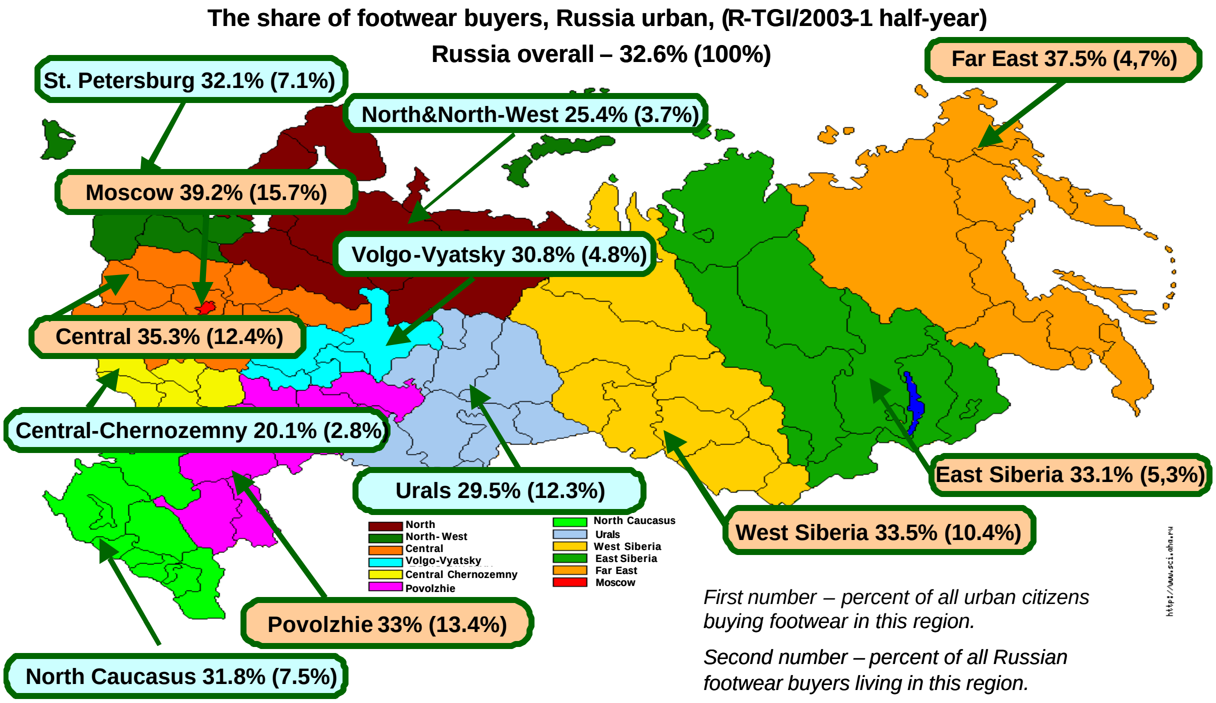
1. Summer-fall 2002 (the surveys were carried out in August and November 2002; sample size N=17,000 respondents) – R-TGI/2002-II half year;
2. Winter-spring 2003 (the surveys were carried out in February and May 2003; sample size N=17,000 respondents) – R-TGI/2003-I half year;

The division by half-years is necessary as the demand for footwear is seasonal and essentially depends on the time of year.

Figure 16 shows the distributions of footwear buyers by RF regions in the first half of 2003 (The index is still created using the old territorial division of Russia into 11 regions whish exis ted until 2000. Nowadays, a new division into seven federal districts has been adopted officially; it is now used for all statistical calculations. In many cases, the boundaries of the old regions and new districts are different).

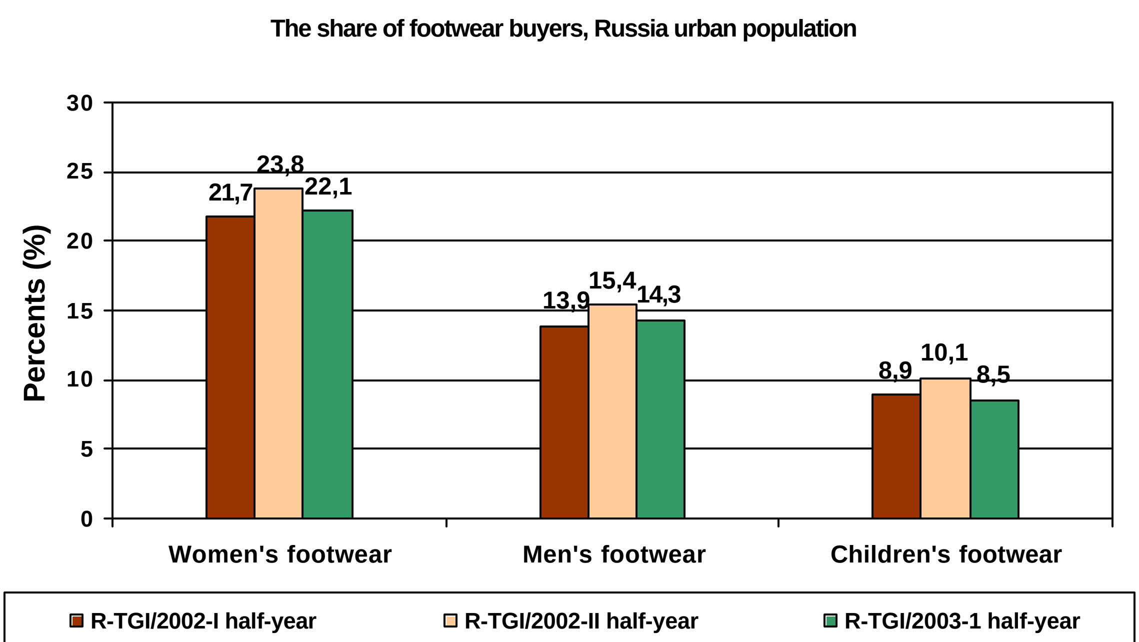
It is evident that footwear is in the greatest demand in Moscow and in the Central region, as well as in Volga region, Siberia and Far East: 33 to 39% of citizens have bought footwear in these regions during this half of the year. More than 40% of all footwear purchases in Russia were made in the Central region (including Moscow) and Volga region.

Fig. 16



In total, 32.6% of Russia's citizens have purchased some shoes during this half of the year. Russians buy women's footwear (22-24%) most of all; men's footwear is on the second place (14-15%), and children's footwear is on the third place (9-10%). The number of buyers during the first half of 2002 was virtually the same as that during the first half of 2003. In the autumn the sales volume increases by 1.5-2.0% (Fig. 17).

Fig. 17



The most selling goods are men's and women's shoes. Once per half year, 10-14% of Russian citizens buy these goods (Fig. 18 and

Fig. 19). The demand for these goods is particularly high in summer and in the fall, whereas there is a small decrease in winter and in spring.

Fig. 18

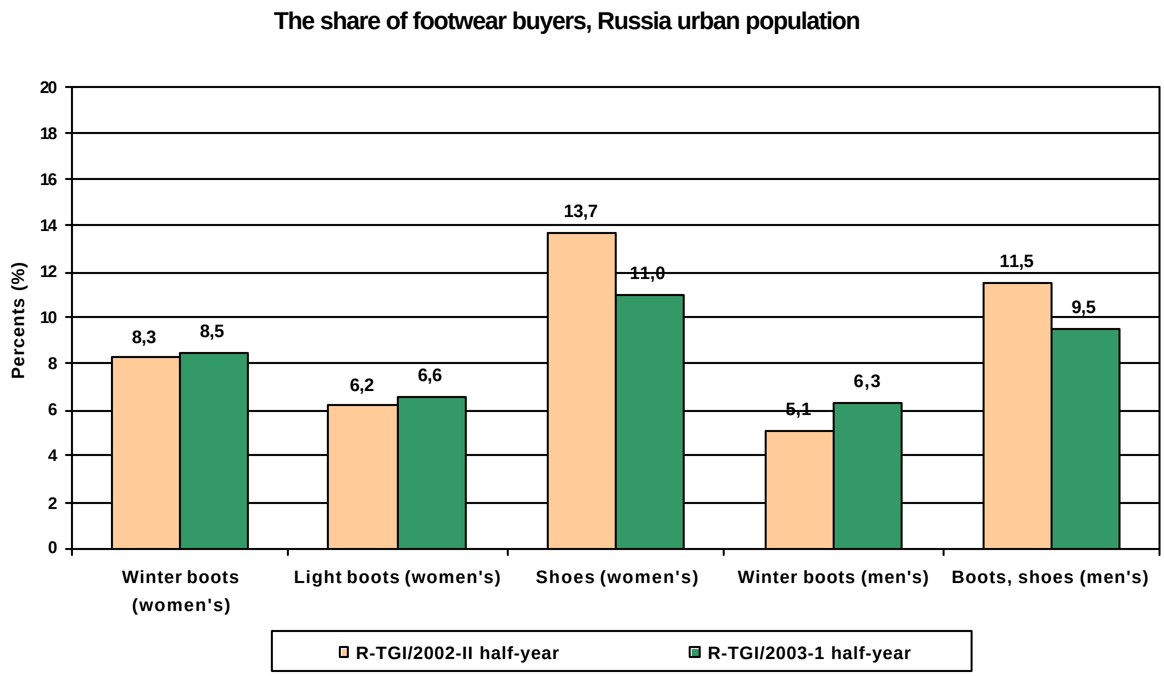
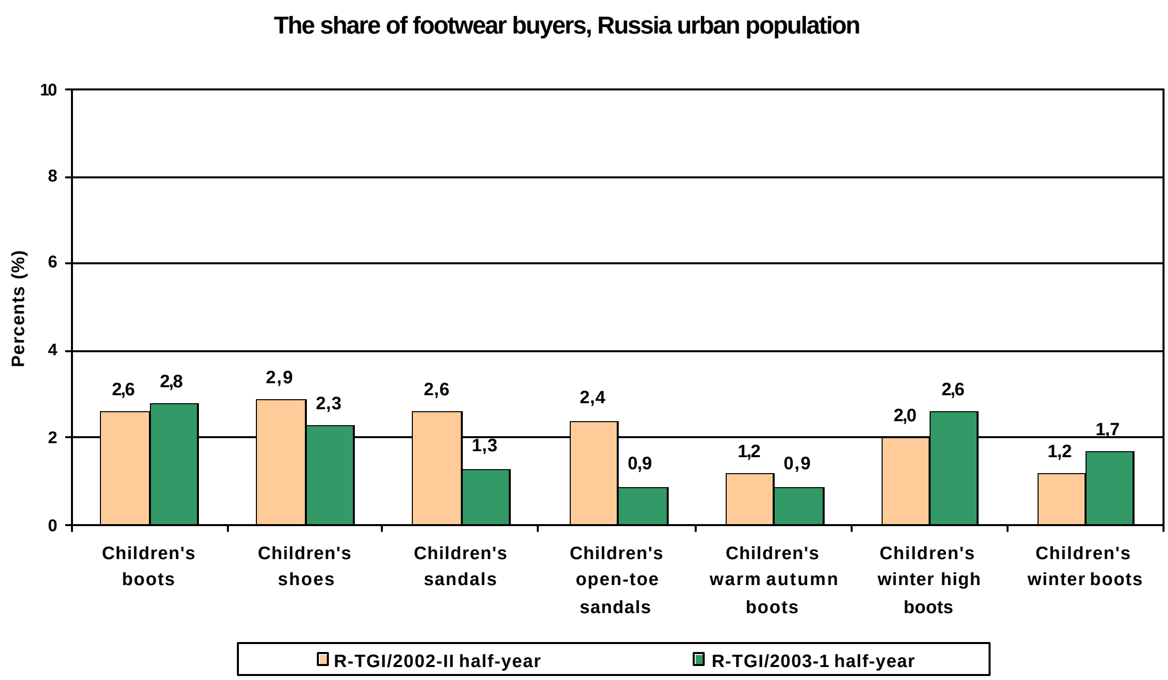
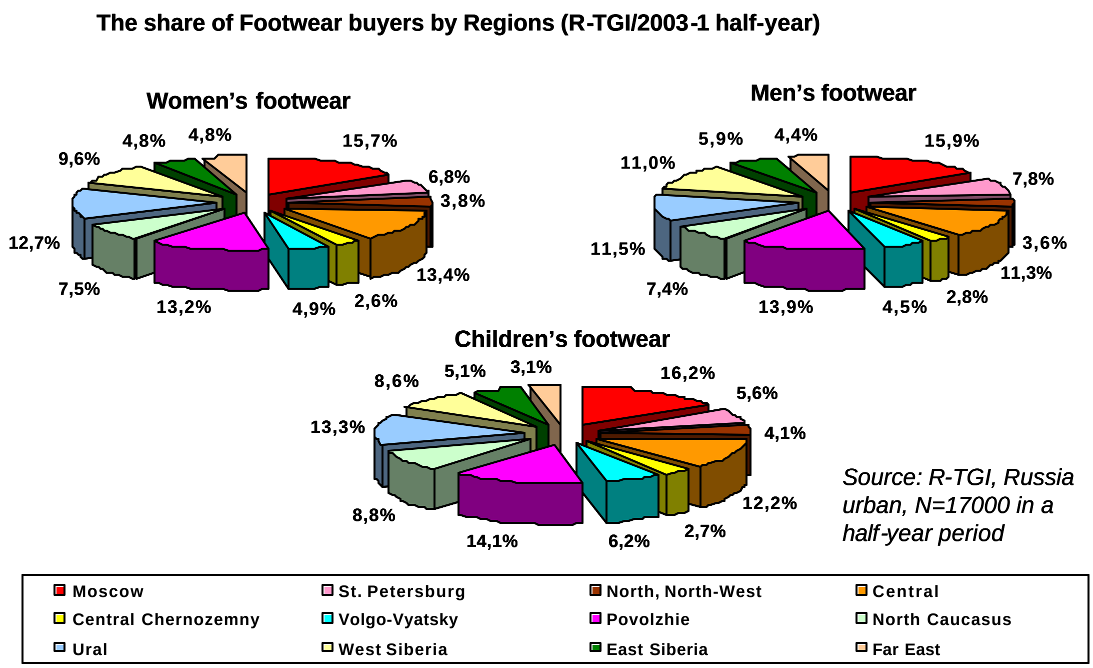


Fig. 19



The structure of footwear consumption in separate RF regions is virtually the same for all types of footwear, that is, men's, women's, and children's.

Fig. 20

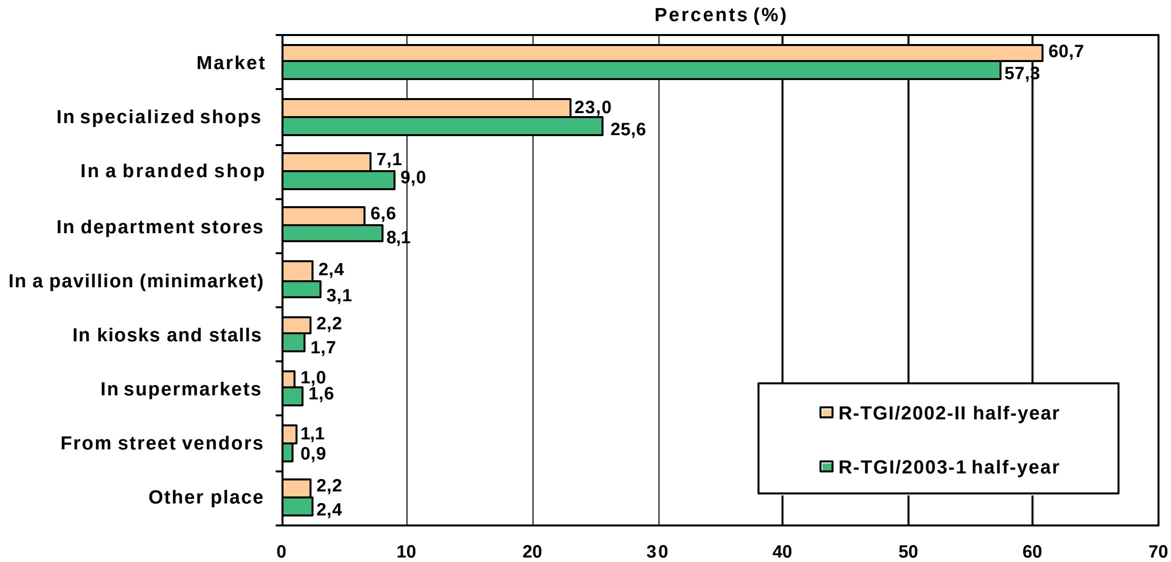


More than half of Russian citizens buy footwear on retail markets where Chinese goods illegally brought to Russia are sold predominantly. Such footwear is sold under reputed European brands, is rather inexpensive (up to 50% of the store price) and varies rather widely in quality. Both high- and low-quality (falsified) products can be bought on such fairs.

However, the number of those who buy footwear on fairs has decreased by 3.4% in the first half of 2003; on the contrary, the number of people who buy it in specialized, branded shops and department stores has increased. This again confirms that Russian's preferences shift gradually towards more expensive, higher-quality products.

Fig. 21

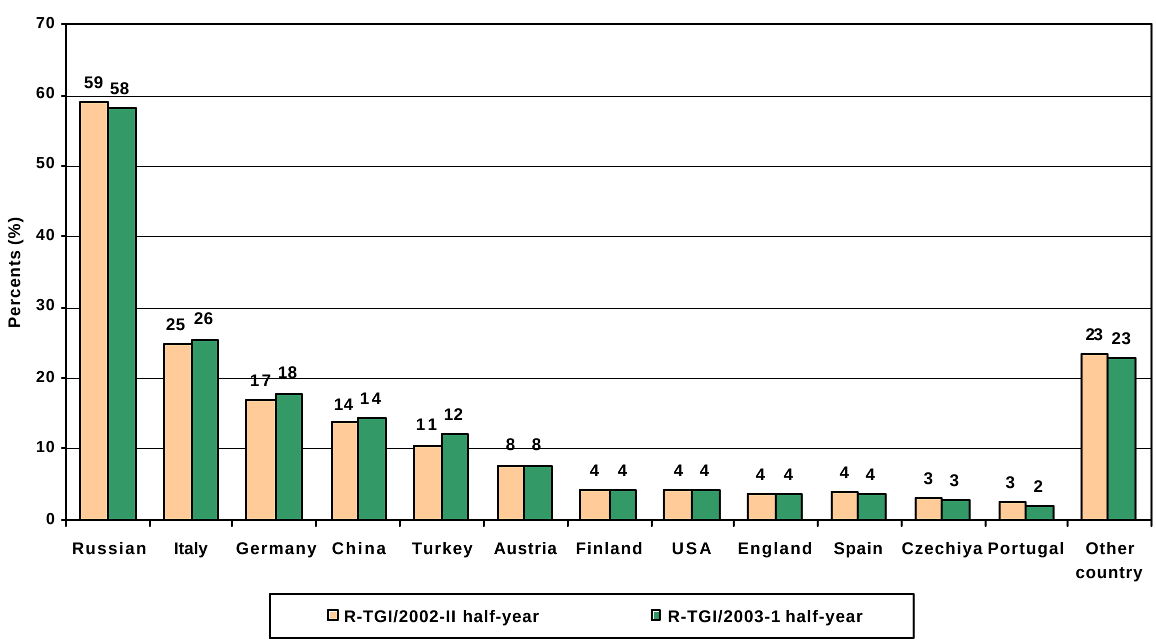
Where do you purchase footwear most often?



The people's answers to the question: "Footwear of what country of origin do you usually buy?" give us the picture that is noticeably different from the real balance between domestic manufacturing and import. In spite of prevailing Chinese manufactured footwear, only 14% of people stated they would buy it. This fact can be interpreted like people do not really know what they buy. Chinese footwear is selling in Russia under Italian, German and Russian labels.

Fig. 22

Footwear of which countries do you purchase? (R-TGI/2003-I half-year)



Average price of one pair of men's or women's boots on a market is 45-55 USD.

Average price of one pair of men's or women's shoes on a market is 30-40 USD.

Autumn and winter children's footwear price is 20-30 USD.

Summer children's shoes price is 10-20 USD.

Fig. 23

How much money did you spent on your last purchase?

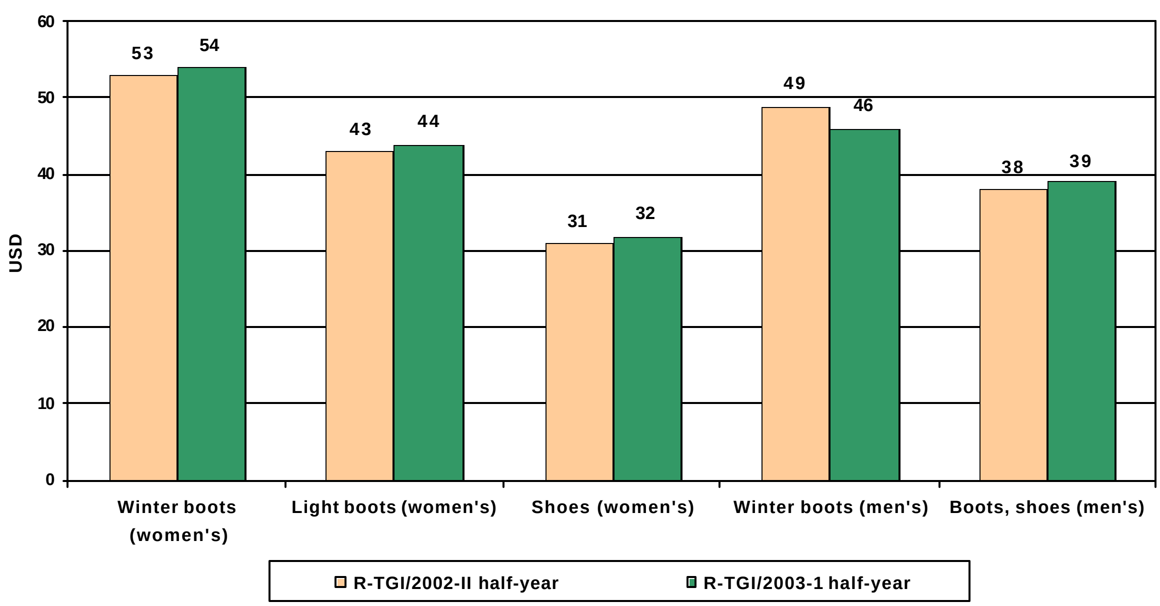
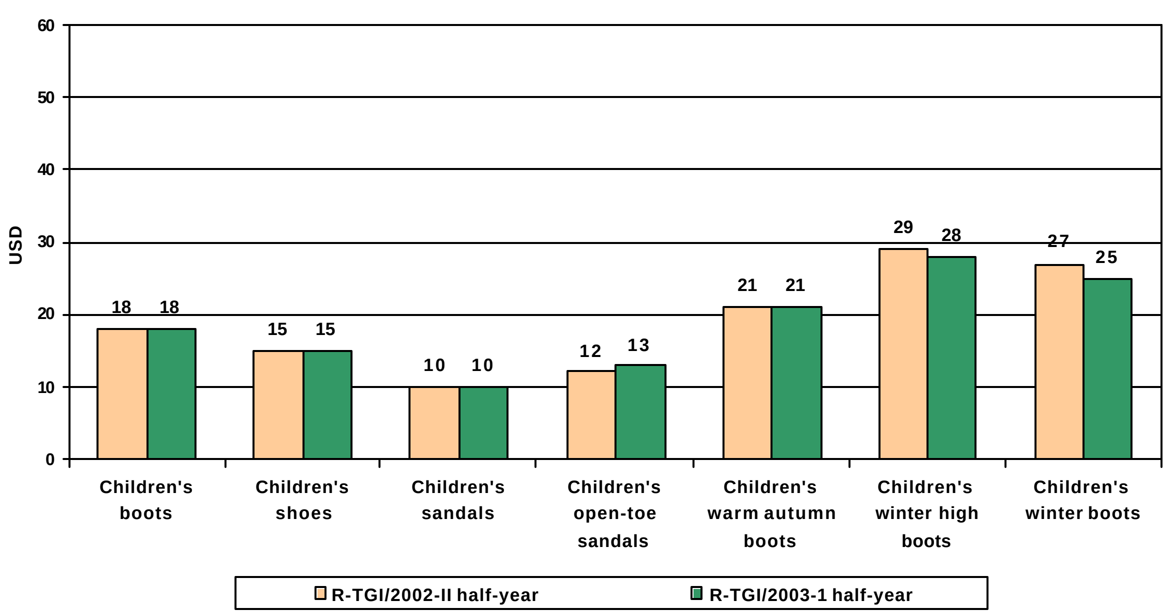


Fig. 24

How much money do you spent on your last purchase?



As one can see in Fig. 25 and Fig. 26, three footwear brands are the most famous and widespread in Russia:

1. **Salamander** – this footwear is known to 40% of the Russia's urban population and about 10% of citizens wear it themselves;
2. **Monarch** – it is known by 27%, and its usage level is 5%;
3. **Belwest** – known by 21% of respondents and worn by 6%.

Fig. 25

Footwear of which brand do you wear?

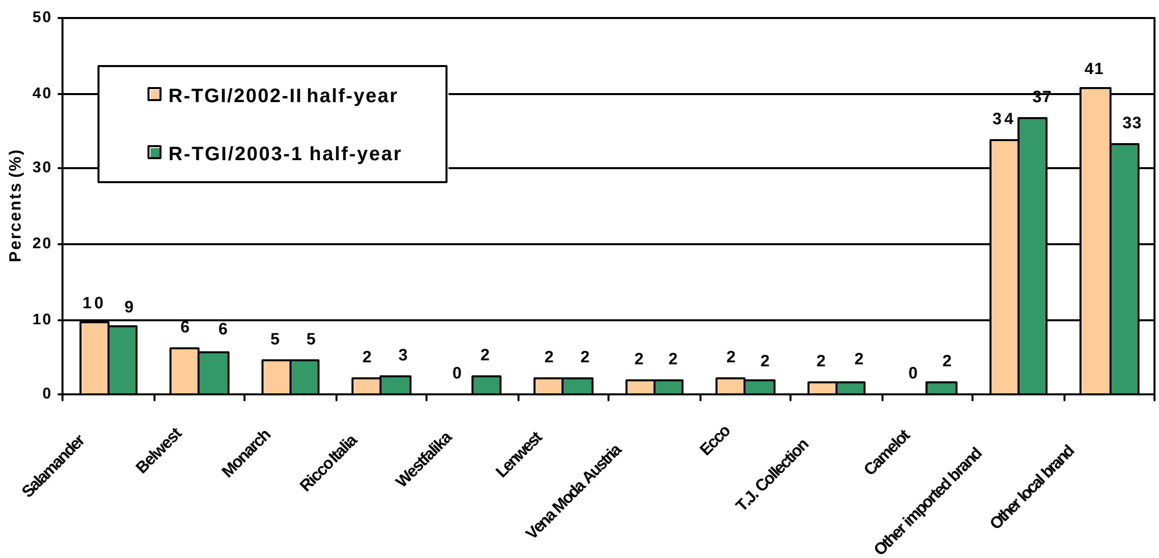
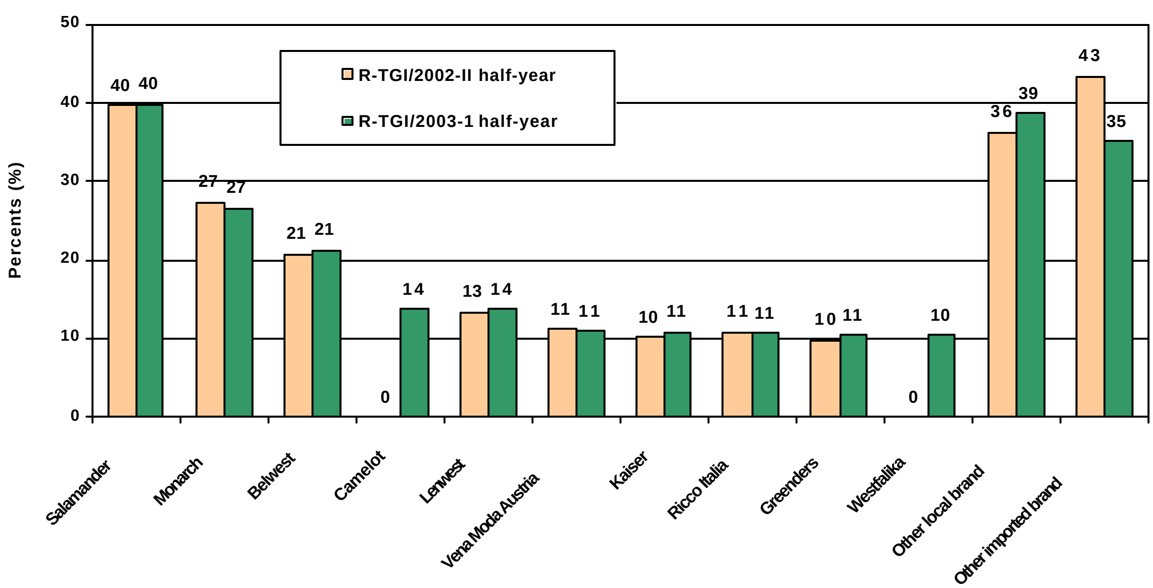


Fig. 26

Footwear of which brand do you know?

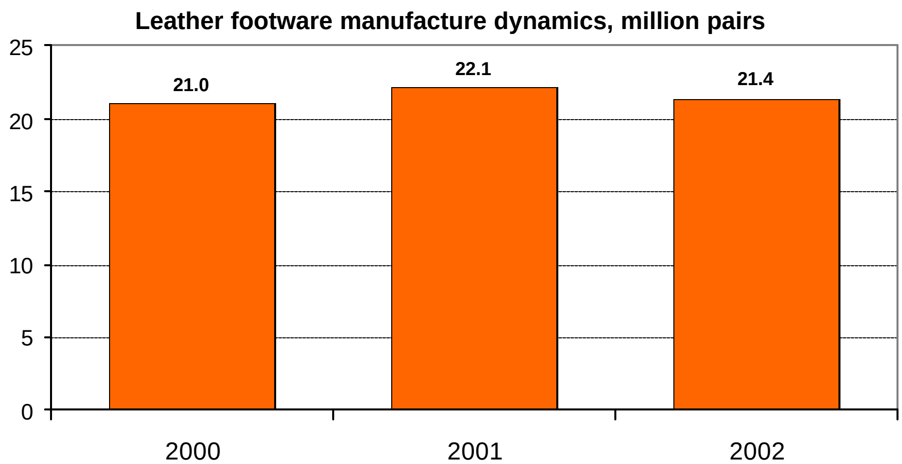


LEATHER FOOTWEAR

LEATHER FOOTWEAR PRODUCTION

While the Russian footwear production has been growing over the past few years, the production of leather footwear remains virtually the same and is at the level of 21-22 million pairs per year. Thus, the share of leather footwear in the overall footwear production has been decreasing year by year. It was 64% in 2000, 61% in 2001, and just a little above one half (51%) in 2002.

Fig. 27

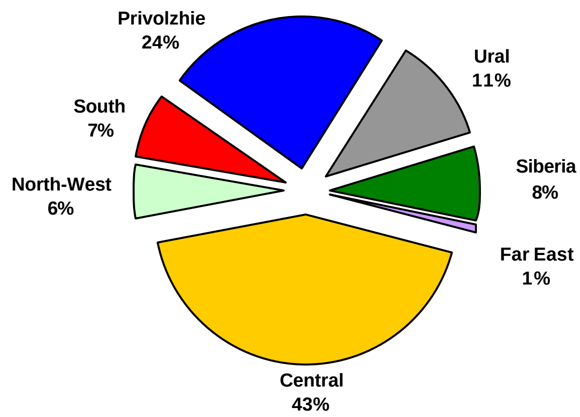


Source: Goskomstat

The main share of Russian leather footwear (43%) is manufactured in the Central federal district. It is followed by the Volga district where the production volume is two times smaller (24%). Although 32% of the *total footwear production* is manufactured to the South federal region (see Fig. 3), it is mostly non-leather footwear, because its share in the production of *leather footwear* is as small as 7%. Both Ural and Siberia outrun it.

Fig. 28

The reginal share of leather footwear production, 2002



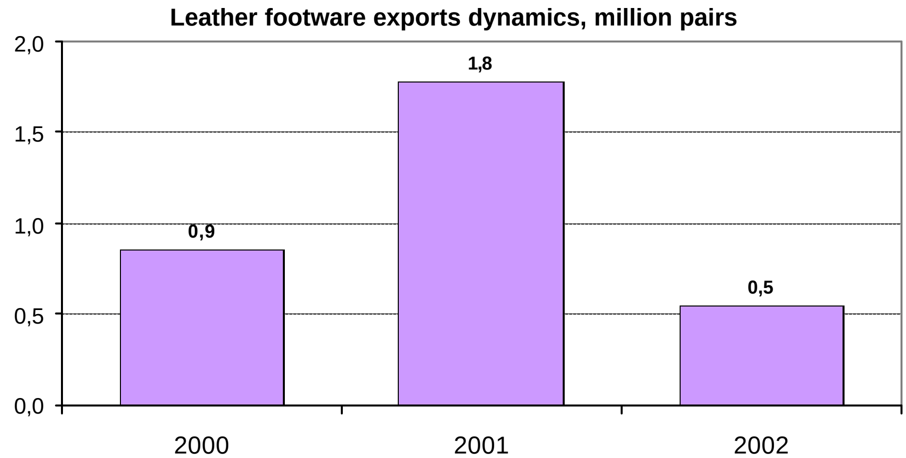
Source: Goskomstat

The experts' estimates of the prospects for the development of leather footwear production in Russia are rather high. However, they estimate the state of the Russian footwear production as depression. The experts see the following reasons for the problems faced by the industry:

- the lack of high-quality Russian rawstock for footwear production:
  - "Russian products? They are scant; all Russian manufacturers work with Italian leather. The Russian leather market is not as developed and it is hard to find a good substitute" (Econica, marketing department expert, footwear retail and wholesale sales);
- the lack of in-house designs:
  - "Russian factories face serious problems. They are intended for the production of large batches of footwear and models are hard to change, so only small manufacturers which have up-to-date equipment and can make small batches according to clients' orders survive" (Econica, marketing department expert, footwear retail and wholesale sales);
- the lack of up-to-day technology;
- the inability to quickly rearrange for the production of a new model series;
- the inability to compete with Chinese-made footwear in terms of prices, choice of models, quality, and timing of orders.

LEATHER FOOTWEAR EXPORTS

A small share of leather footwear produced in Russia is exported. About 546 thousand pairs were exported in 2002, which was three times less than a year before. The share of export in the overall production volume is 3%.



Source: RF State Customs Committee

LEATHER FOOTWEAR IMPORTS

In 2002, **12,760** thousand pairs of leather footwear have been imported to Russia (without those exported from Byelorussia).

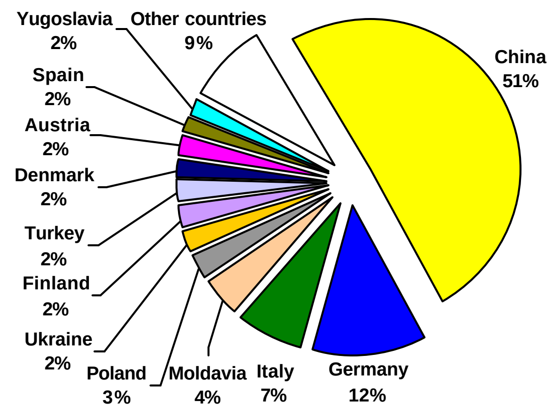
China is the major leather footwear importer on the Russian market.

Unlike for other types of leather goods, the share of **Turkey** is very small.

The volume of imports from **India** in 2002 was 21.8 thousand pairs (0.2%).

The import of leather footwear from **Byelorussia** is not taken into account by the FR State Customs Committee. Experts estimate it to be about 25% of the total imported volume.

Fig. 29

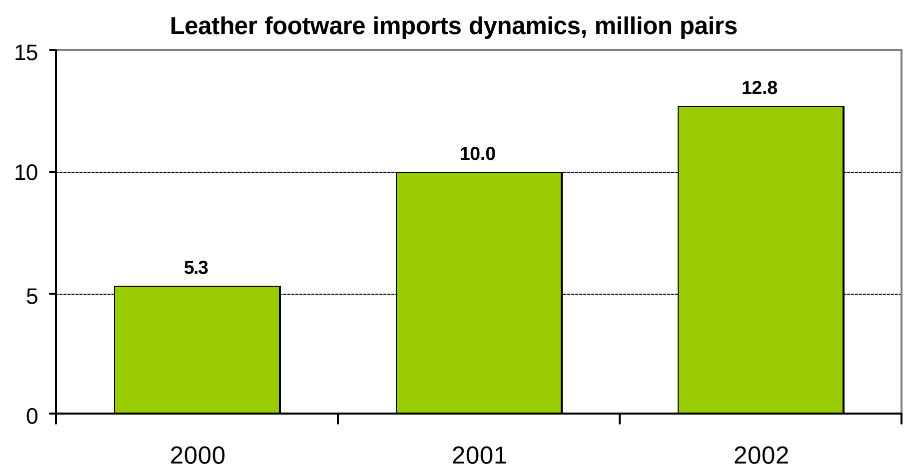


Source: RF State Customs Committee

Over the past few years, the imports of leather footwear to Russia have grown considerably: in 2001 – by 89%, in 2002 – by 28% (according to official data).

Considering that the volume of Russian leather footwear production almost does not change (see Fig 27), the share of imported lather footwear in the household consumption increases year by year.

Fig. 30



Source: RF State Customs Committee

The volume of leather footwear imports from the following countries **has grown**:

China – 4.7-times (2001) and 1.5-times (2002);

Germany – 2.0-times (2001) and 2.7-times (2002);

Italy – 1.7-times (2001) and 1.3-times (2002);

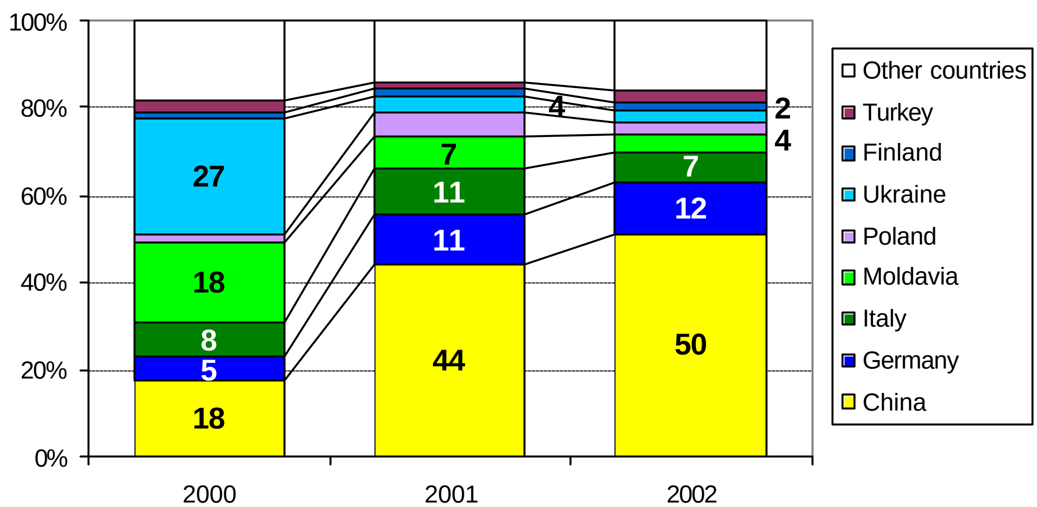
Poland – 1.6-times (2001) and 2.2-times (2002).

The volume of imports from Ukraine **has decreased**:

1.2-times (2001) and 3.6-times (2002).

Fig. 31

Dynamics of leather footwear import, by countries (in volume)



Source: RF State Customs Committee

LEATHER FOOTWEAR: COMPETITIVE ENVIRONMENT

As estimated by experts, footwear manufactured in China (legal and illegal) constitutes 70-80% of the entire Russian leather footwear market. According to expert estimates, it is China that will remain the leader in the imports of leather footwear in the future. Chinese producers have such important advantages as:

- an established system of escaping customs duties and taxes;
- up-to-date technologies and new equipment;
- cheap workforce;
- high speed of performing orders:

"The Chinese work according to a very simple scheme. They visit Italy regularly. I saw myself what they do here: they photograph all exhibitions and decent stores, that is, they just do industrial espionage. The instant Italian designers have developed something new, the

Chinese already know about it and are bringing pictures to China. They have numerous factories and the workforce is cheap. They copy-sew these models, bring them here and sell them two times cheaper than genuine Italian goods. That is why the Chinese will remain leaders in this industry: I cannot see anyone who could compete with them" (Alix, SPb, distributor).

Beside China, the following countries are present on the Russian footwear market: Italy, Spain, France, Portugal, Brazil, and others. Experts observe that the world's footwear production is gradually moving to Asian countries, mainly to China. The modern production and latest technologies are concentrating in China, whereas the manpower remains one of the cheapest:

- "A Chinese worker can work as long as needed, from morning until morning. No European, and certainly no Indian, will ever work like that" (Alix, SPb, distributor).

In Russia, the attitude about goods made in China is rather ambiguous. On the one hand, end-consumers traditionally regard leather footwear manufactured in China as low-quality and inexpensive. Thus, other conditions being equal, consumers prefer products from other countries; this fact makes Chinese manufacturers mark their products as goods made in different countries.

On the other hand, distributors have good trade contacts with Chinese manufacturers, established over many years. They know that over the past few years, there is a trend to concentrate the major part of all world's shoe factories to China, so Chinese manufacturers presently make footwear of different brands and of different quality. Distributors note that the quality of footwear made in China has been tending to improve during the past five years, whereas the prices have been remaining invariably low.

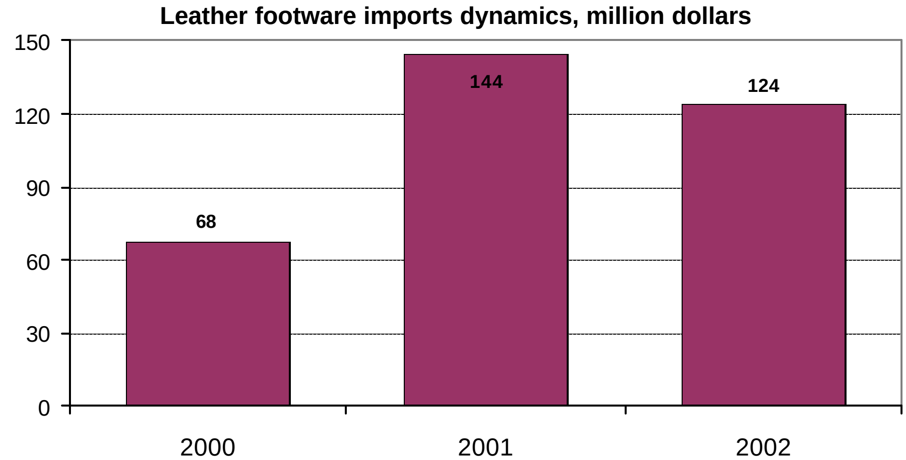
Thus, at present footwear made in China occupies not only the low segment of the Russian leather footwear market but also a considerable share of the medium segment. Thus, China will be the main India's competitor on the Russian market.

LEATHER FOOTWEAR: AVERAGE PRICES

In monetary units, the import of leather footwear to Russia decreased by 14% in 2002, namely, from 144 million dollars to 124 million dollars. Since a growth in imports (in quantitative terms) was observed in 2002, it follows that the footwear price declared at the customs was considerably lower in 2002 than in 2001.

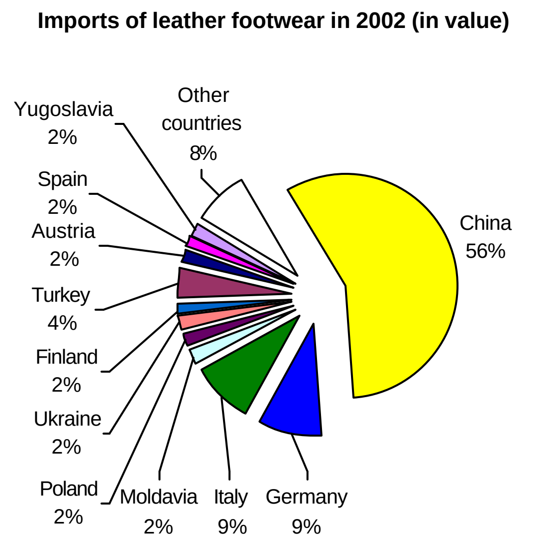
The average price for one shoe pair imported in Russia was $12.81 in 2000; it increased to $14.47 in 2001 but decreased to $9.72 in 2002 (a decrease by 33%).

Fig. 32



Source: RF State Customs Committee

Fig. 33



Source: RF State Customs Committee

In 2002, prices for footwear produced in all major exporting countries, except for Byelorussia which does not pay customs duties, decreased in comparison with 2001.

The prices for footwear from Byelorussia increased and became higher than those for footwear from other countries. The sale price of footwear made in Byelorussia was about $20 for a pair by the end of 2002.

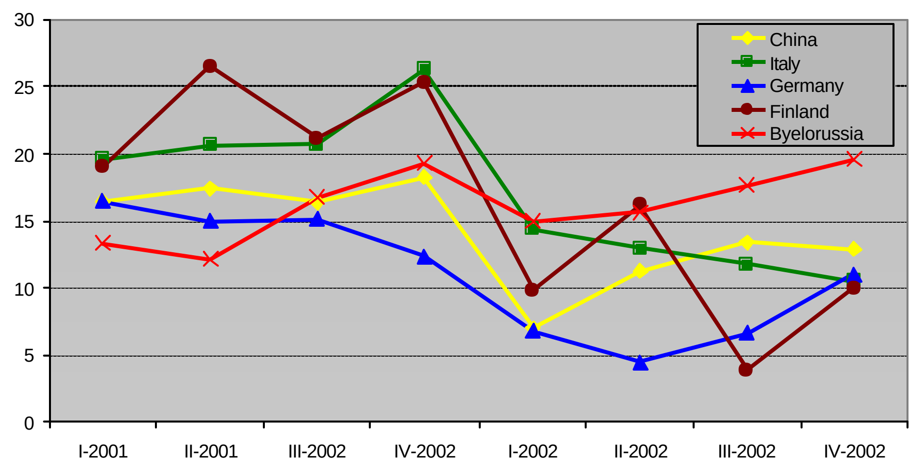
On average, the customs price of Chinese footwear ($10.97) was higher than that of footwear imported from Spain ($9.36), Germany ($7.19), Poland ($7.12), and Finland

($6.45). The prices for footwear imported to Russia from Turkey ($17.98) and Italy ($12.43) were higher.

The average prices of exported Russian footwear (by quarters of 2002) were 11.71; 15.94; 13.03; 10.89 USD, and were higher than those of the footwear imported from Italy and Germany.

Fig. 34

Average prices for imported footwear with leather uppers, dollars per pair



Source: "Kozhevennaya promyshlennost" journal

Experts disagreed on the prospects for the cost of footwear. Some of the study participants noted that the medium-to-high footwear price segment has lately been tending to grow:

- "The footwear market is improving, the quality is growing, sales of medium- and high-price footwear are increasing. People spend more money, that is, the market of higher-quality and more expensive footwear grows" (Ecco, Moscow, purchases manager);

- "The footwear market is now developed very well: one can buy footwear for prices from 200 rubles to 1000 dollars. Exclusive footwear is very promising" (Econica, Moscow, retail and wholesale sales).

However, other experts believe that inexpensive, economy-class footwear offers the most promising niche. In this category, an Indian manufacturer will mainly have to compete with Russian production. This is primarily characteristic of Russian regions rather than Moscow.

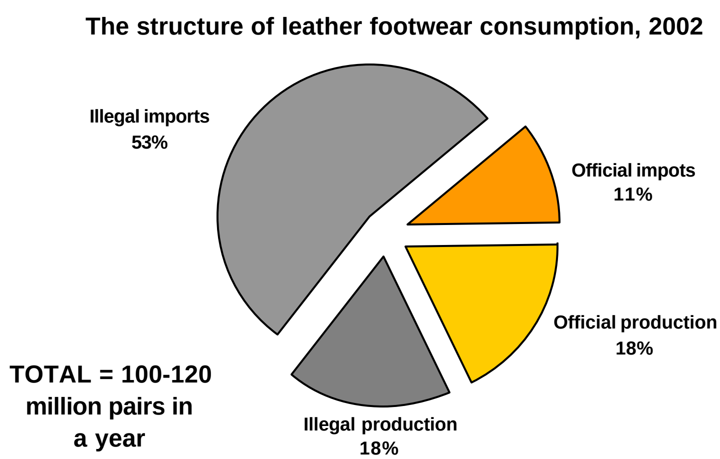
- "We do not deal with expensive brands. We try to have products of decent quality and design that are competitive, including price" (Alix, SPb, distributor);

- "The demand has increased, primarily for leather footwear. Before the 1998 crisis, about 70% of the footwear we were selling was made of synthetic materials and leather substitutes. The trend is different now: more leather goods are sold and people started to pay more attention to design" (Alix, SPb, distributor).

RUSSIAN LEATHER FOOTWEAR MARKET: STRUCTURE, CAPACITY

According to expert estimates, the capacity of the Russian leather footwear market is about half of the entire market of footwear produced, that is, 100-120 million pairs per year. Thus, the share of each Russia's citizen is 0.7 to 0.8 shoe pairs per year. The major part of footwear consumed in Russia is imported illegally (Fig. 35).

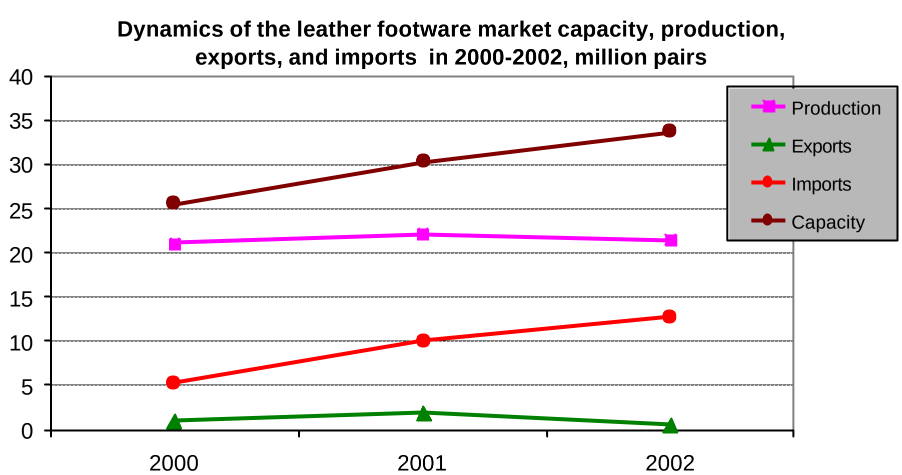
Fig. 35



Source: experts' estimations.

The capacity of the Russian leather footwear market grows, first, due to an increase in both legal and illegal imports, and second, because of a growth in the prosperity of the population and, accordingly, an increase in the demand for high-quality footwear and other leather goods.

Fig. 36



Source: Goskomstat and RF State Customs Committee (official data).

DISTRIBUTION

The leather footwear market is more transparent than other markets of leather goods (garments, fancy goods). Several large distributors are present on the market (Monarch, Econica, TsentrObuvi, Alix, Zh). In addition, there are large local distributors in the regions (Ecolas, Monro, Rossita). Experts praise the work of regional distributors, noting such merits as mobility and high speed of delivery:

> "Regional wholesalers are even more mobile than those in Moscow: they work with small batches from different manufacturers and respond very quickly even the slightest market changes. They satisfy every demand as it arises; it is hard to do so even in large Moscow chains" (Monarch, Moscow, marketing manager).

According to some experts, the following regions are most promising for a new supplier:

- North (Norilsk);
- Far East (Khabarovsk, Vladivostok);
- South (Krasnodar, Stavropol, Rostov-on-Don);
- Siberia (Novosibirsk).

The high potential of the North region has to be noted separately:

> "Northern regions are not yet covered by large chains; only wholesalers work there (Ecco, Moscow, purchases manager).

When working with manufacturers, wholesalers use three delivery schemes:

1. delivery by the distributor:

   > "Each company has a department, which may be called, for example, the collection department. Its representatives visit exhibitions in Italy, choose models and place orders. For instance, they order this and that model, 12 pairs of each; that's how we work" (Econica, Moscow, retail and wholesale sales);

2. delivery by the manufacturer:

   > "I team up with three other wholesalers, and together we buy goods directly from a factory. I do not know how the goods are delivered, the manufacturer does it through own channels. I receive goods from a warehouse, complete with all documentation" (Alix, SPb, distributor).

3. delivery by a specialized transportation company, which takes upon itself not only shipping but also all the procedures associated with the execution of documents, payment of customs duties, etc.

Of course, the second and third delivery schemes are much more convenient and preferable for distributors.

The most attractive method of payment for distributors is the delay of payment and granting of credit for a specific batch of goods:

- "We look how the first batch of goods sells and then pay for the first delivery when the second delivery arrives" (Focus, SPb, distributor).

There is a considerable number of actively competing players on the Russian footwear market. In most cases, the player which "hits the fashion trend" wins the competition.

The majority of large distributors are engaged not only in footwear wholesales but also in retail trade through own store chains they create. This business arrangement allows them to monitor the demand and place orders based on specific requests from their customers.

Russian chain stores can be divided into segments based on the range of products they offer:

- low-to-medium price level - TsentrObuvi, City-Obuv, Zh, Econica;
- medium price range - Carlo Pazollini, TJ Collection;
- high price level - Crocus, Alba, Salita, Rendezvous.

When arranging retail trade, some chain stores use the follower policy by opening a store near a competitor's store.

RETAIL TRADE

The specific features of leather footwear retail trade are analyzed on the basis of data of a quantitative study performed in September 2003 in Moscow, Saint-Petersburg, Samara, and Kazan (Total N=52).

Product range

One can see from Table 2 that all kinds of men's and women's footwear are equally widespread on the Russian market: they are sold in 75-85% of sales points. In the retailers' opinion, it is **women's light boots** and **shoes** that are sold the best and are most profitable. In total, women's footwear is regarded as more quick-selling and profitable than men's footwear. Of men's footwear items, one can only note shoes, which also sell reasonably well and bring profit to sales points.

Only a small amount of children's leather footwear is present on the Russian market: it is sold by only one-third of the enterprises examined. It does not sell very well and does not bring large profits.

Table 2

Assortment of leather footwear in sales points, % (N=52)

	Sold at the outlet	Sold best of all	Bring the highest profit
Children's winter boots	31	8	8
Children's light boots	33	10	6
Children's shoes	33	17	8
Children's sandals	35	10	6
Winter boots (women's)	**81**	**33**	**44**
Light boots (women's)	**83**	**62**	**54**
Shoes (women's)	**85**	**67**	**54**
Sandals (women's)	79	37	25
Winter boots (men's)	75	10	17
Light boots (men's)	81	37	29
Shoes (men's)	**81**	**44**	**35**
Sandals (men's)	75	19	12
DK/NA	*0*	*2*	*2*

Leather footwear manufacturing countries

Results of questioning retailers show that domestic production is the most abundant on the Russian leather footwear market: it is sold in nearly every sales point. In addition, 56% of the retailers believe that it is in the largest demand.

Also abundant are goods made in China, Byelorussia and Italy as they are offered in 50-60% of the sales points.

The goods most preferred by retailers, that is, those they would wish to sell most of all, include footwear made in Russia, Italy, and Germany. On the contrary, footwear made in China and Vietnam is the least-wanted as it does not suit half of the retailers.

Table 3

Attitude of retailers about footwear manufacturing countries, % (N=52)

	Sold in the sales point	In largest demand	In lowest demand	Would like to sell	Do not want to sell
Russia	**87**	**56**	12	**52**	2
China	**58**	23	**31**	17	**50**
Byelorussia	**52**	17	12	27	4
Italy	**48**	**37**	4	**50**	2
Germany	33	15	4	**42**	0
Turkey	33	13	10	10	2
Spain	27	13	4	13	2
Ukraine	23	4	4	15	19
Poland	21	0	6	12	10
Austria	17	12	0	27	2
Finland	15	4	0	19	2
France	15	2	2	17	4
Brazil	8	4	0	6	6
Vietnam	6	0	6	2	**50**
Korea	6	0	6	4	0
India	**2**	**0**	**2**	**4**	**13**
DK/NA	*0*	*2*	*23*	*2*	*23*

Only one sales point offering Indian leather footwear was found during the study. Only 4% of retailers would like to have Indian goods for sale, whereas 13% do not want to. So, the attitude of retailers about Indian leather footwear is rather negative. It is not regarded as an equivalent and decent competitor for domestic and European footwear.

Market segmentation

Retailers divide all leather footwear buyers into three groups:

- buyers with high income,
- buyers with medium income,

- buyers with low income.

The percentage of these buyers is almost the same as that for the leather garments market: buyers with high income constitute 10-20% of the market; buyers with medium income constitute 50-60%; and buyers with low income constitute 20-30%.

However, contrary to the situation with leather garments, there are virtually no sales points predominantly aimed at well-to-do citizens: the fraction of rich buyers is above 20% in only 15% of them, whereas they are practically absent in 45% of the sales points.

The fraction of buyers with medium income varies widely, namely, from 30 to 70%; it is even as high as 80-90% in some sales points. Thus, the majority of Russian commercial enterprises presently target the medium segment of the leather footwear market.

However, about one-fourth of all footwear sales points mainly work with lower-income citizens.

Retailers consider that the level of prices for **men's leather shoes** and **women's leather shoes** should be approximately the same, specifically:

- for buyers with high income: 100-180 USD;
- for buyers with medium income: 45-85 USD;
- for buyers with low income: 15-40 USD.

Note: average prices were calculated for only those sales points in which the sales volume of leather footwear for this population category was no smaller than 20%.

Suppliers

Unlike the situation with leather footwear where about one-third of retailers have just one supplier, there are only 15% of such footwear sales points. About 10% of them have two suppliers and another 20% have three suppliers. In 40% of the questioned sales points, there were from four to ten suppliers; 15% had more than ten suppliers; the maximum number of suppliers was thirty. Thus, the average number of suppliers for footwear retailers is much higher than that for leather garments retailers.

On average, one supplier provides one-third of the total amount of leather footwear purchased by a given sales point.

As regards the channels for finding suppliers, the most popular strategy is by making contacts at specialized exhibitions (mentioned by 42% of respondents). Other popular strategies include:

1. Suppliers themselves contact other suppliers with offers to cooperate (31%);
2. Suppliers are found through friends (21%).
3. Advertising in the magazine "Wholesaler" (17%);

4. Advertising in the magazine “Goods and Prices” (15%);
5. Search through Internet (12%).

More than half of all suppliers of leather footwear (57%) are located in Moscow; 20% are abroad, and 15% are in St. Petersburg (for valid answers, without DK/NA). This picture differs from that with leather garments where there are about one half of foreign suppliers, whereas the share of “regional suppliers” is close to zero.

On average, the minimum size of one batch of footwear is 40-50 items, whereas the maximum size is 80-100 items. For one quarter of all suppliers, the minimum batch size is 15 items or less, and for another quarter it is more than 100 items. Thus, there is no single pattern to be used by the majority of suppliers in their work with sales points. The numbers vary over rather a broad range.

PURCHASING LEATHER FOOTWEAR IN RUSSIAN REGIONS

The volume of footwear sales in specific RF regions depends on numerous factors; the major factors include:

- *The population of the region.* The more the population of a constituent of the Russian Federation, the greater the aggregate demand for footwear as a whole.
- *The population income level.* Even if a region is densely populated but the population income is at the minimum subsistence level, people seldom buy footwear and prefer cheap goods.
- *The weather conditions.* Due to the hugeness of the Russia’s territory, different weather conditions prevail in different regions, including different yearly average temperatures, different amount of precipitation. Accordingly, the demand for footwear also differs.
- *Cultural and historical features.* In addition, Russia is a multinational state, and more than one hundred different nations inhabit its territory. Furthermore, there are different preferences regarding the type of footwear to be worn in different places.

Sometimes, inhabitants of certain regions shop in neighboring regions. For example, in the Soviet times, many high-quality goods could only be bought in Moscow as they did not reach the regions. The situation is now different, but even now some people from regions located near Moscow prefer to visit the capital for shopping. Similarly, the Samara region plays the role of a “shopping city” for the inhabitants of the Volga region.

Inhabitants of the Khanty-Mansi and Yamalo-Nenets autonomous areas who work at oil fields and have rather high income have vacations “on the continent” in summer; that is where they often buy goods needed at home.

These factors as a whole can be analyzed using such factor as the retail turnover in a given region. More specifically, we need such component of retail turnover as the sales volume of leather footwear.

Table 4

Leather footwear sales volume

	Russian Federation subdivision	Leather footwear sales volume, million dollars	Share of the region in the total leather footwear sales volume, %
1	Moscow	1095	37.1
2	Saint-Petersburg	135	4.6
3	Tyumen region	89	3.0
4	Samara region	64	2.2
5	Perm region	60	2.0
6	Lipetsk region	60	2.0
7	Sverdlovsk region	52	1.8
8	Irkutsk region	45	1.5
9	Khanty-Mansi Autonomous Area	45	1.5
10	Krasnodar Territory	43	1.4
11	Chelyabinsk region	42	1.4
12	Kemerovo region	41	1.4

Source: Goskomstat, data for 1999.

LEATHER FOOTWEAR CONSUMPTION

The consumption preferences of Russians on the leather footwear market are analyzed on the basis of data of a quantitative study performed in August 2003 in Moscow (N=200), Saint Petersburg, Samara, and Kazan (N=100 in each city).

Experience

Footwear is an indispensable part of wardrobe for any person. Everyone has at least one pair of footwear for the autumn-spring, summer, and winter seasons. Let us consider children's, men's, and women's footwear separately.

Children's footwear

Only 39% of the respondents of this study have children from 0 to 18 years old (30% have one child, 8% have two children, 1% have three children). It is these people who are potential buyers of children's footwear.

It should be noted that 17% of these 39% respondents could say nothing about the footwear their children had and about their purchasing plans for the future. Therefore, we only have data on the availability and amount of children's footwear for 22% of the respondents (N=110).

On average, people have one and half pair of each kind of footwear per child: 1.5 pairs of children's winter boots, 1.4 pairs of children's light boots, 2.0 pairs of children's shoes and 1.8 pairs of children's sandals.

However, not all of this is leather footwear. On average, the amount of leather footwear per child is as follows: 1.4 pairs of children's winter boots, 1.2 pairs of children's light boots, 1.5 pairs of children's shoes and 1.5 pairs of children's sandals.

Women's footwear

On average, each woman's wardrobe contains 1.5 pairs of women's winter boots, 1.5 pairs of women's light boots, 2.5 pairs of women's shoes and 2.1 pairs of women's sandals. As regards leather footwear, each woman has 1.4 pairs of women's winter boots, 1.4 pairs of women's light boots (that is, these two types of footwear are almost always made of leather), 2.0 pairs of women's shoes and 1.6 pairs of women's sandals.

Men's footwear

In turn, each man's average wardrobe contains 1.3 pairs of men's winter boots, 1.4 pairs of men's light boots, 1.8 pairs of men's shoes and 1.4 pairs of men's sandals. Thus, men usually have somewhat less footwear than women do.

As regards leather footwear, each man has 1.3 pairs of men's winter boots, 1.3 pairs of men's light boots (that is, these two types of footwear are almost always made of leather), 1.6 pairs of men's shoes and 1.2 pairs of men's sandals.

Regional differences are only noticeable for such footwear as shoes. There are 2.8 pairs per woman in Moscow and only 2.2 pairs in regional cities (leather shoes: 2.1 and 1.9 pairs, respectively). Men also differ with respect to this kind of footwear, but the difference is smaller. There are 2.0 pairs of shoes per man in Moscow and 1.6 pairs in the province (leather shoes: 1.7 and 1.5 pairs, respectively).

For almost all types of footwear, 40 to 60% of the buyers have made their last purchase during the past 12 months. Almost all of the remaining respondents have purchased some footwear item between one and three years ago. There were very few respondents who have not bought footwear over the past three years: on average, 3-5% for each type of product. Thus, Russians change footwear rather frequently: they usually wear it for one-two or, as a maximum, for three seasons.

Intentions

Winter boots are the most necessary type of children's footwear: 23% of the families which have children intend to buy them during the coming 12 months (9% of all respondents). They are followed by children's light boots: 16% of families intend to buy them (7% of all respondents). Children's shoes and children's sandals are in the buying plans of 9% and 5% such families, respectively (4% and 2%).

Winter boots are also in the greatest demand for women: 28% of the questioned women intend to buy them during the coming 12 months (20% of all respondents). They are followed by women's light boots: 20% of women are going to buy them (14% of all respondents). The buying plans of 12% and 4% women contain women's shoes and women's sandals, respectively (7% and 2%).

The situation with men's footwear is similar: about one third (32%) of the questioned men intend to buy winter boots during the coming 12 months (20% of all respondents). They are followed by men's light boots and men's shoes: 20% and 13% men, respectively, intend to buy them (14% and 10%). In comparison with other types of footwear, the demand for men's sandals is very low: only 4% of men think of buying them (3% of all respondents).

Thus, winter boots are the type of footwear most required by all categories of the population. Winter in Russia lasts from November until March. It is often cold and harsh as the temperature in the European part of the country decreases to 30 degrees Celsius below zero. Therefore, everyone needs good footwear. An indirect reason for the higher demand for winter boots may be that the interviews were carried out in the end of August when people no longer need shoes and sandals, whereas the demand for autumn and winter footwear increases.

The majority of respondents (84%) prefer to buy footwear from natural leather, whereas only 2% prefer footwear made of artificial materials. For 8% of respondents, the material footwear is made of does not matter.

Costs

The most expensive types of footwear are those the demand for which is the highest, namely, women's and men's winter boots: consumers target prices in the range from 80 to 100 USD. The average cost of women's and men's light boots and shoes is 50-70 USD. Children's footwear cost about 20-35 USD for a pair.

Since the income level of Moscow residents is considerably higher than that in other Russia's regions, the prices for footwear in the capital are, on average, 25-30% higher than in the province. These differences are most significant for children's footwear.

One can see from Table 5 that the price of future purchases is often higher than that of purchases made in the past. This is particularly evident for men's footwear. This may mean that consumers are gradually turning to more expensive, higher-quality products.

Table 5

Median price[1] of footwear purchases, USD

	Price of the last purchase		Price of the planned purchase	
	Valid N	**Price**	***Valid N***	**Price**
Children's winter boots	*58*	48	*45*	33
Children's light boots	*46*	30	*33*	33
Children's shoes	*52*	23	*18*	33
Children's sandals	*54*	17	*9*	17
Winter boots (women's)	*158*	83	*100*	100
Light boots (women's)	*148*	67	*70*	67
Shoes (women's)	*196*	50	*36*	50
Sandals (women's)	*180*	37	*11*	34
Winter boots (men's)	*142*	67	*99*	83
Light boots (men's)	*130*	60	*70*	67
Shoes (men's)	*184*	50	*46*	67
Sandals (men's)	*122*	37	*14*	55

Purchasing locations

The most popular locations for purchasing leather footwear include specialty footwear stores and retail markets: 46% of people in both cases buy it there. In Moscow, the popularity of specialty footwear stores is much higher than that of open markets: 55% against 40%. On the contrary, more people in regional cities make purchases on retail markets (49%) than in specialty footwear stores (40%).

Department stores are on the third place in popularity: 22% of people buy footwear there, both in Moscow and in the regions.

[1] As a number of subgroups of the potential buyers for many types of leather footwear is rather small in sample, so we use for the analysis not mean, but median price.

Factors affecting the choice of footwear

During the survey, people were asked to assess the importance of specific factors when buying footwear using a 7-point scale, where 1 means *NOT AT ALL IMPORTANT* and 7 means *VERY IMPORTANT*.

Table 6 demonstrates the average values of each of the factors; the factors themselves are ranged in the sequence of decreasing importance for consumers. One can see that the three factors most important for a customer when she/he is buying footwear include convenience, practicality, and quality (the same factors were found to be most significant when buying leather garments).

Convenience was named by 43% of the respondents as the most important factor for buying footwear; for 24%, this is quality, while for 13%, this is practicality.

Another five factors are of medium importance: price, design, fashionable style, reductions, and country of manufacture. The remaining factors are only of secondary importance for choosing and buying footwear.

Importantly, this sequence of factors is practically the same for Moscow and for the regions, so it is universal.

Table 6

Factors affecting the choice of footwear

	Average importance 7 – very important, 1 – not at all important			The most important factor, Total %
	Moscow	Regions	Total	
Convenience	6.70	6.63	6.66	43
Practicalness	6.65	6.54	6.59	13
Quality	6.64	6.53	6.58	24
Price	6.09	6.10	6.10	8
Design	5.66	5.80	5.75	3
Fashionable style	5.67	5.79	5.74	3
Reductions	5.69	4.75	5.12	1
Country of manufacture	5.03	4.59	4.76	1
Brand	3.85	3.75	3.79	1
Advice of relatives, friends	4.20	3.49	3.78	1
Advice of shop assistant	3.53	2.82	3.10	0

Advertising	2.88	2.37	2.57	0

BASE: Those who have bought leather footwear within the last 3 years or going to buy leather footwear during the next 12 months (N=499). Without DK/NA.

Let us consider the structure of factors affecting the choice and purchasing of footwear by means of multidimensional scaling, which makes it possible to present the analysis results graphically, in this case, as two-dimensional space. The factors which people most often estimate similarly in their answers (either as equally good or as equally bad) are located close to each other in the picture. On the contrary, those factors which the same people estimate differently (high for one factor and low for the other) are shown distant from each other.

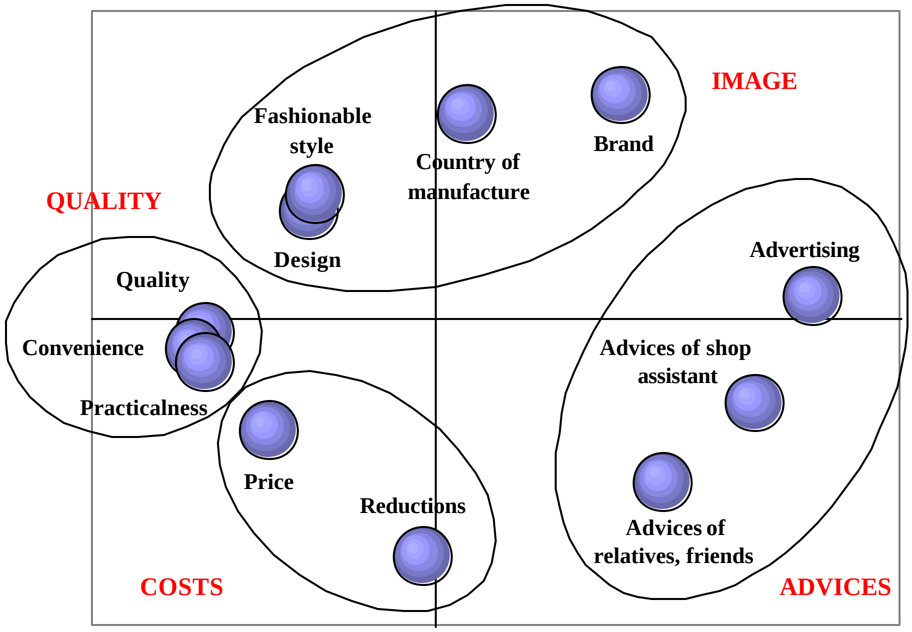
One can see from Fig. 37 that this structure virtually coincides with the structure of factors affecting the selection of leather garments. All the factors are distinctly divided into four main groups:

1 – “QUALITY” – this includes all the three factors of greatest importance: convenience, practicality, and quality. On the opposite side there is group 2, “ADVICES”, which consists of the factors least significant for footwear buying. It is rather obvious that a person targeting high-quality goods will not listen too much to advice from salespersons, friends and advertisements; however, we have confirmed this statistically. Thus, the factors located on the left side of the picture are more related to a buyer’s own experience and opinion, whereas those located on the right side are more related to other people’s experience and opinions.

Yet another pair of opposite factors are 3 – “IMAGE” and 4 – “COSTS”. The difference between them is also obvious. It is unlikely that those people for whom prestige is important and who buy European products and famous brands will look for cheaper prices or expect discounts on their purchases. Thus, one can say that the factors associated with fashion and prestige are located on the top of the picture, whereas those associated with practicality and cost effectiveness are located at the bottom.

Fig. 37

Structure of factors affecting the choice of footwear



Footwear manufacturing countries

The attitude of Russian consumers about footwear producing countries is distinctly differentiated: European countries are preferred, most of all Italy and Germany; Asian countries, especially China, are preferred the least.

Almost two-third (63%) of those people who have bought footwear during the past three years preferred **Russian** goods (63% in Moscow, 64% in other regions). Respondents also bought Italian (48%), Byelorussian (41%), and German footwear (40%). Only 15% of them responded that they bought Chinese goods.

These data contradict official statistical data and the opinion of experts that the majority of leather footwear sold in Russia is brought from China. On the other hand, a considerable fraction of this Chinese footwear is manufactured under famous European and Russian brands, so final consumers do not know the actual country of manufacture of the footwear they buy. They are quite sure that they have bought high-quality Russian or European goods.

Chinese footwear is clearly rejected by Russian citizens: 59% of the respondents claimed they would not buy it in the future (70% in Moscow, 51% in other cities), and there was not a single respondent to say otherwise.

Russians are insufficiently aware of **Indian** goods: only 5% of the respondents have bought them, 1% would like to in the future, whereas 10% feel negative about them. However, the question *"Would you buy footwear made in India if it suited you by price and quality?"* was answered positively by 61% of respondents in Moscow and 67% of respondents in regional cities. Thus, given an appropriate information support, Indian manufacturers of leather footwear might successfully enter the Russian market.

Nevertheless, the level of people's tolerance for Indian footwear is lower than that for leather garments and fancy goods: the smallest number of people are ready to buy it.

Table 7

Attitude about footwear producing countries, %

	Bought footwear made in this country at least once	Would like to buy footwear made in this country	Will never buy footwear made in this country in the future
Russia	**64**	14	5
Italy	**48**	**35**	1
Byelorussia	**41**	7	9
Germany	**40**	**33**	0
Austria	28	**21**	0
Finland	25	16	0
Poland	15	1	7
China	15	0	**59**
France	11	15	1
Spain	10	6	1
Brazil	7	4	5
Ukraine	7	0	17
Vietnam	5	0	**40**
India	**5**	**1**	**10**
DK/NA	*7*	*16*	*28*

BASE: Those who have bought leather footwear within the last 3 years or are going to buy leather footwear during the next 12 months (N=499).

During the survey, people were asked to estimate the quality of footwear manufactured in each country using a 7-point scale, where 1 meant *VERY POOR QUALITY* and 7 meant *VERY HIGH QUALITY*. The next question asked them to estimate the prices for this footwear, also using a 7-point scale, where 1 meant *VERY LOW PRICE* and 7 meant *VERY HIGH PRICE*.

One can see from Fig. 38 that people as a whole estimate adequately the price-quality relationship, understanding that the higher the footwear quality the higher its price.

All the European countries, except Poland and countries of the former Soviet Union, are at the top of the rating. Russians estimate particularly high the quality (and, accordingly, price) of footwear made in Germany, France and Finland: there are 35-37% highest marks (7) and almost no negative opinions.

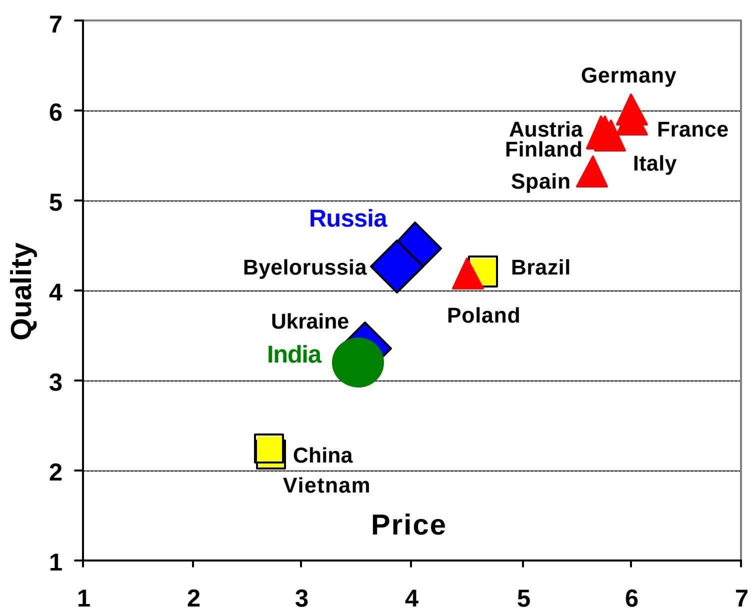
The bottom-left part of the picture shows Asian countries, namely China, for which 37% of the respondents gave the lowest mark (1) to its footwear quality, and Vietnam (35%).

Russia and Byelorussia are in the “golden mean”. These countries manufacture medium-quality footwear for medium prices. Respondents consider that Brazilian and Polish goods have approximately the same quality but somewhat higher prices.

India is situated closer to the lowest, least attractive group. This means that the Russians do not yet trust Indian footwear too much.

Fig. 38

Price-quality relationship for footwear manufactured in different countries



The use of the multidimensional scaling method allows us to plot graphically the structure of Russians’ notions about different footwear manufacturing countries. The quality of goods of those countries which are located close to each other in the picture is estimated approximately similarly by people (on average). If the countries are distant, this means that, according to Russians’ opinion, the quality of footwear they manufacture differs essentially.

Each circle in the Figure identifies a country; the size of a circle is proportional to the share of goods from that country on the Russian market (number of buyers).

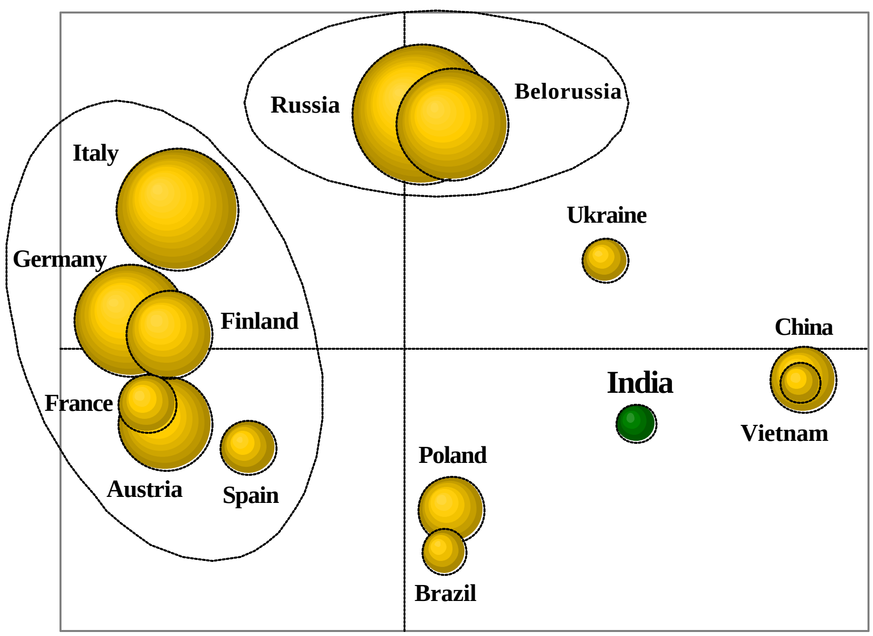
We can see here that India occupies a specific position in people's minds: it is somewhat distant from all other footwear manufacturing countries. On the one hand, Indian goods are better than those from China and Vietnam; on the other hand, their quality is estimated lower than that of footwear from Russia, Byelorussia and Poland. Thus, Indian footwear presently falls in the low-middle segment of Russian footwear market; the market share of this segment is small and is decreasing gradually.

The character of competition on the market and the population's preferences allow us to conclude that the most successful strategy for the promotion of Indian footwear in Russia would involve **imitating** Russian and European brands. The best option would involve arranging co-production with footwear manufacturers well known in Russia. In such case, the true origin of the goods should be hidden from consumers.

At present, China uses a similar strategy. Judging by the volume of sales of Chinese footwear in Russia, it succeeds pretty well.

Fig. 39

The structure of the Russian footwear market as people conceive it



Information sources

The main sources from which the population obtains information about footwear and its manufacturers are essentially different in Moscow and in regional cities.

For Moscow inhabitants, *advice of relatives, friends* is the most popular source: 41% of the respondents offered this answer. This is followed by *television* (27%) and *magazines* (21%). A considerable number of respondents from Moscow (26%) stated that information about footwear did not interest them at all.

In regional cities, *television* is the main information source: its significance was emphasized by 41% of the respondents. The rating of *magazines* (23%) is also higher here than in Moscow. However, only 30% of the respondents valued *advice of relatives, friends.* The fraction of those who are not interested in information about footwear is also smaller than in Moscow (16%).

TRENDS

- Experts believe that the consumption of footwear in Russia will increase every year (the estimates of this increase range from 10 to 20% per year):
  - "The consumption level increases every year by some 15-20%" (Alix, SPb, footwear and fancy goods distributor).

- "Grey schemes" predominate on the Russian market of leather garments. In many respects, this results from the predominance of China as the main importer (many experts believe that the share of made Chinese footwear in the Russian footwear market is 65-70%).

- According to experts, the demand for youth's sporting footwear or bright teenager's footwear is not yet satisfied completely, so this kind of footwear may be an unoccupied niche:
  - "The youth's sporting style which has quickly become fashionable in the West is not as developed here; it is often hard to find such footwear in Russia. There are rather few competitors: Carnaby, Dr. Alex, Obuv XXI veka" (Econica, Moscow, retail and wholesale sales);
  - "The demand for bright, diverse and inexpensive footwear for teenagers and youths has not yet been satisfied completely. Such footwear should be seriously supported by advertising and by organization of sales (shelves, salespersons), for example, the way "XXI vek" does." If [this footwear] is made less expensive it would be very promising" (TsentrObuvi, Moscow, retail and wholesale sales).

- Czech manufacturers are new players on the market; they choose to open their own retail stores in Moscow. The activity of the Czechs can make them serious competitors for Indian manufacturers:
  - "The Czechs are entering the market actively these days: they have already opened their second store in the Mega hypermarket, so they can be regarded as competitors" (Econica, Moscow, retail and wholesale footwear sales).

- Large regional wholesalers (in particular, those from St. Petersburg) are planning a considerable growth in their wholesale representatives in the nearest future:

  - “Of course, the majority of wholesalers are located in Moscow, that’s how it has happened historically; however, Saint-Petersburg may have equally strong wholesalers in about five years (Alix, SPb, distributor).