

CEPI Brief N° 8

Strategic positioning study of the shoe branch

FOREWORD

Shoe products are very diverse, from deluxe items that privilege style to very technical items such as work and sports shoes. Manufacturing methods are as well very diversified, utilizing different techniques.

NATIONAL SITUATION

The shoe sector in Tunisia counts some 210 enterprises and 26 000 employees, of which 14 000 work for production units with over 10 employees. In the sector there are 4 categories of enterprises:

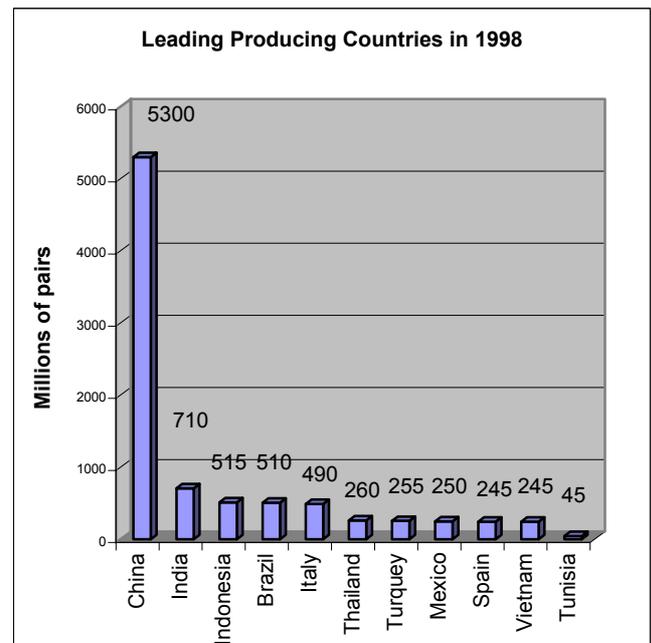
- Artisan type enterprises producing for the local market (EPLM) ;
- Industrial enterprises not primarily exporting, producing largely for the Tunisian market (EPE) ;
- Sub-contracting enterprises producing for export as well as for the local market. (EPE) ;
- enterprises totally exporting or “ off shore ” (ETE).

An analysis of these enterprises has resulted in the following observations:

- the first category is composed of production units that have a low level of structuring and where employment is variable dependent upon the level of work. Many insufficiencies handicap their future;
- the non-primarily exporting enterprises have important assets such as manufacturing know-how, geographic proximity relative to consumption zones, competitive man labor costs and operational infrastructures. Nevertheless, their development is slowed down by their administrative and production management capacities;
- the sub-contracting enterprises have a good adaptation capacity and are capable of producing articles that conform to European quality levels. They are nevertheless vulnerable as they are dependent on a small client base. They also have costs relative to attaining standard quality levels and required modernization of their equipment and machinery;
- the “ off shore ” enterprises belong to foreign principals who supply production tools.

INTERNATIONAL SITUATION

Worldwide production of shoes in 1998 was 11 billion pairs. The principal producing country is China which accounts for over 50% of total world output. The industrialized countries are progressively delocalizing their production, which has led to an increase in imports.



Europe imported over one billion pairs of shoes in 1998 as the third ranking importer after the United States and Hong Kong. Hong Kong is a transiting zone rather than a true importer.

The priority product is the joined type (uppers glued to soles) city or dress shoe. On the French market, for example, this type of shoe represents 35 % of consumption and 32 % of imports.

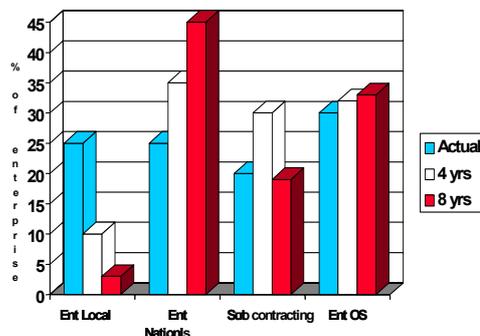
These figures are applicable as well to the other countries of the European Union.

INTERNATIONAL COMPARISON

The comparative benchmarking analysis referenced to five countries: Morocco, Portugal, Spain, Italy and France, has resulted in the following observations:

- Average productivity in Tunisia is 10.6 pairs per day per employee compared to a value of 22 pairs for Portugal or France. These figures incorporate all families of products including shoe items.
- for the manufacture of a shoe glue-joint type, medium grade, European productivity is around 16 pairs per day per employee while Tunisian productivity is around 8.5 pairs per employee per day.
- Tunisia has technical know-how in shoe manufacturing, as well as attractive production costs. Nevertheless, this potential needs to be

better exploited, as performance in terms of productivity is below the international average.



| | | INTERNATIONAL PRODUCTIVITY AVERAGE | | |
|----------------|---------|------------------------------------|--------------|------------|
| | Tunisia | Low grade | Medium grade | High grade |
| DRESS M/F/C | 7 | 20 | 16 | 8 |
| SECURITY | 11.9 | 30 | 25 | |
| SHOES ARTICLES | 19.6 | 80 | 50 | |
| SPORT CASUAL | 17 | | 23 | |

Source : CTC/CNCC

The positioning of the country on the European market is dependent upon two key factors: the cost of production and know-how. Security shoes represent today 9 % of the European market. None the less the country must face certain threats that stem primarily from:

- the impact of the dismantlement of tariffs that will open the national market.
- The competition from Eastern European countries on the European market.
- Industrial performance that is below the international average.

OBJECTIVES 2004

- Increase productivity over the next 5 years, to 13 pairs of shoes per day per person, re-centering on medium grade shoes production. This will imply gains in productivity higher than 50%, which will lower unitary production costs and an increase in export volumes.

Exports will be on the order of 30.5 million pairs with the integration of the 18.5 million pairs currently produced for export, for 3 % of the total volume of European imports. These figures represent an increase in growth of export volume of 62 %.

| | Actual Situation | Objective 5 years |
|---|------------------|-------------------|
| Number enterprises | 210 | 155 |
| Employees | 24 000 | 20 000 |
| Number pairs produced | 30(*) | 48 (*) |
| Number shoe parts | 14.7(*) | 5(*) |
| Export | 18.5(*) | 30.5 (*) |
| Productivity (for glue-joint) pair/day per person | 8.5 | 13 |

(*) in Million of pairs

Around 30 % of enterprises are not capable of following the upgrading required, which will lead to their disappearance. Also over the years to come the breakdown by type of activity must evolve according to the following diagram:

LUCRATIVE NICHES AND MARKETS

Considering its geographic position, its know-how and hourly costs, Tunisia has the advantages for increasing its penetration and share of the European market primarily for glue-joined dress shoes and security shoes.

Currently Europe produces 770 million pairs of shoes annually. An estimated 1.5% of this market could be shifted to Tunisia over the next 5 to 10 years (for 11.5 million pairs).

Actions to Undertake

Actions within the enterprises

- Put into place the tools and know-how in design and install within the enterprises CAD tools;
- Training of employees in methods and tools to be set up for the organization and management of production and the progressive installation of computer assisted production management;
- Production equipment and machinery needs to be modernized privileging the acquisition of traditional machines. The installation of new technologies such as automated cutting does not appear to be an immediate priority.

Institutional Measures

- Broaden the services proposed by the technical and sector institutions by integrating the fields linked to fashion (trends) and business intelligence.
- Develop a standardization policy so that the criteria of product and components evaluation are homogeneous no matter the origin.
- Promote projects and certification.

Promotional Actions

- Assure logistical and financial assistance to industrialists for European manifestations.
- Pursue communication actions targeted at persons responsible for placement on the European market.

Enterprise creation and Partnership

The study permitted the identification of 3 project files to promote in addition to the compiling of a list of potential European partners.