

# *Market Research Report*

# China Shoe Market

ITALIA 

Italian Trade Commission - Ufficio di Pechino

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# Table of Contents

<b>Chapter 1: Market-Industry Overview.....</b>	<b>2</b>
1. Domestic Industry Overview.....	2
2. Market Demand Analysis.....	14
<b>Chapter 2: Competitive Analysis .....</b>	<b>22</b>
1. Competition from Domestic Producers.....	22
2. Competition from Third-Country Producers.....	24
3. SWOT Analysis.....	26
<b>Chapter 3: Distribution and Sales .....</b>	<b>30</b>
1. Distribution System Overview.....	30
2. Distribution Channels.....	31
3. Indirect Distribution and Sales Models.....	34
4. Department Shop Entry Process.....	37
5. Market Entry Mode and Analysis.....	41
<b>Appendixes .....</b>	<b>45</b>
1. Distributors.....	45
2. Principal Competitors.....	49
3. Leading Fashion Magazines.....	58
4. Advertising Agents.....	60
5. Import Tariffs and Regulations.....	61

# *Chapter 1: Market-Industry Overview*

## **1. Domestic Industry Overview**

### Status Quo

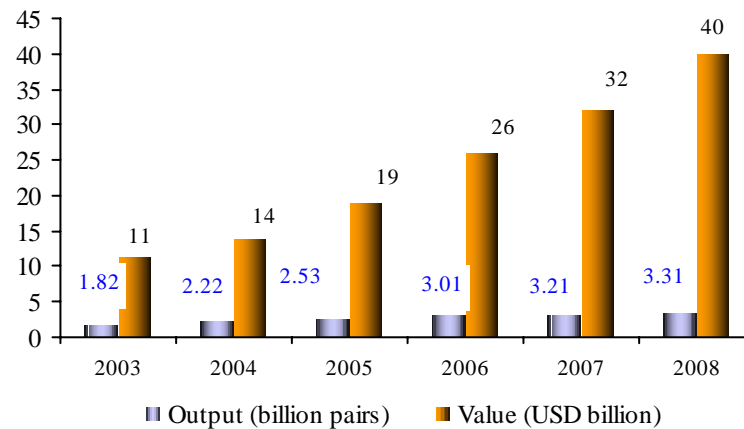
China's shoe industry is a classic labor-intensive industry. Production capacities in such traditional, high-consumption markets regularly transfer toward countries and regions with low labor costs in the perspective of globalization. At present, China has become the world's largest shoe-making center, as production bases in Western industrialized nations recentralize in Asia.

- In general, Chinese shoes are mostly middle-end and low-end products, with production technologies continuously shifting and improving. Leading domestic shoe producers can already compete with higher-class Western counterparts in the fields of both shoe processing quality, and quality control/assurance mechanisms.
- The shoe industry in China has witnessed a rapid growth in the past 10 years and maintained an average growth rate of 23% each year, much higher than China's 10% annual GDP. Annual output of China's shoe industry in recent years has seen fast growth, accounting for 68% of the world's total shoe output in Y2007 and

reaching nearly 10 billion pairs. Of this amount, shoe exports reached nearly 7 billion pairs, with national consumption amounting to more than 2 billions pairs. China has thus become the world's largest shoe producer, a major exporter and massive consumer of shoes.

- According to the National Bureau of Statistics of China (NBS), there are currently more than 30,000 domestic shoe manufactures with a total workforce of about 4 million in China.
- Demand for leather shoes exceeds other shoes. Consumption proportion of leather shoes rose from a previous 9% to 50% presently. Consumer demographics have spread from big cities to rural districts, and more medium and high-grade products are now being manufactured.
  - *Despite this development trend, 85% of domestic products are medium or low-end; most of high-end products are imported from foreign countries.*

Figure: Leather Shoes Output and Value,  
Y2003-Y2008



Source: NBS

- *China's annual output of leather shoes reached 3.31 billion pairs, making it the world's leader.*
- *Meanwhile, China is the 2<sup>nd</sup> largest consumption market for shoes, taking up 22 per cent of the global volume, just below the United States.*

## **Geographic Concentration**

China's shoe industry has gradually concentrated into distinct industrial clusters by region. In general, there are four major industry clusters, and one upcoming base:

- *Guangdong manufacturing base (Guangzhou, Dongguan): mid-high end shoes*
- *Zhejiang manufacturing base (Wenzhou, Taizhou): mid-low end shoes*
- *Fujian manufacturing base (Quanzhou, Jinjiang, etc.): sports & travel shoes*
- *West China manufacturing base (Chengdu, Chongqing ): women's shoes*
- *Shandong manufacturing base: rapidly developing production center*



- *Domestic shoe manufacturers and export bases are spread all over the country, although they are relatively centralized along southern east coast regions.*
- *Both Chengdu of Sichuan and Wenzhou of Zhejiang province are important shoe manufacturing bases in China. Chengdu city is famous in women's shoes and Wenzhou is well known for men's shoes.*

- For leather shoes, the total output of Guangdong, Fujian, Zhejiang and Shandong occupied 80% of the nation's total. For plastic/rubber shoes, total output of Guangdong, Fujian, Shandong took over 80% of the nation's total. For export volume, Guangdong, Fujian, Zhejiang and Shandong provinces took over 80% of the nation's total.
- Recent years have witnessed the transition of factories of many Chinese manufacturers from east China to west China, in hope of taking advantage of cheap raw material and labor pools to further reduce cost. China's western region

provides over half of the raw skin resources from cattle, pigs and sheep, which have traditionally been transported to the east coast and processed into leather, and then moving on to the shoe producers. This work process segmentation naturally increases cost; when combined with lower cost of living and compensation standards in China's less developed west, the regional choice is clear.

- *Following typical production migration, this shift applies mostly to medium and low class leather shoes, while eastern regions focus on medium and high class products. This migration and demographic focus has also allowed for new markets to be explored in the developing west of China.*

■ **Guangdong Province:** With an annual output of 3 billion pairs and exports amounting to USD 4 billion, one third of the shoe products produced in Guangdong are sold domestically, while two thirds are for export.

### **Dongguan**

- *Second largest shoe manufacturing base in China*
- *1,200 footwear manufacturers (including 700 foreign leather shoe producers)*
- *Main products include women's shoes, sports shoes and leisure shoes*
- *Export-orientated production: 50% of products are exported to more than 100 countries in the world*
- *Exported over 540 million pairs of shoes in Y2008 to different parts of the world. The total export value of shoe industry hit USD 2.61 billion last year.*

- **Fujian Province:** Fujian is the top shoe producing province in China, occupying 1/3<sup>rd</sup> of market space in China, and 20% of the world's total. In Y2007, Fujian boasted over 4000 shoe manufacturers. The gross value of industrial output of scale companies reached RMB 93.64 billion, a year-on-year increase of 30.5%. These scale companies produce 2 billion pairs of shoes per year. The sales volume in Y2007 hit RMB 91.98 billion, a year-on-year increase of 33.8% while the export volume was RMB 39.2 billion, an increase of 17.3% over the previous year. Fujian is particularly famous for athletic and casual shoes. At present, Fujian is home to 20 top Chinese brands, 1 Provincial Level Industry Technical Center, 14 Provincial Level Enterprise Technical Centers, and the region boasts famous brands from home and abroad including Anta, Fuguiniao, Xtep, Erke, 361 Degrees, etc.

### *Jinjiang*

- *Known domestically as the “China Sports Shoe Capital”.*
- *More than 3,000 shoe producers and 2,000 shoe material makers with 500,000 employees.*
- *Annual output of Jinjiang shoe industry exported 475 million pairs of shoes, valued at over USD 1.7 billion in Y2008.*
- *Annual output growth rate of Jinjiang's sports shoes reached 50% in Y2008, far exceeding the national sports shoes growth rate of 30% and leading to a product surplus in the market.*

- **Zhejiang Province:** Particularly famous for leather products, with most shoe and leather producers clustered in such areas as Wenzhou, Taizhou, Haining and Tongxiang. Wenzhou tops the others in terms of industry size and number of famous brands.

### Wenzhou

- *In Y2008, Wenzhou exported 643 million pairs, worth USD 3.03 billion, where volume declined 1.20% and value increased 10.41%.*
  - *Wenzhou currently has around 2600 shoe production enterprises— a marked fall from Y2003, which saw 5000 enterprises.*
  - *“Wenzhou Mode”: Businessmen in Wenzhou promote the “Wenzhou Famous Brand Purchase”. Businessmen from different industries and sectors have acted out the slogan and signed agreements with many shopping malls claiming “Famous Brands Goes into Famous Shops”. Wenzhou businessmen in Nanjing, Zhuhai and Beijing, etc. plan to sell famous brands from Wenzhou in over 60 established markets and malls. Following heavy business sales and cooperation, an Italy (China) Chamber of Commerce of the Shoe Industry was successfully registered in Rome, Italy, through which over 300 Wenzhou businessmen engaged in the shoe industry in Italy have united to set up a sales platform for shoes.*
- **West China:** Sales networks of leather shoes from China's western shoe base has continued to expand, exporting to Central Asia, South Asia, US and Africa.

## Chengdu

- *Shoes manufactured in Chengdu are well received all around the country, especially in the north. Currently there are roughly 3,000 shoes manufacturers in Chengdu. 90% of the enterprises majored in women's shoes.*
- *Export volume: In terms of company scale, export companies in Chengdu are mainly medium and small sized. It is estimated that over 1200 shoe producers in Chengdu City exported over 5000 pairs of shoe products, with the commodity volume surpassing USD 700 million. Exports take up roughly 80% of the total output with sales in the domestic market accounting for less than 20%. Most products export through OEM/ODM and border trade and therefore are not incorporated into customs statistics.*
- *Export market: Shoe products in Chengdu are exported to over 100 countries and regions. Europe and US are the main export markets, taking 75.63% of the total export, where export to European markets takes 56.49%. Top 10 export destination in terms of trade volume are US, Russia, EU, Ukraine, Hong Kong, Latvia, Turkey, Poland, Hungary, Panama, accounting for 81.35% of the total export.*

## Chongqing

➤ *The major Chinese brand “Aokang” has located a major production operation in Bishan town of Chongqing Municipality. Here Aokang has teamed up with the Bishan Government to establish a Shoe Capital Industrial Park. Up to now, over 1300 shoe manufacturers and shoe products companies in the town produce over 60 million pairs of shoes annually with an industrial scale of RMB 4.57 billion. Over 25 companies are approved by China Leather Industry Association (CLIA) to apply a ‘genuine leather’ mark.*

■ The shoe industry in **Shandong Province** has also achieved rapid development in the past two decades. Brands like Jinhou, Doublestar, Hengda, and Fude have gained worldwide publicity and popularity. Presently, there are over 6,000 shoe manufacturers in Shandong, over 80 thousand staff engaged in the shoe industry, producing an annual output of over 200 million pairs.

## Leading Producers

Following the clustered development of the overall industry, key brands identify the major industrial bases of China’s shoe industry.

■ The Guangdong shoe industry base is represented by Guangzhou and Dongguan, which produces mainly middle and high class shoes, with brands including Belle, ST&SAT, Shouwang, Xihuwei, Skap, etc.

- **BELLE:** *Belle International Holdings Limited is the No. 1 woman's shoe retailer in China, with 22% domestic market share. It is engaged in the manufacturing, distribution and retail sales of footwear products. It offers a number of brand names on its footwear business, including Belle, Staccato, Teenmix, Tata, Fato, JipiJapa, Joy & Peace and Bata. As of its IPO in May 2007, the company had a retail network comprising 3,828 retail outlets in 150 cities in China and a network of 35 retail outlets in Hong Kong, Macau and the US. In September 2008, Belle was named No. 8 in the BusinessWeek Asia 50, Businessweek's annual ranking of top Asian companies.*
  
- *In 2007, Belle reported profits of \$291 million (up 102% over 2006) on sales of USD 1.7 billion (up 89% over 2006). Its three women's brands—Staccato, Millie's, and Joy&Peace—account for about a 50% share of the USD \$90-\$150 shoe segment in China. Non-sports shoes account for 67% of sales, and licensing agreements with global brands make up the remainder. In 2006, Belle International won the contract to be the biggest distributor of Nike and Adidas in China. Belle International also operates other sports and leisure wear brands including Li Ning, Reebok, and Kappa.*
  
- The Zhejiang shoe industrial base is represented by Wenzhou and Taizhou, which mainly produces middle and low class shoes, with brands including Aokang, Red Dragonfly, Kangnai, Yearcon, Jierda, Judger, Fed, etc.
  
- **AOKANG:** *Aokang Group Co., Ltd was founded in 1988 and is specialized in*

*producing leather shoes. Aokang Group is one of the top 100 private enterprises in China which developed crossing profession and different regions. The company has a total work force of more than 20,000 staff and operates five famous brands. Aokang Group has set up more than 30 provincial companies, more than 3000 chain stores and franchise, and more than 800 shop-in-shops. Meanwhile, it has established 3 design centers in Wenzhou, Guangzhou and Milan, which design more than 3000 new samples per year.*

- The Fujian industrial base is lead by Quanzhou, Jinjiang, etc., producing sports shoes with brands of Anta, Erke, 361 Degrees, Deerway, Fuguiniao and Mulinsen.

- **ERKE:** *Hongxing Erke Group was founded in June 2000, engaged in research, design, manufacture and marketing of sports goods under its "Hongxing Erke" and "ERKE" brands. Products include sneakers, sportswear and various sports accessories. "Hongxing Erke", "ERKE" are global registered trademarks, with more than 100 countries worldwide trademark rights. As a leading international professional sports equipment supplier, ERKE has nearly 10,000 staff, owns 19 international shoe-making production lines and has an annual output of 17 million pairs of sneakers. Hongxing Erke successfully listed in Singapore in November 2005, becoming the first Chinese sports brand to go public overseas. Up till now, its domestic sales network of more than 3500 franchised shops covers all of China and has sold products to more than 30 countries and regions.*

- The western China industrial shoe base is largely located in Chengdu and Chongqing, and mainly produces women shoes under brands of Aiminer, Kaiqi,

Hongcaomao, Danlu, Kameido, etc.

### **Development Trends**

- On the upside, improved standards of living, increased consumer spending, and more liberal recreational expenditure have created vast market spaces for higher quality and volume of goods. Professional life has created demand for leather shoes and other luxury goods, while increased interest in health and physical activity has spurred demand for athletic footwear.
  - *More efforts are expected for local shoe enterprises in brand building, especially as advanced technologies and managerial skills of foreign enterprises have gradually infused domestic production, increasing the competitive power of local enterprises.*
  
- Viewed from the global economic climate and the shoe industry development direction, however, China's shoe industry will undoubtedly go through tremendous changes in Y2009, as a harsh market environment forces enterprises to review their strategies and market positions.
  - *In Y2008, under the influence of the appreciation of the Chinese Yuan, surging costs of raw materials and labor, together with the impact of the financial crisis, a large number of shoe factories that operate on a smaller scale have closed, allowing branded enterprises such as Belle, Daphne, etc. to expand their market*

*presence and leading to a higher degree of industrial concentration within China's shoe industry.*

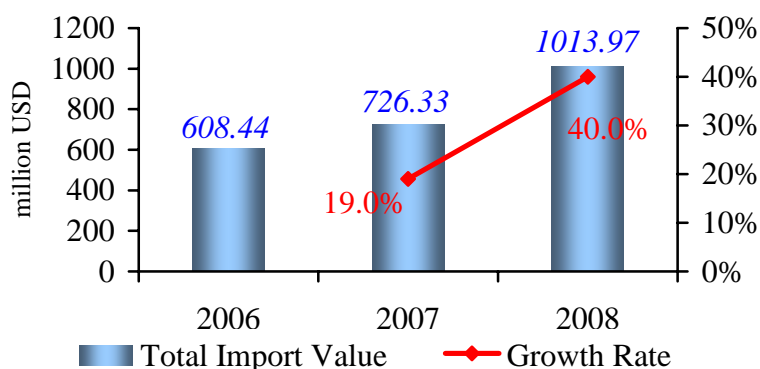
- *In such a gloomy market, innovation has become a key break through point, as enterprises look into new technology, products and marketing strategies in their struggle for survival.*

## **2. Market Demand Analysis**

### **Import Market**

China imports large quantities of high-end shoes every year, and this figure grows continuously. China's shoe import volume witnessed a rise of nearly 700% in Y2003, due to a quick cut from the Customs Import and Export Tariff in accordance with China's commitment for entry into the WTO and international requirements for foreign trade development. The tariff adjustment took effect as of January 1, Y2003, followed by another round of adjustment in early Y2004.

Figure: China Footwear Import by Value  
Y2007-Y2008



➤ Imports as measured by value have seen continued increase over the past three years, reaching a high of 1013.97 million USD in Y2008.

Source: China Custom

- Leather uppers were by far the best selling footwear import by value, the total value of which rose from 49% to 65% during the Y2006 – Y2008 period.

Table: Main Footwear Products Imported by China – (Y2006-Y2008)

HS	Description	Value (Million USD)		
		Y2006	Y2007	Y2008
6401	Waterproof Rub/Pl Sole	0.544	0.777	1.518
6402	Other, Rubber/Plastic	39.713	63.347	90.441
6403	With Leather Uppers	206.875	306.463	505.599
6404	With Textile Uppers	31.283	54.564	126.886
6405	Other Footwear	1.658	2.164	4.516
6406	Part; Insole; Gaitor Et	328.368	299.011	285.014

Source: China Custom

- Italy is now the largest supplier of footwear products to China, taking the place of South Korea. In the past few years, China has seen a steady growth in imported Italian shoes. In terms of whole shoes (discounting soles, insoles, parts, etc.), in Y2006 the import value of Italian shoes was USD 60.215 million, and in the year of 2008 the import value rose to 148.2 million USD.

Table: China's Main Suppliers of Footwear (Y2006 – Y2008, million USD)

Rank	Country	2006	2007	2008	% Change 08/07
--World--		608.441	726.326	1013.975	39.6
1	Italy	66.447	89.196	154.239	72.92
2	Vietnam	60.839	92.718	153.483	65.54
3	Korea, South	110.158	101.783	86.605	-14.91
4	Indonesia	22.788	44.836	77.910	73.77
5	United States	94.287	71.855	65.345	-9.06
6	Taiwan	46.685	40.537	43.934	8.38
7	Thailand	17.676	21.059	32.351	53.62
8	Japan	21.240	21.431	22.347	4.28
9	Spain	5.866	9.770	15.919	62.94
10	Slovakia	6.029	9.803	13.789	40.66

Source: China Custom

Table: Major Items Exported by Italy to China (million USD)

Tariff Code	Items	2006	2007	2008	% Change - 08/07 -
6402	Other, Rubber/Plastic	0.740	0.872	1.131	29.77
6403	With Leather Uppers	51.831	71.528	126.409	76.73
6404	With Textile Uppers	7.346	11.232	19.645	74.91
6405	Other Footwear	0.298	0.439	1.003	128.17

Source: China Custom

- Leather uppers were the most popular product exported to China by Italy. Italy was furthermore the most active supplier of leather shoes to China from Y2006-Y2008.

Table: China's Supplier List of Leather Shoes (Tariff Code 6403) in Y2006 –Y2008 (million USD)

Rank	Country	Y2006	Y2007	Y2008	% Change - 08/07
	--World--	206.875	306.463	505.600	64.98
1	Italy	51.831	71.528	126.409	76.73
2	Vietnam	31.314	45.437	82.113	80.72
3	Indonesia	15.403	35.743	57.651	61.29
4	Thailand	12.997	15.249	22.519	47.67
5	Spain	5.273	8.562	14.304	67.07
6	Slovakia	5.972	9.701	13.719	41.43
7	Switzerland	4.859	7.348	10.769	46.56
8	Germany	3.264	5.764	9.118	58.19
9	India	0.905	2.922	8.507	191.11
10	Portugal	3.954	5.500	8.047	46.3

Source: China Custom

- In Y2008, Shanghai was the largest leather shoe consumption market for import shoes, amounting to a total of USD 338.6 million, an increase of 72.7% over Y2007 and taking nearly 67% of the total Y2008 market share. Other large import cities include Shenzhen, Beijing, Guangzhou and Huangpu. Shenzhen's shoe import value witnessed a soar of nearly 115% in Y2008.

Table: Leather Shoe (Tariff Code 6403) Import to China by Districts (Y2006 – Y2008, million USD)

Rank	District	2006	2007	2008	% Share 2008	% Change - 08/07 -
1	Shanghai	125.389	196.657	338.649	66.98	72.2
2	Shenzhen	20.088	28.315	60.665	12	114.25
3	Beijing	13.302	22.875	31.075	6.15	35.85
4	Guangzhou	18.946	23.840	27.635	5.47	15.92
5	Huangpu	8.686	14.986	24.876	4.92	66
6	Gongbei	7.828	7.549	6.641	1.31	-12.04
7	Tianjin	3.008	3.348	6.038	1.19	80.34
8	Nanjing	2.234	2.909	2.449	0.48	-15.83
9	Chengdu	0.496	1.191	1.653	0.33	38.8
10	Dalian	0.504	0.831	1.387	0.27	66.93

Source: China Custom

## Market Drivers

- **Internationalization:** Following China's launch of a series of fiscal stimulus policies, fast acting foreign companies quickly took advantage and initiated a presence in China. By now, key regions of China have seen a market increase of

companies representing foreign brands. As domestic shoe industry absorbs the corresponding industrial upgrade and international market exploration brought on by this integration, domestic brand and quality competitiveness also improve.

- *Fujian province is a good example of this trend, itself covering nearly 20 classic American and European brands. Many of these companies have progressed from shoe pattern design R&D and OEM, to full fledged agency and cooperation rights, as in the case of Jinjiang Yihua and “LeeCooper”, the 100-year-old Jeans brand in UK, and Quanzhou Liantai Co., Ltd and “SKECH-ERS”, a US fashion sports brand.*

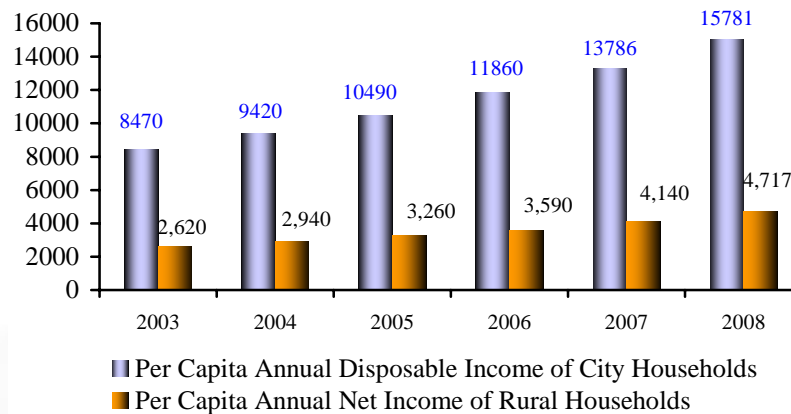
■ **Consumer Demographics:** The current structure of China consumer population is relatively top-heavy, with some 850 million rural peasants, and approximately 450 million urban residents and the urban populations are mainly divided into three consumer groups:

- *20 million – 30 million are business owners or decision makers*
- *60 million – 120 million are white-collar workers*
- *Around 330 million are salaried class*

■ **Improved Buying Power:** Among other things, the overall increase in income levels, and particularly the increase in disposable income of urban households, represents a major factor in the shoe market. Consumers’ purchasing power is in direct proportion to their disposable income level. Here we see a stark disparity in

Chinese buying power, where urban disposable income levels vastly outstrip the net incomes of the rural demographic.

Figure: Chinese Household Income, Y2003-Y2008  
(in RMB)



Source: NBS

- *In Y2008, the average per capita disposable income of urban households reached nearly RMB 16,000 per year, much higher than the net income of rural households at around RMB 4,717.*
- *This has direct bearing on the consumer demographic, and the marketing implications for shoe interests in China.*

## **Demand Forecast**

- Following national social development, China's shoe industry has transferred from an era of comprehensive wholesale into an era of brand management. Whereas traditional manufacturing and marketing tactics targeted mass, low level markets, changing consumer market demographics are now focusing on higher quality, brand building, and upper-tier consumer levels.

- While holding the position as the largest shoe producer and exporter in the world, China is also one of the largest shoe consumers, consuming more than 2.3 billion pairs of shoes per year. Annual domestic shoe consumption in China stood at the top of the world major shoe consumption countries' list at 22% of global consumption, just behind the United States.
  - *At present, annual average shoe consumption per capita in China is less than two pairs. Based on the latest expert estimate, annual average shoe consumption per capita in China is expected to exceed 2.5 pairs. Chinese annual average shoe consumption will surpass 3 billion pairs, witnessing an increase of over 30% on the current basis of 2.3 billion pairs. The market has huge potential of growth.*
- Despite a poor global economic climate, China has maintained relative growth and consumer demand, and unit prices of imported shoes have increased over recent years. In Y2007, the unit price of imported shoes was USD 26.20 and USD 6.5 in terms of leather shoes and fabric shoes respectively, an increase of 476% over that of Y2001. According to expert statistics, approximately 5% of Chinese consumers are now willing to buy high quality foreign brand shoe products, indicating a buyer pool of over 60 million people. Market investigation indicates that the majority of high end consumers in China were willing to accept prices of RMB 1000 and above per pair. Along east coast regions, local brands with prices around RMB 200-300 per pair are best received among mid-end consumers. Consumers in large cities such as Beijing and Shanghai have shown the strongest purchase power.

## *Chapter 2: Competitive Analysis*

### **1. Competition from Domestic Producer**

Competition in the domestic shoe market falls into three levels. First, imported brands, mainly from modern, western countries such as Italy and Spain, boast superior quality and brand image. Second, near-shore joint ventures, mainly from Hong Kong and Taiwan, take up significant portions of the middle market, relying on their financing and technological advantages. Finally, local manufacturers, working with relatively low-level technology and management structures, battle on a price basis for mid-low level market presence. By now however, capable domestic manufactures have strived to step into the mid-to-high end market with some success.

- Lower level market spaces are dominated by local manufacturers. Higher level niches are now coming under threat, particularly as partnership with leading international brands integrates better technology and management skills, creating leading local players.
- In the international marketplace, cheap shoes from south-east Asia, particularly from Vietnam, have had a large impact on Chinese shoe sales overseas. The traditional price advantage of Chinese shoes is weakening, threatening to reduce

export markets. This market trend, combined with weaker demand under poor global economic conditions, as well as policy oriented changes such as the EU decision to levy anti-dumping duties on Chinese shoes, has drastically altered local production and marketing strategies. Currently, the appeal of the large domestic market has persuaded many traditionally export-oriented local manufacturers to change gears and market at home.

- *This change has put heavy pressure on mid-to-high level market niches in China, as formerly export-oriented companies tend to be strong at design and R&D, and have considerable capital strength. Lower and mid level markets will not escape either, as local companies press the advantage of local market presence and understanding.*
- Strategically, as competition intensifies and profit is squeezed, large local brands will focus on first tier cities to occupy the height of the market so as to improve the brand image and to expand profit margins, simultaneously using this as a window for increasing second and third tier city brand image.
  - *Aokang, publicized widely that it will occupy the high-end market and will take full advantage of its cooperation with global brand GEOX. Similarly, Kangnai Group's promotion on business comfort shoes also aims at the high-end market. The virtual operation brands in Guangzhou will not give up the fight for the market share in the first tier cities.*

- Heavy construction, actually accelerated by the financial crisis and resulting stimulus packages, have increased domestic outlet terminal resources, and significantly lowered the overall cost of opening shops. Competitive companies have moved to grab this opportunity, including names such as Anta, Peak, Xtep, Aokang, Jierda, Belle and Daphne, and in venues ranging from outlet terminals, to flagship shops, to start-up shops, and shopping malls, not to mention virtual networks and online sales presence.

## **2. Competition from Third-country Producers**

With the world's major luxury consumer markets in recession, including the United States, Europe, and Japan, luxury brands are looking into leading emerging markets for development. Due to a variety of micro and macro factors, China has been relatively less affected by the financial crisis and has been able to maintain a certain level of growth, preserving and even increasing the demand for luxury brands, and catching the eye of third-country producers.

- Leather footwear corporations from Spain, Italy, Germany, France and Denmark, etc., have established their foothold in the Chinese market through chain stores and concession counters at high-class shopping malls. The superior quality, classic style and comfort of these imported shoes is capturing market share among high-income consumers in China.

- Brands such as Reebok and Nike from the US have advantage in their international brand influence and sales control over the global market. Companies such as Clarks of UK and ECCO of Denmark, are famous worldwide for exquisite craftsmanship and professional manufacturing processes. Brands from Italy and France are famous for world-class design and strong R&D and innovation capacity, with regular development of new products to keep pace with high consumption demand.

- *Brand competition is a major theme for third-country competition in China. Recent years' domestic sales volume of international brands and brands from Hong Kong and Taiwan has seen a sharp increase, with corresponding marketing and promotion campaigns, especially targeting consumers for middle and high end leather shoes. Key moves have been made to research and then design shoes based on physical features and hobbies of Chinese consumers, as well as through moderate price augmentation.*

- Heavy competition has also taken place in establishment of terminals. International brands and brands from Hong Kong and Taiwan have deep brand culture and rich experience in terminal construction, and have taken advantage of this market channel through flexible and diversified promotion which reflects consumer mentality and stimulates their demand. These brands are superior to domestic brands in terms of store decoration, sample goods display, decoration or ornament, temperament of sales staff, technique of shopping guide, selection of promotion times, dissemination of gifts and benefits, and quality of goods delivery. Here foreign brands enjoy the distinct advantage of vision, culture, and uniqueness.

### 3. SWOT Analysis

#### Strengths

- Italian shoes currently enjoy extremely strong standing in the local Chinese market, particularly in the high end and leather footwear segments. Chinese consumers regard Italian shoes to be of high quality, comfort, and fashionability, and Italian producers have top brand image.
- Italian exporters have demonstrated a strong commitment to penetrating the Chinese market, and have already achieved a dominant domestic import presence. Italy currently supplies 50% of the high-end shoes, clothing and bags in China, as well as the majority of China's total shoe imports, ranking the first among competing countries

#### Weaknesses

- While Italian shoes enjoy a good reputation in the Chinese market, reservations have been voiced as to pricing and promptness of customer service. Much of this is related to the fact that Italian shoes have adopted an export-focused approach, rather than locating production, distribution and servicing in China.

- It is not clear whether Italian exporters can claim any distinguishing advantage beyond the intangible market factors of quality image and branding; when compared on pricing and distribution, US and French competitors appear within much closer range.
- Industry experts maintain that insufficient relevant studies have been paid to the physical and cultural needs of the local market by foreign producers, neglecting to cater to significant physical differences in the foot structure, lifestyle, habits, and fashion sense of Chinese consumers. Localization remains an obstacle.

### **Opportunities**

- Having maintained relative economic growth in the face of the global economic crisis, Chinese consumer buying power and demand continues to grow. Modern-day China is moreover an extremely retail oriented, consumer culture, largely as a product of recent, high-paced social development. Statistically China has proven itself one the largest and fastest growing shoe markets in the world, growing at an average of 23% annually; this momentum is expected to continue into the future.
- The demand for high-end products is increasingly growing, due to the rising income of Chinese consumers, and increasingly growing number of white collar and newly rich who are concerned with quality of life, personal image, and

international styles of living.

- The Chinese shoe industry is over-crowded with numerous small manufacturers, who traditionally have competed against one another in a low-end market price war. In the high-end market segment, local brands are generally still weak in quality, design and brand-image building, and especially in research and development of new styles. Even in the shift from export-orientation to sales in the local market, domestic companies lack self-owned brands and domestic sales channels.
- Recent increases in construction of malls, shopping centers, and general commercial venues present a good opportunity for decreased cost in sales venue investment. This product of the stimulus packages implemented to curb financial crisis pressures promises to continue for the next few years in various regions.

### **Threats**

- Internationally, upcoming threats from fast-growing emerging economies in south-east Asia present unexpected competition to both domestic and Italian producers. Producers in Vietnam, Indonesia, Thailand, etc., have created a presence across different footwear lines (athletic, leather, etc.), and even bridging consumer demographics from low to high end markets.
- The development of strong local production capacities, increasing brand awareness

and public relations building, and the shift of local producers from exports to domestic sales, presents a heightened sense of competition, particularly as local producers enjoy high potential for local market understanding, reduced costs, and for the development of effective market communications/sales channels.

- Global market forces, intense competition and shifting demand have put pressure on pricing; despite high economic growth and retail-orientation, Chinese consumers are extremely price sensitive, especially as they have a large and growing number of choices of foreign brands and products on the market.

## Chapter 3: Distribution and Sales

### 1. Distribution Systems Overview

- The traditional distribution system of the shoe industry in China is an extended system, characterized by multiple layers, normally in a three tier form (with more for larger regions). Distributors handle products from suppliers across the entire country, disseminating to provinces and cities, and then on to local retailers. Large department stores or chains sometimes act as wholesalers to local retailers. This extended system increases prices, as each layer adds a margin ranging from 5-20%, and suppliers having little control over prices and delivery quality.
  - *As the market develops, many suppliers have begun to bypass the bulky three-tier system, and now sell directly to local wholesalers and retailers in order to build more direct contact with end-users and reduce the mark-up added by middlemen.*
- Foreign exporters are similarly finding more opportunities to establish direct contacts with buyers and sellers in the country. These opportunities should continue to increase. However, determining which Chinese enterprises or institutions should be dealt with is sometimes difficult, which gives preference to more time-tested distribution systems.

## 2. Distribution Channels

Heavy competition in the retail shoe market tends to relate to channel competition, and is increasingly reflected in terminal competition. Specialty shops, department stores and shoe supermarkets are the three main terminal modes/sales channels.

### Department Shop

- Department shops are the primary sales channel for mid-to-high-end shoes. Large department shops are actually one of the only places to sell top brands of shoes in China, especially foreign brands, besides brand-based flagship stores, franchise chains, and specialty shops specialized in selling such shoes.
- The strength of utilizing a department shop distribution channel lies in its major impact on brand promotion, due to the high popularity of such large shopping facilities in Chinese consumer culture. This reduces the cost of advertising, as well as providing a higher degree of consumer purchasing confidence.
- Distinct disadvantages and risks in choosing the department shop channel include:
  - *Higher imposed product price*
  - *Immobile brand imagery*
  - *Slow return on investment*

- *Internal competition risk*
- *High cost of entry*
- *High management demands*

### **Specialty Shop**

- Shops specialized in selling a specific brand or style of shoes can be operated in various forms, such as flagship stores or direct-sales outlets. At present, most domestic shoe brands use a combination of direct-sale outlets (owned by the producer) as well as chain stores (by franchising). Such specialty shops are playing increasingly important roles in shoe sales in China.

### **Shoe Supermarket**

- Shops specialized in selling all types of brands and styles of low-to-mid-end shoes have arisen around China, with advantages of low unit cost and flexible marketing structures, rich product resources, rapid return on investment, low management costs, etc. At the same time, the brand-image of such shoes is automatically weakened.

### **Internet Sales**

- In recent years, the growth of the Internet has led to a boom in web-based economy.

For some brands, online direct sales have become a breakthrough method of expansion. Two basic forms of online direct sales are prevalent in China: self-operated online direct sales websites; large-scale business-to-consumer e-business platforms such as Taobao.com and Taoxie.cn (the Chinese equivalents of E-bay). Intermediary payment plans, such as through Paypal, are the dominant means of payment, followed by cash payment on delivery.

- *In mid August 2007, Daphne launched its new online shopping website, with sales value surpassing RMB 1 million. In April 2008, Taobao.com, Asia's largest consumer e-commerce website announced its plan to enter the market, with partners such as Li Ning, the biggest Chinese sports goods brand, opening its shop on Taobao and selling over 1,000 pieces of articles daily. In June 2009, China's largest privately-owned shoemaking corporation, Aokang Group announced the opening and roll out of its network sales platform, Aokang Network Shopping Mall.*
- *It should be noted that internet sales remain targeted on average middle class consumers, in the mid and lower end product ranges; high-end consumer shopping still takes place in person at major outlets.*

### 3. Indirect Distribution and Sales Models

Over the course of the development and expansion of the Chinese consumer market, a correspondingly diverse variety of sales distribution methods have opened themselves for the consideration of consumer and manufacturer alike. Each of these sales channels has its own benefits and cost, with corresponding market implications and expectations.

#### **Sales Agent**

- The sales agent sales/distribution model is widely popular in the Chinese shoe industry, as well as in overseas Chinese markets such as in Hong Kong and Taiwan. The model has proven to be an optimal system for imported brands and many foreign and national shoe manufacturers owe their success in their respective market to the proficiency of their sales agent partners.
- For new or foreign brands seeking to initiate their presence in the Chinese market, this method of approach provides a high degree of security and comfort, as it relies on the expertise of experienced acting agents, well-versed in national and market policies, and transfers responsibility to these agents. In these multi-tiered sale/distribution relations, the final distribution destinations are generally found in department shop counters and booths, and some specialty shop outlets.

- The sales agent is an independent, intermediary party contracted by the supplier company and entrusted with the authority to operate and supervise the majority of the duties normally handled by the supplier company, including:
  - *Collecting/managing orders*
  - *Selling commodities*
  - *Miscellaneous sales and marketing duties (advertising, after sale service, warehousing, etc.)*
  
- Judging from the previous experiences of some companies, many suppliers strategically choose to allow for only one sales agent to operate in a given geographical target area. This prevents counterproductive internal price competition and general company disharmony.

### **Franchise Stores**

- A franchise is the official authorization to sell a particular company's goods or service in a given place, usually sold or rented out by the parent company or an associated entrepreneur.
  
- The practice of franchising a company's brand name and products shares many advantages and disadvantages found in the sales agent model. Cost and fiscal risk on the part of the parent company are largely negated, as they transferred to the

franchisee. However, intellectual property, and decentralized management create levels of risk that are absent in a more direct sales approach.

- The strength of utilizing a franchise store assures the brand-image and company name, fast return on capital, timely and effective feedback. On the other hand , the difficulties facing the franchise model for market entry are rather imposing:
  - *It is difficult to choose appropriate franchises, especially if the parent company is unfamiliar with the market territory; generally, franchisees must have 1) considerable capital, 2) good credit, 3)a concept of quality operation,4)a certain sensitivity to market trends*
  - *Over the course of franchising their brand and product base, the supply company inevitably winds up combining the brand and franchise; thus if the franchise is managed poorly, this directly jeopardizes the image and reputation of both brand and parent company*
  - *Once initiated, it is difficult for the parent company to enforce the preconditions of the franchise and to ensure the standards of the franchise shops; quality of staff, sales policies, and general sop credibility are all somewhat remove from the parent company's immediate sphere of knowledge and influence*
  - *It is easy to cause internal competition within the company for the supply company's other sales venues, which may influence brand image and lead to price battles*

## 4. Department Shop Entry Process

Department shops represent a commercial form of consolidated marketing management, which is the single most important sales channel for nearly all top level merchandise in the Chinese shoe industry. These retail facilities dominate most large cities' basic retail distribution framework, particularly for foreign or big-name brands seeking to legitimately enter the Chinese market. For such companies, department shops are a vital market component, whose influence in popularizing their products and promoting their brand-image plays an invaluable role in creating a successful market-entry strategy.

### Preliminary Preparation

- The competition surrounding department shops and the department shop entry process is intense; this serves to indicate the importance of these large retailers, as well as displaying the rapid development of the Chinese consumer market. Different department shops keep different standards and requirements for brand/company entry. Generally speaking, over the course of their speedy development and increased market significance, the more well-known department shop's distribution processes have become rather tight-knit and closely arranged. The entry process requirements for smaller or new department shops may be less severe.

- Unless some empowered personnel from the parent company should be on-hand at the time of its application, the sales agent or local representative is the one expected to organize and provide all the related materials from the parent company for the department shop administration's records. Moreover, the overwhelming significance of the sales agent in the establishment of the department shop sales channel becomes clearer with the importance of the acting agent over the course of the entry process. For these reasons, companies hiring sales agent intermediaries should be sure to provide them with adequate incentives.

### **Product Retail Price**

- Product retail pricing is up to the decision of the acting agent/supplier. All of the cost factors listed below should be taken into consideration in formulating an effective retail price.

#### ***Visible Cost***

- Sales staff are to be hired by the supplier company or its acting agent, whose monthly salary on average falls around RMB 1000 (EURO 100) for shoe supermarket workers, and RMB 1500-2000 (EURO 150-200) for department stores, plus 1-2% commission bonuses.
- An overhead department shop fee shall be imposed over the counter's monthly sales volume, of a percentage subject to negotiation, but usually

falling between 25%-30%.

- Additional cost on promotion in the department shop is normally around 3% which includes broadcast advertising and lighting advertising.
- In some cases “sponsorship fees” may also be imposed, particularly upon holiday seasons, whose amount varies around EURO 5000 for four major holiday (Chinese New Year, National Day, Chinese Labor Day and department anniversary celebration) or EURO 1000 for minor holidays.

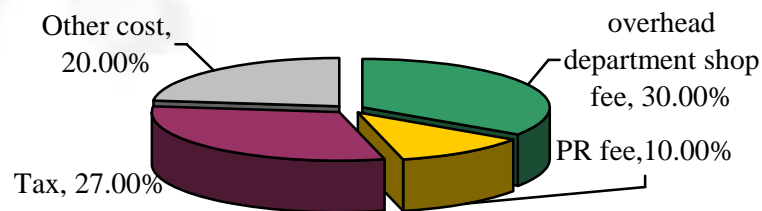
### ***Invisible Cost***

- One of the most important factors of entering a department shop is what is known as “personal marketing”, a typically Chinese concept which refers to having agents who know the systems, processes and personnel of local department shops very well, and are able to maintain superior long-term relationships with them. The “PR fee” or “negotiation fee” associated with people marketing in department shops in China often run as high as above EURO 10,000.
- To get a sales counter in a major region during holiday seasons often depends on how good a company’s private, personal relations with the management of the department shop are. Costs associated with this aspect of personal marketing vary around EURO 3000 for major holidays, or EURO

800 for minor holidays.

- A signing fee is generally requested upon the finalization of the contract to enter a department shop, of a negotiable amount usually around RMB 5000 (EURO 500).
  - Rental fees are often subsumed into the rest of the overhead costs; however, at times a minor rental fee is also imposed above the cost of utilities, whose amount is also negotiable in a case-by-case manner. These utilities and managerial costs average between EURO 300-500 per month.
- In general, the retail price for a pair of shoes would be 5-7 times higher (depends upon the class/level of the department shop to entering) than the ex-factory price in order to make profits after taking off all the cost factors listed above from the actual retail price.

Figure: Breakdown of the Total Cost of a Pair of Shoes



## 5. Market Entry Mode and Analysis

- With the fast growth of demand for mid-to-high-end shoes, foreign producers are eager to get a share of the largest shoe market in the world. In the past, foreign producers and distributors have had several options at their disposal when deciding how to enter the Chinese market:
  - Export
  - Joint venture (JV)
  - WOFE or local representative office;

### *Export*

- Export strategies are often used by companies that seek a relatively less risky method of doing business in a Chinese market.
- Export strategies take two forms: Italian-based sales persons and Chinese-based distributors.

### *Advantages:*

- Low risk: The Italian company does not make a capital investment in China and can pull out at any point without a huge capital write-off.
- Full control over its products, brands and technology

### **Disadvantages:**

- Local Chinese distribution and sales partners may feel that the Italian company is not committed to the Chinese market, because the company can come and go at any point
- Italians may not know how to socialize and build relationship with Chinese partners and consumers due to the culture differences.

### ***Joint Venture***

- As the highest level of partnership, setting up a joint venture - a locally incorporated equity or cooperative joint venture with one or more Chinese partners – may be an optimal step in developing markets for a company's product. In addition to all the benefits of a purely business partnership, joint venture in-country producing avoids import restrictions and provides foreign firms with greater control over both intellectual property and marketing

### ***Wholly-owned Foreign Enterprise or Representative Office***

- Setting up a Wholly-Owned Foreign Enterprise (WOFE) is the most definitive step a foreign interest may make in terms of entering the Chinese market. Although enjoying the benefit of full control over decision making, strategy, profitability, etc., WOFEs bear many risks.

- Establishing a WOFE or a representative office allows a foreign shoe company to react to the Chinese shoe market more quickly and accurately. However, high cost and risk factors stand in the way of the efficiency of such an endeavor. These options should be taken into consideration within a company's own financial means and network resources.

### **Entry Strategy Factors**

- ***Cultural Considerations:*** Although generally difficult to track without background knowledge and on-the-ground experience, the uniqueness of China as a cultural environment cannot be underestimated. This affects fashion tastes, buying behavior, and many other aspects of a normal sales and marketing model.
- ***Economic Development:*** The most notable characteristic of China over the past two decades is the remarkable pace of its economic development. This has led to dramatically increased living standards and expectations, giving birth to a rich and rising entertainment culture, fueling growing consumption and leisure expenditure, spreading diffusive internationalization, increasing fashion awareness, and speeding vogue trend fluctuation.
- ***Competitive Social Environment:*** Integrally related to its economic development, China's massive population and stratified social mobility have led to a social environment that is teeming with competition; self improvement and image

enhancement are therefore objects of widespread focus, and are considered nearly unavoidable for optimal social-economic placement. Retail consumption follows this trend, and popular fads often enjoy wild, if short-term, success.

- ***Target Demographic:*** Bearing all of these factors in mind, a proper entry strategy must conscientiously choose its direction in terms of its target demographic, bearing in mind group, class, and geographical region. China's hottest market segments are to be found among white collars, generally in an urban setting.
- ***Market Tactics:*** Finally, as in any professional commercial campaign, the strategic tactics used to expand the China shoe market should follow proven trends in Chinese consumer demeanor. Major factors such as discriminative product concentration, appropriate pricing and attractive sales, strategic selection of store outlets and distributors, and user-friendly service and delivery options, may all play determinant factors in the success or failure of entering the Chinese shoe market.

# Appendix

## 1. Distributors

Company Name	Changsha Junji Trading Trade Co., Ltd 长沙骏济商贸有限公司
Contact Details	Tel: +86 731-4880977
	Fax: +86 731-4880979
	ADD: 5-910, Hengda Shidai Garen, No.79 Laodong East Rd., Yuhua District, 湖南省长沙市雨花区劳动东路 79 号恒达 时代花园 5 栋 910 室
	Contact: YANG Juan 杨娟

Company Name	Haerbin Chongguangshehua Fashion Clothing 哈尔 滨崇光奢华时尚服饰
Contact Details	Tel: +86 451-82637750
	Fax: +86 451-82637750
	ADD: No.234, Guogeli Street, Nangang District, Haerbin, Heilongjiang 黑龙江省哈尔滨市南岗区果戈里大街 234 号
	Contact: ZHANG Liping 张利萍

Company Name	Dandong Aitong Clothing Company 丹东爱彤服装公司
Contact Details	Tel: +86 415-2803068
	Fax: +86 415-2160977
	ADD: Room 6, Floor 1, Lemei Market, Qijing Street, Zhenxing District, Dandong, 辽宁省丹东市振兴区七经街乐 美商场 1 楼 6 号间爱彤服饰
	Contact: GAO Xia 高霞

Company Name	Haomenmingjia Trading Co., Ltd. 豪门名家商贸有限公司
Contact Details	Tel: +86 13906028855
	Fax: +86 592-5856555
	ADD: 114-116#, Dongfangmingzhu Square, No.8 Lianyue Rd., Xiamen 厦门市莲岳路 8 号东 方明珠广场 114-116#
	Contact: CHEN Guilán 陈桂兰

Company Name	Ouzhoufengqing Clothing Company 欧洲风情时装公司
Contact Details	Tel: +86 451-87110666
	Fax: +86 451-87110666
	ADD: No.70 Ganshui Rd., Xiangfang Districe, Haerbin, Heilongjiang 黑龙江省哈尔滨市香坊区赣水路 70 号
	Contact: MENG Youyou 孟优优

Company Name	Yantai Chengji Trading Co., Ltd. 烟台诚基经贸有限公司
Contact Details	Tel: +86 13573825779
	Fax: +86 532-85750695
	ADD: Room G, Floor 16, Tower C, Jindu Garden, No.37 Donghai West Rd., Shinan District, Qingdao 青岛市市 南区东海西路 37 号金都花园 C 座 16 楼 G 室
	Contact: LI Werhong 李维宏

Company Name	Shenyang Hongcheng Trading Co., Ltd. 沈阳弘成商贸有限公司
Contact Details	Tel: +86 13840566688
	Fax: +86 24-23237555
	ADD: Room 705, Jinbei Building, No.57 Zhonghua Rd., Heping District, Shenyang 沈阳市和平区中华路 57 号金杯大 厦 705 室
	Contact: WANG Xia 王霞

Company Name	Jilin Tongyi Clothes Selling Co., Ltd. 吉林市同谊服装经销有限公司
Contact Details	Tel: +86 432-2058586
	Fax: +86 432-2061299
	ADD: No.1, Floor 3, No.2 Building, Ziguang Garden, Songjiang Middle Road, Jilin 吉林市松江中路紫光花园 2-3-1
	Contact: LI Hongying 李红莹

Company Name	Shenyang Nayun Trading Co., Ltd. 沈阳拿云商贸有限公司
Contact Details	Tel: +86 13898883533
	Fax: +86 24-24851099
	ADD: Room 815, Jinbei Building, No.57 Zhonghua Rd., Heping District, Shenyang 沈阳市和平区中华路 57 号金杯大厦 815
	Contact: WANG Lan 王岚

Company Name	Dalian Yongruimingpin Shoes&Clothes Selling Co., Ltd. 大连永锐名品鞋服经营有限公司
Contact Details	Tel: +86 13591386889
	Fax: +86 411-82823658
	ADD: Room 1106, Hengyuan Apartment, No.20 Luoyang Street, Zhongshan District, Dalian 大连市中山区洛阳街 20 号恒元公寓 1106
	Contact: LI Chunbo 李春勃

Company Name	Shenzhen Fuchenghang Trading Co., Ltd. 深圳市福诚行贸易有限公司
Contact Details	Tel: +86 755-82235361
	Fax: +86 755-82236323
	Room 1507, Floor 16, North Tower, International Business Building, ADD: Jiabin Road, Luohu District, Shenzhen, Guangdong 广东省深圳市罗湖区 嘉宾路国际商业大厦北座 16 楼 1507 室
	Contact: XIE Donghan 谢东汉

Company Name	Qingdao Daobang Trading Co., Ltd. 青岛道邦贸易有限公司
Contact Details	Tel: +86 13906394213
	Fax: +86 532-85023200
	T1-5C, Taipingyang Centre, No.35 ADD: Donghan West Rd., Qingdao 青岛市东海西路 35 号太平洋中心 T1-5C
	Contact: ZHANG Wen 张雯

Company Name	Mileno Leather Co., Ltd. 米莲诺皮革制品有限公司
Contact Details	Tel: +86 10 67088811
	Fax: +86 10 67657038
	No.244, Dongs North Street, Dongcheng ADD: District, Beijing, China 中国北京东城区东 四北大街 244 号
	Contact: SONG Xuemei 宋学梅

Company Name	Shenzhen Anmei Business 深圳市安美商行
Contact Details	Tel: +86 755-25403797
	Fax: +86 755-25403797
	No.502, Unit 3, No.36 Building, Aiguo Road, Luohu District, Shenzhen, ADD: Guangdong 广东省深圳市罗湖区爱国路 36 栋 3 单元 502
	Contact: LI Jiao 李皎

Company Name	Beijing European Fashion Trading Co., Ltd. 北京欧州时尚经贸有限公司
Contact Details	Tel: +86 10 80494666
	Fax: +86 10 804995666
	No.6 Building, West Tiangezhuang European Fashion Garden House, ADD: Houshayu Town, Shunyi District, Beijing 北京市顺义后沙峪镇西田各庄欧 洲时尚花园别墅 6 座
	Contact: LI Yan 李彦

Company Name	Beijing Lianyang Shoes Co., Ltd. 北京连洋鞋业有限公司
Contact Details	Tel: +86 10 67088811-828
	Fax: +86 10-67652480
	No.89, Tower A, No.3 Building, Xinyi ADD: Homeland, Chongwen District 崇文区新怡家园甲 3 号楼 A 座 809
	Contact: KE Huishan 柯惠珊

Company Name	Beijing Hongke Shoes Trading Develop Company 北京红科鞋业贸易发展公司
Contact Details	Tel: +86 10 82809518
	Fax: +86 10 82809520-606
	Floor 15, No.4 Deshengzhiye Building, No.26 Huangsi Street, Xicheng District, ADD: Beijing 北京西城区黄寺大街 26 号德胜置业大厦 4 号楼 15 层
	Contact: MA Bao 马宝

Company Name	Hangtian Weite Tech. Co., Ltd. 航天威特科技有限公司
Contact Details	Tel: +86 10 86608877
	Fax: +86 10 83610943
	ADD: 2-204, No.19 Building, Yufeyuan, Pingtai 平台育菲园 19 号楼 2-401
	Contact: XIE Jianping 解建平

Company Name	Kaisa Beijing 北京凯撒 (三大皮革制品经营公司)
Contact Details	Tel: +86 10 68177890
	Fax: +86 10 68213282
	Tower A, No.6 Yuquan Rd., Haidian ADD: District, Beijing 北京市海淀区玉泉路 6 号 A 座
	Contact: WANG Gang 王岗

Company Name	Beijing Zuotian Raymond Suit Selling Co., Ltd. 北京佐田雷蒙西装销售有限公司
Contact Details	Tel: +86 10 84834018
	Fax: +86 10 84831584
	Floor 16, No.1 Building Qianheshangwu, No.108 Beisihuan East Rd., Chaoyang ADD: District, Beijing 北京朝阳区北四环东路 108 号千鹤尚务 1 号楼 16 层
	Contact: LI Chende 李臣德

## 2. Principal Competitors

### Women's Footwear

Company Name	BELLE 百丽
Founding Year	Y1992
Ownership	Holding Co., Ltd.
No. of Employees	2,3000 (Shenzhen)
Sales income	RMB 17.86 billion (Y2008)
Major Clients	Retail. Target consumer group "white collar" between 20 to 40 years old and have middle income class.
Products Sold	Belle is the best seller of women shoes in China for 12 consecutive years
Main Brands	Self-owned brands: Belle, Teenmix, Tata, Staccato, BASTO, MILLIE'S, Joy & Peace, Brands represented: Bata, ELLE, BCBG, Mephisto, Geox, Clarks, Merrell, Caterpillar, Sebago. etc.
Sales Areas	Mainlan China
Contact Details	Tel: +86 755 82877388 +86 4008 878 668
	Fax: +86 755 25843221
	Email: service@belle.com.cn
	Website: www.belleintl.com
	ADD: Tanluo Industrial Zone, Longhua Town, Shenzhen 深圳市龙华镇谭罗工业区

Company Name	DAPHNE 达芙妮
Founding Year	Y1987
Ownership	Company Limited
No. of Employees	/
Sales income	Hong Kong dollar 5.29 billion
Major Clients	2,849 sales points including 1,815 stores, 616 counters and 418 franchise retails stores.
Products Sold	Ranks first nationwide in terms of sales volume in like products market for 12 years in a row
Main Brands	Self-owned brands: Daphne, Shoebox Represented brands: Adidas, Nike
Sales Areas	Mainland China, Hong Kong, Taiwan, Europe and North America, etc.
Contact Details	Tel: +86 21 39762468 (headquarter) +86 21 59754516 (customer service)
	Fax: +86 21 59752698
	Email: 59752468@163.com
	Website: www.daphne.com.cn
	ADD: No. 3908, Huqingping Highway, Zhaogang Town, Qingpu, Shanghai 上海青浦赵巷镇沪青平公路 3908号

Company Name	May Flower Corporation (Nanjing) Co., Ltd. 美丽华企业(南京)有限公司
Founding Year	Y1995
Ownership	Company Limited
Major Clients	women
Products Sold	In Y2005, ranked second for sales income in like products in China In Y2006, ranked third for comprehensive market occupation rate in like products market
Main Brands	Self-owned brands: C. banner, eban
Sales Areas	East China, South China, Beijing, North-east China, South-west China, Shandong, Central China, North-west China
Contact Details	Tel: +86 25 84791598
	Fax: +86 25 84791117
	Email:
	Website: www.c-banner.com
	31/F, International Trade Center, No. 18, East Zhongshan Road, ADD: Nanjing, Jiangsu Province 江苏省南京中山东路18号国际贸易中心31楼

Company Name	Sheton 舒丹妮
Founding Year	Y1994
Ownership	Company Limited
No. of Employees	1,200
Sales income	Over RMB 100 million
Major Clients	Target consumer group is fashion ladies between 20 to 40 years old and target market is medium and large-sized cities.
Main Brands	Sheton, Jiating
Sales Areas	14 subsidiary companies (offices) nationwide, over 400 terminals of franchise halls in shopping malls, and franchise stores in medium and large-sized cities
Contact Details	Tel: +86 400 8888 255
	Website: www.sheton.com
	Sanweiyi Road, No. 8 Area, Wenzhou Economic Development Zone, ADD: Zhejiang Province 浙江温州经济开发区 8 小区经三纬一路

Company Name	Foshan Saturday Shoes CO.,LTO 佛山星期六鞋业股份有限公司
Founding Year	Y2002
Ownership	Holding Co., Ltd.
No. of Employees	Over 1,000
Sales income	Annual import value: RMB 2-3 million Annual export value: over RMB 100 million
Major Clients	Middle and high end leather shoes for women all year round
Products Sold	/
Main Brands	Self-owned brands: "ST&SAT", "FBL" and "SAFIYA", "MOOFFY", "Rizzo" Brands represented: "Baldinin" of Italy, "Killah"
Sales Areas	Mainland China, Hong Kong, Macao and Taiwan, East Europe and East Asia
Contact Details	Tel: +86 757 86250715 +86 757 86250300
	Fax: +86 757 86256978 +86 757 86250321
	Email: st-sat@st-sat.com
	Website: www.st-sat.com/gb/
	ADD: No. B-3, Jianping Road, Guicheng Science and Technology Park, Nanhai, Foshan, Guangdong Province 广东佛山南海桂城科技园（简平 路）B-3 号

Company Name	Chengdu Aiminer Leather Products Co., Ltd. 成都艾民儿皮制品有限责任公司
Founding Year	Y1996
Ownership	Company Limited
No. of Employees	Nearly 4,000
Sales income	Daily production of 10,000 pairs of shoes
Major Clients	Women, the main target market is middle to high end European market.
Products Sold	The products sell to more than 40 countries including USA, Germany, France, Italy, UK, Canada, Russia etc.
Main Brands	Self-owned brand: AIMINERSHEME
Sales Areas	Guangzhou Aiminer Leather Products Co., Ltd., Sichuan Pheou International Leather Products Co., Ltd. and Aiminer Europe GmbH. All these companies greatly supported Aiminer international marketing plans.
Contact Details	Tel: +86 577 67288888 +86 577 67288878
	Fax: +86 577 67282222 +86 577 67288827
	Email: webmaster@aokang.com
	Website: www.aokang.com
ADD:	No.258, Cuqiao Wenzhang Rd. Wuhou District, Chengdu, 610043 中国成都市武侯区簇桥文昌路 258 号 邮编: 610043

## Men's Footwear

Company Name	Aokang Group 温州奥康集团有限公司
Founding Year	Y1988
Ownership	Private Limited Liability Corporations
No. of Employees	Over 10,000
Products Sold	The company has over 30 provincial level subsidiaries, over 2000 franchise stores, over 800 shops in shops and counters. It also set up 5 subsidiaries overseas in Italy, Spain, US, Germany and Japan. The company ranks second for market occupation rate in Chinese shoe industry.
Main Brands	Aokang, KANG LONG, MeiRie's, REDESS, VALLEVERDE
Sales Areas	China, Spain, Hungary, Italy, Israel, Japan, Hong Kong and US
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	Fax: +86 577 67282222 +86 577 67288827
	Email: webmaster@aokang.com
	Website: www.aokang.com
	ADD: Aokang Industrial Park, Qianshi, Yongjia County, Zhejiang Province 中国浙江永嘉县千石奥康工业园

Company Name	Hongqingting Group 红蜻蜓集团
Founding Year	Y1995
Ownership	Holding Co., Ltd. (private)
No. of Employees	Close to 30,000
Products Sold	Over 4,000 sales terminals for the leading and sub-brands, covering all key cities nationwide.
Main Brands	RED DRAGONFLY
Sales Areas	Five production bases: Shanghai, Chongqing, Guangzhou, Yongjia, Wenzhou
Contact Details	Tel: +86 577 67370000
	Fax: +86 577 67370078
	Email: hat@cnhat.com
	Website: www.cnhqt.com , www.chinahqt.com
	ADD: Hongqingting Group, DongOu Industrial Park, Wenzhou, Zhejiang Prainvce 浙江省温州市东瓯工业园区红蜻蜓集团

Company Name	Kangnai Group Co., Ltd 康奈集团有限公司
Founding Year	Y1980
Ownership	Company Limited
No. of Employees	Over 4,000
Sales income	Over RMB 2 billion (Y2007)
Major Clients	Mainly sell middle and high end leather shoes for men and women, also Sell leather goods, clothes, underwear, etc.
Products Sold	Average sales price for Kangnai shoes in overseas market is EURO 70. The company produces over 9 million pairs of middle and high class leather shoes.
Main Brands	Kangnai
Sales Areas	Over 2,600 franchise stores in China. Products sold to over 30 countries and regions including Europe, US, South-east Asia, Hong Kong, etc.
Contact Details	Tel: +86 577 88755551
	Fax: +86 577 88755550
	Website: www.kangnai.com
	ADD: china Shoe Capital Industrial Park, Wenzhou 温州中国鞋都产业园康奈工业园

Company Name	Fujian Shishi Fuguiniao Clothes Development Co., Ltd. 福建省石狮市富贵鸟服饰发展有限公司
Founding Year	Y1984
Ownership	Company Limited
No. of Employees	Close to 10,000
Sales income	Fixed asset: close to RMB 2 billion Brand value: over RMB 6.28 billion (assessed in Y2007)
Major Clients	Men in middle class families with age between 25 to 48 years old
Products Sold	/
Main Brands	Fuguiniao (富贵鸟)
Sales Areas	Sales network cover over 20 provinces (municipalities and autonomous regions). There are over 2,000 franchise stores nationwide.
Contact Details	Tel: +86 595 88700088
	Fax: +86 595 88705577
	Website: www.fgnfs.com
	ADD: Fuguiniao Group, Changfu Industrial Park, Shishi City, Fujian Province 福建省石狮市长福工业区富贵鸟集团

## Sports Footwear

Company Name	Li Ning (China) Sports Goods Co., Ltd. 李宁（中国）体育用品有限公司
Founding Year	Y1990
Ownership	Company Limited
No. of Employees	/
Sales income	RMB 669 million (Y2008), RMB 434 million (Y2007)
Major Clients	Leading sports brands in the world
Products Sold	Sports wear, sports shoes, sports accessories
Main Brands	Li Ning , AIGLE , Double Happiness, ZDO
Sales Areas	Li Ning has the largest sports goods distribution network in China. Up till Y2008, it has over 6,200 shops. In the meantime, the international sales network keeps expanding and has covered 23 countries and regions.
Contact Details	Tel: +86 10 80800808
	Fax: +86 10 80800000
	Email: ccc.support@li-ning.com.cn
	Website: www.li-ning.com
	ADD: No.8, Xingguangwujie, Optical-mechanical-electronic Integration Industry Base, Tongzhou Park, Zhongguancun Science and Technology Park, Tongzhou District, Beijing 北京市通州区中关村科技园区通州园光机电一体化产业基地兴光五街8号

Company Name	Anta (Fujian) Shoe Co., Ltd. 安踏（福建）鞋业有限公司
Founding Year	Y1994
Ownership	Company Limited
No. of Employees	/
Sales income	RMB 4.63 billion (Y 2008), RMB 2.99 (Y2007)
Major Clients	The company ranks first for both the brand reputation and market share of sports products in China. It is also the top ten sports goods companies in global sales ranking.
Products Sold	Anta brand sports shoes, clothes and accessories
Main Brands	Anta
Sales Areas	Keeps the leading position in second and tertiary markets and keeps expanding the retail network. Anta has 5,667 stores.
Contact Details	Tel: +86 592 6305588 +86 592 6305 599
	Fax: +86 592 6305678
	Email: webmaster@anta.com
	Website: www.anta.com http://ir.anta.com
	ADD: Anta Operation Center, YiAi Road, Siming District, Xiamen City, Fujian Province 福建省厦门市思明区谊爱路安踏运营中心

Company Name	361 Degree International Limited 三六一度国际有限公司
Founding Year	Y1994
Ownership	Company Limited
No. of Employees	/
Sales income	RMB 1.31 billion (Y2008), RMB 373 million (Y2007)
Major Clients	316 Degree design products with advanced technology for youth who loves sports.
Products Sold	Products include sports shoes, clothes and sports accessories.
Main Brands	361°
Sales Areas	the company has 5,757 sales outlets. the company has deployed 10 core markets in Chinese market: Shenyang in North-east China; Beijing, Shijiazhuang, Jinan in North China; Nanjing, Shanghai in East China; Wuhan, Zhengzhou in Central China; Guangzhou in South China; Kunming, Chengdu in South-west China. The company keeps searching for strategic regional markets and keep market construction.
Contact Details	Tel: +86 595 85190888
	Fax: +86 595 85199055 85190999
	Email: 361sport@361sport.com
	Website: 361sport.com
	ADD: hendai Jiangtou Industrial Park, Jinjiang City, Fujian Province 中国福建晋江市陈埭江头工业区

Company Name	Hongxing Erke Group 鸿星尔克集团
Founding Year	Y2000
Ownership	Company Limited
No. of Employees	About 2,000 including 1,800 technical staff and 200 management personnel
Sales income	Production capacity: 17 million pairs per year
Major Clients	Youth between 15 to 25
Products Sold	Sports shoes, sports clothes and sports goods such as sports bags, sports hats, professional sports articles and sports safety for all kinds of sports
Main Brands	Self-owned brands: "Hongxing Erke" and "ERKE"
Sales Areas	Up till now, its domestic sales network of more than 3500 franchised shops covers the whole country and has sold the products to more than 30 countries and areas
Contact Details	Tel: +86 595 22550771
	Fax: +86 595 22550773
	Email: market@erke.com
	Website: <a href="http://www.erke.com">http://www.erke.com</a>
ADD:	Erke Group, Jiangnan Torch Development Zone, Quanzhou, Fujian 362000 福建省泉州江南火炬开发区鸿星尔克集团 邮编: 362000

Company Name	XTEP International Holdings Limited 特步国际控股有限公司
Founding Year	Y2001
Ownership	/
No. of Employees	5,800
Sales income	/
Major Clients	Leading global fashion sports brands
Products Sold	Products include sports shoes, clothes and sports accessories.
Main Brands	Self-owned brand: Xtep Brands represented: "Disney Sports" of US and a Spanish brand
Sales Areas	The company has set up subsidiaries in all provinces, municipalities, autonomous regions and has a nationwide sales network. Products are sold to over 40 countries and regions in five continents.
Contact Details	Tel: +86 595 22419107      400 887 6666
	Fax: /
	Email: xtep@public.qz.fj.cn
	Website: www.xtep.com.cn
	ADD: Quanzhou Economic and Technology Development Zone, Fujian Province 福建省泉州市经济技术开发区

Company Name	PEAK Sports Goods Co., Ltd. 匹克体育用品有限公司
Founding Year	Y1989
Ownership	Private Limited Liability Corporations
No. of Employees	Over 5,000
Sales income	Nearly RMB 1 billion
Major Clients	The company aims to become the top basketball equipment brand.
Products Sold	Export oriented company. Professional sports equipment company which produces shoes, shoe material, clothes, bags, etc.
Main Brands	PEAK
Sales Areas	The company owns over 4,000 franchise stores in middle and large-sized cities at home and abroad.
Contact Details	Tel: +86 595 28028395      +86 595 28028958
	Fax: +86 595 28028391
	Email: info@chinapeak.com
	Website: www.peaksport.com
	ADD: Dongbao Industrial Zone, Donghai Street, Fengze District, Quanzhou City, Fujian Province 福建省泉州市丰泽区东海街道东宝工业区

## International Footwear

Company Name	ECCO (Shanghai) Co., Ltd. 爱步
Founding Year	Y1963
No. of Employees	13,000
Products Sold	High quality fashion leather shoes for men, women and children which can match to outdoors exercise clothes, casual clothes, working clothes and leisure clothes.
Sales Areas	ECCO shoes are sold in big shop malls including 4 ECCO flagship stores, 359 ECCO franchise stores, 823 shop-in-shops, 1,844 sales outlets and 14 warehouse retail stores, covering different countries such as Alaska and Indonesia.
Contact Details	Tel: +86 21 51341100
	Fax: +86 21 51341922
	Email: /
	Website: www.ecco.com

Company Name	Geox 健乐士
Founding Year	Y1994
No. of Employees	About 2,000
Sales income	808.391 million Euro
Products Sold	Classic, causal products, fashion products featuring the seasons' latest trends.
Sales Areas	Top casual shoes brand in Italy. Products sold to 55 countries and regions, ranking the fourth place in international shoes industry.
Contact Details	Tel: +39 0423.2822
	Email: pressoffice@geox.com

Company Name	Senses Marketing International Limited-China
Founding Year	Y1904
Products Sold	Cat Footwear makes boots and shoes based on the same core principles.
Sales Areas	The sales and revenues of the company reached USD 51.324 billion for 2008. It is planning for 2009 sales and revenues to be in a range of plus or minus 10% from USD 40 billion.
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	Fax: +86 592 6305678
	Email: webmaster@anta.com
	Website: www.anta.com http://ir.anta.com

Company Name	Clarks 克拉克
Founding Year	Y1825
Products Sold	Men's and women's shoes (casual shoes, dress shoes, athletic shoes), children's shoes.
Main Brands	Clarks
Sales Areas	UK, Japan, Netherlands, Germany, Austria, France, Belgium, Norway, Switzerland, Sweden, Denmark Italy, China, etc.
Contact Details	Tel: +44 (0) 870 5665 335
	Fax: +44 (0)145 8843 078
	Email: infochia@clarks.com
	Website: www.clarks.com

### 3. Leading Fashion Magazines

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	Website: <a href="http://www.hiesquire.com/">http://www.hiesquire.com/</a>
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	Website: <a href="http://www.bazaartrends.com.cn/">http://www.bazaartrends.com.cn/</a>
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Name	Men's Health 时尚健康
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	Email: menshealth@trends.com.cn
	Website: <a href="http://www.trendsmag.com/trendsmag/menshealth">www.trendsmag.com/trendsmag/menshealth</a>
	ADD: 22/F, Shishang Building, No. 9, Guanghua Road, Chaoyang District, Beijing 100020 北京朝阳区光华路9号时尚大厦22层 邮编: 100020

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	Fax: +86 10 58696792
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	Website: <a href="http://www.ixinwei.com/">http://www.ixinwei.com/</a>
	ADD: Room 2301, 23/F, Soho Shangdu Nanta, No. 8, Dongdaqiao Road, Chaoyang District, Beijing 100020 北京市朝阳区东大桥路8号 SOHO 尚都南塔23层2301室 邮编: 100020

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	Marketing Dept.: +86 10 85676688 Ext. 6647
	Website: <a href="http://www.marieclairechina.com/">http://www.marieclairechina.com/</a>

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Name	ELLE 世界时装之苑
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	Email: jingsheng.lei@hfm.com.cn, Alex Lei
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Name	Rayli Costume and Costmetics 瑞丽服饰美容 Rayli Yiren Fengshang 瑞丽伊人风尚 Rayli Fashion Pioneer 瑞丽时尚先锋
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Name	VOGUE 服饰与美容
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Name	Shunshi Advertising and Media Co., Ltd. 舜士广告传媒有限公司 (playboy)
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Name	Blueflame Advertising Co., Ltd. (Guangzhou) (Aokang) 广州蓝色火焰广告公司 (奥康)
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Name	Zhengyitang (SENDA) 正一堂 (森达)
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	Contact: ZHANG Lulu (Customer Service Director) 张璐璐 (客户总监)

## 5. Import Tariff and Regulations

### Import Tariff and Taxes

China customs levies on import and export duties make up an important institutional consideration for market entry plans for the Chinese medical technology market.

- Following a system of taxation and classification roughly parallel to international trade standards, Chinese import duties involve both general tax rates and preferential tax rates, with the latter being applicable to import goods whose origins are countries or regions which have signed agreements on mutually beneficial tariffs, or for those goods which enjoy a government supported policy standing (for instance high-tech goods). Other kinds of import goods are applicable to general tax rates.
- A variety of laws and regulations have been promulgated to regulate and update Chinese import trade. As of Y1994, in accordance with the stipulations of the “Provisional Regulations of the People’s Republic of China Concerning the Value-added Tax” and the “Provisional Regulations of the People’s Republic of China Concerning the Consumption Tax”, importers who declare goods entering the territories of China must pay a value-added tax, in addition to the import tariff duty, as well as consumption tax on certain kinds of goods simultaneously. The

consignee of import goods and the individual handling customs declaration procedures shall be the payer of the value-added tax on imported goods and the consumption tax. The value-added tax on imported goods and the consumption tax are thereby collected by the customs office.

- For shoes, most import duties and VAT taxes run at 24% and 17% respectively. The following contains the import tariff and VAT tax rates for footwear in the Chinese market.

Table: China Shoe Customs Tariffs and VAT Rates in 2009

HS Code	Name	Tariff	VAT
64011000	Waterproof footwear incorporating a protective metal toe-cap	24%	17%
64019200	Waterproof footwear covering the knee	24%	17%
64019900	Other waterproof footwear (not covering the ankle)	24%	17%
64021200	Ski-boots, cross-country ski footwear & snowboard boots, with outer soles & uppers of rubber or plastics	10%	17%
64021900	Other sports footwear, with outer soles & uppers of rubber or plastics	24%	17%
64022000	Footwear with upper straps or things assembled to the sole by means of plugs, of rubber or plastics	24%	17%
64029100	Other footwear with outer soles & uppers of rubber or plastics, covering the ankle	24%	17%
64029900	Other footwear with outer soles & uppers of rubber or plastics	24%	17%
64031200	Ski-boots, cross-country ski footwear & snowboard boots, with outer soles of rubber, plastics, leather or composition leather & uppers of leather	24%	17%
64031900	Other sports footwear, with outer soles of rubber, plastics, leather or composition leather & uppers of leather	15%	17%

64032000	Sandals	24%	17%
64034000	Other footwear, with a protective metal toe-cap, with outer soles of rubber, plastics, leather or composition leather & uppers of leather	24%	17%
64035100	Footwear with leather outer soles & uppers, covering the ankle	10%	17%
64035900	Other footwear with leather outer soles & uppers	10%	17%
64039100	Other footwear with outer soles of rubber, plastics, leather or composition leather & uppers of leather, covering the ankle	10%	17%
64041100	Sports footwear with outer soles of rubber or plastics, uppers of textile materials	24%	17%
64041900	Other footwear with outer soles of rubber or plastics, uppers or textile materials	24%	17%
64042000	Footwear with outer soles of leather or composition leather, uppers or textile materials	24%	17%
64051000	Other footwear with uppers of leather or composition leather	24%	17%
64052000	Other footwear with uppers of textile materials	22%	17%
64059000	Other footwear	15%	17%
64061000	Footwear uppers & parts thereof (excl. stiffeners)	15%	17%
64062000	Outer soles & heels, of rubber or plastics	15%	17%
64069100	Other wooden parts of footwear; removable in-soles & similar articles; gaiters & similar articles, & parts thereof	15%	17%
64069900	Other non-wooden parts of footwear; removable in-soles & similar articles; gaiters & similar articles, & parts thereof	15%	17%

*Source: China Customs*

### Relevant Law and Policy

- In terms of promulgated legal precedent, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China are the most

relevant body of law regulating the Chinese footwear sector. Items within this largely standardized body contain measures governing the manufacture and distribution of shoes, as well as clauses outlining registration, inspection, etc.

### ***Industry Regulation***

- *In addition to new product registration mandated by Chinese customs authorities for the official categorization of any product varieties being introduced to the Chinese market for the first time, all shoe products must adhere to at least a minimum of local inspection and accreditation procedures before entering the domestic market.*
- *Before entering the Chinese market, foreign companies must pay attention to China's footwear standards, where "GB" indicates national mandatory standards, and "QB" indicates light industry mandatory standards. In addition, the state encourages enterprises to adopt voluntary standards; the first character of such standards is "T". The relevant national mandatory standards and industry standards of China National Light Industry Council as follows:*

Table: Chinese Footwear Standards

<b>Standard No.</b>	<b>Standard Name</b>
GB/T1002-2005	Leather shoes
GB/T15107-2005	Athletic footwear
QB/T2673-2004	Footwear-Specification of marking

QB/T2674-2004	Footwear-Specification of marking
QB/T2675-2004	Test methods for shoe laces-Breaking strength
QB/T2676-2004	Footwear-Counter and puff materials-Hot melt type and solvent type
QB/T2288-2004	Transfer coating leather
QB/T2307-1997	Leather sandals
GB/T6677-1986	Classification of cloth shoes
GB/T3293.1-1998	Shoes sizes

- *In domestic market, some areas have their own footwear standards, so foreign companies should also pay attention to requirements in different regions, department stores and other sales channels at the same time.*

Table: Shoe Standards in Different Regions in China

Regions	Standard Name	Implementation Time
Shanghai	Leather shoes-specification of marking	October 1, 2003
Wenzhou	After-sales service regulation of Wenzhou City footwear goods	January 1, 2004
Shandong	Leather goods repair, replacement and sales return regulation in Shandong Province (for trial implementation)	August 26, 2003

## Required Documentation

- China is a member country of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. According to the Convention, if footwear is made of the key protected wild animals and their products, the international trade is strictly restricted. The business must get import and export certification documentation issued by the Convention management institutions. Besides this, there are no special restrictions in China's shoes import market.

----- END OF THIS REPORT -----