ITALIA

Istituto nazionale
per il Commercio Estero

Guida practica

MALAYSIA

OVERVIEW OF MALAYSIAN FOOTWEAR MARKET

(updated October 2009)

CONTENTS

PAGE

1. MALAYSIAN FOOTWEAR INDUSTRY

Malaysia has transformed from a commodity-based economy to industry-based in the recent years, and it has strategised itself to reduce dependence on imports of raw commodities and increase its imports of processed or finished products, boosting value-added exports. As such, in the recent years, this phenomenon has taken effect on the fashion industry including the footwear sector. As more and more foreign investors are penetrating the market, the local manufacturers are taking smaller shares of the cake. As a result, local manufacturers are trying to compete agressively by using high quality materials.

In a bid to protect the local industry, the Government has in the last few years imposed import duty of 30% coupled with sales tax of 10%. However, following its objective to promote the local tourism industry and Malaysia as a shopping paradise, the import duty has been reduced to 15% at one stage and subsequently zero duty for selected groups of footwear. Certain types of footwear accessories as well as leather are also free of duty (More information pertaining to import duties will be explained in the latter part of the report)

In order to understand the local market better, foreign exporters should take into consideration a few characteristics:

- The Malaysian market is dominated by local manufacturers, a few large-scale retailers and major department stores, whereby most of the concentration is in the state of Selangor and Federal Territory, the capital of Malaysia.

- In general, although some Malaysians (mostly elites and affluent people) can afford the finest footwear made anywhere, a significantly large number buy low priced footwear. These are the middle-income earners.

- In order to attract buyers attention, foreign exporters should be flexible and be prepared to accept smaller minimum orders than is the case in the other markets. This is especially true for the first few seasons. Depending on the designs and styles, buyers would like to try out the market for at least the first 6 months.

2. IMPORT AND EXPORT DATA FOR MAJOR FOOTWEAR CATEGORIES

Source : MATRADE (Department of Statistics)

Table 1 - MALAYSIA FOOTWEAR IMPORT DATA SUMMARY
(Value in Euro Million)

HS Code	2006	2007	06/07 % change	2008	07/08 % change	Jan-May 2009
6401	0.55	1.12	103.64	1.18	5.36	0.91
6402	15.48	13.95	(9.88)	18.32	31.33	7.92
6403	35.57	43.94	25.53	57.91	31.79	26.87
6404	16.86	14.07	(16.55)	16.10	14.43	9.13
6405	12.85	16.93	31.75	22.22	31.25	7.32
6406	7.48	6.78	(9.36)	9.49	39.97	3.59
Total	88.79	96.79	9.01	125.22	29.37	55.74

Table 2 - MALAYSIA FOOTWEAR EXPORT DATA SUMMARY
(Value in Euro Million)

HS Code	2006	2007	06/07 % change	2008	07/08 % change	Jan-May 2009
6401	8.20	10.58	29.02	9.34	(11.72)	3.44
6402	51.82	35.73	(31.05)	36.75	2.85	15.02
6403	24.39	31.61	29.60	31.09	(1.64)	21.12
6404	22.80	18.41	(19.25)	16.76	(8.96)	9.61
6405	25.80	31.82	23.33	nil	nil	14.77
6406	2.31	2.46	6.49	3.89	58.13	1.41
Total	135.32	130.61	(3.48)	(3.48)	(25.10)	65.37

TERM OF REFERENCE:

6401 (SITC codes : 851.110.000 – 851.319.000)
Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes.

6402 (SITC codes : 851.210.000 – 851.329.000)
Other footwear with outer soles and uppers of rubber or plastics.

6403 (SITC codes : 851.220.100 – 851.489.190)
Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.

6404 (SITC codes : 851.250.100 – 851.520.000)
Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials.

6405 (SITC codes : 851.490.100 – 851.700.999)
Other footwear

6406 (SITC codes : 851.910.100 – 851.999.990)
Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof.

3. IMPORTS

Referring to Table 1, Malaysia's total import of footwear grew at a commendable rate of 29.37% during 2007-2008 period as compared to 9.01% between 2006 and 2007.

Major supplies still originated from traditional producers of footwear that have so far dominated this market. The countries and import values are as such:

	Country of Import	Import Value 2008 (Euro million)	Market Share (%)
1.	China, Rep..of	48.62	38.83
2.	Vietnam, Soc. Rep. of	22.68	18.11
3.	Indonesia, Rep. of	13.11	10.47
4.	Hong Kong, SAR	5.61	4.47
5.	Italy	4.08	3.26

China exported mainly sports footwear to Malaysia simply because the production hub for sports footwear is concentrated there with major brands being contract manufactured in China and several manufacturing plants for sports footwear in Malaysia have shifted to the country previously.

The other major suppliers meanwhile exported other types of footwear with no specific focus.

As for Italy, its major supply was footwear with uppers of leather or composition leather.

Import trend from Italy :

Table 3

(2006) Value Euro Million	(2007) Value Euro Million	Change %	(2008) Value Euro Million	Change %	(Jan-May 2009) Value Euro Million
2.08	2.83	36.05	4.08	44.17	1.63

Above shows the import trend from Italy for the past 3 years.

The last three years has seen a steady inflow from Italy with 36% growth between 2006-2007 and 44% during 2007-2008 period. Despite the high exchange rate for Euro, made-in-Italy footwear is still preferred by the Malaysian high society and high-end consumers. Majority of footwear coming in from Italy are for fashion wear and work wear.

For the first five months of 2009, Italy's export of footwear to Malaysia reached Euro 1.63 million. With the global economic crisis hovering, this performance is not any worse than before.

The increase in import was also due to the fact that many new high-end shopping centers are being established and expanded such as the Pavilion Kuala Lumpur, Suria KLCC, Starhill Gallery, Sunway Pyramid, One-Utama, Mid-Valley, etc. Thus, these places provide new avenues for the retailers to sell their footwear.

Some of the Italian brands that are present in the market are such as Roberta Di Camerino, Geox, F.lli Torresin, Damiani, Bruno Premi, Everest, Flecs, Gradus, Ciano, Andrea Cammelli, etc.

Even though nowadays importers are more cautious with their imports from Europe due to the high exchange rate of Euro, still they cater to the demand of the high-end consumers. Retail outlets in high-end shopping centers are hard to come by for the local distributors these days and many companies need to wait for a long time to get a spot. Preference will be given based on the prestige and image of the brand as well as the products uniqueness and marketability.

There exists a gap between the high end and medium to high-end category. Consumers are willing to pay for internationally known brands even though they can be pricey but are not willing to pay for similar good quality but unknown brands. As such, the unknown brands are slow moving.

So far, Italian high fashion brands have been well positioned in the major shopping centers and have successfully capture its target market.

4. LOCAL PRODUCTION

The footwear industry in Malaysia is considered to be one of the oldest manufacturing activities in the country. In its early years and even up to today, a significant number of the industry players comprised of small- and medium-sized businesses, operating from homes and utilizing largely labour-intensive methods.

According to the Malaysian Industrial Development Authority (MIDA) there are currently about 1,000 footwear manufacturers, employing workforce of some 30,000. They are mainly located in the states of Perak, Selangor and Johor. The annual production capacity is estimated at 70 million pairs.

The “footwear capital” of Malaysia is actually situated in Seri Kembangan, a suburb 50 Km away from the heart of the city. Of the 1,000 footwear manufacturers in the country, more than 100 of them can be found in Seri Kembangan.

Basically, a large portion of Malaysia’s total production of footwear comes from the cottage industry or backyard industry located in Seri Kembangan. It can be said that less than 30% of these manufacturers are licensed. However, there are also a handful of them which operate on large-scale basis and equipped with proper manufacturing plant.

Predominantly producing to meet domestic demand, these small-and medium-sized operations remain the backbone of the footwear industry, existing side-by-side the more modern and better-equipped manufacturing facilities operated by multinational companies. As the number of footwear manufacturers expanded, so too the industry saw a proliferation of supporting cottage industries supplying various parts, components and footwear-related accessories for the industry.

The Malaysian footwear industry produces a wide variety of footwear ranging from safety and industrial footwear to sports shoes and high fashion footwear. In the quest to create an identity for their products, Malaysian footwear manufacturers have successfully marketed their own brands such as DR. CARDIN, CROCODILE, JOHN BIRD and LARRIE. In addition several Malaysian footwear manufacturers are producing under license, internationally renowned brands like CAMEL, HUSH PUPPIES, SCHOLL, PUMA, NIKE and LA GEAR. Made-in-Malaysia footwear has indeed become synonymous with quality, style and value for money.

Currently, the Malaysian footwear industry’s emphasis is on design and quality. Since China entered the market, with its lower labour and production costs, Malaysia needs to change its marketing startegy. Instead of getting into a price war with China, local producers are placing more emphasis on producing good quality footwear in saleable designs.

5. IMPORTERS' PURCHASING TREND

Basically, local buyers have two buying seasons in a year, usually in March and September. Foreign exporters must meet strict on-time deliveries for orders before end of the year to stock up for the festive seasons such as Christmas, Chinese New Year, Muslim Hari Raya and Indian Deepavali. These are the important occasions that buyers always look forward to, to generate sales.

Besides on-going buying trips, the buyers also visit trade fairs mainly the Asia Pacific Footwear Leather Fair in Hong Kong as well as the Micam Modacalzatura fair in Italy.

Efficient handling of export procedures is an important factor in successful business. Buyers usually look for reliability, experience, competence and a determined commitment to a long-term business relationship.

Malaysian importers have reported that a major problem in dealing with new suppliers is that they are often asked to purchase unrealistically large minimum quantities for a market size of Malaysia's. Exporters must bear in mind that the Malaysian market is far smaller than the European market and as such, must be prepared to fulfill small orders.

To get started with new brands, consignment basis is more preferred than out-right.

As a start, buyers will usually purchase a minimal order averaging from 200 pairs – 500 pairs to test the market and consumer preference. Due to the smaller Asian feet, and through sales experience, buyers tend to purchase more of size 5 – 6 which is equivalent to size 36 – 38 of European standard and another factor that should be taken into consideration is that Malaysian fitting includes half (½) sizes. Suppliers should therefore note that a full size range, including half sizes, is required for medium to higher priced footwear, though not for lower priced shoes.

6. LABELLING AND TRADE DESCRIPTION

In terms of distribution of products in Malaysia, it is a requirement according to the subsidiary legislation to the Price Control Act, which is the, "PRICE CONTROL (LABELLING BY MANUFACTURER, IMPORTER, PRODUCER, WHOLESALER) ORDER 1980" that the "**Made in Italy**" description to be labeled to the product.

7. IMPORT DUTIES ON FOOTWEAR

The Malaysian Government has imposed import duties of 30% on footwear generally, which later on were reduced to 15% and finally were abolished (for certain categories only) with the onset of AFTA (Asean Free Trade Area).

DESCRIPTION	IMPORT DUTY	SALES TAX
HS code : 64.01 (6401.10.000 – 6401.99.000)	30%	10%
Waterproof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stiching, riveting, nailing, screwing, plugging or similar processes.		
HS code : 64.02 Other footwear with outer soles and uppers of rubber or plastics		
6402.12.000 : Ski boots, cross-country, ski footwear and snowboard boots,	Nil	10%
6402.19.000 – 6402.99.000	30%	10%
HS code : 64.03 Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.		
6403.12.000 – ski boots, cross country ski footwear and snow bound boots	Nil	10%
Other 6403.19.100 – 6403.19.300 – riding boots, bowling shoes, sports footwear fitted with spikes, studs, bars and the like (riding boots no sales tax)	Nil	10%
	30%	10%
Other 6403.19.900		
	Nil	10%
6403.20.000 – footwear with outer soles of leather, and uppers which consist of leather straps across the instep and around the big toe		
	30%	10%
6403.30.000 – footwear made on a base or platform of wood, not having an inner sole or a protective metal toe-cap		
	30%	10%

6403.40.000 – other footwear, incorporating a protective metal toe cap		
Other footwear with outer sole of leather :		
6403.51.000 – covering the ankle	Nil	10%
6403.59.000 - other	Nil	10%
Other footwear :		
6403.91.000 – covering the ankle	Nil	10%
6403.99.000 - other	Nil	10%
HS code : 64.04 Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials.		
Footwear with outer soles of rubber or plastics : 6404.11.000 – sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like,	25%	10%
6404.19.000 - other	30%	10%
6404.20.000 – footwear with outer soles of leather or composition leather	15%	10%
HS code : 64.05 Other footwear		
6405.10.000 – with uppers of leather or composition leather	Nil	10%
6405.20.000 – with uppers of textile materials	Nil	10%
6405.90.000 - other	Nil	10%
HS code : 64.06 Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushion and similar articles; gaiters, leggings and similar articles, and parts thereof.		
6406.10.100 – 6406.10.900	Nil	10%
6406.20.110 – 6406.20.900	25%	10%

6406.91.100 – 6406.99.990	Between the range of 5% - 30%	10%

SOURCES OF INFORMATION:

Department Of Statistics

Royal Custom & Excise Department Malaysia

The Malaysian Trade Classification and Customs Duties Order 2007