Death of a Small Brand

A macro analysis of the footwear industry – March 2020

Introduction

The world economy has become more integrated. Companies and brands are increasingly competing on a global stage. Consumer habits are changing. Traditional retail is being upended.

The purpose of this article is to explore how these forces are impacting the footwear industry.

Why footwear?

Shoes are an integral part of daily life. Footwear as an industry is as ingrained in popular culture as any other. Athleisure, Kanye West and Yeezy, Nike and Jordan's signature athlete sneakers, coveted collaborations, Louboutin's red heels, ugly Balenciaga sneakers – trends extend far beyond just industry fanatics and into everyday parlance.

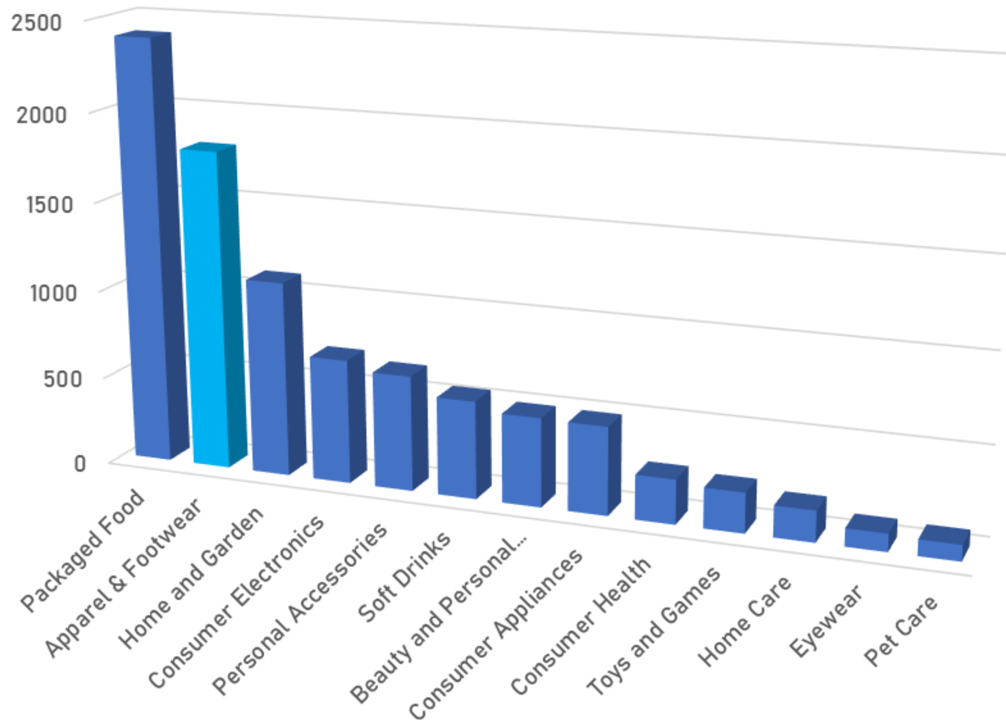
Much less discussed and understood are the macro trends at play in the industry. And change is afoot.

This article will attempt to unpick these changes. The analysis draws heavily on data. A second article will explore the causes and consequences for brands and consumers.

Macro Shifts in the Footwear Industry

With the noise around iPhone releases and celebrity tequilas, it is easy to forget how much of consumer wallets are dedicated to clothes and shoes. Apparel and footwear ($1.8trn) is second in size only to packaged foods ($2.4trn) as a consumer goods industry. Footwear (>$350bn) ranks somewhere between beer consumption ($500bn) and video games ($140bn).

Exhibit 1: Consumer Goods by Industry Size & Growth (2014-2019)



For years the shoe business was a largely traditional industry. Shoes were (and still are) mostly assembled by hand. Foreign manufacturers supplied to brands who sold to local retailers who sold to local consumers. Market forces have begun to catch up.

This article looks at ten of the world's biggest markets, making up a combined two-thirds of the global total, to understand these forces. These markets are the US, China, Japan, Korea, Mexico, Brazil, the United Kingdom, Germany, France and Canada. Data is mostly drawn from Euromonitor research group for the period 2014 to 2019.

Two major shifts are exposed.

Uneven-keeled

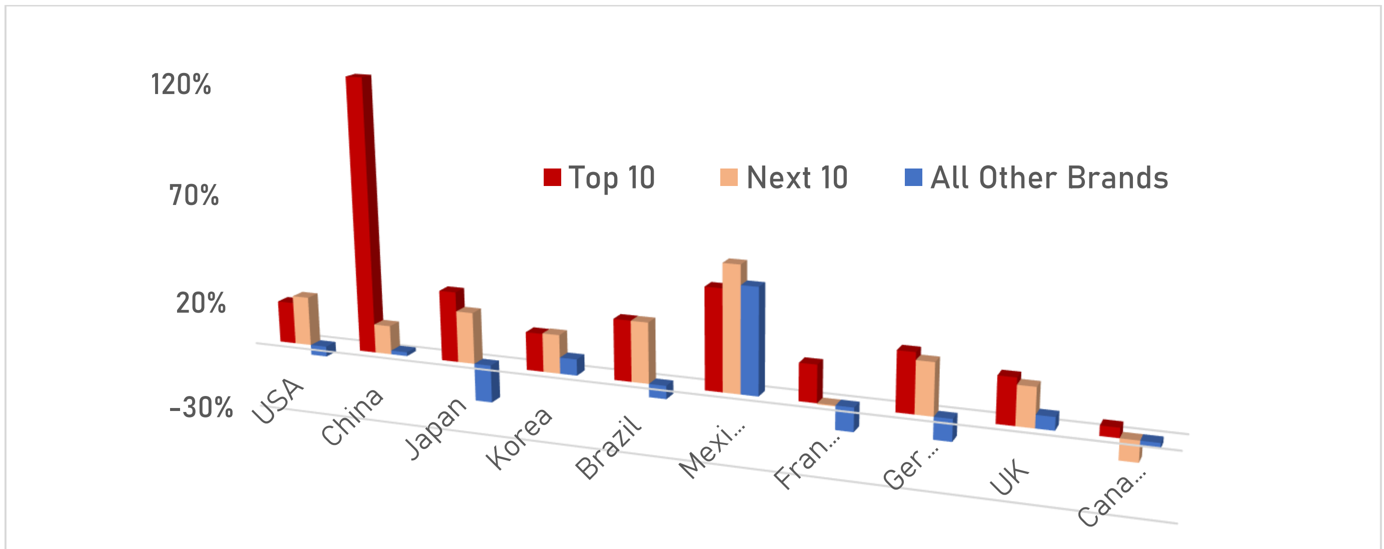
In the last five years the ten markets grew a total of +6%, ranging from low single-digit declines in France to +47% in Mexico. And while growth *between* markets was uneven, growth *within* markets was even more imbalanced.

Dividing each market into three tiers – one with the top ten brands, a second with the next ten brands, and a third with all other brands combined, including unbranded private label – shows the top twenty brands consistently outperformed the market, while the rest lost market-share.

Imbalances were most pronounced in China. The market overall grew +27%. The top ten brands grew +124%, the next ten +13% and all other brands were flat at +2%. The ten biggest brands captured 95% of the growth – worth an additional ¥94BN in 2019 (~US$13bn). China went from a fragmented market where the ten largest brands controlled just 20%, to a developed market like the US where they now control 35%. An incredible turnaround in just five years.

Imbalances were acute in the US too. The market grew +5% overall, the top ten brands grew +19%, the next ten +22% and the rest of the market contracted -5%. Looked at another way, the US market was generating an extra $3.6bn annually in 2019. The top 20 brands were generating an additional $5.7bn.

Exhibit 2: Total growth by brand tier (2014-2019)



Dynamics were strikingly similar across all the other markets. The top ten brands consistently gained most share, followed by the next ten. Market share is a zero-sum game so all the smaller brands lost market-share virtually across the board.

Exhibit 3: Market share variance by tier (2014-2019)

	Market share variance (percentage points)			Total market growth (%)
	Top 10 brands	Next 10 brands	All Others	
USA	+4.2	+1.3	-5.5	5%
China	+15.3	-1.0	-14.3	27%
Japan	+9.4	+1.7	-11.1	2%
Korea	+1.7	+0.5	-2.2	12%
Brazil	+6.5	+1.0	-7.5	11%
Mexico	-0.5	+0.4	+0.1	47%
France	+5.6	+0.1	-5.7	-2%
Germany	+6.8	+1.3	-8.1	4%
UK	+2.7	+0.4	-3.1	13%
Canada	+1.4	-0.6	-0.8	-1%
Median	+5.6	+0.4	-5.5	

Data: Euromonitor 2020

The Outlier

The lone outlier in the data is Mexico. There, the top brands performed no better than the rest of the market. Why?

One explanation is that as the least advanced economy of the group, its retail landscape is still fragmented and informal. Big brands were likely less able or willing to sell to scattered mom-and-pop stores.

Mexico has only one major department store (Liverpool) with 140 stores, and two sports chains (Marti and Innovasport) with 300 combined stores. For a population of 130 million that works out to one store for every 300,000 people. In comparison just seven American retailers – Macy's, JC Penney, Kohl's, Foot Locker, Dicks, Academy and Hibbett Sports – operate 7,500 stores combined, or one for every 40,000 Americans. Retail in Mexico will catch up but for now fragmentation is likely benefiting small local brands. Data from Indonesia, a

similar low-income, fast-growing economy (not included in this study) reveals similar dynamics. More research is needed in this area.

The second possibility is that data for Mexico is less accurate and all tiers were modelled at the same growth. Euromonitor is an expert in market data but modelling economies with large informal sectors and little public information is inherently difficult.

Thankfully the numbers overall are reliable and they paint a clear picture: market concentration is advancing globally.

Globalization rising

Wearing shoes is not a recent invention. People's need for it spawned local industries long before globalization. As the world shrank in recent years, local brands were increasingly exposed to international competition.

This is the second force altering the footwear industry.

Defining what qualifies a brand as "global" is not straightforward. Total sales are not always the best proxy. Anta, Li Ning and Xtep are billion-dollar brands but their footprint is limited to China. Arguably that disqualifies them.

For this article we measured "globalization" by how often a brand shows up in the top-twenty of each major market. The methodology is imperfect but it produces a working list of twenty brands referred to as "Global". They help shed light on market dynamics.

Being a leader in the world's largest footwear market appears to be a good predictor for overseas success – the Global brands closely resemble the twenty biggest US brands (half are American). Crocs, Brooks, Wolverine and Michael Kors are the only four that do not make the Global list. Instead Reebok, Gucci, Mizuno and Ecco with their far greater international footprint, are included.

Exhibit 4: Global brands ranked by times in top 20 in ten major markets (2019)

Brand	Global Brand Owner	# markets in top 20	# markets in top 10	Avg market share (%)	Position in US
Nike	Nike Inc	10	10	8.8	1
adidas	adidas Group	10	10	6.7	2
Puma	Puma SE	9	4	1.2	12
Skechers	Skechers USA Inc	8	4	1.7	3
Asics	Asics Corp	8	7	2.0	8
New Balance	New Balance Athletic Shoe Inc	7	4	1.4	6
Reebok	adidas Group	7	2	0.8	24
Converse	Nike Inc	6	2	0.7	10
Under Armour	Under Armour Inc	5	1	0.4	7
Gucci	Kering SA	5	0	0.8	41
Fila	Fila Holding SpA	4	3	0.9	17
Steve Madden	Steve Madden Ltd	3	3	0.5	4
Ugg	Deckers Outdoor Corp	3	1	0.4	5
Timberland	VF Corp	3	1	0.4	9
Vans	VF Corp	3	0	0.4	11
Jordan	Nike Inc	3	0	0.3	14
Clarks	C&J Clark International Ltd	3	1	1.2	15
Mizuno	Mizuno Corp	3	2	0.7	N/A
Columbia	Columbia Sportswear Co	2	1	0.3	20
Ecco	Ecco Sko A/S	2	0	0.3	N/A

*Out of 10

Data from Euromonitor 2020

The data is revealing:

- Nike and Adidas are the most "global" brands in footwear with top-ten (and 20) positions in every market
- Puma is next, followed by Asics, Skechers, New Balance, Reebok and Converse
- Global brands make up half (104) of the total top-twenty positions available – ranging from a high of 16 in the US to lows of 9 in five countries (Germany would be the low with 7 if Puma and Adidas were not counted as Global)
- Global brands are all either North American, European or Japanese
- Finally, a striking majority of brands have their roots in sports and not formalwear

And while Global brands are just half of the biggest brands, they are already capturing more than their fair share of the market. In China and the UK nine Global brands take 69% and 73% of the top-twenty's market-share. In Japan and Korea eleven brands make up 82% and 75% respectively.

Mexico is the lone outlier again, with Global brands only 29% of the top 20. In Brazil and Germany local brands remain close to half of the top twenty (47% and 46%). In Brazil protectionist policies have shielded local industry for years. German brands have shown resilience and skill to keep themselves in the game.

Exhibit 5: Global brands by market (2019)

	USA	China	Japan	Korea	Brazil	Mexico	France	Germany	UK	Canada
A. # of Global brands in Top 20	16	9	11	10	9	9	10	9	9	12
B. Market share (%)	41.4	30.1	42.0	40.3	27.0	13.6	24.3	21.2	40.4	19.6
C. Market share as % of Top 20	94%	69%	82%	75%	47%	29%	55%	46%	73%	60%

Data: Euromonitor 2020

Measured over time, the shift in the balance of power is even more pronounced. In the last five years Global brands increased their market-share everywhere (including Mexico, Brazil and Germany). In eight of the markets, Global brands captured more business than the top twenty brands. The direct implication is that big non-global brands lost share on aggregate.

Exhibit 6: Market share evolution (2014-2019)

	Market share variance – 2014-2019									
	USA	China	Japan	Korea	Brazil	Mexico	France	Germany	UK	Canada
20 Global Brands	+5.6	+18.5	+11.8	+6.0	+3.4	+2.6	+8.0	+5.4	+5.4	+4.0
20 Biggest Brands	+5.3	+14.3	+11.1	+2.2	+7.5	-0.1	+5.7	+8.1	+3.1	+0.8

Data: Euromonitor 2020

Looking closer at the data, growth in footwear was driven by a strikingly small number of brands:

- In the US – Nike, Adidas, Skechers, Vans and Under Armour grew by a combined $4.8bn, more than the entire market ($3.6bn)
- In China – Nike, Adidas, Skechers, Anta and Fila grew by RMB 87BN ($11.4bn), or 93% of the market's total growth
- In Japan – Adidas, Nike, Asics and New Balance added an incremental ¥131bn (US$1.2bn), 6 times as much as the market (¥23bn growth)
- In Germany – Adidas, Nike, Puma and Deichmann (a retailer) grew €845m, twice as much as the market (€426m)

The list goes on. Global brands are outperforming not just the market and small brands, but also their biggest domestic rivals. That has profound and wide-ranging implications for the footwear industry.

Summary

Two distinct but related macro trends are reshaping the footwear business.

Concentration measures how much of an industry is held by the biggest firms. It is how anti-trust authorities assess the competitiveness (or lack thereof) of an industry. Different metrics exist (the Herfindahl-Hirschman Index is worth looking up) but four or five-firm concentration, which measure the market-share of the top 4 or 5 firms, are most common.

This paper used ten and twenty-firm concentration to dissect the footwear industry. The reality is four, five, ten and twenty-firm concentration all show the same thing. Four-firm concentration increased by as much as twenty-firm concentration. As we just saw, that makes sense because the 4 or 5 biggest brands captured all the growth, while brands ranked 5 to 20 on average gained no market-share. Brands ranked 21st and under lost share.

Exhibit 7: Market concentration (2014-2019)

	4-firm concentration 2019 (market share %)	Variance in concentration (% points) 2014-19			
		4-firm	5-firm	10-firm	20-firm
USA	26.0	+4.3	+4.5	+4.2	+5.5
China	25.6	+14.2	+14.7	+15.3	+14.3
Japan	29.6	+9.0	+9.7	+9.4	+11.1
Korea	29.9	+4.8	+4.4	+1.7	+2.2
Brazil	35.5	+5.7	+5.9	+6.5	+7.5
Mexico	27.2	+2.6	+2.5	-0.5	-0.1
France	23.0	+3.7	+3.9	+5.6	+5.7
Germany	29.1	+5.3	+5.6	+6.8	+8.1
UK	32.3	+2.7	+2.4	+2.7	+3.1
Canada	19.0	+3.4	+3.1	+1.4	+0.8
Average	27.7	+5.6	+5.7	+5.3	+5.8

Data: Euromonitor 2020

Regulators typically consider four-firm concentration below 40% to represent a healthy market. By that measure the footwear industry is healthily competitive. Brazil at 35.5% is closest to the 40-70% range attributed to oligopolies.

However, if concentration continues to progress at the current pace, by 2024 China, Japan, Korea, Germany and the UK will all join Brazil at or near oligopoly threshold – a radical change from the fragmented industry of yesteryear.

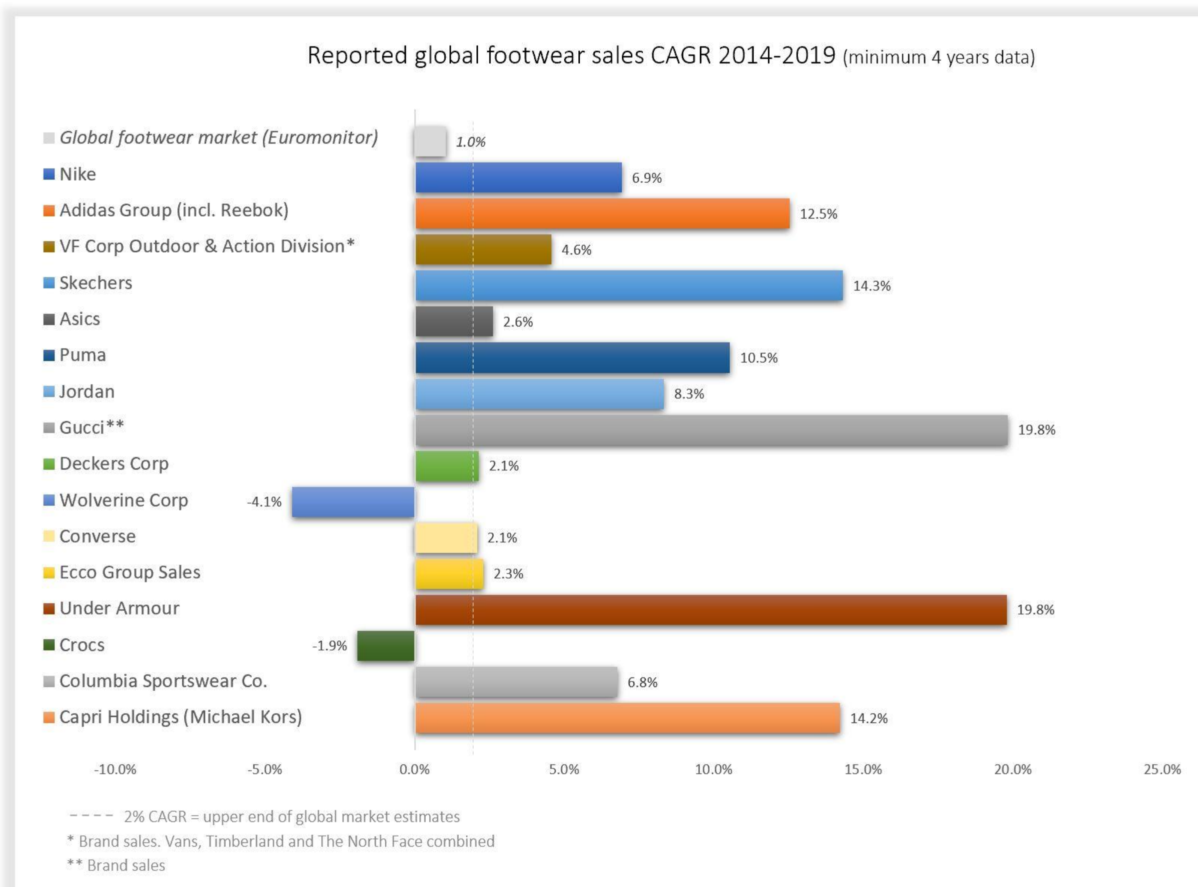
The second force shaping the footwear industry is globalization. Local champions continue to play an important role in many markets, especially where local know-how has existed for years, but their role is diminishing. ÷

Publicly disclosed sales – those reported to the stock market – confirm those findings. Global brands on aggregate vastly outgrew the global market (~1% CAGR) these last few years. The identity of those best performing brands comes as no surprise:

- Nike was a top 3 brand in all the markets studied. In five years it reported an increase in footwear revenue of almost $6bn (across its wholesale and DTC channels-the number would be even higher measured in retail sales like the rest of this article)
- Adidas, Skechers, Jordan, Puma and Under Armour reported an additional $7.5bn combined in 4 years
- VF Corporation and its Vans, Timberland and The North Face brands added $1.9bn (the three brands report together)
- Without forgetting luxury. Gucci reported an additional $3.8bn between 2014-18. About 20% of its sales are from footwear. Balenciaga footwear has become ubiquitous on the streets of major capitals worldwide

In footwear, the tide does not lift all boats equally.

Exhibit 8: Global brands outgrowing the global footwear market



Publicly available reports

Closing remarks

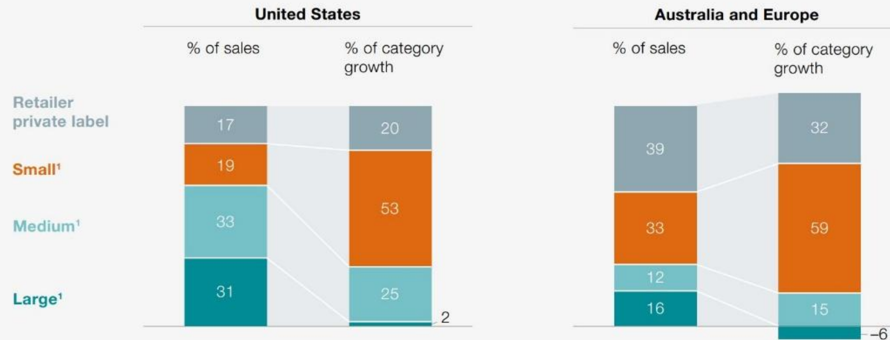
It may not come as a surprise to hear of an industry increasingly controlled by big global brands. After all, global brands dominate most consumer goods industries, from soft drinks to smartphones, consumer electronics, toothpaste, alcoholic beverages etc. But look closer and footwear is actually swimming countercurrent.

A recent study by McKinsey tracked the biggest 290 FMCG companies over a four-year period and showed that large companies (>$8bn in sales) consistently underperformed the market, while small ones (<$2bn) grew faster than any other segment[i].

McKinsey identifies a number of factors: millennials are deserting big brands; the spread of healthy and environmentally conscious lifestyles; challenger brands leveraging direct-to-consumer and digital marketing; the disruption of retail by online specialists and discount grocers; the rise of local brands in emerging markets, among others. These forces are reducing the power of large brands and the conglomerates behind them.

So why is footwear concentrating in the hands of fewer, more global brands? Is it fundamentally different or merely behind the curve? What are the implications for brands and consumers? Those questions will be explored in a follow up article: The Footwear Paradox.

Exhibit 9: FMCG sector global performance)



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[i] https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-new-model-for-consumer-goods