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THE LEATHER SHOE INDUSTRY IN SWEDEN: STRUCTURAL CHANGE*

Prepared by the

Regional and Country Studies Branch

Division for Industrial Studies

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Foreword

Within the framework of UNIDO's programme of industrial studies, the Regional and Country Studies Branch carries out surveillance of structural changes in industry in both developed and developing countries. These studies are aimed at providing information on the nature and direction of national structural adjustment processes as part of the changing international division of labour and on the policy approaches being pursued.

This paper provides a brief overview of structural changes and related policies in one particular industrial subsector in one advanced developed country. Sweden is an example of an industrialized country which, like most others, has seen an old-established footwear industry rapidly decline. The need for restructuring in Sweden and particular measures taken are of wider interest for several reasons. Firstly, some other developed countries are now facing the kind of steep decline which Sweden has already experienced, and the Swedish government and industry reaction could be therefore of general relevance to the structural adjustment debate. Secondly, some of the complexity of forces at work in the world footwear market are well illustrated by examining the Swedish case. Thirdly, the restructuring measures taken, the way in which the organization of the sector has altered and the state of the market for new supplies could be of interest to footwear manufacturers in developing countries.

The paper is based on a survey carried out for UNIDO by Mr. Carl Thurn of CAWI International, Sweden.

I. INTRODUCTION: THE INTERNATIONAL SCENE

It is only in the last decades that leather shoes have become a feature of international trade in any quantity. Until the mid-1950s, the industry was characterized by domestic production for domestic use. Only specialized shoes or very high quality shoes were traded internationally, with the value of this trade being very small.

In recent years international trade in the sector increased significantly. World exports of leather footwear have grown from around 400 million pairs in 1970 to approaching 650 million in 1982, at an annual average growth rate of 4.1 per cent. By contrast, world production has grown by an average of 1.2 per cent. The industry thus became more trade-oriented, with increasing participation by developing countries. Several developing countries showed a remarkable growth of production and exports, notably in South and South-East Asia, where exports grew from 16.5 to 43.5 million pairs between 1970 and 1982, and in Latin America, where the increase in exports was from 6.6 million pairs to 52.6 million pairs in the same period.

Import penetration by both developed and developing countries had significant effects in the developed market economies as a group. The import share of apparent consumption rose strikingly in most of these. In 1970 the share was 20.3 per cent. By 1982 it had risen to 42.2 per cent. The production of leather shoes in these countries was in aggregate lower in 1982 than in 1970, having experienced an annual decline of 1.2 per cent on average.

Of developing countries, Brazil's performance has been very remarkable. In 1983 84 alone, exports to the United States grew by 70 per cent. It is now the second largest foreign supplier of shoes to the United States. It has about 3,500 shoe factories producing on the basis of abundant supplies of leather. It thus contrasts with the other important shoe manufacturers, the Republic of Korea and Taiwan, Province of China, whose real successes have been in non leather shoes. The supply of raw material is one key factor: indeed, the Republic of Korea itself produces only enough leather for 16 days' shoe production. Together with Taiwan Province, India and Brazil, however, it earns 74 per cent of the total developing country export receipts from leather footwear. Nevertheless Brazil's performance points to two important ingredients for success: fashion and raw materials.

Components of style include contours, colour, texture and "feel". All are changing rapidly: "the market for medium- and high-priced shoes is extremely style-conscious and, as in clothing, new fashions are subject to shorter and shorter cycles."[1/] The implications are, in the first place, that it is vital in competing in the fashionable shoe markets to have the best designers. The second implication is that production lines have to be altered more and more quickly, due to the diminishing cycles. Thus the equipment used in manufacturing leather shoes has to be adaptable and the production process flexible enough to meet new demands.

All these changes have had their effects on the distribution of world production. In 1970 developed countries produced 76.5 per cent of the world total of leather shoes.[2/] By 1980 this had fallen to 65.0. The increase that took place in world production over this period was essentially due to the developing countries. However, the apparent stagnation in total developed country production masks significant differences at the country level. Italy's production continued to grow, if relatively slowly, and Spain and several centrally planned countries of Europe grew rapidly in this field.

As in many other industries, the altered patterns of production and trade have been associated with increased protectionism. Non-tariff measures especially have increased. More positive responses to changes in comparitive advantage have been seen in schemes of innovation and modernization in some developed countries, often at the initiative of producer groups, and usually with government support. Examples include France, the United Kingdom, the United States, Canada and the Federal Republic of Germany.[3/]

1/ World Bank Country Study "Korea: Development in a Global Context", 1984, p.65.

2/ Based on data from "The Leather and Leather Products Industry: Trends, Prospects and Strategies for Development", Sectoral Studies Series No.11, Volume 1, UNIDO/IS.442, 17 February 1984, p.26, Table 2.7. (World coverage incomplete).

3/ ILO "The Impact on Employment and Income of Structural and Technological Changes in the Leather and Footwear Industry", Geneva 1985, pp 45-47.

II. THE INDUSTRY IN SWEDEN

The background

The 1940s and 1950s were boom years for Sweden's shoe manufacturing. The mid-1960s saw the beginning of a steep downward trend in production. Stagnant consumption in the 1960s and 1970s, combined with increased imports led to a dramatic reduction in the Swedish footwear production. Between 1960 and 1980, the number of leather shoes produced fell by 75 per cent. By contrast the volume of all other footwear produced (except clogs) decreased by only 25 per cent. Over the same period, imports of shoes increased by 400 per cent, and in 1984 imports of all shoes amounted to 97 per cent of apparent consumption. The import share of leather shoes was 92 per cent, having risen each year from 83 per cent in 1980.

The reductions in production and consequently in employment have induced a variety of government measures over the years, attempting to counteract these negative features and also to ensure the domestic supply of what is regarded as an essential commodity. A body known as the Shoe Delegation was set up in 1977. It led to the formation of a holding company - called the Shoe Group (Skogruppen) - consisting of five producers and a wholesaler. It led also to the establishment of a Shoe Institute, intended to strengthen the competitiveness of the Swedish footwear industry and to ensure its survival in the long run.

State financial assistance to the leather shoe industry amounted to about 125 million Swedish kronors over the period 1979 to 1981. The basic thinking behind the restructuring assistance was that it would result in an industry able to survive without further aid, at a production level of between 2.0 and 2.5 million pairs of leather shoes a year. Most of the financial assistance given to the industry was used for investment in buildings and machinery, with hardly any going to improvement in areas such as marketing.

Development since 1980

Since 1980, production has continued to decline, falling to 2.3 million pairs of leather shoes in 1984. The expectations of the Shoe Delegation were not realized: the measures taken did not, in fact, result in the secure and self-sustaining restructured industry which had been hoped for. Although hardly any state aid was given in 1981/82, the succeeding years have seen its resumption. This has amounted to 45 million kronors in the period 1982/83-1984/85. In addition, a major component of the strategy, the Shoe Group, ended in failure, bankruptcy and dissolution.

This failure appears to have had several causes, including incorrect investment, management difficulties, and increased competition, especially domestically, in one of its specializations, safety shoes.

Investments were made in new buildings and machinery and thus increased capital-intensity. But the scale of production was not sufficient to make these investments pay. Furthermore, devaluation of the currency made the investment process more expensive. Again, there was over-manning in the wholesale part of the Group, and co-ordination of production, purchasing and deliveries within the Group appears to have been inadequate. There was also a reluctance on the part of the shareholders to increase their investments above those made originally. Finally, state intervention led to its own complications: an agreement with the Board of Economic Defonce led to over- production and over-capacity.

More positive, or at least less negative features of recent developments include the fact that the steep decline in the leather shoe industry appears to have been arrested, with production levels being more or less constant since 1980. In addition, the more specialized safety and work shoe sector is in fact stronger than before. The market for some of the products of this sector has diminished: restructuring of industry in Sweden in the areas of shipbuilding, steel and mining have all had their effect But new niches have been found in other areas such as specialised shoes for doctors, nurses, police etc.

The present situation: production and trade

Table 1 and Figure 1 provide an overview of the historical behaviour of the leather shoe sector in physical terms. Table 2 gives recent value figures in current prices. The present situation is now briefly summarized.

The consumption of all types of shoes is about the same at present as it was at the beginning of the decade, with perhaps a slight upturn during 1984 in the consumption of leather shoes. Domestic production has continued to decline, if at a lesser rate recently. Imports continued at their high levels while exports continued to be small. Overall, the 1980s did see a stabilization, but the outlook continues to give anxiety to domestic producers.

In more detail, the situation with respect to consumption is as follows. Total apparent consumption of all shoes (i.e. production plus imports less exports) was about 27.8 million pairs in 1984, of which leather shoes were 16.5 million, or about 60 per cent of the total. The other types of shoes are textile (25-30 per cent), rubber (about 5 per cent) and synthetic (about 8 per cent). The shares in value terms are of course different: thus leather shoes are about 75 per cent of the total value of shoe consumption. This total value increased by 37 per cent between 1980 and 1984 in current prices, contrasting with inflation of 60 per cent over the period. Behind these figures is the fact that leather shoe import price increases were low and retailers mark ups were moderate.

As for production, the fall amounted to 8 per cent over 1983 and one of 15 per cent over 1982. Leather shoe production was about 2.0 million pairs in 1984 (the 2.3 million shown in Table 1 includes about 0.3 million pairs of slippers). In current prices leather shoe production was about 62 per cent of the total value of all shoe production in 1984.

Production of all shoes in 1980 amounted to 8.0 million pairs, with leather shoe production of 2.8 million pairs. Production of all types of shoes decreased during the period 1980-1984. Clogs, however, decreased more than all the others, from four million to under two million pairs. Also, the shares of different types of shoes in total production in 1984 changed with

respect to 1980. Leather shoes (including safety shoes and slippers) were about 46 per cent (compared to 35 per cent in 1980). Textile shoes were about 8 per cent (5 per cent in 1980). Rubber shoes (including boots) were about 8 per cent (8 per cent), synthetic shoes 0 per cent (1 per cent), and clogs were 38 per cent (51 per cent).

What proportion of the total supply of leather shoes was met by this production? In 1984 the share of low shoes and sandals was about 8 per cent (15 per cent in 1980), boots about 10 per cent (23 per cent), slippers about 57 per cent (48 per cent), and safety shoes about 93 per cent (89 per cent). Thus, while imports had made little impact in the last category, they were overwhelming in the others. Of the total quantity produced in 1984, almost half of it consisted of shoes for men, one third of shoes for women and one fifth of shoes for children. More detailed figures on these distributions can be found in tables 3 and 4.

The position of safety and professional shoes is particularly striking. Total production of safety shoes/professional shoes has increased by a quarter, giving a share of 80-85 per cent of the total domestic safety shoe market and the above mentioned 93 per cent of total supply.

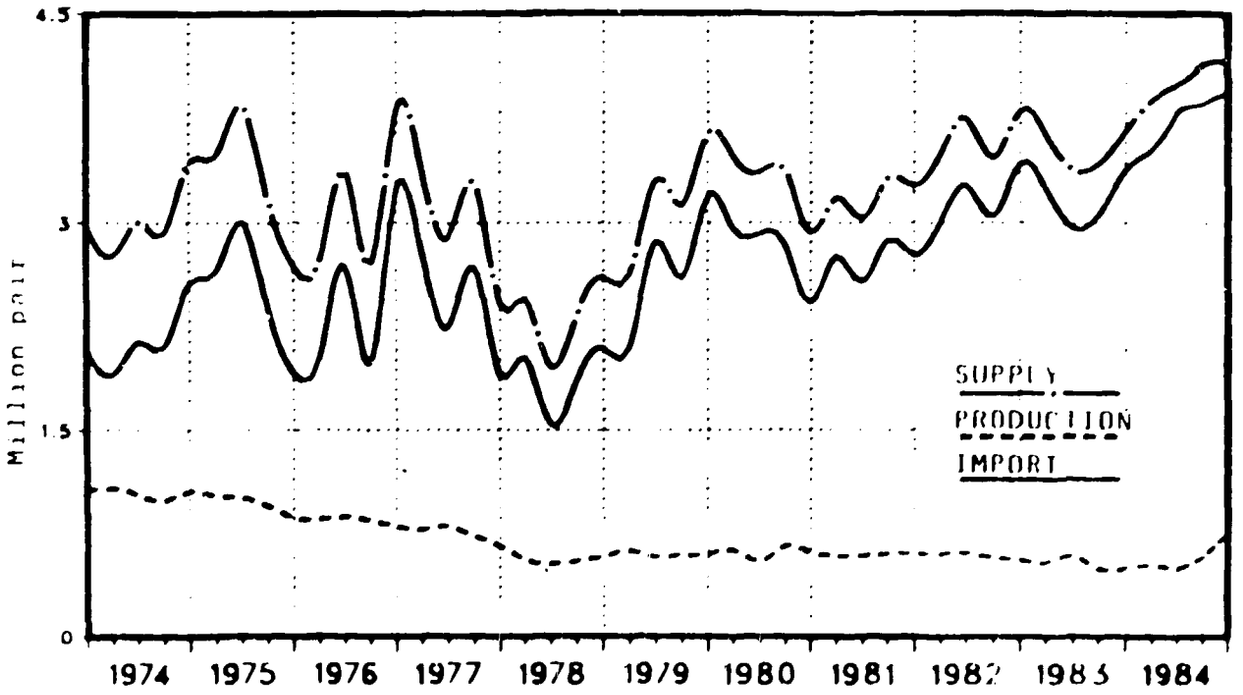
Table 1: Consumption, production, import and export of shoes, 1960-1984
(million pairs)

	Consumption		Production		Import		Export	
Year	Total	Leather	Total	Leather	Total	Leather	Total	Leather
1960	24.0	15.7	18.7	11.8	6.6	4.0	0.6	0.1
1965	30.4	18.6	18.4	11.3	13.5	7.6	1.4	0.3
1970	30.6	18.0	15.1	7.1	20.1	11.7	4.7	0.8
1975	27.1	13.6	13.0	4.0	19.8	10.2	5.7	0.7
1980	27.4	14.0	8.0	2.8	25.3	11.7	5.8	0.5
1981	27.2	13.5	9.0[a/]	2.8	23.3	11.3	5.1	0.7
1982	27.4	14.9	7.6	2.7	24.9	12.9	5.0	0.6
1983	25.6	14.6	6.2	2.5	24.3	12.9	4.9	0.8
1984	27.8	16.5	5.1	2.3	27.0	15.2	4.3	1.0

Source: SCB-statistiska meddelanden Iv. (Statistical reports Iv).

a/ The increase from 1980 includes a peak in the production of clogs.

Figure 1: Quarterly production, import and supply of leather shoes excluding slippers in Sweden, 1974-1984
(million pairs)



Source: SCB statistiska meddelanden Iv. (Statistical reports IV).

Table 2: Production, import, export and domestic demand in current prices (million SEK)

	1980			
	Production	Import	Export	Domestic demand
Leather shoes	262	844	44	1,062
All shoes	499	1,194	237	1,453
Leather shoes as percentage of all shoes	47	74	19	73
	1983			
	Production	Import	Export	Domestic demand
Leather shoes	262	1,133	68	1,327
All shoes	462	1,552	237	1,777
Leather shoes as percentage of all shoes	56	73	29	75
	1984			
	Production	Import	Export	Domestic demand
Leather shoes	252	1,377	96	1,533
All shoes	403	1,823	234	1,992
Leather shoes as percentage of all shoes	62	76	41	77

Sources: Statisticka meddelanden Iv. (Statistical reports Iv).

Thus, from a structural point of view, the Swedish shoe industry is divided into two major sectors. There is a consumer oriented sector (shoes sold by retailers, department stores, mail order etc.) and there is a safety shoe/professional shoe sector (shoes mainly sold directly to industry and the consuming sectors in question, without intermediaries). The safety shoe sector is a very important part of the shoe industry in Sweden, with 550-600 thousand pairs of pure leather shoes and 200,000 pairs of slippers each year.

The resilience of safety shoe production is one striking feature of recent developments. Another is the reponse of consumer shoe manufacturers in terms of design. Compared to 1980, production in 1984

Table 3: Production, import, export and domestic demand of leather shoes in 1980 and 1984
(thousand pairs)

	1980					1984				
	Production	Import	Export	Domestic demand	Production percentage share of domestic demand	Production	Import	Export	Domestic demand	Production percentage share of domestic demand
Slippers	302	406	77	631	48	323	320	78	565	57
Sports footwear	25	710	50	685	4	7	686	49	644	1
Safety shoes	455	117	60	512	89	589	158	84	633	93
Low heeled shoes and sandals										
- for men	561	2,634	65	3,130	18	295	3,414	147	3,562	8
- for women	508	4,612	103	5,017	10	385	7,154	400	7,139	5
- for children	285	658	27	916	31	256	876	47	1,085	24
Total for this group	1,354	7,904	195	9,063	15	936	11,444	594	11,786	8
Light and heavy ankle-boots and high-boots										
- for men	196	881	69	1,008	19	68	403	36	436	16
- for women	302	1,221	61	1,462	21	126	1,815	111	1,830	7
- for children	29	299	6	322	9	77	253	6	324	24
- others	171	120	18	273	63	231	99	58	272	85
Total for this group	698	2,521	154	3,065	23	502	2,570	211	2,862	18
	2,834	11,658	536	13,956	20	2,357	15,178	1,016	16,519	15

Source: Statisticka meddelanden Iv. (Statistical reports Iv).

Table 4: Production of leather shoes for men, women and children
1980 and 1984
(thousand pairs)

	1980				1984			
	Men	Women	Children	Total	Men	Women	Children	Total
Slippers	13	128	161	302	16	146	161	323
Sports footwear	25	-	-	25	6	1	-	7
Low-heeled shoes	511	480	276	1,267	272	377	254	903
Sandals	50	28	10	88	23	8	2	33
Light and heavy ankle-boots	113	37	12	162	42	5	1	48
Safety shoes	442	13	-	455	577	12	-	589
High boots and semi-high boots	83	265	17	365	26	121	76	223
Others	88	83	1	172	82	139	10	231
Total	1,325	1,034	477	2,836	1,044	809	504	2,357

Source: Statistiska meddelanden Iv. (Statistical reports Iv).

now includes more new models for younger people, and also more fashionable and elegant women's shoes. Some producers seem to have realized that compared to imported shoes their collection has not been modern enough. In some cases designers have been hired from other countries. While consumers may actually need shoes suitable for the climate or for the shape of foot found in the country, they may nevertheless want something different, and there appears now to be an increased readiness on the part of the Swedish producers to provide more of what the market is asking for in terms of fashion and design. However, to keep up with rapidly changing fashions is a difficult task.

The safety/professional shoe sector has some significant advantages over the consumer-oriented shoe sector. These include the following:

a) It has a well-established and dominant position in the domestic market.

b) Due to differences in safety shoe norms between Scandinavia and the other parts of Europe it is very difficult for imported safety shoes to sell in Sweden. (However, the reverse is also true).

c) Because production can take place on a scale that is large by Swedish standards, it can more easily benefit from new techniques and equipment.

d) Stocks can be kept without going out of fashion, since there are no fashion trends in the safety/professional shoe market.

e) Sales are made directly to the final users.

Raw materials

Swedish shoe production is mainly based on imported leather. The domestic tanning industry, in turn, exports most of its leather production (about 80 per cent). Swedish leather in general has too smooth a finish for the kinds of shoes produced. Since 1981 consumption of domestically produced leather has decreased by about 30 per cent, while total tannery production has increased by about 20 per cent.

Recent years have seen much higher investment in tanneries than in the leather shoe industry. Total investment in the latter was 9 million SEK in 1983 and in 1984, while for tanneries it was 20 million SEK and 33 million SEK, respectively.

Organization of the industry

A survey by the Board of Economic Defence indicates that there are about 24 shoe producers operating, with a few other very small production units. Data from trade union registration suggests that total employment at the beginning of 1984 was about 1,000. In 1984 the number decreased by about 120. The decrease in the number of employees is in line with that in production, with yearly production per worker being on average 2,000 pairs. The number of production units, including one-man units, was estimated to be 66 in 1983, having fallen from 89 in 1980.

The restructuring of the Shoe Group, whose failure in its original form was referred to above, has led to the revival of individual units, in some cases with the former owners, in others with new owners.

In the period 1982-1984, seven of the major shoe producers went bankrupt including several producers of women's shoes. The majority are however back in business, with reduced production and a smaller product mix. In one case the workers have taken over ownership.

The other sector, the safety/professional shoe sector has quite a different corporate structure. It is principally controlled by the Arbesko company, either owned by them or run in close co-operation with them.

Arbesko accounts for more than 80 per cent of the safety shoe production and about 25 per cent of the total domestic leather shoe production. Within the group four production units are wholly owned by Arbesko and three are domestic sub-contractors. Another production unit was originally part of the Shoe Group and is now (since February 1984) co-owned by a local investment company and a Finnish shoe producer.

Location

Many of the shoe companies are situated far from cities. This means that labour supply can be scarce, but competition for available labour can be less intensive. The shoe industry is still concentrated in the northern part of Sweden, in the district of Kramfors-Mjällum. The district of Oerebo-Kumla in central Sweden has been hard hit by several closures in the last 5-10 years but is still the chief area for safety and professional shoes. It also has an important unit for children's shoes.

Training

There is no organized vocational training. There is thus no potential for enlarging the labour force, not even in the main shoe districts.

Profitability

One survey indicates that the profitability situation in industry is as follows: from a total of the 24 largest shoe manufacturers, 17 would make a loss if they had no economic aid, 7 run with a loss in spite of the economic aid and 7 would make some profit even without the aid.

The seven companies without loss before aid would, however, have made a very small profit in relation to their turnover. For smaller companies the picture would be even worse. It is the producers of safety and professional shoes who probably consitute the majority of the profitable companies. In fact it is estimated that, overall, the Swedish shoe industry would need aid amounting to 10 per cent of turnover, i.e. about 25-30 million SEK a year over and above the loans and support already given. The Board of Economic Defence does not want such a solution, and the "working group" is intended as an alternative. In both 1983 and 1984 about 9 million SEK was invested in the shoe industry, mainly in machinery and equipment (including modern stretching machines and computerized sewing machines).

Imports

In the period 1980-1984, Swedish imports of footwear amounted to about 25 million pairs a year, with a peak of 27 million in 1984. Leather shoe imports in the period have increased from about 11 million pairs in 1980 to about 15 million pairs in the "peak-year" 1984.

From the product point of view, the import structure is roughly as follows (1984):

	Per cent of total import	
	1984	1980
- 15.2 million pairs of leather shoes	56	46
- 8.2 million pairs of textile shoes	30	30
- 1.3 million pairs of rubber shoes	5	9
- 2.2 million pairs of synthetic shoes	8	13
- 0.1 million pairs of clogs		
- 0.1 million pairs of other shoes		

Thus over the period the share of leather shoes in total imports has increased, and the shares of rubber and synthetic shoes has declined.

More detailed figures on imports are given in Table 5, and on their origin in Table 6. Figure 2 gives details of the major countries' shares of the Swedish market. Figure 3 shows the level of the market, in terms of average price per pair, at which they are operating. It should be noted that the average price of shoes from Italy, the largest supplier, is almost identical with the average for the market as a whole.

In 1984, 92 per cent of the total supply of leather shoes in Sweden was imported. The same figure in 1980 was 84 per cent. Since 1980 the number of pairs imported has increased by 32 per cent while the total value of all shoes imported has increased by 63 per cent.

The origins of these imports is as follows: in 1984 the EEC and EFTA accounted for more than 90 per cent of the total value of leather shoe import (about the same figure as in 1980). In this group Italy was the largest supplier, with 44 per cent of all leather shoes imported in 1984. But in one year (1984) Portugal increased its leather shoe export to Sweden by almost half of the total Swedish production the same year.

Table 5: Import of shoes 1960-1984
(million pairs)

Year	Leather	Textile	Rubber (including) boots	Synthetic	Clogs	Other shoes	Total
1960	4.0	0.5	0.5	0.4	0.2	1.0	6.6
1965	7.6	3.2	0.8	0.6	-	1.3	13.5
1970	11.6	2.6	2.3	2.1	0.1	1.4	20.1
1975	10.2	4.0	2.5	2.5	0.5	-	19.7
1980	11.7	7.6	2.4	3.3	0.2	0.2	25.4
1981	11.3	7.5	1.5	2.7	0.2	-	23.2
1982	12.9	6.7	1.7	3.4	0.1	0.1	24.9
1983	12.9	7.1	1.1	2.9	0.1	0.1	24.2
1984	15.2	8.2	1.3	2.2	0.1	0.1	27.1

Source: SCB-statistiska meddelanden Iv. (Statistical reports Iv).

Import of leather shoes from developing countries has been and is relatively small, although there has been an increase in imports from Taiwan Province (about 70 per cent in volume and about 185 per cent in value). However, it is worth noting that the total leather shoe import of about 15 million pairs a year corresponds to about 7,500 job opportunities (assuming one worker produces about 2,000 pairs a year).

Exports

Exports of footwear from Sweden had a peak in 1980 and have been declining since then. The decrease is due mainly to drastic falls in the export of clogs. The export of leather shoes, however, has increased relatively heavily - by almost 100 per cent in the period 1980-1984 (see Tables 3 and 7 for the structure of leather shoe exports). In 1984 the total number of shoes exported amounted to 4.3 million pairs, of which 1.0 million were leather. The value in current prices of the total export in 1984 amounted to 234 million SEK, of which leather shoes were 96 million SEK.

Table 6: Origin of imports of leather shoes in 1984

	Volume		Value			Average price	
	1,000 pair	a/ (± %)	1,000 SEK	a/ (± %)	% of total 1984	SEK/ pair	a/ (± %)
Total	14,677	(32)	1,339,370	(63)		88.29	(20)
EEC	8,592	(45)	850,538	(93	64	98.99	(33)
- Denmark	1,002	(22	128,546	(62)		128.23	(33)
- Federal Republic of Germany	492	(72)	61,293	(92)		124.69	
- Great Britain	193	(-55)	26,927	(-32)		139.80	(52)
- Ireland	58	(-33)	2,353	(-77)		40.26	(-66)
- France	380	(-23)	32,660	(5)		85.96	(36)
- Italy	6,392	(69)	591,387	(139)		92.52	(42)
EFTA	4,110	(21)	374,086	(30)	28	91.03	(7)
- Norway	52	(-71)	5,708	(-67)		110.22	(11)
- Finland	501	(-55)	82,950	(-37)		165.56	(38)
- Portugal	3,197	(94)	233,119	(149)		72.93	(28)
- Switzerland	37	(-98)	10,648	(-72)		284.50	(245)
- Austria	323		41,655			129.06	
CENTRALLY PLANNED ECONOMIES	500	(11)	24,570	(59)	2	49.13	(44)
- Czechoslovakia	392	(31)	18,348	(104)		46.76	(56)
DEVELOPING COUNTRIES AND REGIONS	686	(14)	34,961	(21)	3	50.94	(6)
- Taiwan Province	377	(72)	19,939	(184)		52.91	(65)
- Republic of Korea	89	(-61)	6,570	(-44)		74.17	(43)
- Brazil	66	(-25)	3,556	(-54)		53.88	(-39)
OTHER COUNTRIES	789	(3)	55,215	(19)	4	70.01	(15)
- Spain	530	(95)	33,175	(91)		62.62	(-2)
- Yugoslavia	200	(-37)	11,796	(-25)		59.00	(20)
- USA	47	(-70)	9,261	(-21)		198.78	(163)

Source: The Swedish Board of Commerce.

a/ Figure in brackets represent the percentage change since 1980. Countries exporting fewer than 50,000 pairs to Sweden are excluded.

Figure 2: Imported leather shoes: percentage share of the Swedish market in volume terms, 1984

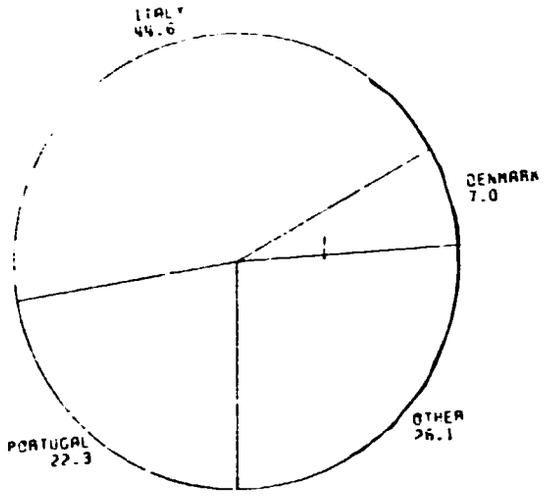


Figure 3: Imported leather shoes: average price per pair in Swedish kronors, 1984

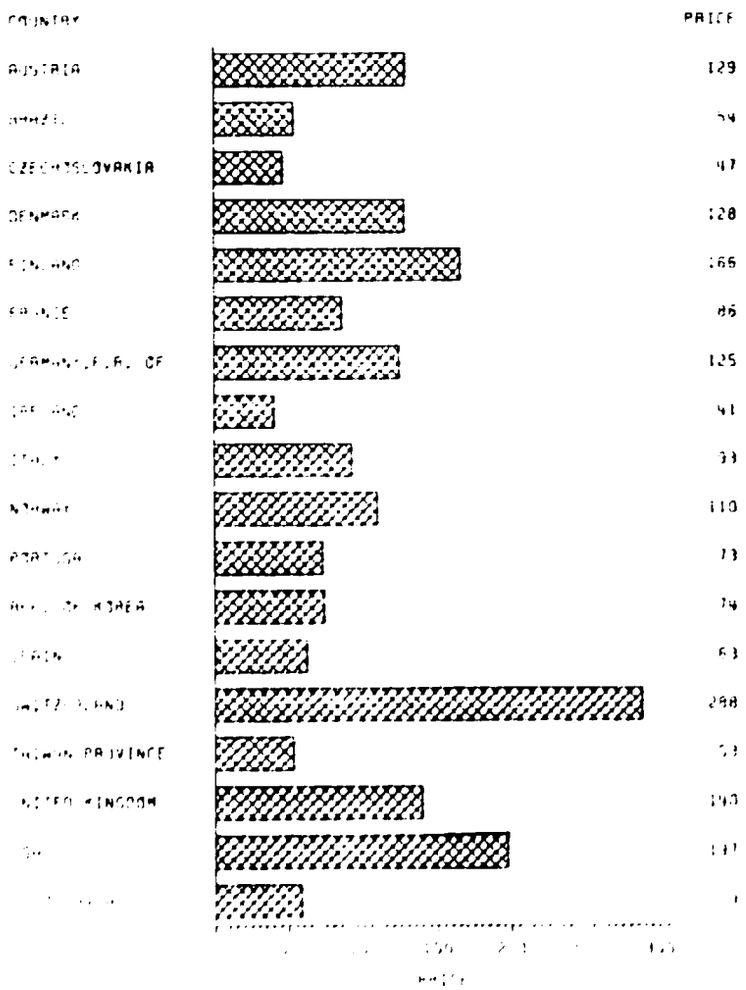


Table 3 shows that low shoes and sandals for women were an important part of exports. They were about four times as large in 1984 as in 1980, total leather shoe exports being about twice the 1980 level. Also worth noting from Table 3 is that the safety/professional shoe sector, which represents about a quarter of total domestic leather shoe production, has exports of only about 84,000 pairs a year (less than 10 per cent of total shoe exports).

Overall, however, these relatively high export figures should not be allowed to obscure the fact that Sweden's shoe exports are in fact limited to a few countries having the same or similar characteristic in terms of climate, taste, traditions and shape of foot. No general adaptation to exporting has taken place, as the lack of success in exports of the otherwise buoyant safety/professional shoe sector shows. Moreover, the export figures include re-exports of imported shoes.

Recent trends in corporate structures, processes, products and trade

Most units are becoming smaller and more specialized, especially those restructured after bankruptcy. This restructuring has included the bringing in of new ownership and management. One case is of a part of the old Shoe Group, and another is the safety shoe component of the Group, which now co-operates with a Finnish company. These two cases are regarded as test cases for any future success in the industry. Today there is no grouping similar to the old Shoe Group for consumer oriented shoes. Production as well as employment still has a downward trend, and the situation seems in most cases rather critical, apart from the safety shoe sector. One or two small specialised companies (e.g. special boots) are performing better than the normal company.

While top management in some cases has improved as a consequence of the bankruptcies and the restructuring process, there are future problems for the industry in finding the best foremen and supervisors. Also, the wage structure seems to be rather unfavourable, with the average pay of footwear workers being 91 per cent of that of all industrial workers.

Although retailers are still cautious about dealing with producers whose position is uncertain, there is now improved communication and co-operation, and joint marketing campaigns (including one-third state support) are now a feature of this.

Table 7: Exports of shoes 1960-1984
(thousand pairs)

Year	Leather	Textile	Rubber (including) boots	Synthetic	Clogs	Other shoes	Total
1960	120	110	290	10	30	50	610
1965	300	160	460	50	270	130	1,370
1970	750	150	880	20	2,760	100	4,660
1975	680	950	490	50	3,570	10	5,740
1980	556	642	184	117	4,268	86	5,828
1981	671	684	138	137	3,394	50	5,074
1982	650	482	178	173	3,525	33	5,041
1983	764	723	175	188	3,031	30	4,911
1984	1,016	780	120	150	2,227	27	4,320

Source: SCB-statistiska meddelanden Iv. (Statistical reports Iv).

As to production processes, there is an increasing trend towards the purchases of inputs and their "assembly" at the factory. Furthermore, the parts are increasingly being imported, up to 100 per cent in some cases.

A negative tendency is the deterioration in the industry's infrastructure. This combination of support skills and services is being damaged because the domestic industry is too small to sustain it: the present production level of 2 million pairs seems a critical one from this point of view, and anything much smaller could be fatal for the infrastructure.

Specialization is the most noticeable trend in product mix. For most units it is essential to their survival, but because of the small scale of most units this may not be enough. Safety shoes have benefited from increased public awareness of their importance and professional shoes still have considerable potential. It is women's shoes that have lost most ground. There are attempts, especially by the new managements, to improve the styles of shoes, particularly men's shoes, by bringing in Italian designers.

Trends in trade

The present import structure of leather shoes seems likely to remain, with increased emphasis on Portugal. The developing countries' prospects for increase appear to be limited. The consumption and import peak of 1984 may be a temporary one. Exports of leather shoes showed an upturn in 1984. This is not due to safety shoes, whose producers concentrate on preserving and expanding their domestic market.

Sub-contracting

Sub-contracting appears to be gradually increasing. Internationally, it is focussed on Portugal and Italy, and carried out by the wholesalers. Domestically it is most noticeable in children's shoes.

In Portugal, some producers produce entirely for Swedish wholesalers. Furthermore, pure sub-contracting is on the increase: only about 10 per cent of the main wholesalers' imports are bought without discussions before production.

Apart from Portugal and Italy, sub-contracting has taken place in the Republic of Korea and in Taiwan Province of China. Prospects for other developing countries appear limited, because the requirement is usually for "established" and "qualified" suppliers.

Trends in technology

Although new technologies exist or are under development in the world industry, the approach in Sweden has been cautious. Major new technologies are economical only with a scale of production too large for most of the existing units. In any case the difficult situation with respect to profitability discourages new investment, whose levels

in recent years have been very small, amounting to 8 million SEK for machinery and equipment in 1983 and 7 million SEK in 1984. Since these figures are in current prices the falling-off is even greater. The figures contrast with 16 million SEK and 28 million SEK for the tanning industry's machinery and equipment in 1983 and 1984.

The new technologies in the area of automated or computer aided grading, cutting, production planning, and design, are recognized but in general not in use. On the positive side it should however be noted that robotics development is believed to be under way in co-operation with Danish producers, in order to automate the manufacture of shoe bottoms and the assembly of shoes, and that automated sewing machines are in use in the manufacture of children's shoes. The working group supported by the Board of Economic Defence is also expected to be a field for experimental automation of the production process, and may help the industry in general to keep in touch with new developments.

As to developments in materials, there is no trend of substitution for leather by synthetics, although a project is under way between the Board of Economic Defence and about ten producers to examine the production of shoes made of felt. But the objective here is a strategic one, intended to substitute for leather imports in times of crisis.

Government policy

Apart from quotas on imports from some centrally planned economies, Sweden has an open trading system. In spite of the decline of the industry and the enormous import penetration, no protectionist measures have been introduced. Anti-dumping action is not taken either, even against very cheap imitations of typical Swedish branded shoes.

The main rationale behind the (rather limited) government action has been a political one, intended to maintain essential supplies and the capacity to produce them in order to meet its needs in times of crisis. Accordingly, a production target range of 2.0 to 2.5 million pairs a year was set in 1977. Such a level would allow the

preservation of capacity sufficient for 10 to 15 million pairs a year in an emergency. This target, while not changed in value, has become less binding since 1981, when it was re-defined as a level to be aimed at. A revised strategic planning system will be put forward in 1987.

The government agency at present involved is the Board of Economic Defence, which was formerly under the Ministry of Affairs but is now under the Ministry of Defence. Financial aid has been resumed after the realization that the earlier hopes of a self-sustaining industry would not be realized. The state economic aid given to the Swedish leather shoe industry in recent years has been as follows:

1982/83	12.9 million SEK
1983/84	21.0 million SEK
1984/85	11.5 million SEK

The comparable figure for the period 1979-81 was 125 million SEK.

For the next three years (1985/86-1987/88) about 14 million SEK will be given to the industry, and is already almost allocated, based on a 5-year agreement with individual companies. There will also be 10 million SEK, going to the working group, over the next two years.

The working group is a body headed by the Board of Economic Defence, with members from the main companies in the sector as well as trade union representation. The direct impetus for the formation of the working group has been the alarming financial position of many shoe companies. The money allocated to the working group is to be spent on steps for the survival of the branch as a whole in the long term. These may include recruitment, training, change of ownership, co-operation in sales and purchasing, marketing, design, computerization, and structural measures such as mergers.

These kinds of measures are the main instruments through which the Board of Economic Defence hopes to save the leather shoe industry. The alternative would be direct subsidies, which might be of the order of 25-30 million SEK a year, or else the maintenance of stocks for emergency supplies, which, it is believed, would be more expensive than

the present scheme. The aid given to individual firms by the Board under the five-year agreement does not have to be paid back if the company concerned meets its commitments, which are to maintain certain levels of production and stocks, and to take agreed steps to improve production, products and marketing. Such a programme is drawn up for each supported company. There is no locational policy in the support given: it concentrates on ensuring supplies of all necessary types of shoes, and the survival of the selected producers is the means to this end.

Future outlook for the industry

In spite of the dangers of forecasting based on limited information in a rapidly changing international industry, it may nevertheless be possible to outline very roughly what could happen to the Swedish shoe industry over the remainder of the decade. What appears to be decisive is whether the state will give further assistance or not.

If there is no further support, the indicators are that one or two producers of each kind of consumer shoe (men's, women's, children's) may still be in existence, but with a considerably reduced production. The safety/professional shoe producers may survive and slightly expand. Some small firms making speciality shoes will complete the picture. The rest of the sector seems likely to disappear. The industry's production would be 1.0 to 1.5 million pairs of leather shoes a year. Imports will therefore expand, but the structure and the split between developed and developing countries will be approximately the same, however with gains for Portugal against other developed countries. Some of the stronger Swedish firms will have sub-contracted production and it may well be in Portugal. In forming this judgement, account has been taken of several crucial factors at present at work: the financial insecurity of many companies, the high age of ownership and workers, the openness of the Swedish economy and the high price of Swedish shoes.

But if there were to be further support, perhaps of the order of another 60 million SEK, the position could be different. The Board of Economic Defence would have further scope to act as a catalyst, encourage co-operation and foster developments. There could then be a co-ordinated specialization among companies in different consumer shoes, as well as closer links between the consumer shoe and safety/professional shoe sectors. Production might not have so sharp a fall, and settle at around 1.5 to 1.8 million pairs.

In the longer term, however, the outlook appears little brighter, at least as far as consumer shoes are concerned. But the safety and professional shoe sector could still be strong, by finding and exploiting new niches and applying appropriate new technology.

Conclusions for the leather industry in Sweden

- In general, the shoe industry seems no longer viable. The combination of small scale, high input costs and competition from imports has been a fatal one for domestic producers.

- The origins of the competition have been largely other developed countries. It is Italy and increasingly Portugal who dominate. Low cost developing countries have not made a major impact on the market.

- This confirms the importance of design and fashion, already recognized in the increased attention being paid to these questions by domestic producers.

- The principal reason why there is still a shoe industry in Sweden has been the state support that has been already given. But it should be emphasized that this support is (a) now given with more demanding conditions and (b) directed towards a survival rather than recovery strategy.

- The combination of successful management and niche-orientation will be decisive for the firms which do survive. The failure of the Shoe Group, as well as the success of the wholesalers, both point to the importance of skilled and dynamic leadership.

- The prosperous safety/professional shoe companies point to the necessity for identifying and exploiting niches. And clearly the less easily one can be dislodged from them, the better these niches are.

- The search for quality is expected to continue: only high quality and brand image can counter the high costs of Swedish shoes, although the pirating of brands by producers in other countries will continue to be a threat.

- The impact of new technologies has been small. As a consequence of the reduced level of production in Sweden, the investment costs required to introduce the new technologies cannot be justified.

- On the other hand, falling costs are characteristic of many areas of information-based technologies. Manufacturers of new generation equipment for the world's shoe industry have up to now concentrated on the large producers, installing sophisticated systems at high prices. If in the future the technologies become cheaper, producers of Swedish scale can take advantage of them.

Implications for the leather shoe industry in developing countries

- To the extent that redeployment has taken place from Sweden, it is distinguished by two important characteristics. The first is that it is carried out not by manufacturers but by wholesalers and importers. It is they who by careful planning, marketing and sub-contracting are shifting the production ...es for Sweden to other countries.

- The second point is that it is Portugal, rather than developing countries which is the subject of this process. Given its growing success and accumulating experience in the field of sub-contracting it may be difficult for developing countries to enter the Swedish market in this way.

- However, sub-contracting may be a successful option in other cases: the process demands high quality control and hard bargaining but can be much easier than attempting to enter developed country markets directly.

- The new entrant developing country can also explore possibilities in the areas of specialized niches, producing shoes specific to very clearly defined markets. The success of the Swedish safety/professional shoe producers has been determined by: (a) scale (lack of fashion trends meant larger or longer production runs were possible) and (b) unique national requirements. However the latter can be a two-edged sword: in the case of Sweden it inhibits exports of this type of shoe.

- Fashion and design are difficult to deal with, but they determine much of the success and the rewards from the activity. To ignore them means to be forced to concentrate on the low end of the export market, where quality and style requirements are low but the returns are small. To follow fashion trends requires both a flexibility in production and raw materials supplies, as well as good access to relevant design skills and up-to-date knowledge of the tastes of the target market.