

## ROMANIAN FOOTWEAR INDUSTRY -EVOLUTIONS AND CHARACTERISTICS

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### **Abstract**

Footwear industry represents an important sector in national economy. Most of its production goes to export, Romania being the 14th footwear exporter worldwide. The aim of this article is to make an analysis of the evolution of the Romanian footwear industry by presenting the sector's main indicators, their evolution in the past 20 years and the features of the industry.

**Keywords:** footwear industry, indicators, evolution, production, exports, imports

**JEL Code:** E20

### **1. Introduction**

Footwear industry greatly developed during 1965-1980; the machinery, installations and technologies used being provided mostly by the internal market. The structure of the production and the manufacturing level was adjusted especially for internal market needs, the surplus being exported, mainly to the CMEA countries. Natural leather footwear was used as currency for oil, gas, energy and coal.

Starting with 1990s, a series of factors determined decrease in exports, the most important factor being the technical and technological equipment which was outdated in comparison with global performance, the degree of automation of equipment and installations being of about 20%. CMEA market collapse determined a direct competition with the worldwide production, the structure and the competitiveness of Romanian products being inferior to similar products from competing countries. Amid export decline, the internal market request decreased too, due to a decrease in consumption and the imports from competing countries.

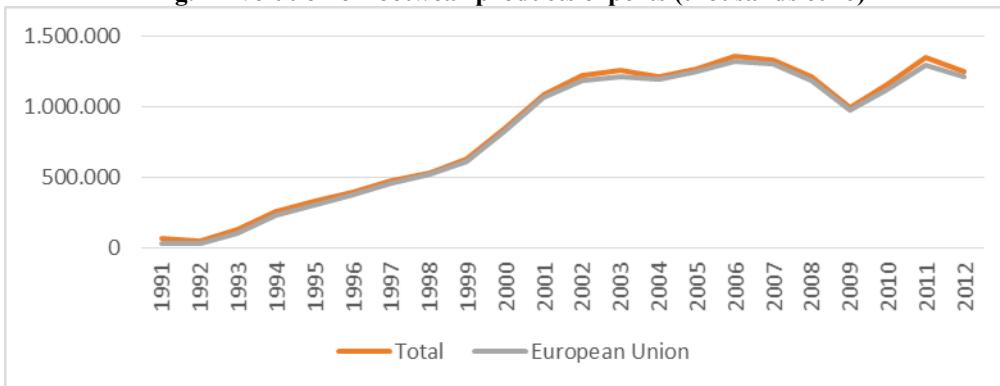
The liberalization of exports and imports of raw and finished leather, finished leather products and footwear led to a decrease in the Romanian footwear domestic market, and amid the significant increase price of energy resources, many of the active entities couldn't cope with the changes and became insolvent, involving other relatively viable entities. These economic phenomena determined an extensive industrial restructuring process in Romanian footwear industry, whose main actions were: replacing the outdated equipment and technologies with others that are modern and easily adaptable to market request; changing production structures in accordance with new markets from developed capitalist countries; developing new production capacities in domains where the specific investments were relatively accessible and the product demand exceeded the offer; reorganization of technological flows and removing most of unproductive machinery and reorganizing the space for efficient activities; upgrading of some production capacities which have a potential performance and make uncompetitive products; staff restructuring and correlating the number of employees with production possibilities and outlet; substantial activity increase in lohn style, after 1994; significant changes in the structure of the raw materials processed; decreasing the imports of indigenous raw leather resources and increasing the import of finished leather for footwear and footwear uppers; complex actions of refurbishment of production capacities which are potentially performing and removing nonviable structures.

For this analysis was used the data from National Institute of Statistics, collected and processed in accordance with E.U methodology, from January 1991 until December 2013.

### **2. The main indicators of the Romanian footwear industry**

The Romanian footwear industry is mainly export oriented. In figure 1 it can be seen that after 1990, the footwear industry has evolved once they adapted to quality, environment and safety standards imposed and enforced by developed countries. The upward trend is due to constant changes which took place over the years in the way of improving the performances of products, equipment and manufacturing technologies.

Fig. 1 Evolution of footwear products exports (thousands euro)



Source: Own processing after *Romanian Statistical Yearbook* (<https://statistici.insse.ro/>, 2014)

The low value of exports in the period after 1990 is due to the loss of CMEA market, which, in 1989, grabbed almost 74% from total footwear exports. The loss of the most important external market couldn't be refilled on short term because of the lack of competitiveness of Romanian footwear industry, due especially to the outdated equipment and manufacturing technologies, which determined the impossibility of satisfying the existing trends.

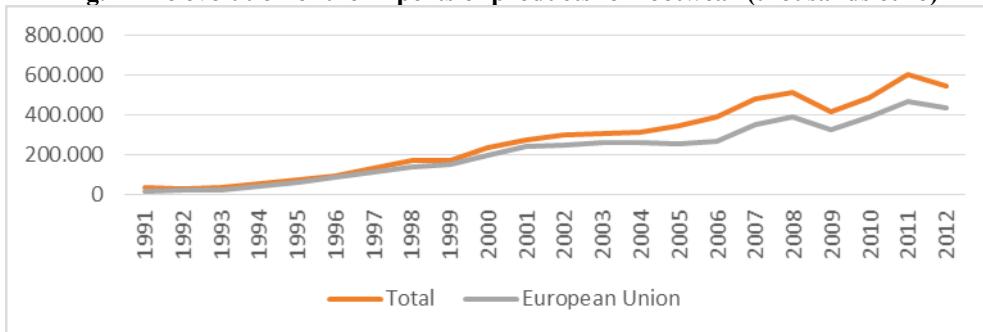
The rehabilitation of footwear industry determined the diversification of manufactured models which meet external requirements in terms of quality-price, boosting exports growth from 53.133 thousands euro in 1992 to the maximum of 1.361.764 thousands euro in 2006. A decrease was to be seen in 2009 down to 1.001.151 thousands euro from 1.216.880 thousands euro in 2008 and from 1.333.793 thousands euro in 2007, meaning a decrease of 8,77% in 2008 compared with 2007, and 17,73 % in 2009 compared with 2008, all this due to the economic crisis that affected also the global economy.

If in 1991 exports towards E.U countries had a share of 47,82%, they gradually increased, and in 2012 they accounted 96,68% from total exports. Moreover, the share of exports to E.U countries is of over 90% from total exports steadily since 1994, fact which has been determined by the cultural proximity to these countries.

After 1990, both the value volume of exports and the structure of footwear export have changed. Studying the evolution of the structure of footwear products exports we can notice a significant growth in footwear with exterior sole made of rubber, plastic, natural or reconstituted leather and with leather uppers, from 14,07% in 1991 to 54,36% in 2012, an increase of more than 3 times, which shows a high level of quality and recognition abroad. Footwear parts, the interior detachable parts, the insoles and similar detachable parts, the gaiters, the leggings and similar articles had almost the same evolution.

In what regards the imports of products for footwear industry, if in 1991 28,29% was footwear with rubber, plastic and natural or reconstituted leather sole and textile uppers, in 2012 this category had an import share of 19,18%, but with a value of 104.631 thousands euro compared to 10.286 thousands euro in 1991. A radical situation can be noticed when talking about footwear parts, the interior detachable parts, the insoles and similar detachable parts, the gaiters, the leggings and similar articles, which in 1991 had a share of 2,46% (and a value of 895 thousands euro) from total imports of products for footwear industry, and in 2012 their share was of 58,68% (and a value of 320.079 thousands euro). This significant increase is due to footwear industry development and the necessity to provide it with diverse semi-products and competitive in terms of quality-price rapport.

Fig. 2 The evolution of the imports of products for footwear (thousands euro)



Source: Own processing after *Romanian Statistical Yearbook* (<https://statistici.insse.ro/>, 2014)

In what regards the imports of products for footwear (figure 2), after 1992, they consistently increased until 2009, when, due to economic crisis, their value decreased with almost 20% (517.182 thousands euro in 2008 compared with 416.642 thousands euro in 2009). The steady imports increase in the analyzed years was due to the growth of domestic demand under the action of conjectural factors such as wage and economic growth and easy lending. All these factors have determined an increase in domestic consumption which led to an increase in imports, especially of a certain range of models, nonexistent on domestic market (as those of well known brands). An important share of footwear imports is due to the parts used in manufacturing, representing more than half of the value of imports.

Same as in the case of exports, it can be noticed imports dependence to European Union, these having a total share of over 75%.

The majority of footwear production imports is ensured from Italy, the explanation being that lots of the entities from Romania, which activate in footwear industry have as major stakeholders natural or legal Italian persons. They import semi-products which they further process in our country. The countries from where Romania imports products for footwear are Italy, Slovakia, Germany, Hungary, Spain and Poland.

The top county importing products for footwear is Bucharest, which, in December 2013 has imported products for footwear of 12.610 thousands euro, this fact being explainable also by the concentration of entities with foreign capital (usually Italian) in the territory of Bucharest.

The number of employees in Romanian industry is decreasing every year starting with 1990. From 1990 until 2012 the Romanian industry lost 2.550/374 employees, from 3.846.066 to 1.295.692 employees, a decrease of 66,31%. The same tendency can be noticed in the manufacturing industry and is due to massive restructuring amid the intent of increasing external competitiveness and labor productivity. In the last 3 analyzed years, the evolution of employees is progressive, so in 2010 their number was of 1.237.297, in 2011 of 1.259.061 and in 2012 there were 1.295.692 employees. It was observed a slight increase of 1,76% (2011 compared to 2010) and 2,91% (2012 compared to 2011).

The employees from footwear industry had, in 2012, a share of 4,92% from all the employees from the industry and 5,97% from all employees related to manufacturing industry. Although the number of employees has steadily decreased during 1991-2010, during 2001-2013, the number of employees in footwear industry has increased amid a global footwear demand and the apparition of new entities activating in this sector.

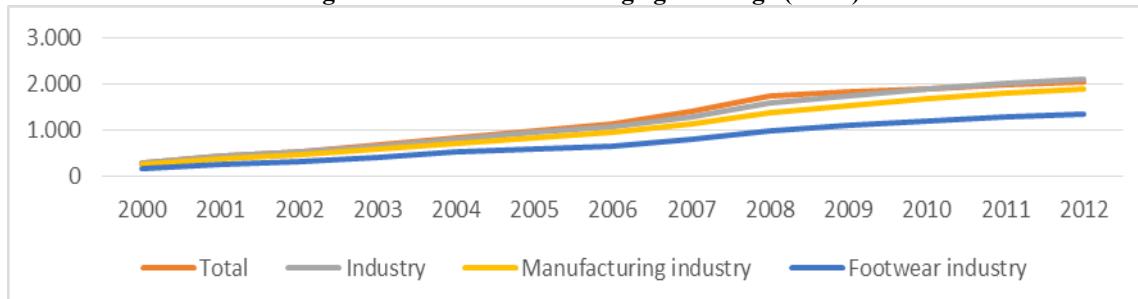
The year 2003 was the peak year of Romanian footwear industry, the number of employees being of 101.880, even bigger than 98.341 in 1994.

The largest decline was in 2009 when the number of employees decreased to 62.322 from 81.634 in 2008, a decrease of 23,66%. The decrease continued in 2010 too, but only by 6,94%, and beginning with 2011, the number of employees started to increase compared with the previous year, the growth being of 4,94% and 4,67% in 2012.

The footwear industry is characterized by a low average wage compared with the other economic branches from Romania. The average gross salary in footwear industry was significantly lower throughout the analyzed period compared with the gross average wage in the country, in total, in industry or in manufacturing industry. In the last four years the wage in footwear industry increased compared with the gross average wage, in 2012 representing 64,95% from gross average wage, compared to 60,33% in 2009. Nevertheless, the wage in footwear industry is at a low level, being 1.340 lei in 2012 compared with 2.063 lei, the gross average wage in the country, 2.110 lei gross average wage in industry and 1.898 lei gross average wage in manufacturing industry.

Footwear industry is the one with the lowest wage from economy (figure 3), but the entities are trying to gradually recover these gaps. During 2000-2012 the gross average wage has increased 8,12 times compared to 7,26 times in the entire economy, 7,28 times in industry and 7,5 times in manufacturing industry. The most important growth took place in 2001 with an increase of 46,67%, and the lowest growth level was in 2012 with an increase of 4,61%, inferior to gross average wage in manufacturing industry which was of 5,04%.

Fig. 3 Evolution of the average gross wage (RON)



Source: Own processing after Romanian Statistical Yearbook (<https://statistici.insse.ro/>, 2014)

In comparison to the other branches of national economy, we can say that the best year of wage increase, in the analyzed period, was 2003, when wages increased, in footwear industry, by 37,29% in comparison with the previous year and compared with an average of 24% in the other branches; in the near period a more important increase took place in 2009 by 14,39% compared to 4,77% to the national level, 10,3% in industry and 10% in manufacturing industry.

Analyzing the evolution of entities that activate in footwear industry, it can be noticed a continuous decrease from 2.086 entities in 2006 to 1.167 entities in 2012, a decrease of 44% in the analyzed period (2006-2012). The most important decrease took place in 2009, amid the economic crisis, when 517 entities were closed, meaning 25,23% from those existent at the end of 2008.

Most of entities from footwear industry are micro- enterprises, having between 0 and 9 employees.

Depending on the development Region where they activate, the highest concentration of entities in footwear industry is in North-West Region with a number of 348 entities active at the end of 2012. Looking at the distribution of entities depending on counties, Bihor has a share of 19% from total entities with a number of 231 entities, followed by Bucharest with 209 entities (17%) and Timisoara with 89 entities (8%) which activate in footwear industry.

The Romanian industrial production had a general increasing trend, excepting 2009 when it decreased by 12,35% compared with 2008, amid the economic crisis. During 2005-2011 the value of industrial production increased by 78,7% from 211.082 million lei to 377.199 million lei. The same tendency is to be found in manufacturing industry, whose increase was of 68,5%, and whose decrease due to economic crisis was of 16,53% in 2009 compared with 2008, from 284.452 million lei to 236.435 million lei.

In comparison with total industrial production in Romania, the industrial footwear production started to decrease from 2007 due to export decline. So, after an increase of 14,63% in 2006, followed decreases of 7% in 2007, 3,34% in 2008 and 5,34% in 2009. 2010 meant an increase of 13,97%, and in 2011 the increase was of 18,78%.

The physical footwear production evolved from a quantity of approximately 45.000.000 pairs in 1993 to 47.872.554 pairs in 2012. The largest volume of production was recorded in 2003, reaching 80.271.537 pairs, and the lowest was recorded in 1999 and it was of 31.148.478 pairs.

The share from total footwear production was, in 1993, of 11% rubber and plastic footwear and 69% leather footwear. In 2012 these shares were 6,15% (2.942.000 pairs) rubber and plastic footwear and 85,99% (41.165.095 pairs) leather footwear.

The physical footwear production as steadily decreased to half during 2003-2009, so: 7,02% in 2004, 2,89% in 2005, 4,93% in 2006, 5,29% in 2007, 18,57% in 2008 and 2,89% in 2009.

Starting with 2010 increases were achieved in footwear production; there were made 45.291.249 pairs, a increase of 12,02% in 2011, 45.901.135 pairs, increase of 1,35%, and in 2012 the footwear production was of 47.872.554 pairs, a increase of 4,3%.

Analyzing the value index of the turnover from industrial units, taking as basis 2010, it was noticed that the evolution of manufacturing industry coincides with the evolution of general industry, and lately, the footwear industry has a decreased evolution compared with the other industrial branches. However, the value index of turnover in footwear industry was over 100% in 2011, 2012 and 2013 (105%, 110% and 122%), which represents a short term favorable economic situation, future favorable evolutions and opportunities in making planned investments.

The structure of footwear production has a sinusoidal evolution, reaching its maximum in 2004 (1,8%) and its minimum in 2008, 2009 and 2010 (0,9%). In 2012 the value of the indicator remains the same as the one recorded in 2007 (1,2%), amid a slight increase.

### 3. Conclusion

Romanian footwear industry went through a period of consolidation of marketing and cultural production. Factors as design, fashion and quality were deeper assimilated, so that Romanian footwear industry is getting more competitive in international commerce with medium-high range products. Also, the production for foreign brands (especially Italian) constitutes an important part of this industry.

Nowadays, Romanian footwear industry is a dynamic industry where different managerial models and strategies coexist. Footwear industry suffered a major change in the past few years, which allowed competitiveness improving which led to an increased presence on international market. In general, Romanian footwear industry is characterized by:

- factor that contributes to romanian economy: in 2012 footwear industry had 63.701 employees and produced 47,8 million pairs with a value of over 4,3 billion lei;
- industry dependent by final consumption: by its nature footwear industry is very sensitive to economic conditions and fluctuation of final demand. In the period between 2007-2010, same as all industrial braches associated with fashion, footwear industry was very affected by the

consumption and global commerce crisis;

- atomized entities structure: in 2012 footwear industry contained 1.167 entities with an average of 54,6 employees per entity. There are few large entities, most of them are micro-entreprises;
- complex bussines: footwear industry is a complex sector which characterized by a value stream fragmented in the production phase where are many actors involved;
- export oriented industry; in 2012 exports exceeded 1,4 billion dolars, ensuring Romania 14th place in the world, in footwear export domain. Despite the economic difficulties, Romanian industry proved its competitiveness on internaional market, but the actual financing problems induced a degree of uncertainty in regards to the developement of the domain;
- powerful international competitiveness: the global economic environement related to this sector becomes more competitive, once new competitors with low prices enter the market. To handle the competition, romanian entities ave improved competitiveness by quality, design, fashion and inovation;
- coexisting different business models: the need to adapt new scenarios; the globalization of markets determined the entities to test and implement new business models. Cooperation and multiple locations were the most used by new business models;
- powerful technological growth: footwear industry is a sector which has a continuous technological growth; the inovation activities in using new materials, a greater agility and response to market change, logistics and distribution sistems, incorporating advanced design technologies and computer aided manufacturing are the highlighted activities;
- awarness to environmental issues: Romanian footwear industry meets environmental demands in the domain.

#### **4. Acknowledgements**

This work was supported by the project “Excellence academic routes in the doctoral and postdoctoral research – READ” co-funded from the European Social Fund through the Development of Human Resources Operational Program 2007-2013, contract no. POSDRU/159/1.5/S/137926.

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