

## **Back to the Future: The Changing Portuguese Footwear Industry**

*“During the seventies and early eighties we were basically just selling production minutes.”<sup>i</sup>*

João Maia, APICCAPS' Executive Director

*“(…) there is no such thing as a low-tech industry.”<sup>iv</sup>*

Michael E. Porter

*“The sources of competitive advantages have changed over the last 40 years. If, in the 1970s and 1980s, the industry grew based on the low cost of the work and on economies of scale based on large volume, in the 1990s this was not possible anymore.”<sup>ii</sup>*

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When, in 1994, the high flying Harvard academic Michael E. Porter landed at Lisbon airport to offer his view on what Portugal's economy strategic focus should be, many guessed he would favor trendier industries as the way forward. Two years earlier, the Portuguese government, along with a group of private companies, had commissioned Porter to report on how to make the Portuguese economy more efficient, but his proposal disappointed some. According to his analysis, Portugal should focus on six economic clusters<sup>iii</sup> in which it was already traditionally strong. These clusters were: wine, tourism, auto-industry, footwear, textiles, and wood products. Some of these industries had been dismissed as low-skill industries based on low labor costs and were perceived as economic dead ends. Porter (and others) disagreed: “In fact, there is no such thing as a low-tech industry. There are only low-tech companies—that is, companies that fail to use world-class technology and practices to enhance productivity and innovation. A vibrant cluster can help any company in any industry compete in the most sophisticated ways, using the most advanced, relevant skills and technologies.”<sup>iv</sup>

As living example of that principle, a group of self-made businessman, led by Manuel Carlos Silva, the footwear sector association's general manager since 1977, transformed an unsophisticated and globally irrelevant industry into one of Europe's top exporters of leather footwear, a mass-producer of long series at low prices. But the world was changing and the industry would have to change accordingly if the sector were to continue growing.

By then, it was clear that China would sooner or later become a World Trade Organization (WTO) member. Manufacture industrials in Portugal needed to adapt or risk being obliterated by the clear price advantages that China and other Asian countries could offer [Exhibit 1]. The manufacture of labor-intensive products was about to be revolutionized by easy access to hundreds of millions of workers at extremely low wages. Companies all over the world were trying to find the right strategy to handle the new situation. Many developed industries could increase their margins, all of a sudden, by shifting production to Asia. But others, such as most of the Portuguese manufacture, which based their competitiveness on relative low prices, would have to compete differently. China ended up joining the organization in 2001, and if for some industries quotas and tariffs were imposed, for others, such as the footwear industry, open field competition demanded new strategic approaches from everyone.

In the trade association's office (in the city of Porto), a small team led by Manuel Carlos Silva, who has been the general manager for decades, with only a short stint away to be president of the two main Portuguese agencies for economic development (ICEP and IAPMEI), was working hard to find answers to the questions that its members were asking: How was the footwear industry in one of the smallest and least developed Western European countries going to adapt to challenges brought by direct competition with China, capable of offering unmatched low prices? What were the alternative strategies that the country and the footwear industry in particular could use? Where should it spend its limited resources? These were questions that the industry had to answer – sooner rather than later.

### **From 1960 to the 2000s: Opening up**

Portugal went through much of the 20th century isolated from the rest of Europe, focused on itself and on its African colonies. This political isolation had significant consequences in terms of economic development. In fact, in 1960 Portugal's GDP per capita (€261 in today's Euros) was 26% that of the United Kingdom's<sup>v</sup>. In spite of the isolationism, Portugal joined EFTA (European Free Trade Association) in 1960, mostly because of its traditional strong connection with the United Kingdom. The country remained a member until 1986, when it formally joined the European Union (then known as the European Economic Community, EEC).

#### *The EFTA years, 1960-1972*

Portugal was a founding member of the EFTA along with Austria, Denmark, Norway, Sweden, Switzerland, and the United Kingdom. Meant as a parallel to the EEC, EFTA was

“set up for the promotion of free trade and economic integration to the benefit of its members.”<sup>vi</sup> Portugal’s EFTA membership occurred under Salazar’s dictatorship and was extremely important for the opening of a, until then, very closed economy. The agreement was very favorable to Portugal, as it obtained a more gradual dismantlement of the custom barriers due to its low industrialization level and market size; at the same time, it was able to access the free trade zone of more developed economies.<sup>vii</sup>

“Until 1960, almost all footwear products produced in Portugal were directed towards domestic consumption”, explained João Maia, APICCAPS’ Executive Director<sup>1</sup>. “With the opening of the trade with the EFTA countries, production increased 50% from 1962 to 1972. Half of this growth was in exports, with three quarters of exports going to EFTA countries, mostly to UK, Sweden, and Denmark.”

The 100% private ownership of the industrial footwear companies<sup>i</sup> allowed some individual businessmen to adapt quickly to the opportunities that a new marketplace offered. They started traveling where the new customers were in order to attract buyers for their unused production capacity or to establish partnerships that would modernize their factories. As result, a few foreign companies came to Portugal either to open new factories or buy and refurbish existing ones. Low wages, geographic proximity, trade agreements, and a relatively stable political outlook attracted them. As in other sectors, there was a sector association, *Grémio do Calçado*, which integrated only the footwear producers and not the other members of the cluster (namely the leather producers). Membership in the trade sector association was mandatory. Nonetheless, the association had very limited reach and not much international scope. Thus, the people at the helm of the companies were the main actors in the industry’s evolution during this period.

### *1972, the first EEC bi-lateral agreement*

When, in 1970, the UK applied to join the EEC, EFTA’s influence diminished and Portugal was forced to find ways to increase trade with the larger EEC trade zone. This was achieved through the bi-lateral agreement of 1972, whose goal was to gradually dismantle trade barriers of industrial goods. This agreement opened new markets such as Germany and France, which rapidly became two of the major importers of Portuguese footwear.

From 1972 to 1981 production increased 125% and exports grew by 251%, particularly to EEC countries. For instance, exports to Germany, France, and Belgium, grew from 4% of

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<sup>1</sup> APICCAPS (“Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos”): Portuguese Footwear, Components, Leather Goods Manufacturers’ Association ([www.apiccaps.pt/web/guest/home](http://www.apiccaps.pt/web/guest/home))

total exports in 1972 to 33% in 1981<sup>viii</sup>. It was during this period that the 1974 coup d'état brought down the dictatorship and instituted a democratic regime in Portugal. This paved the way to full membership in the EEC.

### *1986, full EEC membership*

As soon as Portugal was set to become a full member of the European Community (which happened in 1986), the Portuguese footwear industry grew massively: “The decade of 1980 saw production multiplied by a factor of 10.”<sup>ix</sup> Many European brands established factories in Portugal or sub-contracted Portuguese factories to produce their long series of footwear. According to João Maia, “this was the decade in which we sold minutes of production. British, Scandinavian, French and German brands hired or bought Portuguese companies. They told us exactly what material to use, which design, at what price to buy each material and how many shoes to deliver by a given date... every single detail was decided by them and we were only selling the production time.” Therefore, growth was achieved through straightforward long series produced for a pre-designated buyer.

## **The Portuguese footwear cluster**

The footwear industry in Portugal was traditionally composed either by big multinationals owned by foreign companies or by small and medium domestically owned companies with limited resources [see Exhibit 2 for a general breakdown of the cluster]. Most of the latter are family-owned and many are still managed by their founders, who have been working in the industry most of their lives. “The sector doesn’t have many college graduates, but it has accumulated formal knowledge. Businesspeople know a lot about commercial policy, about logistics; they know the markets, follow the currency exchange. They are tremendously competent. Talking to them is a lesson for life”<sup>ix</sup>, says Manuel Carlos.

A good example of this profile is that of the current president of APICCAPS<sup>x</sup>, the owner and CEO of Kyaia, Fortunato Frederico. Kyaia is one of the largest footwear companies in Portugal, holding one of the best known Portuguese brands and 8<sup>th</sup> largest in the world – Fly London. Fortunato Frederico, a self-made man who spent most of his childhood in an orphanage, started his professional life sweeping floors in a shoe factory when he was fourteen. His success owes nothing to inheritance, he started from scratch: “If he can do it, no one has an excuse not to”, says João Maia.

During the 1980s and 1990s, most companies grew by producing long series for foreign brands. Since the turn of the century, sub-contracts have still accounted for more than half of

the exports<sup>i</sup>, but the long series have been replaced with shorter and much more frequent collections developed and delivered with a short turn around and always on time.

Until the 2000s, the industry excelled by having a clear path laid out ahead, one that focused on international markets and used its proximity to better serve the European clients who preferred good quality leather footwear at low prices. Since its inception in 1975, the sector association, which included manufacturers and leather suppliers, has been a center of knowledge<sup>xi</sup> that brought together suppliers and producers in order to achieve a common goal: the industry's sustained growth as a whole. The cluster benefitted from constant sound advice since 1978. It was then that Miguel Cadilhe, an economics professor at the *Universidade do Porto* who became Finance Minister in 1985, with fellow professor Manuel Duarte Baganha, wrote the first strategic plan for the industry at the request of the sector's association. From then on, every five years, a new strategic plan has been created in collaboration with top academics. Among these is Carlos Costa, who became governor of the *Banco de Portugal* in 2010, and Alberto Castro, who was then Dean of the Católica Porto Business School<sup>xii</sup>.

At the beginning of the 21<sup>st</sup> century, however, as in much of the developed world, the manufacturing industries in Portugal suffered with competition from Asia, which managed to produce good products at extremely competitive prices. This shift was especially difficult for the Portuguese manufacturing industry because, more than in other developed countries, its competitiveness was associated with low prices. The footwear industry had long been producing long series for large global brands, such as Ecco and Clarks. When, between 2000 and 2005, these mega brands decided to leave for cheaper locations or to dramatically downsize their presence in Portugal, the Portuguese footwear industry was left in a dire situation. If not for price, how could it compete? What other unique advantages did it have? How could it respond to the Asian threat?

### *APICCAPS, a trade association leading positively*

APICCAPS serves as an umbrella association for the footwear industry, footwear components industry, leather goods industry (bags, wallets, gloves, belts, etc.), and equipment for the above-mentioned sectors. The association itself is fairly small, currently employing only about 12 people, but has done an admirable job across all of the responsibilities it took upon itself. From its institutional brochure [Exhibit 3] its areas of action include internationalization, studies, plans and consultancy, technical assistance, information, training, collective bargaining, technology, quality, sustainability, innovation, patents, and sustainable development. Its goal is the "sustainable development of the sectors and

companies that it represents”, with an emphasis on sustainability. As early as 1986, the strategic plan defended that the labor cost advantage could withstand only European competition and not a fully global one; that is, the advantage would be lost in an international market: “The Portuguese salaries were 35% of the UE average but they were 134% higher than in South Korea, and 40% higher than in Hong Kong or Singapore.”<sup>xiii</sup>

APICCAPS management has remained practically unaltered in the past decades, giving a coherent vision to the industry. It has created and maintained close relationships with its members in this long period and this has helped it convey its message. Manuel Carlos Silva and Alfredo Jorge Teixeira, General Manager and Vice-General Manager, respectively, have been at the helm of the trade association since the end of the 1970s. Structurally, the association runs very informally, which is only possible due to its small size. Bi-monthly meetings allow everyone, without exception, to express their vision and concerns. Everyone is fully responsible for his or her tasks and “money is not the most important thing,” João Maia notes, “it is not necessarily the most senior member that makes the most important financial decisions, whoever has the responsibility is expected to make a decision, with everyone else’s support, obviously.”

Every three years the association elects a president, who has a non-executive role. The current president, Fortunato Frederico, has been in the position since 1998 and often acts as its spokesperson. The fact that it is he himself, a self-made man who founded and led a company always ready to explore new markets or new business strategies, that appears in a prominent position, speaking about the opportunities behind decisions that are not always popular, embodies the positive approach implemented by the association, emphasizing the role of the companies and their leaders.

In a broad sense, one could say that the association is led by example. In real terms, APICCAPS is a three-prong spear: (1) the executive branch is responsible for strategic development and communication; (2) the Footwear Technology Center of Portugal (CTCP<sup>2</sup>) is responsible for technological innovation and marketing; (3) and the Footwear Industry Professional Training Centre (CFPIC<sup>3</sup>) is responsible for providing technical education.

Since 1978, APICCAPS has developed long-term strategic plans for the industry [see Exhibit 4 for a timeline], designed in close collaboration with a Center of Studies of a bank (*Banco Português do Atlântico*) and then with an academic institution (Católica Porto Business School). In this way, APICCAPS has been able to give its members a clear view of the global competitive environment, consumer trends, and strategic choices available to the industry.

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<sup>2</sup> [www.ctcp.pt](http://www.ctcp.pt)

<sup>3</sup> [www.cfpic.pt](http://www.cfpic.pt)

From very early on, this was clear to everyone: “the industry would not have been able to survive if it couldn’t compete in the global market”, says Prof. Alberto Castro. The plans have given companies a five-year strategy specifying what the focus should be, from improving production methods enabling the industry to deal with shorter and more frequent requests from foreign brands, to internationalization and new market exploration, as well as the recent focus on branding and new product design. Moreover, APICCAPS understood that data analysis and quantitative information are crucial for success because they underpinned any strategic decision. Accordingly, it issues yearly Statistical Studies condensing data regarding the Portuguese industry and World Footwear Yearbooks with information on each and every country involved in footwear production.

The Footwear Technology Center of Portugal, via close collaborations with a university (*Universidade do Porto*) and a research institute (INESC), has given technological support to the industry. The CTCP, created in 1986 by APICCAPS and two Governmental Institutes of the Portuguese Ministry of Economy (IAPMEI and INETI), now functions autonomously as its technological arm.

The Footwear Industry Professional Training Center is the third element of the three-prong spear. It provides practical technical education on the latest technologies to those entering the industry and also serves as a continuing education center for more experienced workers, helping them learn new skills.

### **2001, China enters WTO**

By the end of the 20th century the industry hoped it was ready to reap the harvest from the seeds that the Portuguese Footwear Technological Center had sown: sophistication, design, marketing and service responsiveness. In a market that had changed dramatically and where clients were buying based on lifestyle choices rather than on practical need, the Portuguese industry entered the 21st century as the third largest exporter of leather footwear in Europe.

Nonetheless, as China joined the WTO in 2001, the sector’s export revenues fell by 30%. The biggest foreign companies left or were downsized [Exhibit 5]. The big question then was if the industry had done enough to be competitive going forward. If not, what other strategic avenues should it have pursued to anticipate and prepare for the arrival of the Asian competitive tsunami? João Maia ripostes, “that 30% drop was mainly due to big foreign companies leaving. The core of the Portuguese owned companies remained profitable through that period because, by then, they had evolved.”<sup>ii</sup>

Joaquim Carvalho, a co-owner of a small but internationally successful company, agrees: “Between 2002 and 2005, most of the big multinational shoe manufacturers based in Portugal moved to China, India and Eastern Europe where costs are much lower. The industry was forced to give up competing on the basis of low wages and has had to invest in technology, design and marketing.”<sup>xiv</sup> The then minister of economy added: “everything has changed in the Portuguese shoe industry. We have fewer firms, but they have moved up the value chain. Instead of producing cheap sports shoes as subcontractors for big international brands, they are exporting their own cutting-edge designs for affluent, fashion-conscious buyers.”<sup>xiv</sup>

### **“Becoming nimble”, a strategy to compete with Asian competitors**

Improved serial production skills and machinery, together with cost advantage, fueled the industry’s growth in the 1980s. Guided by APICCAPS, the cluster reached the 1990s on a high note by simply modernizing the way it sold production time. The creation of the technological center in 1986, along with the funds made available by Europe, allowed the industry to innovate in terms of production flexibility during the 1990s, optimizing factory floors to what the European high-end brands needed: small and frequent orders of high-quality and innovatively designed leather shoes. In this way, the industry was able to differentiate decisively from the Asian competitors that dominated the global market in terms of volume output, based on unmatched price advantages due to low wages.

The cluster anticipated and prepared for China’s rise from the early 1990s, benefiting from lucid leadership regarding the use of the structural subsidies that were made available when Portugal joined the EU in 1986. There were four main areas of action: machinery and process modernization, innovation, external image, and acquisition of internationalization expertise<sup>xv</sup>. This has resulted in a manufacture industry with a very high level of service supporting excellence in three pillars: quick responsiveness (due to the geographic proximity with the main European markets in terms of turn around), collaboration with clients regarding design and logistics, and ability to provide small order batches. This transformation dramatically influenced the productivity improvement that followed. From 1993 to 2003 productivity (driven by great quality products, co-designed with buyers, and delivered in record time) grew close to 18%, when measured in pairs produced per employee, from 1,782 pairs per year to 2,109, and around 50% when measured in gross value of production per employee, from €24,353 per year to €36,642 [Exhibit 6].

These capabilities made the Portuguese footwear industry stand out in what it was able to offer and how it was able to offer it. When compared with other manufacturing industries, a

much higher percentage<sup>xvi</sup> of the funds were actually invested in innovation, changing the industry's image abroad and in acquiring internationalization skills, as these were the skills in which the industry lacked competence. "The secret of our success is very simple, we invest in quality, comfort and a product that is different from others out there"<sup>xiv</sup> said Joaquim Moreira da Silva, owner of J. Moreira Ltd., a high-end Portuguese company. Fortunato Frederico summarizes it saying that what makes Portuguese shoes valued around the world is "quality, design and a service of excellence, namely in terms of quick response and small orders."<sup>xxiii</sup>

The plan that stopped the focus on low wages since the early 2000s was recently put to the test when the IMF and European Troika recommended that following the international bailout, Portugal should follow the "orthodox strategy for digging out of recession. Cut wages and prices", in order to make "exports (...) more competitive."<sup>xiv</sup> The industry declined to follow that recommendation and remained focused on the same productivity gains that pushed its prices to just under those of Italy, as the second highest in the world in the late 2000s, where it has remained until the present [see Exhibit 7]. Manuel Carlos confirms that his "industry did exactly the opposite of the rest of the economy. [They] did not fall in the *low prices* trap and continue to emphasize quality."<sup>xvii</sup> The results attest to the correctness of its single-mindedness as 2013 "was the 3rd consecutive year with a recorded growth in exports and since 2010 the footwear sector increased 28%, despite the international economic slowdown."<sup>xviii</sup>

This strategy was based on three features: (1) becoming technologically innovative and flexible, (2) changing perceptions abroad, and (3) continual prospecting in new markets.

### *Becoming technologically innovative and flexible*

At the base of this strategy was technological modernization and refurbishment of factory layouts that allow the strategy to be implemented. Paulo Gonçalves, from APICCAPS, argued that "the industry was forced to give up competing on the basis of low wages and had to invest in technology, design and marketing."<sup>xxix</sup>

It was as a consequence of APICCAPS' chosen strategy that the Portuguese footwear industry has experienced an innovative and technological breakthrough. Some funds were spent modernizing factories, especially in projects that targeted processes and helped companies move from long series to shorter and more customized ones that could be quickly modified. Making companies "more nimble" was fundamental in creating strong partnerships with the global brands that were buying. A good example is the fast prototyping capability through which companies are able to collaborate with customers in terms of design, by

creating different samples based on the clients' needs, and adapting them exactly to the preference of their clients before actually starting production. This can be done in a short time span, so that the orders may be delivered on time with customer satisfaction guaranteed. With time, more frequent and more profound design propositions were offered by the Portuguese producers themselves, allowing them to become trendsetters. Leandro de Melo, head of CTCP, argued that "most companies use automatic cutting systems involving water jets, lasers or blades," and that "laser engraving on the finished article is also used to create distinctive products that are difficult to imitate."<sup>xx</sup>

In parallel, funds were spent on developing skills to produce low-cost footwear manufacturing machinery. Portuguese companies became suppliers of footwear manufacturing machinery at a fraction of the widespread cost. This was essential to the development of the cluster, as it allowed everyone to have access to high-tech technology. Good examples are water jet leather-cutting machines. These were once the privilege of an elite, but became widespread among Portuguese top companies.

### *Changing perceptions abroad*

One of the biggest issues the industry has had to face as a whole is Portugal's and Portuguese products' negative image abroad. Changing this was a long process, requiring APICCAPS' leadership, commitment, and persistence. With every technological innovation, buyers were invited to see on site what was now possible. This showed many how sophisticated some of the factories really were and made them more likely to try Portuguese products. Several worldwide branding campaigns, as well as a smart endorsement of celebrities as brand ambassadors, continuously changed the way the Portuguese shoes were looked upon not only by brands but by final consumers themselves, to the point where today many choose "made in Portugal" shoes.

This is the result of aggressive and ambitious branding marketing exercises, led by APICCAPS but financed by its members, that allowed the industry to enjoy the recognition boost brought by the famous individuals using their products and indirectly endorsing them. Personalities such as "Michelle Obama, Penélope Cruz, Naomi Watts, and Spain's Princess Letizia have worn shoes by Luis Onofre, which can cost up to €1,500 a pair."<sup>xiv</sup>

### *Prospecting for new customers*

The tidal change in perception regarding Portuguese footwear products made it much easier to prospect for new clients and to deepen existing relationships. APICCAPS spent the early years bringing Portuguese companies to international trade shows, making connections and

establishing the relationships that would eventually become partnerships. Little by little, “flocks of timid businessmen embarrassed by their origins, and afraid to mention their home country, became proud flag bearers of slogans such as Shoes from Portugal or Portuguese Shoes, Designed by the Future.”<sup>i</sup>

Jorge Correia, founder of Helsar, a family shoe company in northern Portugal, said “no product ever leaves his plant without the label *Made in Portugal*”, and that although “some Italian customers ask him to label them ‘Made in Italy’, he “will never allow that.”<sup>xxi</sup> In his view, “in the shoe business, *Made in Portugal* now carries almost the same weight as *Made in Italy* and “in developing countries like China, there’s no difference between them”<sup>xxi</sup>. Augusto Cristino, CEO of Artur Pinho, a northern-based footwear company, describes its Greenway brand of golf shoes as the “Rolls Royce” of golfing footwear, being sold for around €600.<sup>xx</sup>

The achievements of the strategy are clear. The best proof of the accomplishment of this strategic transformation is the current price, which, according to APICCAPS, has led to a record high of €1.7 billion in exports in 2013<sup>xviii</sup>. The industry was able to shift the paradigm that had guided it for three decades because, not only was it capable of identifying early on that the changes in the global competitive landscape would soon make its business model unsustainable, but mostly because its trade association was able to motivate businessmen to adhere to its sound strategic plan.

### **Manuel Carlos, actor and proponent of positive leadership**

Manuel Carlos, general manager of APICCAPS since 1977, started with and continues to have a positive discourse, always looking forward. His message has always been encouraging for the people in the industry. In one of his rare public speeches, during the presentation of the most recent strategic plan *Footure 2014-2020*, he reiterated, “there shouldn’t be a limit on our dreams and ambitions.” But he also said that rather than being obsessed about becoming the leader, the industry “should walk the road that will take it in that direction.” And, according to him, the biggest challenge is clear: “we need to attract our youngsters and orient them so that they may come up with an aesthetic language that will add value to the production of this sector. That’s the way to continue increasing prices.”<sup>xxii</sup>

Manuel Carlos is not, and never has been, the most visible leader. His leadership style has not depended on displaying his public image but on putting individual companies in the spotlight, always stressing a particular element that could be used by the other members of the cluster. That was his way to show that steps forward were possible, not because he himself was saying it but because someone had already done it. By giving examples he created an efficient communication style, useful to many different companies within the

cluster: companies at different development stages could look up and see the path that leads to that success.

“Being positive may have started as Manuel Carlos’ personal attitude but it is now fully engrained in the APICCAPS culture”, claims João Maia. “Presenting success stories to companies so that they may replicate them and achieve similar success is much more effective than highlighting what each company is doing wrong.” If at first the goal was to help the leading companies improve and become more sophisticated, “now, APICCAPS appears as a giver of good news, this is not just because we like to give good news but because this consolidates the industry’s image among our clients abroad and also members within, and this is much more important than saying that this or that needs to change and improve.”<sup>ii</sup>

Even during the negative growth years, from 2001 to 2005, APICCAPS never pointed fingers. As Fortunato Frederico puts it, “we absolutely reject being defined as a successful industry, in the same way that in the bad moments we also reject expressions such as *being in crisis*.”<sup>xxiii</sup> In fact, the decline seen at the beginning of the 2000s stopped in 2005, growth resumed and currently the industry is already exporting more than it did in 2001. In 2011, Fortunato Frederico stated in an interview to the *Portuguese Soul Magazine*<sup>xxiv</sup>: “I am very optimistic about Portugal’s future international role. We will position ourselves among the first, because we have tradition and expertise, we innovate in design and materials, we master the technology and we provide excellent service.”

This approach is not seen with equal positivity within the industry and some industrials reproach APICCAPS for having a too optimistic message. Fortunato Frederico replies to those critics saying: “The association needs to highlight the virtues of the sector and its good results, the best practices, and to give solutions for the future. We can’t have it any other way [...] but that doesn’t mean we don’t defend our members till the last drop. We are in constant contact with the government and other public bodies in order to refine our strategy [...], we have always believed that we must hold our discussions where appropriate and not through the newspapers or the television.”<sup>xxv</sup>

### *Peer-to-peer leadership*

APICCAPS has often taken the role of “facilitator”, putting companies in a context in which some could lead and others were led. In reality, the companies always had the sense that they were following their own path to success by following their peers, companies that had once been in the same situation as their own. By following their ambition to become as successful as their peers, companies were in reality benchmarking against their national competitors and not following a prescription given by a trade association.

The business community learned to believe that success was possible by repeatedly witnessing success being displayed in front of them. That made them hopeful that the next success story would be theirs.

### *Open days: the cluster visits the factories*

Perhaps the most striking difference between the footwear industry and other manufacturing industries in Portugal has been how it handled competition, both outside and within the footwear cluster. While other trade associations were lobbying the government for subsidies that would reduce the pain of the losses to the Asian market, the footwear industry pushed for help that would allow it to compete in an open field, improving what needed to be improved without postponing hard decisions.

APICCAPS' members did not immediately accept its message regarding the need to be able to compete in the open field in the 1990s, but now they have realized that it is only by offering something that cannot be replicated easily that the sustainability of their companies will be secured. Joaquim Carvalho, co-owner of J. Sampaio & Irmão defends that "We need fair competition, but any kind of protectionism that disrupts or closes down markets is not the way forward." That statement is sustained by the good results that his companies have obtained in the last few years through sales generated by its brand Eject.<sup>xxvi</sup>

Both the open field approach, in which the industry chose to work, and the strategy that gave its members the tools they needed to compete globally were essential for the innovation that was at the root of the successes. This has allowed the cluster to develop a healthy ecosystem of companies with different sizes and competences that "compete fiercely in terms of product design and the marketing of their products, but that also collaborate in terms of industrial organization and management", states João Maia.

A good example is the project *acções de demonstração* (Showcase Actions), which ran in the 1990s with the goal of spreading the benefits of government-funded projects in specific companies to all firms in the cluster. When a given company benefited from a new technology emerging from a sponsored project, it gave back to the community by hosting open days. The open days helped all other companies to learn by seeing what could be done to production, how much money could be saved, or what new products could be created using that new technology or production technique. Thus, companies that became proficient in a particular skill also became competence leaders. According to João Maia, this was only possible because "each project always had a company at the helm, running it and applying it. Other sectors embraced projects run by the associations or universities, but by doing it this way, we were able to create practical and immediately applicable solutions." When the

projects were too big to be managed by a single company, they were co-managed by a group of companies, therefore allowing many to test the potential benefits of new technology at a much-reduced risk. This allowed innovations to be tested and improved before being shared, so that other companies could replicate the model and in the process make the entire cluster stronger.

“Out of the 1,350 member companies only about 200 have more than 50 employees and have the marketing ability to get customer trends and explore new markets. The other 1,100 do not export directly; instead, the leading companies subcontract them. These smaller firms are essential because they add flexibility and capacity to the industry as a whole. The existence of sophisticated companies is also important. For some time, the role of APICCAPS was to work directly with companies so they would improve. That’s no longer the case. Right now APICCAPS’ most important role is to communicate what the leaders are doing right.”<sup>i</sup>

### **The sexiest industry in Europe**

In 2011, APICCAPS launched the campaign “The Sexiest Industry in Europe” [see photos in Exhibit 8], which summed up what the ambition for the industry really was. In fact, a number of brands very well known for their sexiness, such as Armani, Boss, Chanel, and Dior, develop and produce some of their shoes in Portugal. This was the campaign that sent the Portuguese cluster on a worldwide tour. The campaign had four main goals that continue to be emphasized today: “consolidate the Portuguese shoe industry’s relative position in overseas markets, diversify export destinations, approach new markets, and make it possible for new companies to start the process of internationalization.”<sup>xxvii</sup>

The campaign ended up winning the 2013 European Prize for Business Development awarded by the European Commission and was widely viewed as the result of an essential shift toward the establishment of a design language allowing to attract future customers that look for Portuguese shoes not only because of their quality but also because of their unique design.

Porter’s report confirmed what a focused trade association and a group of resilient businesspeople already knew: the Portuguese footwear industry does have a future and that future can be bright. He knew that any industry could be a sophisticated industry. What he possibly did not know was that it could turn out to be the sexiest.

### **What *footure*?**

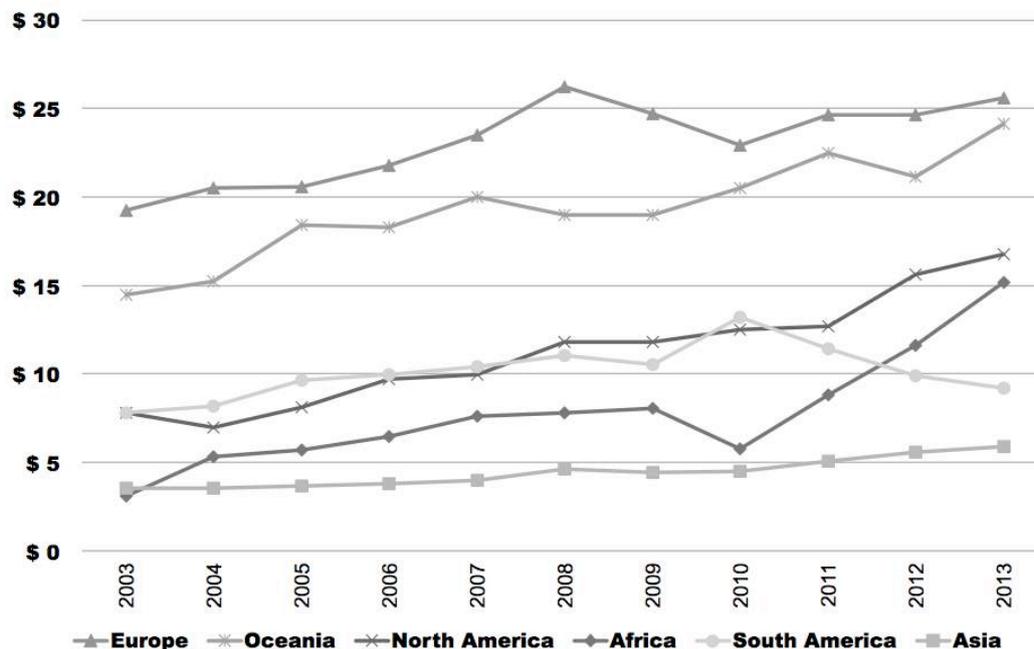
In 2014, Italian shoes were the only shoes in the world with a higher average price out of the factory than that of Portuguese shoes. One could say the goal of producing the best shoes in the world is close at hand. Instead, APICCAPS is cautiously realistic, asserting that competition will only get fiercer.

With more than 1,300 companies, employing more than 35,000 people, exporting 90% of what it produces to 132 countries, and generating revenues of close to €1.8 billion, footwear is the most internationalized sector in the Portuguese economy.<sup>xxviii</sup> How is it then possible to keep everyone moving and pushing to get more? For now, with the stagnation of European sales, given that Europe accounts for 91% of the Portuguese footwear exports<sup>xxix</sup>, APICCAPS keeps the focus on getting to new markets, such as China, the United States, and Latin America. But geographic expansion alone will not be enough when the consumption trends are not favorable to leather footwear [see Exhibits 9 and 10], which is the main output of the Portuguese industry making up for 88% of production.<sup>xxviii</sup>

In spite of its recent successes, the cluster as a whole continues to need to break new ground. According to João Maia, “Currently, outsourcing continues to be responsible for about 50% of the output. Obviously, it's a much more sophisticated outsourcing model but that should continue to be the case in the near future. Portuguese brands are growing but besides the lack of competences there is an inherent conflict between production and retail that will be difficult to overcome, thus, the future challenge is to continue to find segments with higher prices, where the high margins are. This has to be done by continuously incorporating design, consolidating the European market, and exploring new markets.”<sup>i</sup>

A few questions linger on Manuel Carlos' mind while he waits pensive for everybody else to arrive at the next associations' bi-monthly meeting: Is the cluster prepared to take innovation to the next level? Can companies continue to adapt in order to respond to the next challenges when some of Eastern Europe and North Africa produce increasingly better shoes at competitive prices? Will the Portuguese companies succeed in pushing their own brands and compete globally without controlling distribution channels?

**Exhibit 1: Average Export Prices per region (2003-2013), in APICCAPS' World Footwear Industry Yearbook 2014**



**Exhibit 2: Portuguese Footwear Industry Trends, in APICCAPS' 2013 Statistical Study (updated through 2013 by APICCAPS)**

	1974	1984	1994	2004	2006	2008	2010	2011	2012	2013**
<b>Industry</b>										
Companies										
number	673	971	1,635	1,432	1,448	1,407	1,245	1,324	1,322	1,337
Employment										
number	15,299	30,850	59,099	40,255	36,221	35,398	32,132	34,509	34,624	35,044
Production*										
thousand Pairs	15,000	48,000	108,866	84,897	71,643	69,101	62,012	69,491	74,156	75,524
Gross Production Value*										
thousand Euros	12,330	318,891	1,620,001	1,471,214	1,338,555	1,397,617	1,283,475	1,511,085	1,797,030	1,848,010
<b>Foreign Trade</b>										
Exports										
thousand Pairs	5,200	31,100	89,368	75,159	63,784	64,651	68,671	78,226	70,974	74,301
thousand Euros	3,093	164,060	1,283,867	1,273,252	1,166,116	1,290,991	1,296,919	1,541,626	1,608,479	1,734,219
Imports										
thousand Pairs	2,800	200	15,005	33,154	41,209	50,900	65,647	63,535	48,605	49,271
thousand Euros	324	738	97,087	271,126	318,277	431,662	425,270	467,035	415,062	423,289
Trade Balance										
thousand Pairs	2,400	30,900	74,362	42,005	22,575	13,751	3,023	14,691	22,369	25,030
thousand Euros	2,769	163,321	1,186,781	1,002,126	847,838	859,329	871,650	1,074,592	1,193,417	1,310,929

\* APICCAPS Estimates

\*\* APICCAPS Forecasts

Exhibit 3: Brochure, in [www.apiccaps.pt](http://www.apiccaps.pt)

**TECHNOLOGY, QUALITY, ENVIRONMENT AND PATENTS**  
 APICCAPS, via the CTCP, provides consultancy services to its associates, and carries out applied research in the areas of: **technology and industrial management; patents; innovation; quality; metrology and environment.**

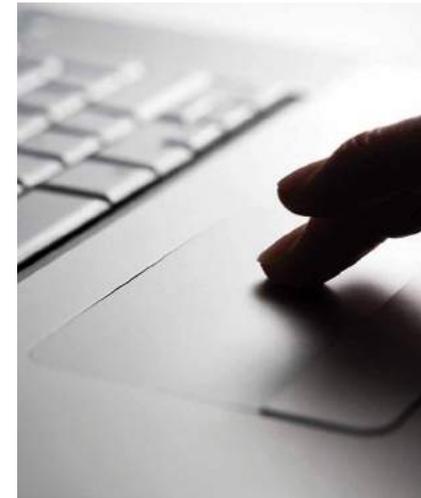
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 4050 - 042 PORTO  
 PORTUGAL  
 tel.: +351 225 074 150  
 fax: +351 225 074 178  
 GPS coordinates: 41°09'39.61"N  
 8°36'56.43"W  
 apiccaps@mail.telecap.pt  
 www.apiccaps.pt  
 www.portuguese-shoes.pt**



APICCAPS – The Association of Portuguese Manufacturers of Footwear, Components, Leather Goods and Associated Articles is a national business association based in Porto. Founded in 1975, it represents the following sectors of activity: **manufacture and sales of footwear; the footwear components industry; the leather goods industry (bags, handbags, gloves, belts, etc.) and production and sale of equipment for the above-mentioned sectors.**

The aim of APICCAPS is to promote the sustainable development of those sectors and companies that it represents.

Main areas of intervention:  
**Internationalization; Studies, Plans and Consultancy; Technical assistance; Information; Training; Collective Bargaining; Technology, Quality and the Environment; Innovation; Patents; Sustainable Development.**



**INTERNATIONALIZATION**  
 APICCAPS is highly active in supporting and promoting the growing internationalization of Portuguese companies. Working in close cooperation with the AICEP, as well as being supported by public entities, APICCAPS promotes a Portuguese presence in approximately 80 foreign trade fairs per year. APICCAPS regularly organizes trade-seeking business missions; APICCAPS organizes promotional campaigns for Portuguese footwear in foreign markets.

**INNOVATION**  
 APICCAPS promotes and incentivates a policy of permanent innovation, a decisive instrument for the strengthening of the competitive ability of its companies, by means of the development of projects in partnership with: CTCP; companies; companies producing raw-materials and high technology; entities from the areas of science and technology; universities.

**STUDIES**  
 APICCAPS prepares sectorial studies in the areas of: research; strategy; statistics; market analysis. APICCAPS develops studies, at the CTCP (The Portuguese Centre for Footwear Technology), on: diagnostics and auditing of general management as well as in the areas of technology and the environment; financial and economic viability of planned investments; technical and technological applied research; environmental impact; adaptation and efficiency.

**TECHNICAL ASSISTANCE**  
 APICCAPS offers its members services in a number of different areas, which include: complimentary legal assistance in labour disputes; information on labour, commercial, and tax law; licensing for industry; incentives relating to investment, employment, tax, etc.; the environment; health, hygiene and safety at work; access to national and international databases; information on bidding for state contracts; information on commercial disputes; subcontracting commercial opportunities.

**INFORMATION**  
 APICCAPS produces the following publications: the APICCAPS newspaper (monthly); quarterly market bulletins; circulars; statistical reports; electronic newsletters.

**TRAINING**  
 A APICCAPS promotes a variety of training courses developed by:  
 - The **CFPIC**, which runs professional training programmes aimed at: young people who have passed year 9; young people who have passed year 12; adults; workers in the area of manufacture of footwear and components. The CFPIC also develops modular training programmes that can be taken after work, as well as made-to-measure training programmes for companies.

- The **CTCP**, which promotes and runs courses in training and professional qualification both within and between companies in the following areas: time and motion; organization and industrial management; new production technologies / new materials; quality management and control; environment and social responsibility; languages; leadership, teamwork, time management, dealing with the public (personal development), employment legislation; sales and marketing.

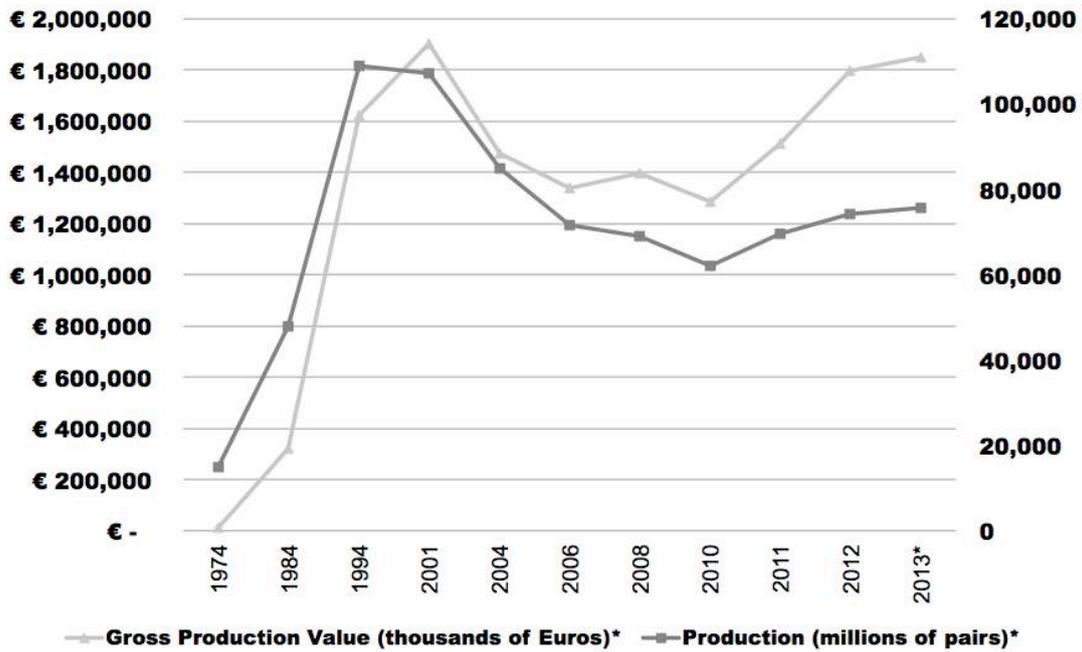
**COLLECTIVE BARGAINING**  
 APICCAPS ensures that all areas of the footwear industry are represented during negotiations with the trades unions for collective agreements relating to contracts of employment, and seeks to create conditions that will allow companies to develop in a competitive manner, as well as the improvement of the socio-economic conditions of employees.

**SUSTAINABLE DEVELOPMENT**  
 Social Responsibility has become increasingly important in the world of footwear manufacture. APICCAPS, which was the first business association to become certified in accordance with norm SA 8000, aims to promote sustainable development along these lines. The aims of sustainable development are to ally competitiveness to social responsibility and to quality of life, enhancing progress of the Portuguese footwear industry into the 21st century.

**Exhibit 4: Timeline**

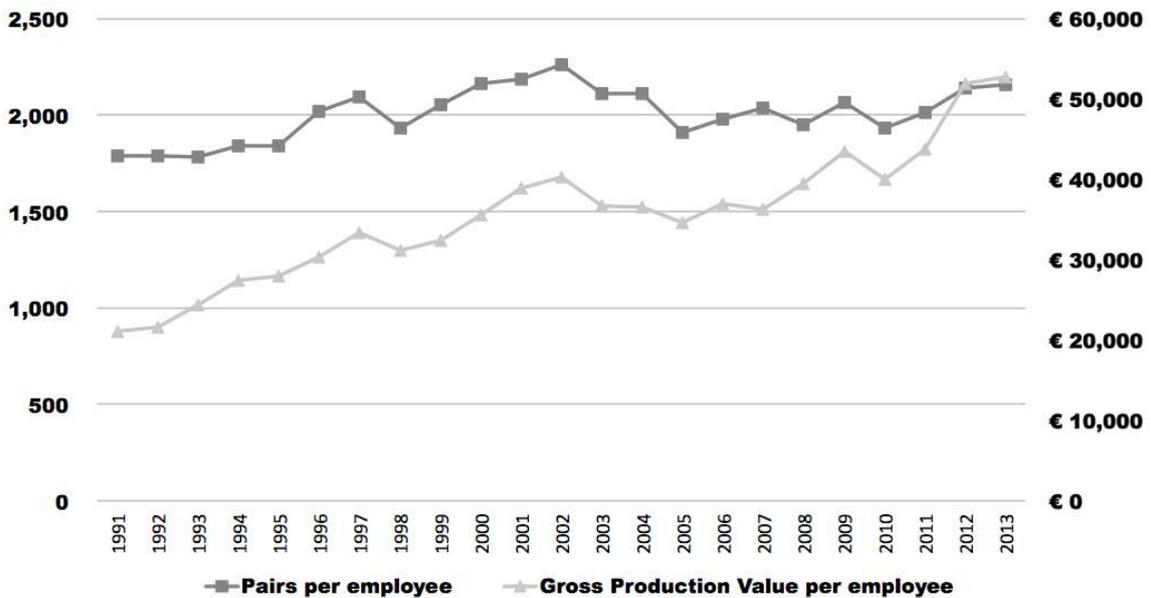
- 1960.** Portugal joins EFTA as a founding member
- 1970.** UK files for EEC membership
- 1972.** Portugal signs a bi-lateral agreement with EEC
- 1974.** Democratic revolution ends the dictatorship period.
- 1975.** Establishment of APICCAPS
- 1978.** APICCAPS publishes its first “Strategic plan for the industry” directed by Miguel Cadilhe from BPA studies center.
- 1983.** APICCAPS publishes its second “Strategic plan for the industry” directed by Carlos Costa from BPA studies center.
- 1986.** Portugal joins the EEC.
- 1987.** APICCAPS publishes its third “Strategic plan for the industry 1988-1994”
- 1992.** Analysis on Portugal’s Economic Competitiveness is undertaken by Michael E. Porter.
- 1994.** APICCAPS publishes the “Strategic plan for the industry 1995-1999” + Porter Report is published.
- 1995.** APICCAPS introduces tagline: Shoes from Portugal.
- 1999.** APICCAPS publishes the “Strategic plan for the industry 2000-2006”
- 2004.** The last MOCAP (trade fair in Portugal) takes place.
- 2006.** APICCAPS publishes the “Strategic plan for the industry 2007-2013”
- 2007.** APICCAPS introduces tagline: “Shoes from the future” + APICCAPS publishes Statistical Report.
- 2011.** APICCAPS introduces tagline: “The Sexiest Industry in Europe” + APICCAPS publishes *World Footwear Yearbook*.
- 2012.** APICCAPS publishes *World Footwear Yearbook*.
- 2013.** APICCAPS publishes Statistical Report
- 2014.** APICCAPS publishes the Strategic plan for the industry, “Footure 2014-2020”

**Exhibit 5:** Portuguese Footwear Production (in Millions of Pairs and Millions of Euros), in APICCAPS Strategic Plan 2007-2013 (updated through 2013 by APICCAPS)



\* APICCAPS Estimates

**Exhibit 6:** Portuguese Footwear Production by Employee, in APICCAPS' Statistical Study 2013 (updated through 2013 by APICCAPS)



**Exhibit 7: Top Exporters (2013), in APICCAPS' World Footwear Industry Yearbook 2014**

*Overall*

Rank	Country	USD (millions)	World share	Average price
1	China	48,145	40.4%	\$4.55
2	Italy	10,722	9.0%	\$48.78
3	Viet Nam	10,030	8.4%	\$15.44
4	Hong Kong	4,848	4.1%	\$15.46
5	Belgium	4,688	3.9%	\$23.89
6	Germany	4,446	3.7%	\$23.73
7	Indonesia	3,755	3.2%	\$21.12
8	Netherlands	3,201	2.7%	\$20.51
9	Spain	3,036	2.6%	\$21.70
10	France	2,717	2.3%	\$30.78
11	Portugal	2,305	1.9%	\$31.01
12	India	2,268	1.9%	\$13.14
13	United Kingdom	1,876	1.6%	\$13.02
14	Romania	1,304	1.1%	\$24.75
15	USA	1,165	1.0%	\$14.11

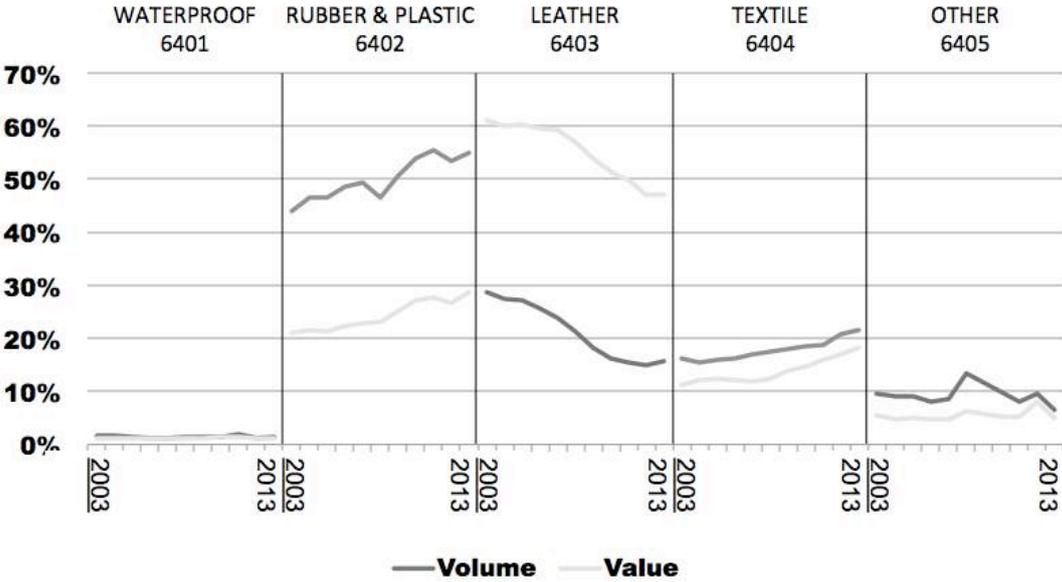
*Leather Footwear*

Rank	Country	USD (millions)	Share	Pairs (millions)	Share	Average price
1	China	\$11,714	20.9%	828	36.8%	\$14.14
2	Italy	\$8,844	15.8%	133	5.9%	\$66.35
3	Viet Nam	\$4,447	7.9%	231	10.2%	\$19.29
4	China, Hong Kong SAR	\$3,443	6.1%	151	6.7%	\$22.83
5	Germany	\$2,484	4.4%	59	2.6%	\$41.86
6	Indonesia	\$2,272	4.0%	77	3.4%	\$29.46
7	Belgium	\$2,110	3.8%	58	2.6%	\$36.39
8	Portugal	\$2,035	3.6%	56	2.5%	\$36.18
9	India	\$1,965	3.5%	113	5.0%	\$17.44
10	Spain	\$1,892	3.4%	46	2.0%	\$41.19

Exhibit 8: Photos from "The Sexiest Industry in Europe" campaign



**Exhibit 9:** Share of Worldwide Exports by type of footwear 2003-2013, in APICCAPS' *World Footwear Industry Yearbook 2014*.



**Exhibit 10: World Top Footwear Importers**

*Overall (2013, in APICCAPS' World Footwear Industry Yearbook 2014*

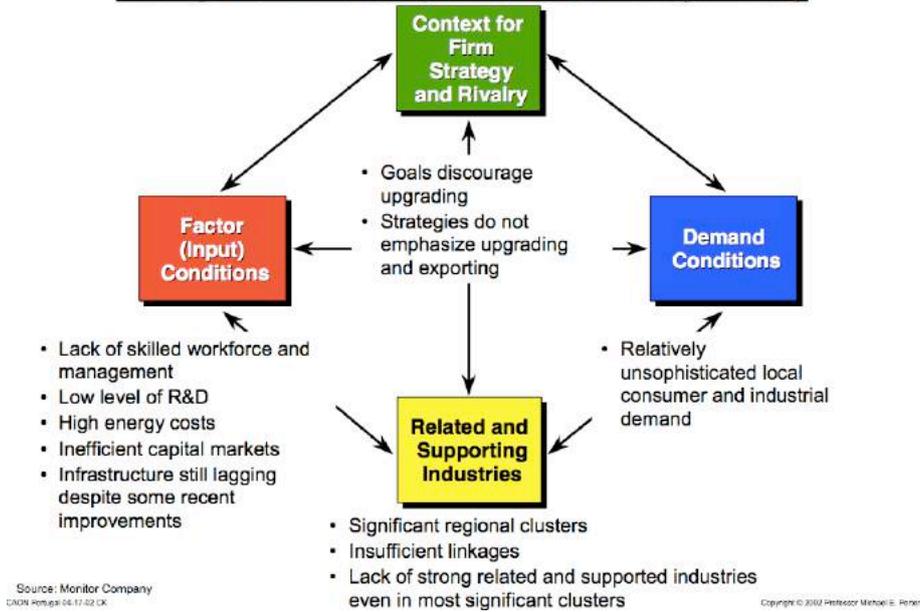
<b>Rank</b>	<b>Country</b>	<b>USD (millions)</b>	<b>World share</b>	<b>Average price</b>
1	USA	\$25,317	22.3%	\$10.83
2	Germany	\$8,825	7.8%	\$15.57
3	France	\$6,806	6.0%	\$14.62
4	United Kingdom	\$6,314	5.6%	\$10.78
5	Japan	\$5,592	4.9%	\$9.34
6	Italy	\$5,092	4.5%	\$16.78
7	Hong Kong	\$4,569	4.0%	\$11.92
8	Russian Federation	\$4,278	3.8%	\$12.80
9	Belgium	\$3,343	2.9%	\$13.27
10	Netherlands	\$3,300	2.9%	\$13.05
11	Spain	\$2,730	2.4%	\$8.36
12	Canada	\$2,239	2.0%	\$13.55
13	Rep. of Korea	\$1,836	1.6%	\$13.90
14	China	\$1,710	1.5%	\$30.80
15	Austria	\$1,650	1.5%	\$21.71

*Leather Footwear (2012), in APICCAPS Statistical Study 2013*

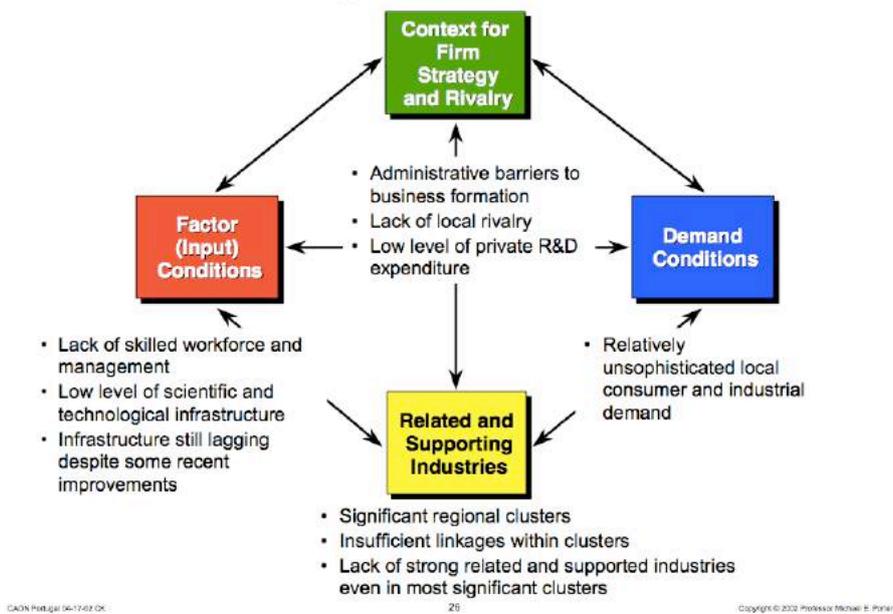
<b>Rank</b>	<b>Country</b>	<b>USD (millions)</b>
1	USA	\$12,220
2	Germany	\$4,185
3	France	\$3,550
4	Hong Kong	\$3,240
5	Italy	\$3,105
6	United Kingdom	\$3,057
7	Russian Federation	\$2,086
8	Netherlands	\$2,056
9	Belgium	\$1,688
10	Japan	\$1,469

**Exhibit 11:** Conclusions of the Porter Report 1994 (the report was commissioned by the Portuguese government to Michael E. Porter in 1992, so that he could evaluate and propose a strategy regarding the Portuguese economy).

**Portuguese Diamond in 1994**  
**Findings from “The Competitiveness of Portugal”-study**



Porter update to Portugal's Diamond in 2002



### Notes

- <sup>i</sup> João Maia, APICCAPS' Executive Director, interview, April 2014
- <sup>ii</sup> Moura e Sá & Abrunhosa, The role of TQM practices in technological innovation: The Portuguese footwear industry case. *Total Quality Management & Business Excellence*, 18(1-2). 57-66, 2007
- <sup>iii</sup> Porter also indentified seven core clusters which Portugal needed to develop to support the economy as a whole: education, financing, forestry management, management capabilities, science and technology.
- <sup>iv</sup> Michael E. Porter, *Clusters and the New Economics of Competition*, Harvard Business Review, November-December, 77-89, 1998
- <sup>v</sup> FRED, [research.stlouisfed.org](http://research.stlouisfed.org)
- <sup>vi</sup> EFTA, [www.efta.int/about-efta](http://www.efta.int/about-efta), accessed May 2014
- <sup>vii</sup> Lucia Coppolaro & Pedro Lains, *Portugal and European Integration, 1947–1992: an essay on protected openness in the European Periphery*, e-journal of Portuguese History, 2013
- <sup>viii</sup> Carlos Costa, *Indústria Portuguesa do Calçado*, APICCAPS, 1983
- <sup>ix</sup> Manuel Carlos Silva, interview to *Público*, October 20, 2013
- <sup>x</sup> Presidents are elected each three years and hold a non-executive role
- <sup>xi</sup> Prof. Alberto Castro (Católica Porto Business School), Interview, January 2014
- <sup>xii</sup> The Católica Porto Business School has been developing the strategic plans since the beginning of the 1990s
- <sup>xiii</sup> Carlos Costa for APICCAPS, *Strategic Plan for the Footwear Industry*, 1983
- <sup>xiv</sup> Patricia Kowsmann, *Portugal's shoemaker bet on quality*. Wall Street Journal, <http://online.wsj.com/news/articles/SB10001424052702303630904579419381868559314>, accessed June 19, 2014
- <sup>xv</sup> APICCAPS, Strategic Plan, 1994
- <sup>xvi</sup> PEDIP/PRIME Evaluation Reports, <http://www.bibliotecaonline.min-economia.pt/>
- <sup>xvii</sup> Manuel Carlos Silva, <http://saldopositivo.cgd.pt/empresas/o-que-e-que-os-sapatos-nacionais-tem>, accessed July 10, 2014
- <sup>xviii</sup> APICCAPS, Press Release, <http://www.portugueseshoestv.pt/breakingnews/?id=273&APICCAPS-launches-new-fashion-and-lifestyle-TV-channel>, accessed July 1, 2014
- <sup>xix</sup> Peter Wise, *Growth hopes dim for Portugal's shoemakers*, Financial Times, May 26, 2010, <http://www.ft.com/intl/cms/s/0/adceb93a-68e6-11df-910b-00144feab49a.html#axzz350FQYeCF>,
- <sup>xx</sup> Peter Wise, *The footwear industry: Sharper shoes find high-class niche*, Financial Times July 14, 2010, <http://www.ft.com/intl/cms/s/0/cbf3075e-8eb6-11df-8a67-00144feab49a.html#axzz350FQYeCF>, accessed July 1, 2014
- <sup>xxi</sup> Peter Wise, *Export growth boosts Portugal's prospects*, Financial Times, May 28, 2012, <http://www.ft.com/intl/cms/s/0/b9f6334c-a8c1-11e1-a747-00144feabdc0.html?siteedition=intl#axzz350FQYeCF>, accessed July 1, 2014
- <sup>xxii</sup> Manuel Carlos Silva, [http://www.dinheirovivo.pt/economia/interior.aspx?content\\_id=3758942](http://www.dinheirovivo.pt/economia/interior.aspx?content_id=3758942), accessed July 1, 2014
- <sup>xxiii</sup> Fortunato Frederico, <http://saldopositivo.cgd.pt/empresas/como-o-setor-do-calcado-deu-a-volta-a-crise>, accessed January, 2014
- <sup>xxiv</sup> <http://www.portuguesesoul.com/?p=504>, accessed June 19, 2014
- <sup>xxv</sup> Fortunato Frederico, APICCAPS Journal N. 168
- <sup>xxvi</sup> Peter Wise, *Protection is of doubtful value at fashion's cutting edge*, Financial Times, February 23, 2006, <http://www.ft.com/intl/cms/s/0/6395bf0a-a412-11da-83cc0000779e2340.html?siteedition=intl#axzz350FQYeCF>, accessed July 1, 2014
- <sup>xxvii</sup> APICCAPS press release, <http://www.portugueseshoes.pt/>
- <sup>xxviii</sup> APICCAPS, *Footwear, components and leather goods. 2013 Statistical Study*, [http://www.apiccaps.pt/c/document\\_library/get\\_file?uuid=6dec520c-c072-4159-af11-9513cf060f2e&groupId=10136](http://www.apiccaps.pt/c/document_library/get_file?uuid=6dec520c-c072-4159-af11-9513cf060f2e&groupId=10136), accessed June 19, 2014
- <sup>xxix</sup> APICCAPS, *2020 Footure. Plano estratégico, cluster do calçado*, 2013 [http://www.apiccaps.pt/c/document\\_library/get\\_file?uuid=ceb10f1a-a85a-47a5-8978-3683e7d5b650&groupId=10136](http://www.apiccaps.pt/c/document_library/get_file?uuid=ceb10f1a-a85a-47a5-8978-3683e7d5b650&groupId=10136), accessed June 19, 2014