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Footwear



Essential sourcing intelligence for buyers

Indonesia manufacturer profiles
 Detailed profiles of 40 suppliers with verified manufacturing and export credentials



Product & price trends
 Prices and specifications of 118 top-selling export products

Design & material innovations
 Coverage of the latest trends in materials, style and finish

November 2008

US\$100



The Kearny Alliance

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AID THROUGH TRADE
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The aim is to give international buyers new sourcing opportunities from experienced exporters, generating orders and create lasting jobs in developing economies.

FOOTWEAR

Supplier capability in Indonesia

EXECUTIVE SUMMARY

Indonesia-made footwear has gained a following in the international market, due mainly to its competitive prices, unique designs and durability.

The low minimum order requirements and the wide range of materials used have also helped the country achieve export growth in recent years, with industry experts anticipating this upward trend to continue.

In fact, the Indonesian Footwear Association expects overseas sales to reach \$1.76 billion by end-2008, a rise of 10 percent over the previous year. This increase will come mainly from new orders in Europe as Indonesia continues to capitalize on the anti-dumping duties the EU imposed on leather footwear imports from China and Vietnam in October 2006.

To further increase sales, footwear makers in Indonesia are also expanding their product lines instead of specializing in just one or two shoe types.

Moreover, some suppliers have begun to focus on the upscale market, releasing pieces made of imported and exotic materials such as skins of stingray, lizard and crocodile.

Meanwhile, the influx of foreign investment into Indonesia's footwear industry has given suppliers the financial capability to upgrade and expand their production lines.

Manufacturing and exporting footwear, however, is not always without challenges. Makers need to address several issues, including rising cost of materials and labor, and intensifying competition from other supply centers in Asia.

To maintain an edge over their competitors, footwear suppliers in Indonesia are continuously innovating on designs and material use.

The following are some key trends we see in Indonesia's footwear industry:

- Exports in the line are expected to increase in the next 12 months.

Suppliers will continue to target the EU and the US markets.

- Many companies will keep current price levels despite rising costs of labor and materials. In fact, of suppliers surveyed for this report, 52 percent expect prices to remain the same, while the rest anticipate an increase.

- Foreign investment will continue to flow into Indonesia's footwear industry, either through the construction of new factories or the expansion of existing facilities.

- In the next 12 months, many suppliers will focus R&D efforts on creating footwear in simple and basic colors. Many makers are also developing models made of natural and environment-friendly materials.

This report covers all types of footwear produced in Indonesia, including boots, and casual, dress and sports shoes.

The *Products & Prices* section details the features and price ranges of footwear made in Indonesia. This includes the latest trends in style and materials.

The *Industry Overview* discusses key issues affecting exporters and elaborates on the composition of the industry, highlighting key characteristics of different types of suppliers.

The majority of footwear suppliers in Indonesia are privately owned, with many being foreign-invested companies. This report reflects the nature of the industry with more than two-thirds of featured suppliers wholly Indonesia-owned. Investors are from Taiwan and South Korea.

Production of footwear is concentrated in Bali, Banten, Java and Jakarta, where the majority of companies interviewed for this report are also based. Thirty-three percent of surveyed suppliers have facilities in Bali, while 28 percent have workshops in West Java.

In this report

- 18 in-depth company profiles
- 22 short company profiles
- 118 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics and charts

OBJECTIVE & METHODOLOGY

This Indonesia Sourcing Report is part of a series designed to provide buyers with information on new products from export manufacturers in supply markets that specialize in handmade merchandise.

The Developing Country Sourcing Report series is part of Global Sources' corporate social responsibility initiatives. It is offered in conjunction with the Kearny Alliance, whose mission is Aid Through Trade. The objective is to help create jobs in developing Asia through export promotion.

To produce this report, larger, midsized and emerging manufacturers — all with substantial export experience — were surveyed. The selection of suppliers is designed to reflect the composition of the industry in Indonesia in terms of geographic location, materials used and range of products offered.

For in-depth profiles, our researchers visited the facilities of each company and interviewed senior executives who discussed their recent performance and provided forecasts for the next 12 months. All other companies in this report were either visited or contacted by phone.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including a breakdown of exports by product type and market. Suppliers also participated in a survey designed to provide insight into the industry.

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INDUSTRY OVERVIEW

Indonesia is one of the major footwear supply bases in Asia and is among the top 10 exporters in the world. The country has gained a reputation for offering quality products that combine exquisite craftsmanship with durability. Shoes from Indonesia are known for their competitive prices, unique designs and wide range of materials used.

Since 2002, the popularity of Indonesia-made shoes has increased impressively. This has helped the sector maintain its position as one of the country's largest export revenue earners.

Indonesia shipped more than \$1.6 billion worth of footwear in 2007, an increase of 39 percent over the \$1.1 billion exported in 2002. The industry is expected to register a 10 percent year-on-year growth in 2008, based on data from the Indonesian Footwear Association.

Aside from craftsmanship, the other factors that have helped Indonesia makers gain a bigger share of the export market are low minimum order requirements, acceptance of mixed orders, the country's large pool of highly skilled workers, and the use of advanced assembly lines from Japan, South Korea and Taiwan.

Despite promising sales, however, Indonesia suppliers need to address various challenges that threaten to reduce margins.

Challenges

One of the main challenges footwear makers in Indonesia are facing is the rising cost of raw materials, which in turn has been pushing up prices of finished products.

Genuine and synthetic leather, which is used by many suppliers, has increased in cost by at least 15 percent in the first half of 2008. This is partly due to the local shortage of the materials used to process finished leather products.

Additionally, the supply of high-grade genuine leather has been unable

to meet local demand. In 2007, Indonesia's leather exports reached \$156.5 million. In the same year, however, footwear makers had to import \$61.2 million worth of leather, an indication of suppliers' dependence on imported materials.

Meanwhile, the cost of adhesive, components and embellishments such as beads, studs, zippers and lace locks have also risen by 15 to 20 percent since early 2008.

To offset rising production expenses, some suppliers have begun offering models made of synthetic leather, which can bring down quotes by at least \$2. Many suppliers are also focusing on locally available materials.

For instance, Hita Karana, one of the companies interviewed for this report, is using recycled rubber tires as outsoles for its sandals. This not only reduces material costs but also enables the company to differentiate itself from competitors. Jovan's, another featured supplier, plans to increase its use of natural materials, which are readily available from local providers.

Makers that cannot avoid raising their product quotes will limit increases to a maximum of 10 percent to remain competitive.

Another major challenge for Indonesia's footwear industry is the rising cost of labor. The demand for engineers and skilled workers has pushed salary rates up as companies compete for employees.

To attract experienced workers, medium- and large-sized companies offer higher pay and more benefits. Most smaller-sized businesses, on the other hand, cannot afford to do so. And unlike their more established competitors, these suppliers cannot guarantee regular work for their full-time employees. In response, small companies typically maintain a network of home-based workers who are provided with equipment and materials for production.

Supplier summary

Suppliers surveyed	40
Export sales	\$189.8mn
Export ratio	68%
Capacity utilized	47%
Full-time employees	33,444

Data: All surveyed suppliers

Handmade details and motifs, favorable duties

The intensifying competition from footwear suppliers in other Asian countries is another issue Indonesia makers are addressing. Semi- or fully automated production lines used by China suppliers, for example, result in lower-priced shoes and require shorter lead times. Aside from China, makers in India and Vietnam are giving tough competition to Indonesia in the export market.

To differentiate themselves from their competitors, many suppliers in Indonesia are releasing more models with handmade details and motifs. Some makers are focusing on the upscale market, which brings in higher margins.

The anti-dumping policy implemented by the EU on shoe imports from China and Vietnam, however, has presented Indonesia with the opportunity to takeover some of the market share held by the two countries.

On October 2006, the EU started implementing extra duties of 16.5 and 10 percent on leather shoes from China and Vietnam, respectively. These levies, which were due to expire early October 2008, have been extended by another 15 months or so, while the EU examines the effect removal will have on its domestic industry.

Industry composition

Indonesia's footwear industry grew when international brands such as Nike, Adidas, Reebok and Puma moved some of their production to the country. The supplier base is composed of small- to large-sized suppliers that collectively employ 400,000 to 500,000 workers.

PT Alaska Inti Cemerang

Alaska Inti Cemerang has been producing and exporting midrange and high-end footwear since its establishment in 2006. The locally owned company offers casual, sports and dress shoes for women, men and children.

Seventy percent of output is shipped to the Netherlands, Germany, the UK, Italy, the US, Taiwan and Hong Kong. The rest is sold to local wholesale buyers.

Alaska Inti Cemerang is currently focused on producing sport shoes for international brands Reebok and Puma.

Fabric, rubber, and genuine and synthetic leather are the main materials. Uppers are usually made of cowhide, pigskin and sheepskin, while PU and EVA, and rubber are mainly used for insoles and outsoles, respectively.

The company sources pigskin from China, while other materials are ordered from local suppliers.

Pricing depends on the material and the complexity of production. Low-end

items are available for \$9 to \$13, while upscale models are priced between \$30 and \$35.

A pair of women's casual shoes with genuine leather uppers and insoles, and rubber outsoles is priced at \$18 to \$22. Sport shoes with leather uppers and insoles go for more than \$30.

The 40-member R&D team can finish samples within 45 days. If all materials are available, however, the sampling time can be reduced.

The factory in Tangerang has an area of 8,000sqm. All steps of production are done in-house, including the making of uppers and insoles, gluing, assembly, finishing and packing. More than 60 percent of the equipment are made in Taiwan.

The 1,200 full-time employees can manufacture 200,000 pairs of shoes each month. The average monthly output, however, is only 120,000 pairs. Delivery time is 90 days.

Aside from the inspectors that clients send, the company has 35 QC

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employees responsible for conducting visual and tactile checks on the products. The color, stitching and quality of the finish are inspected before packing and shipping.

The minimum order is 5,000 pairs per style, which can be comprised of two colors.

Alaska Inti Cemerang is a member of the Indonesia Footwear Association. It joins trade shows in Jakarta every July.

Profile

Company facts

Year established	2006
Head office location	Tangerang (Banten)
Ownership	Locally owned
Factory location(s)	Tangerang (Banten)
Full-time employees	1,200
Total annual sales (all products)	•

Sales & output: Footwear

Annual sales	•
Share of total sales	•
Annual export sales	•
Total monthly capacity	200,000 pairs
Average monthly output	120,000 pairs
Capacity utilized	60%
Average monthly exports	84,000 pairs
Export ratio	70%

• Information not disclosed

Capability

Materials used

Leather (genuine/synthetic)	Yes
Fabric	Yes
Rubber	Yes
Plastic	No
Wood, cork and other natural materials	No

Exports by product

Casual shoes	10%
Dress shoes	10%
Boots	—
Sports shoes	80%

Exports by market

North America	35%
European Union	40%
Europe (non-EU)	—
Middle East/Africa	—
Asia	25%
Other	—

Popular export models



Model: Soccer shoes
Minimum order: 5,000 pairs
Packaging type: Carton
Delivery time: 90 days
Indicated price: •
Description: PU upper; rubber outsole



Model: Running shoes
Minimum order: 5,000 pairs
Packaging type: Carton
Delivery time: 90 days
Indicated price: •
Description: PU leather upper; rubber outsole



Model: Skateboard shoes
Minimum order: 5,000 pairs
Packaging type: Carton
Delivery time: 90 days
Indicated price: •
Description: PU leather upper; EVA midsole; rubber outsole



Model: Woman walking shoes
Minimum order: 5,000 pairs
Packaging type: Carton
Delivery time: 90 days
Indicated price: •
Description: Synthetic leather upper; rubber outsole



Model: Walking shoes
Minimum order: 5,000 pairs
Packaging type: Carton
Delivery time: 90 days
Indicated price: •
Description: PU leather upper; EVA midsole; rubber outsole

• Information not disclosed

PRODUCT GALLERY

Boots



Hero
(profile page 63)
Model: HD02
Minimum order: 20 pairs
Packaging type: Plastic and carton
Delivery time: 7 days
Indicated price: \$65.20
Description: Cowhide upper, insole and outsole; women's US sizes; in black, brown and tan



Hero
(profile page 63)
Model: HD03
Minimum order: 20 pairs
Packaging type: Plastic and carton
Delivery time: 7 days
Indicated price: \$86.50
Description: Sheepskin upper; cowhide insole and outsole; wooden heel; handpainted flower motif; women's US sizes; in black and brown



Hero
(profile page 63)
Model: HD04
Minimum order: 20 pairs
Packaging type: Plastic and carton
Delivery time: 7 days
Indicated price: \$62.50
Description: Sheepskin upper with buckles; sheepskin outsole; wooden heel; women's US sizes; in brown, black, white and beige



Horn Ming
(profile page 38)
Model: HM03
Minimum order: 6,000 pairs
Packaging type: Plastic and carton
Delivery time: 90 days
Indicated price: \$80
Description: Nappa upper; lambskin insole; TPU outsole; sizes 39 to 46; in black and brown



Mo Mo
(profile page 48)
Model: LF02
Minimum order: 30 pairs
Packaging type: Plastic, foam and carton
Delivery time: 15 days
Indicated price: \$92.30
Description: Sheep suede upper; cowhide outsole; wooden heel; sizes 35 to 42; in black, brown and dark red



Mo Mo
(profile page 48)
Model: LF03
Minimum order: 30 pairs
Packaging type: Plastic, foam and carton
Delivery time: 15 days
Indicated price: \$159
Description: Cowhide upper, insole and outsole; sheepskin embellishment in scorpion shape; in various colors

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