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Exporting Footwear to the United States

A Guide for Moroccan Footwear Manufacturers



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Introduction

This guide to exporting footwear to the United States is intended for Moroccan footwear makers. It was produced by the Morocco New Business Opportunities Program (NBO) of the United States Agency for International Development (USAID).

The U.S.–Morocco Free Trade Agreement (FTA) gives Moroccan footwear manufacturers an excellent opportunity to do business with the U.S. market. Thanks to the FTA, U.S. companies may import certain footwear produced in Morocco free of the high customs tariffs normally applied to footwear imports. But duty-free preference is only one criterion that U.S. buyers use when deciding where to source footwear, so Moroccan manufacturers who want to do business with the United States must also follow certain business processes and meet quality and delivery time requirements.

The Moroccan footwear industry already reaches a significant export market, mostly Europe, which uses retail business and footwear-sourcing models that differ from those in the United States. The U.S. footwear market is large and complex, and serving this market requires an understanding of the U.S. retail sales environment as well as the business models used by buyers who source footwear from foreign manufacturers.

This guide provides this information. It explains the competitive advantages provided under the FTA, gives tips on how to find success in supplying the U.S. footwear market, and directs exporters to resources that can answer their questions.

NBO Program

The Morocco New Business Opportunities Program was designed to help export-oriented Moroccan enterprises pursue business opportunities that emerged as a result of the U.S.-Morocco FTA. The objective of the program is to establish lasting business-to-business linkages between U.S. buyers and Moroccan manufacturers. The program provided technical training through seminars and workshops as well as through reports and studies. It was funded by USAID. More information about the NBO Program can be found on its website,

www.nbo-program.com

I. Terms of the U.S.–Morocco Free Trade Agreement

In 2006, the Kingdom of Morocco joined the small group of countries that have bilateral free trade agreements (FTA) with the United States, becoming the second Arab nation and the first African nation with such an agreement. The provisions of the U.S.–Morocco FTA offer attractive opportunities for both countries.¹

GENERAL TERMS

The FTA opens up markets in Morocco and the United States significantly, giving duty-free treatment to 95 percent of consumer and industrial goods and eliminating the remaining duties by 2015. To qualify for benefits under the FTA, a product must meet at least one of the following standards:

- It must be wholly the growth, product, or manufacture of the United States or Morocco.
- It must be substantially transformed in the United States or Morocco into a new and different article of commerce (according to a change in its tariff classification at a prescribed level), *and* if transformed through a manufacturing process, at least 35 percent of the value of the completed article (materials and direct costs of processing) must originate in the United States or Morocco.
- Goods must be exported directly from one country to the other. Transshipment is permitted for the purpose of unloading and reloading, or other operation to preserve the product in good condition or to transport it to the territory of the other party. A product may not be transformed or have value added before it arrives at the destination's port of entry.

The FTA also establishes conditions for manufacturing and trade. These include protection of intellectual property rights through trademark, copyright, and patents; environmental protection and enforcement; and cooperative promotion of worker rights. Both countries enforce prohibitions against bribery and corruption, and both countries commit to transparent customs procedures and to publishing customs laws and regulations on the Internet.

Some products are subject to complex, product-specific requirements that exporters must meet to take advantage of the free trade opportunities created by the agreement and avoid penalties. Footwear is subject to such requirements. Although most U.S. importers review FTA requirements closely and provide guidelines to their suppliers, they expect suppliers to be familiar with the rules and to share responsibility for compliance.

¹ The U.S. Trade Representative website has the full text of the U.S.–Morocco FTA. Chapter 4 provides the USTR website address..

BENEFITS FOR THE FOOTWEAR SECTOR

U.S. duties on regular leather footwear products are moderate, averaging 6 percent to 10 percent, but for leather work shoes and rubber footwear duties are a high 37.5 percent. Importers understandably want to reduce or eliminate that cost and the FTA gives Moroccan exporters a comparative advantage in this regard.

Under the U.S.–Morocco FTA, footwear products are classified into two groups depending on their sensitivity in U.S. trade. The first group consists of leather products that were accorded duty free treatment as of January 1, 2006. The second consists of leather footwear, such as work shoes and rubber footwear, for which duties are being phased out in nine equal yearly stages until full elimination on January 1, 2015.

Exporters seeking to enter the U.S. market should review potential export products and the U.S. tariff schedules to determine which group their goods are in and what the current duty rate is. Annex 4 of the FTA includes the U.S. tariff schedule for footwear products. The General Notes on the schedule provide details on tariff treatment under the FTA. Figure 1-1, taken from the annually updated U.S. Harmonized Tariff Schedule (HTS),² illustrates the phasing out of duties. For example, certain Moroccan footwear exports that were subject to 37.5 percent duty on January 1, 2006, are now subject to a duty of only 20.8 percent. This phasing out of duties on Moroccan footwear entering the U.S. market is intended to support gradual growth and to avoid disruptive growth.

Figure 1-1

General versus Special Duty on Certain Footwear Exports under the U.S.-Morocco FTA

Harmonized Tariff Schedule of the United States (2009) - Supplement 1

Annotated for Statistical Reporting Purposes

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty	
				General	Special
6401		Waterproof footwear with outer soles and uppers of rubber or plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes:			
6401.10.00	00	Footwear incorporating a protective metal toe-cap	prs.	37.5% ^{1/}	Free (CA,D,IL, MX,R) 3.7% (JO) 6% (P) 15% (SG) 18.7% (AU) 20.8% (MA) 26.2% (CL) 22.5% (BH) 33.7% (OM,PE)

General duty for this product

Duty paid by Moroccan exporters at this stage of duty phase out.

Source: <http://www.usitc.gov/publications/docs/tata/hts/bychapter/0910c64.pdf>

² Footwear is classified under Chapter 64 of the HTS, the international code for internationally traded goods. Under each two-digit heading, specific products are identified by longer codes. Some products have codes that are 10 digits long.

RULES OF ORIGIN FOR FOOTWEAR PRODUCTS

A good qualifies for preferential treatment under the FTA when it is imported directly from the territory of one party into the territory of the other and when it is an “originating good.” To be considered an originating good, at least 35 percent of the value of the good must be U.S. and/or Moroccan in origin.

Calculating Origin and Value

When is a good considered “originating”? A good or related material produced in the United States and/or Morocco then incorporated into a good in either country is considered as originating in that country. A good grown, produced, or manufactured in the territory of the United States and/or Morocco by one or more producers is also considered as originating in that country. To determine if a product qualifies for preferential treatment under the FTA—if it meets the 35 percent value requirement for content—one takes into account all direct costs and value of materials from both the United States and Morocco. These include the direct costs of processing operations performed in the United States and/or Morocco and the value of materials produced in the territory of one or both countries.

The value of material produced in the United States and/or Morocco includes all of the following:

- The price the goods producer actually paid or that is payable for material used in the good.
- The costs for freight, insurance, packing, and all other costs incurred in transporting the material to the producer's plant when not included in the price above.
- The cost of waste or spoilage, less the value of recoverable scrap.
- Taxes or customs duties imposed on the material, provided the taxes or duties are not remitted on exportation.

If the relationship between the goods producer and material supplier influenced the price paid or payable for material, or should other points from the paragraph above not apply, the value of the material produced in the United States and/or Morocco includes

- All expenses incurred in growing, producing, or manufacturing the material, including general expenses.
- A reasonable amount for profit.
- Freight, insurance, packing, and all other costs incurred in transporting the material to the producer's plant.

RECORDKEEPING

The FTA stipulates that only products that meet certain requirements are granted beneficial treatment. Therefore, both the exporter and the importer must be able to prove that goods meet requirements and proof requires good recordkeeping. For example, the exporter and importer must retain documents that establish the origin of inputs, the nature of the manufacturing processes carried out in Morocco, and direct shipment to the United States for five years. In addition, the U.S. and Moroccan governments have agreed to monitor claims to ensure that only qualifying goods receive benefits. Any firm wishing to enjoy the benefits of the FTA should institute a recordkeeping system before attempting to claim benefits. In fact, buyers often require suppliers to show that they can provide documentation to substantiate

claims, and Moroccan exporters should require the same of companies providing them with inputs.

When goods arrive in the United States, the importer claims duty-free status by entering the goods under the appropriate HTS designation, with the special product indicator MA or MA* to show that benefits derive from the U.S.–Morocco FTA. U.S. Customs and Border Protection may also require a declaration from the importer that the responsible party knows and can demonstrate that the shipment qualifies for benefits. To satisfy the occasional request for additional information, importers must keep, and require that suppliers keep and be able to furnish on demand, the following documentation:

- ***Evidence of the origin of leather and other inputs.*** Because many footwear makers purchase semifinished and finished leather and other accessories to manufacture the footwear, Moroccan exporters should obtain a certificate from the supplier of such raw materials and accessory inputs confirming the origin. If the U.S. buyer sources the leather on behalf of the Moroccan footwear makers, the footwear maker should still require either copies of the certificates or a letter from the buyer taking responsibility.
- ***Transportation documents and warehouse receipts*** proving that the leather was received by the factory, that enough material was purchased and received to produce the goods, and that it was moved from inventory to work in process.
- ***Daily production records*** such as cutting records, stitching tickets; bundle, finishing, and packing tracking; and similar evidence that the goods were produced in the factory.
- ***Receipts*** for transportation to the shipping company and bills of lading for export to the United States.

If a factory fails to keep such records or cannot produce them when the authorities request them, the U.S. importer risks being charged duty for up to five years after the entry of the goods into the United States. Both the seller and the buyer may be penalized.

In most cases, U.S. Customs and Border Protection will allow entry of goods on the basis of the entry declaration, but if it determines that additional information is necessary, it will request it from the importer. It may request a declaration describing

- The goods, quantity, numbers, and invoice numbers and bills of lading.
- The operations performed in the growth, production, or manufacture of the goods in the territory of one or both parties, as well as identification of the direct costs of processing operations if applicable.
- Any material used in the growth, production, or manufacture of the goods that is wholly the growth, product, or manufacture of one or both of the parties, and a statement as to the value of the material.
- Operations performed on, and a statement as to the origin and value of, any material used in the goods that is claimed to have been sufficiently processed in the territory of one or both of the parties to be material produced in the territory of one or both of the parties, or is claimed to have undergone an applicable change in tariff classification specified in Annex 4-A or Annex 5-A of the FTA.
- Origin and value of any foreign material used in the good that is not claimed to have been substantially transformed in the territory of one or both of the parties, or is not claimed to

have undergone an applicable change in tariff classification specified in Annex 4-A or Annex 5-A of the FTA.

A U.S. buyer may ask the Moroccan exporter to provide this information with each order, although U.S. Customs and Border Protection may not require it for each shipment. With a well-organized system, meeting this requirement is not difficult.

2. Understanding the U.S. Footwear Market

The U.S. footwear market is the largest in the world, and many of the world's largest footwear retailing and marketing firms are based in the United States. In 2008, the U.S. footwear market had an annual turnover of over \$60 billion dollars.³ Almost 99 percent of footwear in the United States is imported—and more than 80 percent is imported from China!

Moroccan manufacturers seeking to market their footwear in the United States should be aware of U.S. market structure and segmentation. The structure is complex, with many diverse retail sales channels affecting how footwear is sourced, who makes buying decisions, and what is expected of foreign suppliers. Because more than 80 percent of footwear is sourced from China, Moroccan manufacturers should concentrate on niche segments that favor competitive advantages in quality rather than price. These include the following:

- ***Better priced footwear with standards comparable to famous Italian brands.*** Various Italian brands are manufacturing their shoes in Morocco then marketing them in the United States.
- ***Moderately priced footwear with speed-to-market characteristics.*** Moroccan manufacturers are able to supply new styles quickly.
- ***Special footwear, such as dance footwear.*** Moroccan manufacturers have the craftsmanship necessary to offer comfortable dance shoes with excellent wear performance.

SALES CHANNELS

The diversity of sales channels in the U.S. footwear market complicates distribution. Each channel is serviced by multiple entities that offer foreign manufacturers a variety of opportunities for business relationships. The principal sales channels are mass merchants, department stores, national chains, specialty stores, and independent retailers.

Mass merchants concentrate on the “value-oriented” customer. They focus on lower pricing to sell large quantities, so most of their purchases are in price- and volume-sensitive basics. Drawing on their knowledge of fashion and sourcing expertise, national brands often develop products for the price points of mass merchants. ***Department stores*** offer a larger variety of products in all categories of footwear. Appealing to customers at different levels, they offer nationally recognized designer brands as well as their own “private label” brands. A customer

³ Statistical data on footwear imports into the US change constantly. For up to date information, consult the American Apparel and Footwear Association website, as required, at www.apparelandfootwear.org/statitics.asp

who enters a department store may be seeking a designer brand but end up purchasing a less costly but similar private label. A large department store group may offer many private label products at different price points and in various departments.

With a narrower range of products than department stores, *national chains* have a product mix that consists of branded footwear from other companies and their own private labels. Depending on the store and its target client base, a chain may offer national brands at various price points (e.g., Bostonian, Calvin Klein) and private labels at a corresponding level. Their private labels usually include more design features than those of mass merchants.

Specialty stores sell “branded” footwear manufactured under their label or a “designer” or branded label under a licensing agreement. They may also carry other labels based on niche, fabrication and/or the marketplace demand of the product, but they identify closely with their core product and brand name. These stores will specialize in brands that appeal to a particular demographic niche (e.g., high-end, fair trade) or that have a particular style (e.g., dress or sportswear). *Independent retailers* sell branded footwear in regional neighborhoods throughout the United States. They specialize in branded merchandise and compete against department stores, national chains, and specialty stores. They offer service, selection, quality, comfort and fit, and a level of personalization rare among competitors. They compete in the mid to upper tier retail price points. The National Shoe Retailers Association (NSRA) represents more than 3,000 independent retailers.

Two other retail outlets offer significant marketing opportunities as well. *Catalogue firms* or *e-tailers* are firms that sell goods directly to consumers via printed or online catalogues. Some are branded companies seeking additional distribution channels, and others that originally offered other brands are increasingly offering private-label goods. Still others that began as catalogue sellers are now opening retail stores (e.g., J Jill, Zappos.com, REI). Most major U.S. brands and retailers now operate *outlet stores* in malls specializing in off-price merchandise and in freestanding stores across the United States and Canada. At first, these stores retailed overstock, unsold merchandise returns, and the like. Today most footwear brands and many retailers are creating and sourcing special footwear groups for their outlet stores. The general outlet classification excludes discounters who are part of a larger retail group (e.g., Nordstrom’s Rack, Filene’s Basement) or who buy overstock from branded distributors (e.g., Ross Stores, TJ Maxx).

Within these retail segments stores make purchasing decisions only about their own private labels. Specialty stores sell their own label, much like department stores, but retail is separate from sourcing—which can be through third-party sourcing entities. Department stores follow another sourcing pattern to procure branded merchandise; the store takes delivery of the final product and the brand is responsible for supplying the department store with merchandise.

BUSINESS MODELS

Three business models dominate the U.S. footwear market: factory-branded product sold to retailers, factory direct to retailer on a private-label basis, and factory direct to the wholesaler.

Factory-branded Product Sold Directly to Retailers

Companies intent on establishing a long-term profitable business in the United States tend to develop their own product under their own brand. While this is almost always the most profitable way to work in the U.S. market few Moroccan companies seem to have the

capability or resources required to launch and sustain a brand. In global markets, however, branding has become as important as production. Over time, the brand itself becomes a form of value added. Still, it is in the interest of Moroccan factories to improve product development, particularly with regard to the U.S. market.

Factory Direct to Retailer on a Private-label Basis

Moroccan factories may also approach the U.S. market like they approach the European market—strictly on a production basis. Factories engage retailers and wholesalers at trade shows and through direct visits, showing samples that exemplify their production capabilities. Actual products are developed mostly by the wholesaler or retailer, with private labels or brands being those of the store or wholesaler. The advantage of this approach is that the factory need not have a deep understanding of the U.S. market or spend time or money on product development. The wholesaler or retailer covers these costs and provides direction on styling and fashion. The disadvantage is that the buyer will always own the brand and will always seek the lowest price possible, remaining loyal as long as the price is right. If factory costs rise the client might not place orders the following season. And as long as the factory is making shoes with the clients' labels or brands it will not share in the rewards of the brand recognition that develop over time.

Factory Direct to Wholesaler

Over the years Moroccan factories have worked with domestic wholesalers and with wholesalers in Europe and the Middle East. For a number of reasons these markets are easier for the Moroccan factories to work with. For example, retailers in the European markets often work on profit margins in the range of 50 percent, which gives them flexibility in the prices they pay for product. In contrast, a retailer in the U.S. market expects a profit margin of 55 percent to 65 percent. The U.S. wholesaler therefore needs a very competitive price from factories to allow enough profit for the wholesaler and a low enough price point for the retailer to maintain profit margins. The U.S. wholesaler also faces higher transportation costs than wholesalers in Morocco, Europe, or the Middle East—and this puts even more price pressure on factories working only with wholesalers.

The benefit of working directly with a U.S. wholesaler is that the wholesaler has an established business structure and presence in the U.S. market. The structure covers product management, sales, participation at trade shows, distribution, financing, and collection of receivables. Such a structure takes years and a big financial investment to develop. A factory working with a U.S. wholesaler saves on such structural expenses while enjoying volume production. Once factories understand these cost-related advantages their prices for wholesalers might become more flexible.

SOURCING FACTORS

Footwear manufacturers seeking to sell to the U.S. market must understand which sales channels they are best positioned to supply and who in the supply chain uses foreign manufacturing. More important, they should cultivate an appreciation for the competitive factors and strategies that influence how U.S. footwear buyers place orders in overseas factories. Manufacturers should ensure that they are prepared to satisfy the buyers' demands—before seeking orders.

Socially Responsible Practices

Footwear exporters should keep in mind that U.S. consumers are putting more and more pressure on companies to adopt socially responsible sourcing practices. This means that U.S. companies will look very closely at production facilities to ensure that worker standards are acceptable in the factories where they place orders. U.S. companies expect and increasingly demand “compliance audits” and third-party certification. Originating in the apparel industry, the Worldwide Accredited Responsible Production (WRAP) is increasingly working with all labor-intensive sectors including footwear. Low price, high quality, and decent working conditions are now standard factors—not competitive advantages—in U.S. footwear sourcing.

Full Package and Speed to Market

Where is competitive advantage found? In being a “full package” supplier and in providing excellent speed to market. Full package manufacturing shifts responsibility for more of the supply chain from the buyer to the manufacturer. Fortunately, advances in supply chain capabilities, such as improved logistics and electronic communications for sourcing input materials, allow factories to take more responsibility for the production of a finished good.

Buyers also expect suppliers to be more efficient and reduce the time to market from design, order, manufacture, and shipment of the goods.

Factories that can produce high-quality product with short lead times are the most in demand. A period of 30 days from receipt of raw materials to the export of the finished product is a common goal, regardless of the size of the order.

Trade Preferences

The moderate to high import duties applied to footwear compel U.S. buyers to seek manufacturers in countries whose goods are given duty-free preferences when imported into the United States under preferential trade acts or a free trade agreement. Moroccan manufacturers should note the proliferation of U.S. trade agreements and preferential trade acts that provide duty-free preferences for imports of qualifying footwear (Exhibit 2-1). These countries should be viewed as direct competitors, in addition to the intense competition from Asia, especially China, already well recognized throughout the footwear industry.

Consolidation

U.S. footwear buyers also take practical steps to make sourcing more competitive. To improve speed to market, they may place production orders in countries closer to the final market for retail sales. They may also consolidate production orders of different brands in the same country or factories

Exhibit 2-1

U.S. Trade Agreements

FTAs in force

- Australia
- Bahrain
- Central America and Dominican Republic
- Chile
- Israel
- Jordan
- Morocco
- North America (Mexico and Canada)
- Peru
- Singapore

Preferential Trade Acts

- AGOA
- APTDEA
- CBI/CBTPA
- HOPE

Agreements Pending Congressional approval

- Colombia
 - South Korea
 - Panama
 - Oman
 - Malaysia
 - Thailand
 - United Arab Emirates
 - SACU
-

to ease procurement. Regional consolidation lowers buyers' costs of travel to factories for inspection and makes the import paperwork easier. Some buyers choose to shorten the supply chain by eliminating the use of agents and closing foreign sourcing offices; others, depending on their business model, eliminate in-house sourcing departments and contract all activities to an agent or representative.

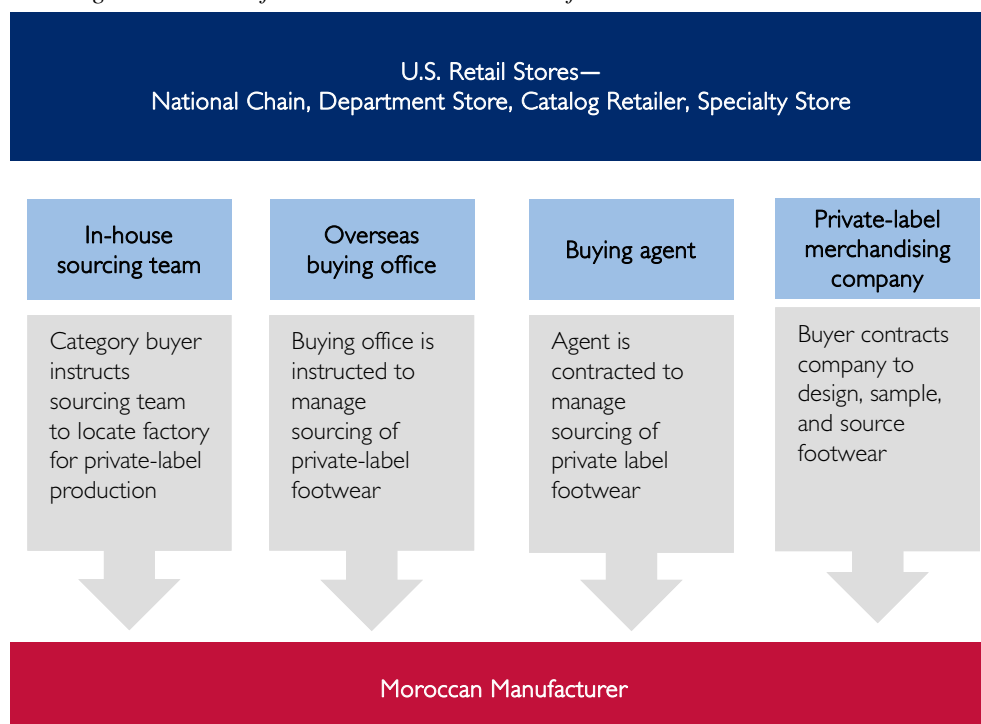
In summary, footwear manufacturers who want to do business with U.S. footwear companies must not only meet specific industry norms but also provide some comparative advantage to the U.S. buyer. Furthermore, they must be prepared to take on the responsibility for delivering final products and servicing the buyer rather than just manufacturing to specifications with buyer-owned materials. Not all footwear manufacturers are prepared or willing to adapt to U.S. footwear market norms, but success in the market is more likely to come to those who understand the unique and demanding requirements that drive U.S. footwear sourcing.

COMPANIES THAT SOURCE FOOTWEAR

As recently as 20 years ago, footwear production both domestically and internationally was the business of U.S. branded firms. Branded firms designed and developed products, arranged production and delivery, and sold the products to retail stores, which then sold the goods to consumers. Today, a significant percentage of footwear sold in the United States is sourced directly by retailers and their private-label brands. As a result, the industry is multilayered, with companies managing similar functions but operating in different sales channels or in different locations in the supply chain (i.e., agent, manufacturer, retailer). For Moroccan footwear exporters, understanding the sourcing functions of the different players in the U.S. footwear industry is critical for selecting the market and type of buyer to pursue. Figure 2-1 shows the key players in the U.S. footwear industry that handle sourcing and how directly.

Figure 2-1

Sourcing Possibilities of a Private-Label Footwear for a Retail Store



Retailers of Private-label Merchandise

Products bearing a store's proprietary label are usually designed and created for a particular chain of stores. Retailers consider their private-label brands critical to differentiating themselves from competitors, and private labels are prevalent in niche, fashion, and value-added footwear categories.

Key Contacts

- Chief sourcing officer (vice president or executive vice president)
 - Product-specific sourcing officer
 - Regional buying officer or product sourcing manager
-

U.S. Branded Merchandisers

Footwear is still manufactured in the United States but in very limited quantity and with high end labels (i.e. Allen Edmonds). But even U.S. brands classified as manufacturers outsource a significant share of production to foreign suppliers. The brand owner continues to control product development and design, research, sourcing, quality control, sales of brands to retailers, and advertising and marketing

to consumers in the United States, but plays very little part in production. Some major brands have moved even further from the traditional model and now rely on specialty sourcing agents to manage sourcing and production functions; these agents may be regional, but the largest have global operations

Key Contacts

- Chief sourcing officer (usually a vice president or director)
 - Product-specific sourcing officer (e.g., men, women, children)
 - Buying or sourcing agent representing the company
-

and can support production in many countries. As a result of this trend, foreign manufacturers hoping to expand their market to U.S. branded products must build relationships with sourcing agents, who can often introduce them to more than one brand. Furthermore, the consolidation of brands under umbrella groups is growing. A small number of U.S. corporations increasingly controls a large number of national footwear brands.

Private-label Development Companies

Thirty years ago, retailers began to produce private-label versions of branded products to lower production costs and improve profit margins. The work of developing products, identifying manufacturers, and coordinating logistics, however, distracted them from their core activities. To provide support to retailers

Key Contacts

- Regional branded product sourcing officer
 - Regional product-specific sourcing manager
 - U.S. brand sourcing officer or merchandiser
-

in the design, product development, and sourcing of private-label footwear, service companies grew up. These companies may be commissioned agents or sellers, but are distinctive in their role as a contracted product development and sourcing department.

International Buying Offices and Sourcing Agents

Due to fierce competition in the footwear industry, U.S. companies either found new production every year or faced price increases and growth limits. Moreover, lacking time to build relationships with new factories, they needed representatives to oversee production and protect their interests. Larger companies established buying offices in producer countries, but the need for personal representation could be met only at great expense. In response, buying agents built global businesses around their ability to help buyer companies manage sourcing and production in diverse countries.

Key Contacts

- Regional product sourcing manager
 - Country product sourcing manager.
-

Whether proprietary buying offices or contracted agents, these representatives exert major influence over the sourcing decisions of their U.S. clients. They research and oversee the footwear contractors working with their brands; monitor production, quality, and social compliance; and often test new manufacturers. Some proprietary offices are being closed as the supply chain tightens, but these operations continue to play an important role in the industry. Approaching the U.S. market through a sourcing agent may increase the overall cost of a footwear product because these firms work on a commission basis. However, many companies will not work with a new supplier directly; the sourcing agents and offices can be the most direct route to a test order. The major overseas buying and sourcing offices often have U.S. offices to provide customer service to their U.S. clients and participate in major trade shows.

MARKETING AND BUSINESS DEVELOPMENT

As in all business development, several strategies and marketing tools can be used when selling footwear manufacturing services to the U.S. footwear industry. When manufacturers have determined which U.S. sales channels and sourcing entities suit their capabilities, certain business communication and marketing tools are standard. Marketing and business development can be overwhelming initially, but tasks can be broken down from least to most expensive as follows:

Stay up to date on fashion trends. Understanding what styles of footwear are preferred in the U.S. market is a key tactic to ensuring U.S. business. Manufacturers should visit websites of leading footwear fashion resources (see Chapter 4). Because so many buyers like to work with manufacturers who provide full-package services, a manufacturer who is prepared to source the leather and other necessary inputs that are in fashion has a strategic advantage.

Develop a communication toolkit. Buyers want information about a manufacturer quickly: technical details on the factory, references of other clients, and contact information. As in other industries, the Internet is the primary medium of communication and information dissemination. A website that includes pictures of the manufacturer's factory and a listing of certifications and other information relevant to buyers is an excellent way to convince buyers of a manufacturer's capabilities. Brochures are not as important as one-page profiles that can be sent by e-mail or printed for handing out to visitors. All marketing materials aimed at U.S.

buyers should be in grammatical English; it is worth hiring professional editing assistance to produce an appealing package of information.⁴

Target U.S. or regional sourcing agents. Sourcing agents are accustomed to working with manufacturers and are often more accessible than buyers. Sourcing agents usually validate capabilities faster than buyers because buyers send sourcing personnel to inspect factories when they place orders. If a target client has an office in the region, manufacturers should contact that office. Sourcing agents are paid to find good factories, so they want to meet capable Moroccan manufacturers.

Participate in a trade show. At trade shows manufacturers meet many potential clients from across the United States. Deciding which trade fair to attend depends on the type of buyer the manufacturer is trying to reach and whether that trade fair targets that type of buyer. For example, regional trade fairs are unlikely to include buyers who place orders with overseas factories—buyers that participate at this level tend to buy from established brands. Trade fairs such as the New York FFANY and WSA, and more recently MAGIC, feature global sourcing opportunities as well as branded booths, and thus present the best opportunities for foreign manufacturers to identify buyer prospects. Recommended trade fairs are listed in Chapter 4.

Take sales trips. It is common in the United States for manufacturer representatives or the manufacturers themselves to seek appointments directly with buyers in their offices. Getting such appointments is difficult but worthwhile if the opportunity presents itself. Buyers are busy planning procurement and prefer prearranged one-on-one meetings during which they quickly evaluate a factory's capabilities and the sourcing advantages from the country of the manufacturer. A contact made previously with a sourcing agent can be helpful in obtaining appointments with the right people.

Share showroom costs. Large manufacturers maintain showrooms in major markets, such as New York City, to bridge the distance between the buyer and the factory. Showrooms are expensive and are usually visited only during key trade fairs. But because buyers evaluate factory capabilities by scrutinizing physical samples, having a showroom with representative product in the same city is advantageous. Smaller manufacturers or export trade associations should consider sharing the costs of a showroom to feature their products.

Become affiliate members of major U.S. trade associations. The members of major U.S. trade associations such as the American Apparel and Footwear Association and the National Shoe Retailers Association are the footwear manufacturer's potential customers. The footwear maker who appears in the association's newsletters and seminars and attends networking events such as annual meetings will become known to potential customers and will be able to meet and speak with senior sourcing executives from major brands and retailers.

⁴ The NBO project produced communication toolkits, including samples and website templates, for Moroccan Footwear and footwear companies to use in marketing to U.S. buyers. They are available from AMITH in Casablanca.

3. Managing the Relationship with the U.S. Buyer

PRE-ORDER BASICS

Tech pack

The footwear production process begins with either a specimen sample of the product or a technical package or “tech pack.” The tech pack is an information sheet issued by the U.S. buyer to prospective footwear manufacturers. It contains a drawing of the item and covers all technical specifications required to produce it. The tech pack is usually prepared by the designer and finalized in consultation with merchandisers, and then forwarded to the bulk-sampling department or the factory (see Figure 3-1). On the basis of the tech pack, the footwear manufacturer produces a sample of the product and has it shipped to the buyer the fastest way possible.

Sample Production and Shipment

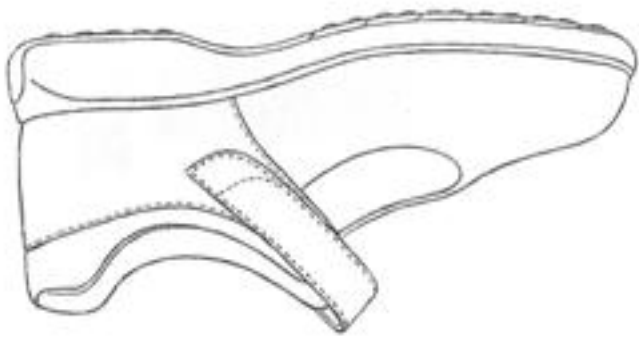
Footwear manufacturers should consider sample production a part of the buyer’s assessment of export readiness and should manage sample production accordingly. Making a production sample not only alerts the manufacturer to any problems in the production cycle—such as in the dyeing, finishing, or stitching processes—but also makes a fair and competitive cost estimate possible. Preproduction samples are submitted to the buyer for approval, usually through express air carrier (such as DHL and FedEx) directly from the factory to the buyer’s door, before bulk production can commence. Failure to deliver preproduction samples may result in cancellation of the order.

Vendor’s Manual

All major U.S. brands and retailers provide foreign manufacturers with written instructions on how to meet the buyer’s specifications and fill the buyer’s order, including detailed technical specifications, measurement charts, and packaging requirements. Each company has its own manual, and instructions may vary widely from company to company, but the most important sections of a manual usually cover the following subjects:

- Purchase order process
- Documentation requirements
- Packaging requirements
- Inspections and testing
- Social compliance and ethics
- Payment terms and conditions.

Figure 3-1
Sample Tech Pack

Specification Production		DATE																																															
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Some companies provide vendors a password for obtaining a manual online at the company website rather than providing a printed manual. Note that the manual functions like a contractual document in stipulating the terms and conditions with which manufacturers must comply. These manuals must be followed to the letter because buyers may refuse merchandise for even a very small infraction. In fact, U.S. buyers often require manufacturers to acknowledge their understanding of the requirements in the manual. This acknowledgment is usually stated as follows:

Vendor's acknowledgement shall constitute vendor's agreement to comply with and be bound by all of the agreements, terms and conditions stipulated in this manual.

It is vital to consider that failure to comply with any provision contained in the Manual may result in termination or suspension of the business relationship between the buyer and Vendor, penalties or compensations may also result.

It is the manufacturer's responsibility to ensure that the information in the manual necessary for executing the work order is disseminated throughout the factory—in the planning, purchasing, production, packaging, export, and other relevant departments.

FIRST ORDER BASICS

Preparation

Before negotiating the first order, the footwear manufacturer should take the following steps:

- Establish good communication with the customer. A speaker with good command of English handles the account with the U.S. buyer, using e-mail to reply to requests immediately. Leaving a request unanswered could lead to losing the customer.
- Read and understand the tech pack for developing the sample so pricing will have a sound basis.
- Ensure both parties approve a price for the final product on the basis of factual information about the supply chain—from raw material and accessories through delivery logistics—without added contingency margins that increase the price and risk the sale.
- Establish a production schedule, taking into consideration the identity and location of the raw material supplier, the time needed to import raw materials and accessories (if necessary) and deliver them to the factory, and export transit time.
- Make the sample, adjust it to the customer's requirements, and have it approved for production.
- Read and understand the vendor manual and share its contents with all relevant departments.
- Know and understand U.S. regulations covering the properties of the raw material used in the footwear to be produced for the U.S. market, especially as they apply to the U.S.–Morocco FTA.

Delivery Date Negotiation

Negotiating a final delivery date that both meets the buyer's needs and that the manufacturer can realistically meet is critical to success with the U.S. buyer. Meeting delivery deadlines is imperative; failure to deliver on time may result in charge-backs or cancelled orders. Reverse

planning for the production process helps the factory set deadlines at each production stage, from development to delivery. Planning should take into account suppliers' lead time and minimum order quantities, shipment lead time, and production capacity.

Price Offer

Once all preliminary steps have been taken, the terms of the first order can be finalized. The terms will be part of the purchase order, which serves as a contract and is binding. A price offer specifies the following:

- **Product description** (material breakdown, colors, and styles).
- **Mold cost.** It is normal in the industry to amortize the cost of molds into the initial ex-factory price until the cost is covered. At that time, the ex-factory price is adjusted to offset the full payment of molds.
- **Packaging** (type, number of packages per carton, number of cartons per container).
- **Container type** (40 feet or 20 feet dry or high cube).
- **International commercial terms** (Incoterms) (explained below). For U.S. buyers products are usually delivered according to a recognized Incoterm under which the manufacturer's responsibility could include
 - Loading product into the container
 - Shipping it to the United States
 - Clearing the merchandise through customs
 - Delivering the container to the point of delivery specified in the purchase order.
- **Delivery time.** This should take into account logistics requirements and be qualified with a clause excluding the manufacturer from responsibility for delays caused by the shipping company.
- **Final third-party inspection.** An inspection service, such as Intertek or SGS, inspects the products at the manufacturer's premises, thus giving the manufacturer a chance to correct faults, if any, before shipment. If there is no final third-party inspection, the U.S. customer inspects products on arrival, which exposes the manufacturer to potential default declarations, rejection of products, charge-backs, or even nonpayment for products.
- **Payment terms.** Most U.S. customers request payment by wire transfer 60 to 90 days after receipt of the goods, thus transferring all nonpayment risk to the manufacturer.

Because of the risk inherent in accepting payment terms of 60 to 90 days after receipt of the goods, export insurance in case of nonpayment is strongly recommended. Obtaining a credit report on the U.S. customer to determine its creditworthiness and record in paying other vendors is also strongly recommended (see Chapter 4 for references for companies that provide these services).

Incoterms

International commercial terms, or Incoterms, are sales terms published by the International Chamber of Commerce and used widely in international commercial transactions. They divide transaction costs and responsibilities between buyer and seller and reflect current transportation practices. Figure 3-2 summarizes terms commonly used by U.S. buyers. FOB, DDU, and DDP are especially common.

Figure 3-2*Incoterms*

	EXW	FCA	FAS	FOB	CFR	CIF	DES	DDU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free on Board	Cost and Freight	Cost, Insurance, Freight	Delivered ex-Ship	Delivered Duty Unpaid	Delivered Duty Paid
Service	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays
Warehouse storage at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse labor at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading at point of origin	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland freight	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Port receiving charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarders fee	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on ocean carrier	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air freight charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Charges at destination port/airport	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Customs, duties, and taxes at destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery charges to final destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller

ENSURING ORDER SUCCESS

Communication With the Customer

Good communication, with much back-and-forth during order fulfillment, is essential to successful business in the U.S. footwear industry. To build relationships with U.S. customers, manufacturers must be able to communicate in a timely manner in English. The following steps improve communication with customers:

- Take the time to know the buyer's team and obtain telephone numbers and e-mail addresses.
- Establish a reporting schedule and forms for each production cycle, such as
 - Work-in-process report, daily or weekly
 - Out-of-production report
 - Finished-footwear status.
- Keep the customer informed regularly, especially about any situation or event that could jeopardize delivery or work flow.

- Appoint a contact person for conference calls and to provide meeting minutes.
- Adopt software and technology used by customers—such as product lifetime management software, virtual sampling, new fit technologies, radio frequency identification—and train staff on them.

Timely Shipment

Timely delivery is critical in the footwear business, and speed to market is a significant criterion when buyers select manufacturers. As a result, filling orders in a timely manner is a major part of working with U.S. buyers. When a manufacturer's ability to meet the original delivery date is jeopardized for any reason, the manufacturer must immediately contact the buyer to plan corrective action or seek approval for a revised delivery date.

In the absence of approval of a revised delivery date, or when a manufacturer has not notified the buyer, penalties for late delivery may apply, depending on the delay and according to the noncompliance fee schedule, which is usually stated in the purchase order or in the vendor manual. The following are common penalties:

- Air prepaid. When the delay is a matter of a few days the manufacturer pays the difference between the cost of shipping by ocean and the cost of air freight.
- Air prepaid 100%. When the delay is lengthy the manufacturer pays the total cost for air freight shipment.
- Discount on cost. If goods are not delivered to the agreed incoterms point after a certain number of days after the confirmed delivery date, the buyer might request a considerable discount on the agreed incoterms point cost and request that the manufacturer cover the full cost for air shipment.

Effective Shipment Logistics

Shipping an order successfully requires thorough knowledge of shipping procedures, documents, and methods. The mechanics of order shipment include packaging, documentation, and shipping routes and carriers.

Packaging Requirements

All U.S. department stores and chain stores have procedures and requirements for vendors. Among these, packaging and shipping requirements are essential to the business relationship between a footwear factory and its customers. Factories working directly with retailers or wholesale companies shipping directly to department stores and chain stores must pay close attention to these requirements. Most factories or wholesalers appoint someone to specialize in this area of customer service, which falls under the broader area of logistics or traffic.

U.S. customers usually give their suppliers “traffic guides,” in hardcopy form or via their corporate websites. These guides usually address such matters as merchandise identification, carton size, carton labeling, packing instructions, and packing slips and invoicing.

Carton Size. Carton size will be influenced by product size and consideration must be given to accommodating the full range of footwear sizes. Having the packing fit the largest unit in a size range will make all the other sizes fall into place. For example, women's shoe stores throughout most of the United States—except for the southwest and the west coast—place most orders for size 6 to size 10 or to 11. Orders for smaller sizes are increasingly rare. In

fact, stores along the U.S. east coast—from Atlanta to Boston and even to Chicago in the mid-west—will often order only sizes from 7 to 11. This shift to larger sizes is seen in men's shoe orders as well.

Durability. Footwear products are moved across vast distances and oceans, so packaging must be strong enough to withstand changing physical environments as well as the shipping environment in which other products are packed over and around the footwear products.

Compliance Some department stores and chain stores doing business in the U.S. market are very aggressive with regard to compliance with packaging and traffic regulations. When regulations are not complied with the result is usually a charge back. Thus, complying with these regulations is essential not only to business relationships but also profit margins.

Trends. In the past stores were satisfied with packaging in the form of a simple cardboard box in an appropriate color and with the company logo printed on it. Today packaging can be sophisticated. One trend, for example, is clear packaging down to the level of the shoebox itself. This trend is driven by the view that shoe design and shoe making is an art resulting in colorful and appealing products that should be readily seen by potential end consumers.

Special Properties. Manufactures are devising many other ways to improve footwear packaging. For example, the shoebox can be a primary package and an attractive storage box that offers value in and of itself. For higher-priced footwear, the latest packaging innovation is magnetic closure. Some shoe factories in Morocco have begun to use clear packaging and magnet closures.

Shipping Documentation

The documentation of exports is almost as important as the finished footwear. Faulty information or incomplete documentation can lead to transport delays. Freight forwarders, who should be specialists in exporting, can often provide advice and assistance about documentation for shipping goods. Table 3-1 summarizes export documentation and the party responsible for preparing each item (these do not include forms that may be requested by the buyer in the vendor manual). Recordkeeping requirements for goods claiming U.S.-Morocco FTA benefits are described in Chapter 1.

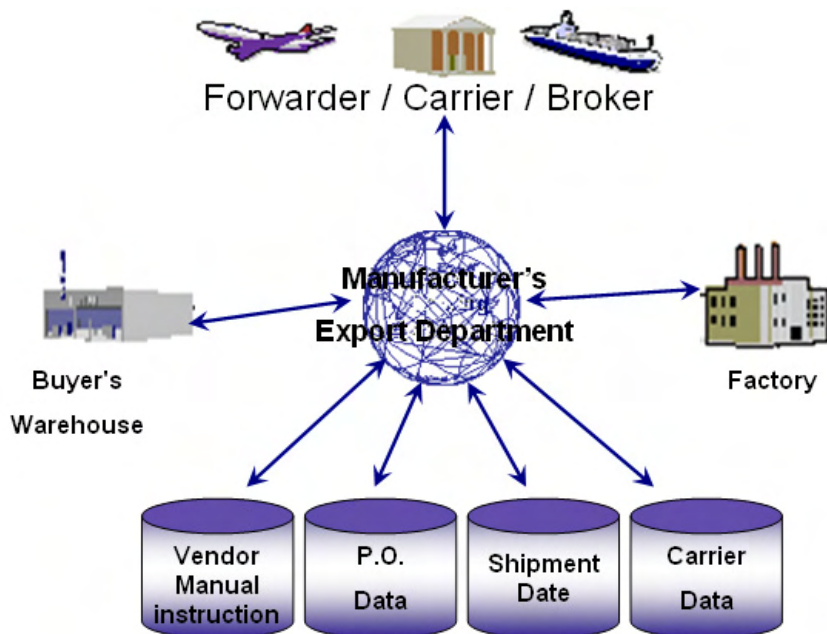
Shipping Routes and Carriers, or Itinerary Protocol

Sending products from one country to another involves many parties—freight forwarders, transportation carriers, customs agencies, and more. In general, finished goods are delivered to U.S. buyers' warehouses. To deliver to a U.S. customer's warehouse, or to comply with incoterms such as "CIF" or "DDP" which are commonly demanded by U.S. footwear buyers, manufacturers should have logistics personnel in-house or work with a trustworthy and experienced freight forwarder to ensure tight coordination and efficient shipment tracking. The manufacturer's export department will play a key role in coordinating all involved in the shipment (see Figure 3-3).

Table 3-1
Typical Shipping Documentation and Party Responsible

Documentation	Prepared By
Commercial invoice	Exporter
Export packing list	Exporter
Certificate of origin	Exporter, delivered by the MCINET
Letter of credit (if this is the agreed payment arrangement)	Importer (Buyer)
Bill of lading	Freight forwarder
Shipper's export declaration	Freight forwarder
Insurance Certificate	Freight forwarder
Attachment A : Data element for the statement made under the Moroccan Free Trade Agreement	Exporter
Export license	Exporter
Eligibility certificate	
Pass final quality inspection certificate	Third party (inspection body)
Importer security filing (ISF) for sea shipments	Exporter
Certificate of compliance with all applicable safety rules, bans, standards, and regulations for children's and adult products (for children's footwear if required by customer)	Exporter
Laboratory composition test results (if applicable)	Third party (Laboratory)

Figure 3-3
Coordinating Responsibilities of the Export Department



DELIVERY FOLLOW-UP

Even when an initial order is delivered on time, meets quality standards, and meets packaging and labeling specifications, the manufacturer must follow up with the buyer to generate continued business. The midlevel or senior English-speaking manager who is the liaison with the U.S. buyer should take the following steps to cultivate the business relationship:

- Find out from the U.S. sourcing executive about the sell-through rate of the product at retail—the percentage of the product sold at full price, discounts applied to the remainder, and the reasons for the discounts, if known.
- Suggest that the manufacturer's design team (if there is one) can work with the U.S. product development team to develop products at various price-points.
- Keep the U.S. client informed about the manufacturer's new equipment, software, raw material providers, and the like.
- Have the factory certified by recognizable social and environmental compliance agencies, and inform the U.S. client.
- Tell the U.S. client about new logistic and trade advantages in Morocco.

In addition, the Moroccan factory liaison should try to visit the client in the United States to show the manufacturer's readiness and ability to be a full partner. Manufacturers can no longer depend on buyers' visits to Morocco to maintain business relationships and competitiveness.

4. Using Information Resources

MOROCCAN EXPORT SUPPORT

Moroccan government agencies and private associations assist footwear manufacturers in exporting to the United States. The most important is Maroc Export, which helps exporters penetrate foreign markets. FEDIC, the federation of associations representing the footwear industry, offers many services to footwear exporters. The Textile and Leather Division of the Ministry of Industry, Commerce and New Technology (MICNT) assists with matters concerning the U.S.-Morocco FTA. More information can be obtained from the organizations listed below:

Industry Contacts

Fédération Marocaine des Industries du Cuir

www.cuirmaroc.com

Export Control and Product Analysis Institute (EACCE)

www.eacce.org.ma

Intertek Lab test services Morocco

www.intertek.com/contact/ema/morocco/

S.G.S

www.sgs.com/contact_us.htm?clickedcountry=84

Bureau Veritas

www.bureauveritas.fr/wps/wcm/connect/bv_fr/Local/Home/Worldwide-Locations/Afrique/Maroc/

Government of Morocco

Ministry of Commerce, Industry and New Technology

www.mcinet.gov.ma

Ministry of Foreign Trade

www.mce.gov.ma

Maroc Export

www.marocexport.ma

Moroccan Customs

www.douane.gov.ma

Foreign Trade Council

www.cnce.org.ma

Foreign Exchange Office

www.oc.gov.ma

Small and Medium-sized Enterprises Agency (ANPME)

www.anpme.ma

International Trade Associations

Moroccan Exporters Association

www.asmex.org

Moroccan Foreign Trade Council

www.cnce.org.ma

Tangiers Free Zone

www.tangiersfreezone.com

Tangiers Mediterranean Special Agency

www.tmsa.ma

CGEM (Moroccan Employers Association)

www.cgem.ma

U.S. GOVERNMENT

U. S. Trade Representative (information on the U.S.–Morocco FTA)

www.ustr.gov

U. S. Customs and Border Patrol (import regulations and documentation requirements)

www.cbp.gov

U. S. International Trade Commission (import data and tariff treatment by product)

www.usitc.gov

MARKET INTELLIGENCE

Information on the websites of several organizations in the U.S. footwear industry can help Moroccan exporters keep up with trends and requirements.

Fashion Trends and Market News

Footwear Plus Magazine

www.footwearplusmagazine.com

Footwear News Magazine

www.wwd.com/footwear-news/

Just Style

www.just-style.com

Shoes about
www.shoes.about.com

Technical Resources

Fashionindex.com web resource
www.fashionindex.com

American Apparel and Footwear Association
www.apparelandfootwear.org

Footwear Distributors and Retailers of America
<http://www.fdra.org/>

Worldwide Responsible Accredited Production
www.wrapapparel.org.

U.S. ASSOCIATIONS

Trade associations can be key contact points for information on the U.S. footwear industry. They provide services to members and organize events that offer opportunities for gathering market intelligence and developing business.

The American Apparel and Footwear Association (AAFA)
www.apparelandfootwear.org/

Travel Goods Association
www.travel-goods.org/

National Shoe Retailers Association
www.nsra.org/

Footwear Distributors and Retailers of America
www.fdra.org/

TRADE FAIRS FOR THE U.S. FOOTWEAR INDUSTRY

The U.S. footwear industry sponsors several important trade fairs. For foreign manufacturers the most important are those that attract buyers seeking sources of supply. Of less value are regional fairs organized for the small retail buyer who is unlikely to purchase footwear from overseas. The trade fairs listed below in alphabetical order are appropriate for attendance by Moroccan manufacturers seeking to produce for the U.S. market. The exporter should decide which fairs to attend on the basis of the preferred audience the manufacturer is seeking.

Atlanta Shoe Market
Southeastern Shoe Travelers
953 Harmony Road, Suite 106
Eatonton, GA 31024
T: 706-923-0580
F: 706-923-0520
Sales and Customer Service
sest@plantationcable.net
<http://www.northamericanshoe.com/>

FFANY Fashion Footwear Association of New York
1414 Avenue of the Americas, Suite 203
New York, NY 10019
T: 212-751-6422
F: 212-751-6404
info@ffany.org
www.ffany.org

MAGIC International
6200 Canoga Avenue 2nd Floor
Woodland Hills, California 91367
T: 818-593-5000
cs@magiconline.com
<http://www.sourcingatmagic.com/sourcingatmagic/v42/index.cvn?id=10022>

The WSA Show
15821 Ventura Blvd., Ste. 415
Encino, CA 91436-2974
T: +1.818.379.9400
F: +1.818.379.9410
salesdepartment@wsashow.com
<http://www.wsashow.com/>