Tough times await China's bags and footwear industry as economic woes in Western markets leave exports in a slump. According to the latest customs data, bag shipments declined more than 30 percent in 2011, while overseas shoe sales of Pearl River Delta region suppliers began to slip in the fourth quarter. Demand is anticipated to weaken further in the year ahead.

Rising costs and a strong local currency contribute to difficulties. Outlay for labor and materials both saw double-digit increases in the past 12 months. During the same period, the yuan appreciated nearly 5 percent.

Companies are taking steps to improve profitability. They are augmenting prices, enhancing efficiency and reducing expenditure as a first line of defense. The long-term strategy includes transferring production to low-cost hubs and shifting to upscale models.

Key findings

1. Suppliers will raise quotes to offset greater input and worker spending, and the higher value of the yuan. Another cause is the prevalence of smaller orders. Due to stiff competition, however, most businesses will limit increases to 10 percent.
2. Companies are negotiating with clients to set specific delivery dates so that exchange rate adjustments can be factored into prices. This also helps them plan manufacturing for optimal cash flow.
3. Exporters are paying for materials outright to get lower rates from providers and remove interest. Some steps are subcontracted to save on labor costs.
4. For faster turnaround of low-volume runs, makers are creating smaller teams. In addition, they are providing employee training and reviewing assignments to capitalize on each member's best skills.
5. Exporters are moving part of their production capacity to Anhui, Henan and Sichuan provinces to enjoy lower wage and land rates. These are supported by the establishment of industrial parks. The same advantages can also be obtained in Vietnam, India, Egypt, Nigeria and Indonesia.
6. Footwear suppliers will be releasing more midrange and high-end leather designs to prevent the institution of trade barriers. Bag companies will focus on material R&D.
7. To prop up sales, more exporters will be targeting alternative shipping destinations such as South America and Africa.

Scope & methodology

This report covers the major products of China's bags and footwear industry, namely fashion, travel, business and special-purpose carriers, slippers, flip-flops, and casual, dress, sports, work, safety and occupational shoes and boots.

The products and prices section discusses each category and design trends specific to the line. In addition, it details the typical features and prices of low-end, midrange and high-end models.

The Industry Overview touches on the challenges faced by the sector. The segment also mentions how the obstacles are affecting transaction terms and prices.

Guangdong, Fujian and Zhejiang provinces are the main production centers for bags and footwear. Following this structure, each area is represented by about 25 percent of featured suppliers.

Most businesses are locally owned. Less than 20 percent receive foreign funding.

To produce this report, Global Sources interviewed a wide range of enterprises. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that are verified by Global Sources.

Each supplier is confirmed to be authentic with a legally registered business. All companies are visited three or more times by Global Sources to ensure they are export-ready and have real offices and products.

The listed contact person has been verified to represent the registered company. In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials.

All profiled suppliers participated in a survey designed to provide insight into price trends, sales outlook and target markets in the next six to 12 months. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

Global Sources supplier rankings

★★★★★★

Suppliers are ranked using a 6-star ranking system. Companies with a higher star ranking provide more business information and verification reports on their Global Sources online homepages.

Suppliers rated 5 or 6 stars have a Credit Check report from First Advantage or Sino-Trust and a Supplier Capability Assessment report provided by Bureau Veritas online.

The rankings are correct at the time of publication and may be subject to change.