

**FEASIBILITY STUDY FOR NEW INVESTMENTS IN FOOTWEAR
PRODUCTION IN BANGLADESH**

An International Competitiveness Analysis

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ABSTRACT

This project aims to analyze the viability of an investment opportunity in the leather footwear industry in Bangladesh. It was developed a model of evaluation for this opportunity that contemplated the following three steps: Opportunity Identification, Global Market Analysis and Feasibility in Bangladesh. The study of the first two steps focused on the Bangladesh country analysis, the footwear industry, the footwear industry overview in Bangladesh and also positioning strategies. The research on these topics allowed for the construction of a conceptual framework that ultimately led to the formulation of the research question of this project: Which product positioning features the most balanced trade-off between volumes and margins in the leather footwear industry? The third step of the model analysed the feasibility of the country. On the analysis, several topics were addressed: the leather and non-leather footwear sector, the competitiveness profile of Bangladesh, ongoing initiatives and projects on the leather industry of the country and challenges and limitations in the industry. Furthermore, a set of key success factors were established: Quality, Price, Compliance, Innovation and Automation. The goal was to evaluate the country's competitive profile within the footwear industry scope of analysis. Additionally, it was studied the global footwear brands segmentation, in terms of average prices and identified the segment that offered the best trade-off between volumes and margins.

Keywords: Bangladesh, Footwear Industry, Leather Industry, Positioning Strategies

RESUMO

Este projeto visa analisar a viabilidade de uma oportunidade de investimento na indústria do calçado em pele no Bangladesh. Para atingir tal objetivo foi desenvolvido um modelo de avaliação que em três fases que contemplou os seguintes passos, Identificação de Oportunidades, Análise Global de Mercado e da Atratividade do Bangladesh. O estudo das duas primeiras etapas focou-se na análise do Bangladesh, na indústria do calçado, na visão geral da indústria do calçado no Bangladesh e ainda em estratégias de posicionamento. A pesquisa sobre estes tópicos permitiu a construção de um modelo conceptual que levou à formulação da *research question* deste projeto: Qual o posicionamento do produto que apresenta o *trade-off* mais equilibrado entre volumes e margens na indústria do calçado em pele? A terceira etapa do modelo centrou-se numa análise da viabilidade do país. Nesta análise, foram abordados vários temas: o setor do calçado em pele e também o de não-pele, o perfil de competitividade do Bangladesh, as iniciativas e projetos em curso sobre a indústria de peles no país e os desafios e limitações do setor. Além disso, foram estabelecidos um conjunto de fatores-chave de sucesso, Qualidade, Preço, *Compliance*, Inovação e Automação. O objetivo foi avaliar o perfil competitivo do país, particularmente da indústria do calçado no Bangladesh. Adicionalmente, foi estudada a segmentação das marcas de calçados a nível mundial, em termos de preços médios, e finalmente foi identificado o segmento que ofereceu o melhor *trade-off* entre volumes e margens de lucro.

Palavras-chave: Bangladesh, Indústria do Calçado, Indústria de Pele, Estratégias de Posicionamento

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“The singer alone does not make a song, there has to be someone who hears”

Rabindranath Tagore

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GLOSSARY:

APICCAPS - Portuguese Footwear, Components and Leather Goods Manufacturers' Association (Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos)

BGMEA - Bangladesh Garments Manufacturers and Exporters Association

BIDA - Bangladesh Investment Development Authority

CETP - Central Effluent Treatment Plant

COEL - Centre of Excellence for Leather Skill Bangladesh Limited

EC4J - Export Competitiveness for Jobs

FAO - Food and Agriculture Organization

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

ILO - International Labour Organization

IMF - International Monetary Fund

LFMEAB - Leathergoods & Footwear Manufacturers & Exporters Association of Bangladesh

RCA - Revealed Comparative Advantage

RMG - Readymade Garment

SEIP - Skills for Employment Investment Program

VAT - Value-added Tax

EXECUTIVE SUMMARY

This study was developed as a part of a project developed within a consultancy firm for a specific client. The thematic of the project is the search for a new investment opportunity in the footwear industry in Bangladesh.

Company Description

Business Setting is a Portuguese consultancy firm based in Lisbon, Portugal. The company was set up in 2011. Business Setting offers services in six specialized areas, Transformation and Performance, Cost Reduction, Organizational Effectiveness, Leadership and Cultural Transformation, Business Development and Systems and Information.

This project is under the scope of Business Development. This area focuses on helping leaders and their organizations facing their development challenges. On this particular project, the objective is to help the leader of an organization to analyse a hypothetical diversification strategy. The client that will be referred to as investor is the owner of a garment factory and is planning to invest in the footwear industry. Business Setting will provide analytical support for the investor to be able to take a conscious investment decision.

Objective of the project

The following study was developed to find out the best positioning strategy for the investor in the leather footwear production. The key assumption taken was that the selected positioning would have to consider the most balanced trade-off between volumes and margins in the industry.

The first stage of the project was to study in detail the thematic that would be directly implied in the analysis. For that, a literature review of the following topics was elaborated.

- a. Bangladesh – Country Overview
- b. Footwear Industry
- c. Footwear Industry in Bangladesh
- d. Positioning Strategies

The study of this thematic was proven essential to the correct formulation of the research question for this project:

RQ: Which product positioning features the most balanced trade-off between volumes and margins in the leather footwear industry?

In order to provide the appropriate recommendation for the investor, several steps had to be taken. A series of five questions were established to provide knowledge about the country and also the industry to be analysed:

1. Do global industry trends indicate different levels of attractiveness between segments?
2. What are the key success factors in the Footwear industry?
3. Which segment is a better match for the competitiveness profile of Bangladesh?
4. What are the main limitations and challenges in the leather footwear industry of Bangladesh and how are local and International authorities dealing with them?
5. Is Bangladesh an attractive destination for investments in the leather footwear industry?

From this analysis, a set of key success factors (KSFs) were established to assess the attractiveness of the industry. It is based on the analysis of these KSFs that a set of recommendations will be presented.

By the end of the analysis, it is expected that this project will help not only to assess the attractiveness of the country for investments in the leather footwear industry but

also to recommend a positioning strategy for the investor with suggestions of selected brands to produce for in the designated segment.

Furthermore, in the last chapter of the project is presented a form of implementation, in accordance with the recommendations given, that seeks to assure a competitive strategy for the investor to leverage its position in the industry.

INTRODUCTION – PROJECT CONTEXTUALIZATION

The objective of this “In Company Project” is to analyze the viability of an investment opportunity. A business opportunity, in the leather footwear industry in Bangladesh, for a specific investor. This study will be developed for a specific client, a Bangladeshi investor by Business Setting, a Portuguese consultancy firm. Regarding the investor’s background, it is relevant for the elaboration of this project to mention that he already has investments on the garment industry, in the mid-high segments, positioning that, if proven attractive, he wants to keep investing in.

In order to analyse the viability of an investment a four step model needs to be taken. The below figure illustrates these steps.

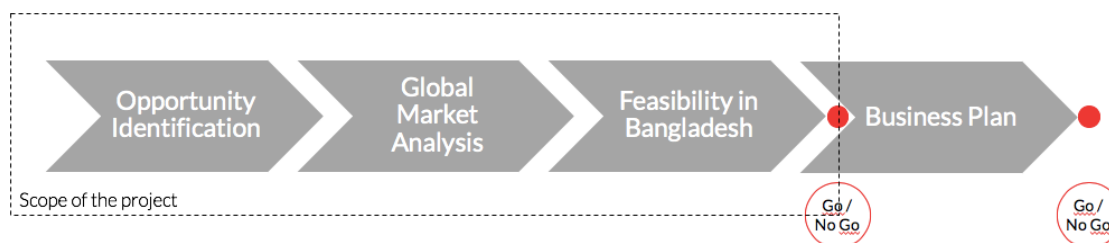


FIGURE 1: FOUR STEP MODEL FOR INVESTMENT VIABILITY ANALYSIS

In this project it will be described the first three stages of the model.

The project was divided in two parts. In the first part, steps one and two were included. Opportunity Identification and Global Market Analysis. These first part will be addressed in the literature review chapter of this project. An extensive and thorough study of Bangladesh will be presented. A country overview considering population characteristics, GDP, exports, development rates, investment capacity, governmental policies and tax regime, amongst other relevant factors. Also, an overview regarding Bangladesh position, over time, towards investment initiatives, benefits given, policies taken and constraints to invest in the country will be presented. Additionally, it will be described the global footwear market main characteristics and dynamics. The author will also be asked to present an overview of the sector’s production and consumption process, market dynamics and trends, value chain characteristics, main players in the industry amongst other relevant factors for the sector. Furthermore, an overview of the leather footwear industry in the country will be presented, highlighting the country characteristics and relatedness with other relevant industries in the country. To close the

first part of the project it will also be relevant to study the positioning strategies firms adopt in the market and what impacts them.

In the second part of the project, the third step will be addressed, Feasibility in Bangladesh. A qualitative analysis will be elaborated. The objective of the analysis will be to identify which is the most suitable positioning, in the leather footwear industry, for an investment to take place, according to the country-specific characteristics and the investor requirements. It is relevant to mention that the objective of the investor is to adjust is positioning towards mid-high end footwear brands, hence establishing himself as a reliable supplier for these brands.

By the end of this project, the aim will be in contributing with valuable insights to support investor's decision regarding the best position to assume in the industry. For that to happen an understanding of the criteria selection for medium-high brands regarding their supplier's characteristics is key. The match between these brands requirements and the country-specific characteristics will define the positioning where it will be possible for the investor to create the most valuable manufacturing firm investment.

Additionally, and already out of the scope of this project, it is expected that the investor decides to advance (or not) to the development of a business plan in order to fully understand the practical implications of this business opportunity.

1. LITERATURE REVIEW

On the literature review, four main topics were approached: Bangladesh, the Footwear Industry, the Leather Footwear Industry in Bangladesh and Positioning Strategies.

The literature review was elaborated based on the analysis of other authors articles, international reports and data gathered from international institutions with relevant importance on the topics studied.

1.1. Bangladesh - Country Overview

Since the project was to be developed in Bangladesh, a previous study of the country was needed. On this chapter, a country overview of Bangladesh will be presented, with special incidence on the government policies and positions towards investment.

Bangladesh is a country located in South Asia. The country shares its borders with India, Myanmar and has maritime borders with the Bay of Bengal, which delimits the south of the mainland. Its population is around 162 million people, currently the eight most populous nation. Bangladesh has a total area of 147,570 km² making it one of the most densely populated countries in the world.

The national language is Bengali, also known as Bangla, which is spoken by 98% of the population, English, although is not an official language, is frequently used in middle and high classes and there is a high demand for English education in the country.

The national currency in the country is the taka (BDT).

Dhaka is the nation's capital and biggest city. Chittagong is its second biggest city and has also the country's largest port.

The country has established a parliamentary republic since 1991 and the current prime-minister is Sheikh Hasina, in functions since 2009.

Bangladesh is a relatively recent country. It only became independent after a war for their independence with Pakistan. In 1971, the country once known as East Pakistan

became an independent nation. The years following Bangladesh independence were not easy to go through. The country was staggered from war damage both to its institutional and physical capital, overpopulated and desperately poor. To recover its income per capita to pre-independence period levels the country had a long way through (Mahmud, Ahmed, & Mahajan, 2008).

After a period of political instability, in the country, years after their independence, a series of economic and social indicators were starting to give positive signs. For this change of direction to happen the adoption of a market-oriented development strategy was key. This important change occurred in the early 1980s and for the success of its implementation, both the liberalizing policy reforms took under the guidelines of the IMF and World Bank and the strict application of international aid were determinant.

A couple of years after, in the early 1990s, with both the country's transition to democracy and the wide-ranging of economic reforms a series of achievements were accomplished. The GDP per capita more than doubled, population growth rates decreased by half to 1,5 per cent, life expectancy at birth went from 50 to 63 years, child mortality rates that once were of 240 per 1,000 births in the 1970s were now cut by 70 per cent, literacy amongst population more than doubled and the country was ranked amongst the few developing countries on target for achieving most of the Millennium Development Goals (World Bank, 2005; World Bank, 2003).

The purpose of these reforms was clear, aiming to implement an open economy. Relevant measures were taken as reducing import duties to much lower levels, relaxation on restrictions on private investment, telecommunications and power generation were open up to private investment, making the currency convertible, financial liberalization with deregulation of interest rates, and fiscal reforms including the introduction of the value-added tax (VAT) (Sadiq Ahmed & Sattar, 2004; World Bank, 2007).

There has been a noticeable increase in the trade openness of the Bangladeshi economy since the 1980s. This was observable in the sustained growth in the export earnings and also in the increase in the country importations. Again, in the 1990s the tendency was reinforced with factors as the transition to parliamentary democracy, and strengthening of economic growth performance (Mahmud et al., 2008).

Sadiq Ahmed & Sattar in their studies also highlight this outward orientation in Bangladesh. They identify three major areas that were covered by this positioning of the country:

- Liberalization of imports through the removal of quantitative restrictions;
- Reductions in nominal and effective tariffs;
- Adoption of a unified and moderately flexible exchange rate regime.

Both authors agree that macroeconomic management was key to stabilize the economy along with a wide variety of economic and social policies and structural reforms in trade, finance, and domestic deregulation.

1.1.1. Investment Opportunities in Bangladesh

Investment opportunities were not encouraged in Bangladesh on the years after the country's independence in 1971. Both private and foreign investors faced severe trade controls. Immediately after the country's independence, there was a mass nationalization of industrial companies and services as banking and infrastructures. This perspective started to change in the 1980s, the Bangladeshi government started to recognize the importance of opening up their borders to reach higher development standards in the country. The country understood it had a huge pool of labour resources, currently, there are 160 million people in the country of which 57% are under the age of 25, that could attract investment across borders to dynamize their economy.

Another relevant factor to mention is the largely female workforce, especially, in the manufacturing industry. Most of them come as unskilled labour force from poor rural communities. This contributed to enhance the living standards of several million rural families and bring most of them out of poverty. Besides that, it had a major role to play for the advances in women's empowerment on the Bangladeshi society.

To capitalize their resources Bangladesh settled several politic and economic measures. Shortly after this change in the country's politic perspectives, the results started to appear. Bangladeshi's industries started to externalize their products and export levels started to grow. This growth was exponential in one specific industry, the readymade garment industry.

Readymade Garment Industry

The readymade garment (RMG) is the most successful export-oriented industry in Bangladesh. Since the 1980s it faced an extraordinary growth, especially on its exportation capability. According to data provided by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) from 2018, some values are important to understand the impact of the industry in the country:

- RMG share in total exports of the country went from around 16% in 1985 to values around 82% in 2018;
- Number of Garment factories went from 594 in 1985, to 4560 in 2018;
- Export in million US\$ grew from 131 to 30614 in the same period of time;
- Employment in the industry escalated from 120.000 people to 4 million;

This evolution in the RMG sector contributed to create direct and indirect employment and investment opportunities in upstream and downstream activities (Sadiq Ahmed & Sattar, 2004).

Has Bangladesh taken economic policies to attract Investment?

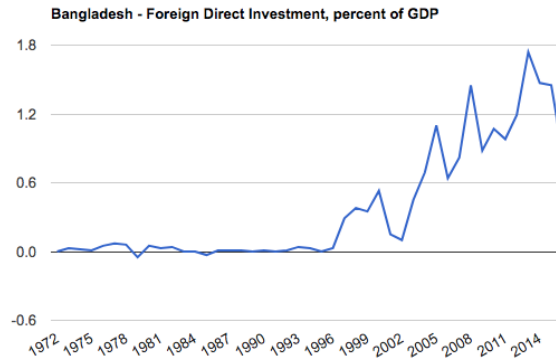
In the years following the liberation war, Bangladesh experienced a period marked through nationalist politics. It was important to give Bangladeshi people a spirit of freedom and sense of independence, but it impacted also the country's position regarding economic policies – a reserved position. Foreign companies access to the country was not well received and policymakers were not especially open to it. As a consequence, in that period of time, lasting until the 1990s, foreign investments and private investment were discouraged and so the Foreign Direct Investment (FDI) levels in the country were very low (Mj, 2015). After that period, Bangladesh recognized the importance of the private sector in the generation of wealth and growth of the economy. In order to increase the inflow of FDI and the expansion of the private sector, it followed a set of policies to make the country more attractive to investors. Investment sovereignty, tax holiday for several years, duty free facility for importing capital machinery, 100% foreign ownership, 100% profit repatriation facility, reinvestment of profit or dividend as FDI, multiple visa, work permit to foreign executives, permanent resident or even citizenship for specific amount investments and export processing zone facility are the most relevant policy incentives (Abdul Muhith, Moni, & Mahmud, 2012; International Chamber of Commerce, 2000).

In addition to this set of policies build up by the government, the nation possesses a roll of characteristics which make the country appealing for investors.

1. The large domestic market, with a population around 160 million people, that make it one of the most populous countries in the world. With the increasing purchasing power of its growing middle class generating a higher demand for goods and services.
2. GDP growth, the country's GDP, has been growing at constant levels around 6 – 7% in the last couple of years. Positioning Bangladesh along with Vietnam as the countries with higher GDP growth ratio in Asia.
3. Increasingly diversified economy, from agrarian to manufacturing based economy.
4. Low-cost labor force, availability of human capital with competitive prices.
5. Improvement in the social indicators, poverty has declined, family planning measures have been highly successful controlling birth rate, women emancipation amongst several others.
6. The country geographic position, in the Bengal peninsula with two seaports and a potential deep seaport facility.
7. Classification as a Developing country, recent news about the country put it in the path to be classified for the first time as a developing country in 2024, by the United Nations (UN). In 2018 for the first time, Bangladesh meet the criteria defined by the UN to be considered a developing country.

(Global Impact Investing Network & Dalberg, 2015; International Chamber of Commerce, 2000; International Monetary Fund, 2018)

Despite all this factors and measures were taken during the last few years, fresh FDI investments are not growing at a satisfactory level. The major amount of FDI into Bangladesh comes from reinvestment of locally earned dividends. Adding to that, fresh inflow has been decreasing in the last couple of years as shown in figure 1 by the World Bank database.



GRAPHIC 1: BANGLADESH – FOREIGN DIRECT INVESTMENT, PERCENT OF GDP. REPRINTED FROM WORLD BANK, 2018.

Bangladesh constraints for investors

In their studies, Abul Hussain (2011), Sharmeen Ahmed, Alam, & Afzal (2015), listed a series of factors that highlight the investor's constraints of investing in Bangladesh.

The main factors mentioned are:

- Inadequate infrastructure
- Corruption
- Inefficient bureaucracy

Secondary factors also pointed out by the authors are:

- Excessive procedural formalities
- Inadequate privatized industrial base
- The uninformed and unpredictable tax structure
- Manpower and training issues
- Lack of coordination between industrial policies and its implementation

The constraints identified in the work, *The Landscape for Impact Investing in South Asia: Bangladesh*, are summarised in figure 2 and perfectly illustrate the Bangladeshi ecosystem constraints.

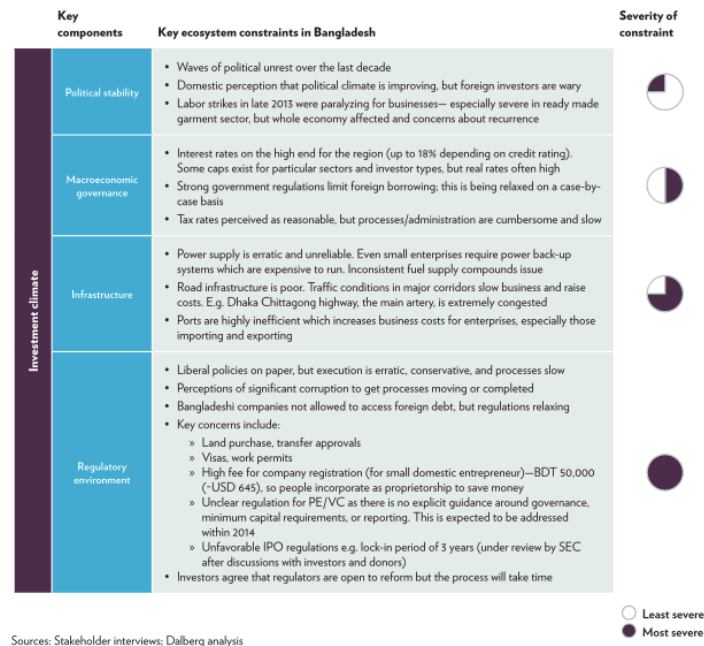


FIGURE 2: SUMMARY OF SEVERITY OF INVESTMENT CLIMATE CONSTRAINTS IN BANGLADESH. REPRINTED FROM GLOBAL IMPACT INVESTING NETWORK & DALBERG, 2015.

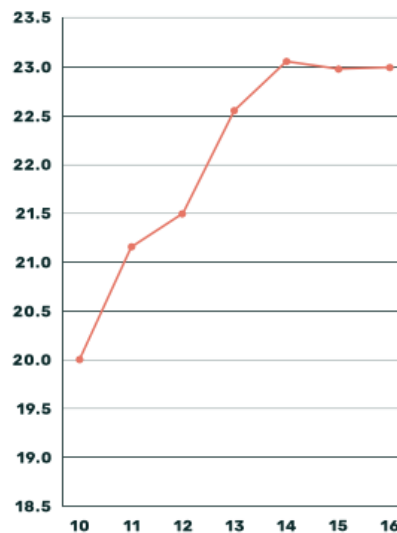
Haider, 2007, in his analysis, makes reference to the following aspects, improve the environment on factories and highlights the importance of compliance for international buyers. He also mentions the government needs to strengthen support, namely with the improvement on infrastructures (roads and physical infrastructures, developments on the port), a smoother supply of utilities, a reduction of corruption on the business environment and a grant for political cohesion. Without improving these dimensions, the author states that international investors are not likely to look for the country as an ideal region to make business in.

1.2. Footwear Industry

The study of the footwear industry will be divided in four main chapters. First, it will be addressed the recent world production and consumption levels (2010-2016). The primary data for this analysis was collected in the World Footwear Yearbook, a report developed by APICCAPS (Portuguese Footwear, Components and Leather Goods Manufacturers' Association). Then a chapter regarding the industry market dynamics, presenting its essential drivers and restraints. Lastly, a chapter about the industry's value chain is presented, comparing the traditional model of the value chain with the model of the value chain of the future.

1.2.1. Production

The world production of Footwear increased 15% from 2010 to 2014, from there forward it remained constant in values around 23 billion pairs per year. The following chart shows this evolution.



GRAPHIC 2: WORLD FOOTWEAR PRODUCTION (BILLION PAIRS) 2010 - 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

Looking at the world by production share of footwear by quantity it is observable that Asia's role is by far dominant. Its share of the world's production accounts for 86,7%,

South America and Europe follow with 5% and 4% respectively. The remaining 5% is divided by North America (2%), Africa (2%) and Oceania (less than 1%).

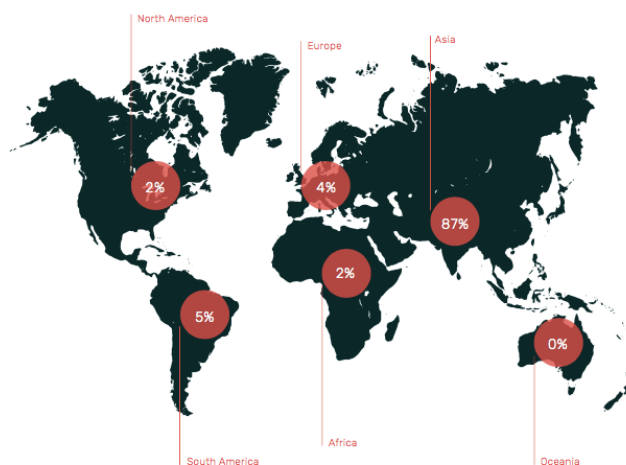


FIGURE 3: DISTRIBUTION OF FOOTWEAR PRODUCTION BY CONTINENT (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

The top ten world producers have not suffered significant changes. Although the industry is far from being static. China remains the biggest player accounting for 57% of the world total quantity production but has lost two percentage points over the previous year. This reduction in China's share was absorbed mainly by other Asian countries like India, Vietnam, Indonesia and Bangladesh. Brazil also reinforced its own share, consolidating its position in the top 5 of world producers. Noting that European countries are not present in the top 10. The first European country to appear on the list is Italy on the 11th position with a share of 0,8% (APICCAPS, 2017a).

#	COUNTRY	PAIRS (MILLIONS)	WORLD SHARE
1	China	13 100	57.0%
2	India	2 257	9.8%
3	Vietnam	1 185	5.2%
4	Indonesia	1 110	4.8%
5	Brazil	954	4.1%
6	Turkey	500	2.2%
7	Pakistan	399	1.7%
8	Bangladesh	378	1.6%
9	Mexico	254	1.1%
10	Thailand	200	0.9%

TABLE 1: TOP 10 FOOTWEAR PRODUCERS (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR INDUSTRY, 2017

Regarding exports, Asia despite being the dominant region, and it is expectable that it remains the same in the medium/long term, has lost 2% points since 2010. The inverse

trend was observable in Europe, winning 3% points to an overall total of 13,5% of the world total exports.

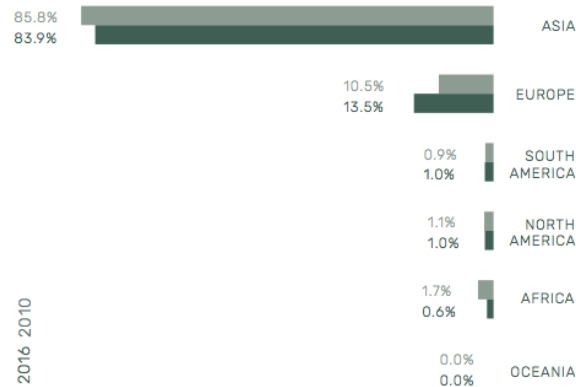


FIGURE 4: DISTRIBUTION OF FOOTWEAR EXPORTS BY CONTINENT OF ORIGIN (QUANTITY) 2010- 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

Chinese shoes account for two-thirds of the world total exported shoes (67,3%). Important to note that despite not having any country on the top 10 producers, when it comes to exports Europe is represented by four countries (Germany, Belgium, United Kingdom and Italy). This can be explained through the export levels of imported shoes from European countries.

#	COUNTRY	PAIRS (MILLIONS)	WORLD SHARE
1	China	9 313	67.3%
2	Vietnam	1 021	7.4%
3	Indonesia	259	1.9%
4	Germany	253	1.8%
5	Belgium	238	1.7%
6	India	236	1.7%
7	United Kingdom	215	1.6%
8	Turkey	214	1.5%
9	Italy	206	1.5%
10	Hong Kong	166	1.2%

TABLE 2: TOP 10 FOOTWEAR EXPORTERS (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

1.2.2. Consumption

The world consumption of footwear in the over the last couple of years as followed the overall demographic trends. Meaning that Asian nations footwear consumption levels have been growing following the growth of its population. In 2016, Asia's percentage of footwear consumption reached the highest level, so far, 54% of the world's total, in quantity. Europe and North America follow with 16% and 15% respectively (APICCAPS, 2017b).



FIGURE 5: DISTRIBUTION OF FOOTWEAR CONSUMPTION BY CONTINENT (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

China is the biggest consumer of footwear, with a value of 18,3% of the world's total consumption. The USA appears as the second biggest consumer on the list followed by Asian and European countries and Brazil.

#	COUNTRY	PAIRS (MILLIONS)	WORLD SHARE
1	China	3 871	18.3%
2	USA	2 289	10.8%
3	India	2 250	10.6%
4	Indonesia	875	4.1%
5	Brazil	851	4.0%
6	Japan	659	3.1%
7	United Kingdom	535	2.5%
8	Germany	438	2.1%
9	Russian Fed.	420	2.0%
10	France	403	1.9%

TABLE 3: TOP 10 FOOTWEAR CONSUMERS (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

In terms of imports, Europe leads the list with slightly more than one-third of the world total imports. Important to mention that Asia's share of world imports has risen, following the growth of its population, and already surpassed North America in total imports by quantity. South America and mainly Africa have very low levels especially if you consider their share of the world's population.

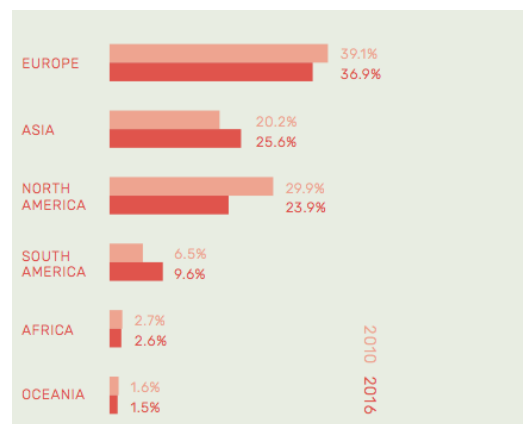


FIGURE 6: DISTRIBUTION OF FOOTWEAR IMPORTS BY CONTINENT OF DESTINATION (QUANTITY) 2010 – 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

The USA are the biggest importers of footwear, by a significant margin, totalizing 19,6% of the world share. The second country on the list is the United Kingdom with 6,2% of the world share. Europe dominates the list with seven countries.

#	COUNTRY	PAIRS (MILLIONS)	WORLD SHARE
1	USA	2 342	19.6%
2	United Kingdom	745	6.2%
3	Germany	655	5.5%
4	Japan	608	5.1%
5	France	487	4.1%
6	Italy	336	2.8%
7	Spain	294	2.5%
8	United Arab Emirates	294	2.5%
9	Belgium	292	2.4%
10	Russian Fed.	277	2.3%

TABLE 4: TOP 10 FOOTWEAR IMPORTERS (QUANTITY) 2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

1.2.3. Market Dynamics

The footwear market is evolving. The evolution of shoes has brought significant improvements to its quality. Aspects such as style, comfort and versatility have suffered tremendous changes in the last decade. Shoes are now fashion accessories, provide comfort for every moment of the day, all year long and are adaptable to diverse types of environments. From highland landscapes to flat running tracks.

Footwear demand is growing, to understand its rise there are some dimensions needed to be considered:

- Footwear considered as a fashion trend;
- Demand for innovative and original shoes;
- Adoption of comfort and trendy footwear;
- A wide range of styles to match with people's apparel.

Another dimension contributing to the increase in sales of footwear is related to athletic footwear. The rising interest and involvement in multiple sports activities, the growing interest in fitness & health-related events and the integration international brands made of sports and fashion wear, all lead to the rise of the sports footwear trend and ultimately to the global footwear market (Allied Market Research, 2015).

These dimensions discussed above ultimately ended up impacting in the retail culture. Evidence of their impacts are already visible in the market, namely:

- Great variety of products and their easy availability in retail stores;
- International brands and retailers refocusing on the footwear market;
- Increase the investments in marketing and advertisement;
- Increase in online sales.

Furthermore, technological advancements and developments in the value chain allowed for a faster than ever time to market of products and for a steady development of a wide range of footwear at affordable prices. All these factors gave an impulse to footwear purchases all over the globe (Allied Market Research, 2015; Global Industry Analysts, 2018).

1.2.3.1. Drivers

In the following driver's analysis, it is important to mention that some of these drivers are more relevant when considering an analysis of developed countries while others in developing countries. In order to have a global understanding of the footwear industry both developed and developing economies, drivers were considered.

1.2.3.2. Changing lifestyles

For the understanding of this driver, a definition of lifestyle is needed. On this work, we will adopt the Business Dictionary definition of lifestyle.

“A way of living of individuals, families (households), and societies, which they manifest in coping with their physical, psychological, social, and economic environments on a day-to-day basis. (...) The analysis of consumer life styles is an important factor in determining how consumers make their purchase decisions.”

(Business Dictionary)

The changing lifestyles have significantly affected the footwear industry.

The desire to increase sports/sports-related activities in everyday life as a positive influence on the consumption of athletic footwear. Although there is a lack of time to practice sports activities due to the large share of time people spend in the office/working the sports trend is being worn for a number of non-athlete purposes (Allied Market Research, 2015). The popularity of this “sportive lifestyle” as grown massively, in part due to its adaptability with varying lifestyles.

Consumers consider as most relevant factors for their decision making towards the purchase of a new pair of shoes both the stylish of the shoe and its comfort (Allied Market Research, 2015).

1.2.3.3. Increasing health concerns

Increasing awareness has been rising towards health concerns and fitness activities, especially amongst developed economies. This trend had an impact on the rising demand for several types of sportive activities as running, jogging, aerobics and walking. As these activities become popular so as the search and purchase of these types of shoes. Contributing to the growth in sales of athletic footwear (Global Industry Analysts, 2018).

Furthermore, according to the World Footwear Market Report (2015), in developed countries, there are also important factors to consider when considering the growth trend of the industry:

- Rising incidence of obesity;
- Increasing number of millennials enrolled in professional/semi-professional sports;
- Growing participation of women in running events (adventure races, colour run);
- The upward share of people over 45 years that started embracing an active lifestyle.

These factors help to explain the positive influence health concerns have in the growing demand for global footwear.

1.2.3.4. Rising number of working professionals

The increasing number of working professionals is a trend visible especially in developing economies. Especially in Asian countries, with China and India as main players. As the working population spreads the demand for formal attires follows, so as the demand for formal shoes, both for men and women. This increase is especially noticeable in the leather footwear (Allied Market Research, 2015; APICCAPS, 2017b; Global Industry Analysts, 2018). Formal attires lead to the adoption of matching formal shoes. Leather shoes are a synonym of quality shoes and much appreciated by the working-class professionals.

Hence the rising number of working professionals is expected to positively influence the growth of global footwear market for the short/medium-term.

1.2.3.5. Increasing disposable income

The increasing disposable income is a signal of economic development and improvement of economic conditions of the population in analysis. This economic development plays a key role in the demand for footwear.

It will be described the situation on the different geographies around the globe.

Emerging economies, in particular, Asian countries, led by China and India, continue making strong progress regarding economic growth.

North America is expected to remain as the centre of economic activity.

Western Europe countries are estimated to overcome the negative cycle caused by the global economic crisis in 2008 and play a fundamental role in the world economy.

As globalization trends evolve, traditionally closed economies start to be embraced by them and as consequence, there has been an increasing availability of international brands on these countries. Consumer preferences regarding high-fashion products including footwear are progressively rising. Besides these geographic considerations, there are factors like shopping habits that are exploding more or less everywhere due to the growing disposable income (Allied Market Research, 2015; Global Industry Analysts, 2018).

The once unbalanced footwear consumption levels between high-scale western countries and low-scale eastern economies are now on their path towards becoming even, especially in terms of quantity (APICCAPS, 2017b).

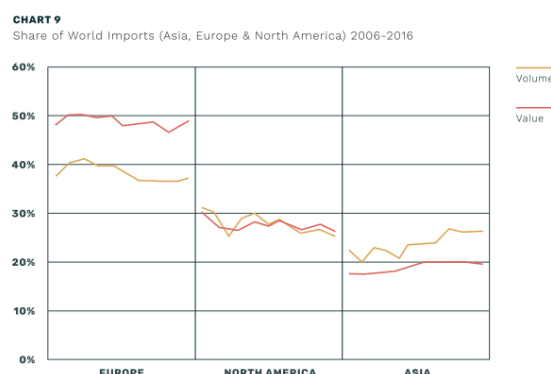


FIGURE 7: SHARE OF WORLD IMPORTS (ASIA, EUROPE & NORTH AMERICA) 2006 -2016. REPRINTED FROM WORLD FOOTWEAR YEARBOOK, 2017

With the growing relevance of Asian economies, manufacturers start looking for them as desirable markets, beyond developed markets in a mature situation. Hence a

retailing revolution boom can be expected across developing countries (Allied Market Research, 2015).

After the recession period, it is expected that the global footwear market will steadily develop its growth sustained in the rising demand in different geographies.

1.2.3.6. Rising number of sports inspired children

Children develop their tastes and demands from an early stage. Regarding footwear, children start developing their preferences for trendy, stylish, colourful and sports footwear. They follow a wide range of sports and sports celebrities hence their demand starts by wanting to follow these celebrities outfit and mainly the sports athletic footwear. There is a strong demand for football, basketball, tennis, hockey, running, baseball and many other sports. To add to the sports category there is also demand of the segment for other types of footwear like sneakers, boots, casual shoes and flip-flops (Allied Market Research, 2015).

Hence the rising influence of sports plays an important role in the increasing demand for footwear shoes, worldwide.

1.2.3.7. Rising price of raw material

In the years to come, the trend will be for investment to remain being made in low cost regions, mainly in Asia. Manufacturers have established their bases in the region for two main reasons that expectable to go on in the medium-term. The low labour costs and the rising demand of the regional market (Allied Market Research, 2015).

The threat poses if there is a rise in labour costs and raw materials in the region. A rise in China, the strongest manufacturer and exporter in the world, will correspond to an increase in costs all around the globe. Additionally, inadequate availability of hide, essential raw material for leather footwear production will affect the price of leather around the globe. A ban on the use of leather in footwear manufacturing by Council for Leather Exports has ultimately reduced the production of leather footwear in India, major exporter, the higher prices restricted individuals to buy hence the market growth stalled (Allied Market Research, 2015).

A rise in the price of raw materials, especially in big producer/exporter countries is a serious restraint to the growth in the footwear market.

1.2.3.8. Import Tax

International trade increases the number of goods that domestic consumers can choose from, decreases the cost of those goods through increased competition, and allows domestic industries to ship their products abroad. While all of these effects seem beneficial, free trade isn't widely accepted as completely beneficial to all parties. In fact, President Trump's presidential campaign last fall was vehemently anti-trade. In 2018, President Trump's administration has announced billions of dollars in new tariffs on Chinese imports¹.

China has retaliated by announcing tariffs on U.S. imported goods, including steel and pork². This effect can reduce the attractiveness in outsourcing the production to traditional low cost locations such as China.

¹ <https://www.nytimes.com/2018/09/17/us/politics/trump-china-tariffs-trade.html>
<https://www.bbc.com/news/business-44529149>

² <https://www.bbc.com/news/world-asia-43614400>

1.2.4. Value Chain

The development of this sub-chapter, regarding the understanding of the value chain in the footwear industry and recent changes it is overcoming, was elaborated according to the information gathered in the reports, A Global Strategic Business Report, World Footwear Market – 2014-2020, and on Bain, 2017.

The overview made by the World Footwear Market - 2014-2020, clearly illustrates how the footwear value chain works.

“Value chain of the footwear market include various stakeholders such as raw material suppliers, footwear manufacturers, distributors and retailers. Each of these players adds a specific value at their business operations which in turn contributes to the competitive value of the product. The R&D activities, innovations and constant efforts for improvement, collectively enhance the value associated with the final product.”

(Allied Market Research, 2015)

The market is dominated by global companies that source, manufacture and sell their products worldwide. The different agents in the value chain may be from different geographical locations, even from different continents. For this reason, the footwear value chain is a complex logistical exercise. Increasing concerns over corporate social responsibility issues require suppliers and contract manufacturers to comply with the standards set by the leading manufacturing companies (Global Industry Analysts, 2018).

In this section, we will describe the traditional footwear value chain and explain the different activities in the process as well as the roles of the participating agents. Furthermore, a real case will be presented, identifying suppliers, manufacturers, brands and retailers. Finally, based on our research on the current manufacturing trends towards verticalization from major players such as Nike and Adidas, we will provide an overview of the footwear value chain in the future (Allied Market Research, 2015).

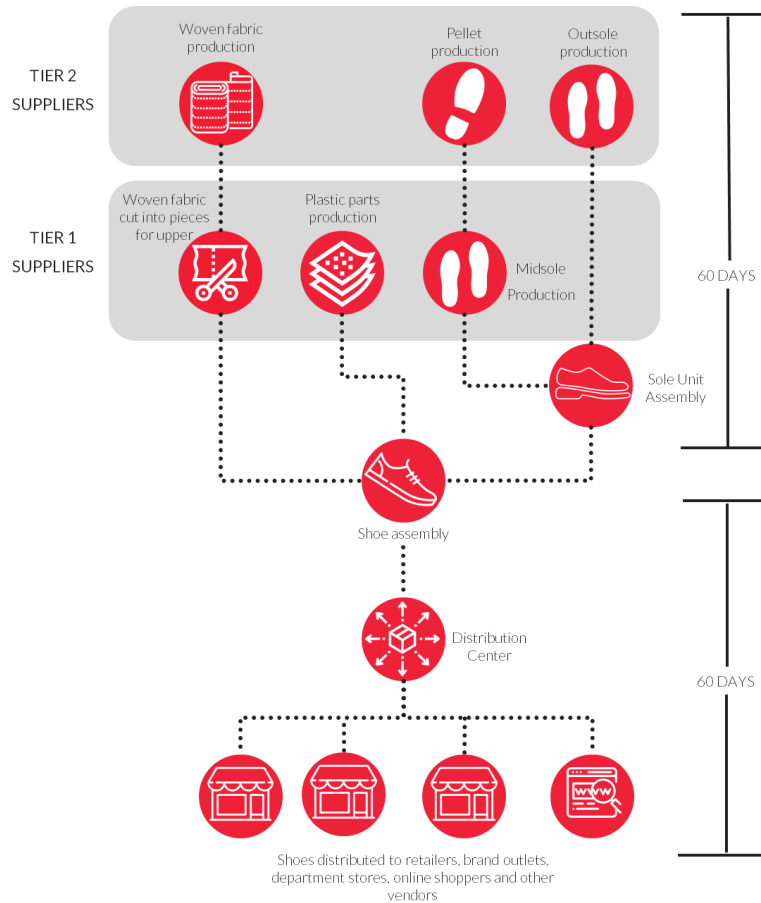


FIGURE 8: TRADITIONAL FOOTWEAR VALUE CHAIN. AUTHORS OWN ANALYSIS BASED ON (BAIN, 2017)

Raw material procurement and supply

For the manufacturing of footwear products, several raw materials are used, leather, synthetics, plastics, rubber amongst others. For the manufacture of the different types of footwear products in their collections, manufacturing companies search for the above materials amongst a role of different suppliers. In the footwear industry, raw material suppliers can be classified into different tiers. Manufacturers source finished components such as soles from Tier 1 suppliers. These suppliers must source materials such as rubber pellets to manufacture the soles. The rubber pellets producer is therefore considered a Tier 2 supplier in the value chain. Some activities such as fabric cutting may either be performed by a tier 1 raw material supplier or by the manufacturer (Bain, 2017).

These suppliers are vital stakeholders in the value chain as they are involved in the smooth functioning of footwear manufacturing. However, a wide range of countries is

imposing restrictions on the use of leather. This effect limits the sales of leather footwear and causes a shift to other types of materials such as textiles, rubber and others. Suppliers of footwear products add value to the final product in terms of price and quality (Allied Market Research, 2015).

Assembling

In the assembly process of the shoe, there are included the designing and manufacturing stages of production (Global Industry Analysts, 2018). Companies, especially multinationals like Nike, Adidas, or Under Armour, need to be aware of the changing consumer preferences of their clients in order to be able to conceptualize and innovate with new designs. The attractiveness of brand specific designs is an important aspect for consumers to take into consideration when purchasing a certain type of footwear (Allied Market Research, 2015).

Manufacturers may produce shoes to main brands or private labels owned by retailers. Shoe assembling is performed by either branded manufacturers or by contract manufacturers, usually located overseas in low cost manufacturing locations such as China or Vietnam. Several brands own shoe factories, however, most production is carried out overseas by contract manufacturers.

Packaging and distribution

After assembly, the shoes are then shipped to the branded companies' logistical centers for distribution. Packaging may be performed either at the manufacturer's facilities or at the logistical centers upon arrival and before distribution (Bain, 2017).

Retail sale

There are several channels for footwear branded manufacturers to effectively sell their products. The most common are retail stores, brand outlets, online stores and manufacturer owned online websites (Allied Market Research, 2015).

Retail stores helped manufacturers to expose their products and understand the market demand towards them, in many cases previously to open brand outlets across multiple targeted markets. Nowadays, the online channel is assuming preponderance.

Online platforms are becoming popular amongst society. Online purchase is perceived as easier to do and in many cases cheaper than to purchase in retail or branded stores, although this price perception does not necessarily correspond to the truth it is noticeable as a market perception (Allied Market Research, 2015; Global Industry Analysts, 2018). With this type of sale gaining relevance it is crucial for companies to optimize their lead times to the optimal point of efficiency. The delivery time is crucial for client satisfaction in online sales (Katawetawaraks & Wang, 2011).

1.2.4.1. The supply chain of the future

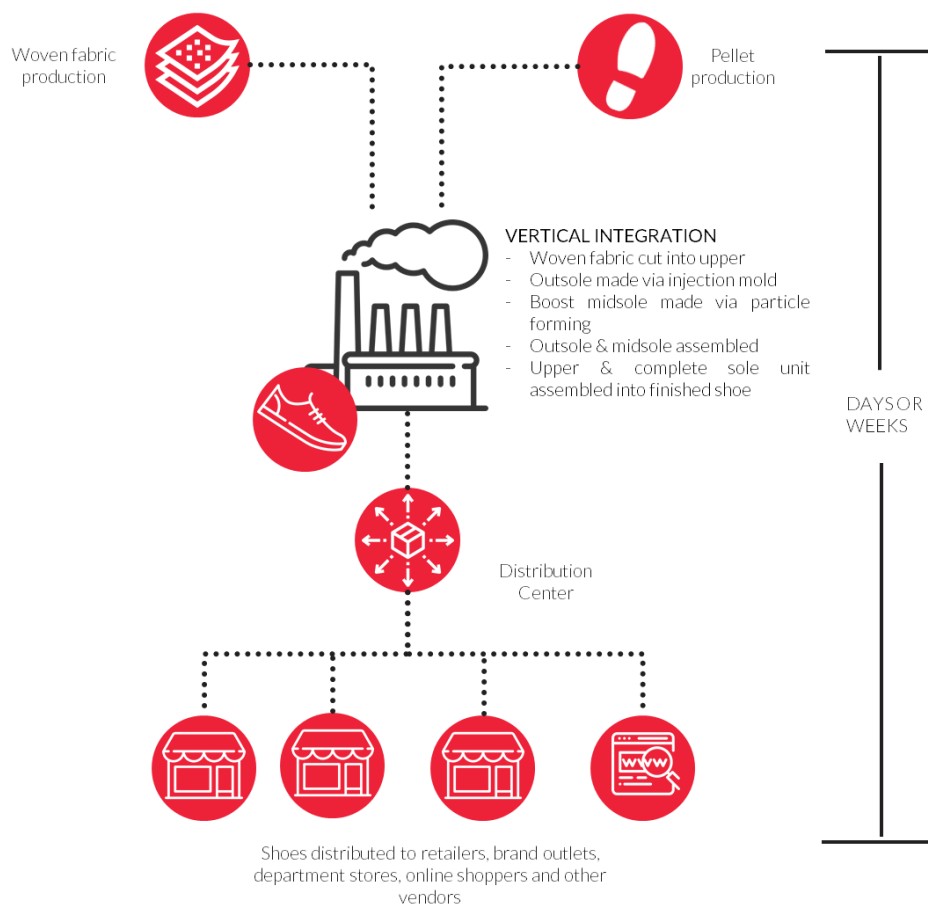


FIGURE 9: THE SUPPLY CHAIN OF THE FUTURE

There is an upcoming trend, mostly observed in the major global players such as Nike and Adidas, to vertically integrate and automatize production in their own manufacturing units, mainly located in developed markets such as Western Europe and the USA, to increase differentiation and customization and achieve lower lead times.

The upcoming relevance of this new concept of the supply chain is highlighted on the following quote:

“It is a pioneering concept that concentrates the shoe-production process in a single space, located near the markets where the shoes are sold. At Adidas’ Speedfactory in Ansbach, Germany, most of production is automated with the use of robots. Compared to the months it can take to make a shoe in the traditional supply chain, Speedfactory completes production in a matter of days.”

(Bain, 2017)

The efficiency gains obtained to offset the higher labour costs, but only for larger volumes, scale and very important for this study, material. This model applies to non-leather materials, textiles and rubber. Evidence about the use of this technology for leather shoes was not found. Adidas and Nike are the pioneers, but it is expected that next level competitors such as New Balance or Puma also adopt this strategy (Bain, 2017).

1.3. Footwear Industry in Bangladesh

The footwear in Bangladesh is considered a subsector of the leather industry has it is held under the governance of the Leathergoods & Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB). The sector as also a close relationship with the RMG industry. Hence to obtain relevant information about the footwear industry it was necessary to understand and make assumptions based on the data gathered about these two industries, in particular, the Leather industry.

Leather Manufacturing

The leather industry in Bangladesh is divided in three subsectors, leather tanning, leather goods and leather footwear.

According to Naiem (2013), the industry as multiple similarities and a significant relatedness with the RMG industry. He goes even further stating that in terms of value addition the sector as almost double the potential when compared to the RMG sector. Naiem's (2013), the conclusion is based on the local availability of raw materials, 90% of basic raw materials needed for the leather industry – hide – is locally available in the country, creating a strong niche in the world market. This helps to explain the significant difference in terms of value added between industries, 90% for the leather sector vs 40% for the RMG.

Regarding the leather industry's potential, Naiem (2013) also indicates that there is a growth opportunity for Bangladesh. The country's world market share is only 0,56%, revealing the limited access Bangladeshi companies had so far with international markets. Reasons that help to explain this low share are raw materials and product quality consistency challenges; the need for business-friendly policies and social and environmental constraints (Arbeid, 2017; Naiem, 2013).

The lack of fully mechanized slaughterhouses, 85% of the animals are slaughtered by unskilled workers and around 45% of skins and hides become available during the country's most relevant festival – Eid-ul-Azha (Naiem, 2013). This unprofessional leather treatment besides the lack of hygienic and food safety effects the loss of shape and incisions on both hides and skins, resulting in the depreciation of its value (Arbeid, 2017).

The quality of Bangladeshi's leather is considered to be good, although its quality consistent challenges. These challenges begin within the country's facilities – the tanneries – located, the majority of them, in Hazaribagh an industrial area in the city of Dhaka, considered one of the most polluted places on earth (Arbeid, 2017). The labour force working there faces huge health and labour threats, far from the defined standards from the International Labour Organization (ILO). The government of Bangladesh has already ordered the exchange of facilities from Hazaribagh to a recently constructed industrial area in Savar, place where the government installed a Central Effluent Treatment Plant (CETP) for the entire zone (Arbeid, 2017; Naiem, 2013). This is a recently implemented plan and its impact is yet to be confirmed.

Concerning product quality and productivity, these are still areas of concern for the country. Both product quality and productivity are key to establishing long-term partnerships in the industry. There is a lack of know-how amongst workers and a lack of formal education from stakeholders and owners of tannery factories that need to be fulfilled urgently (Naiem, 2013).

With respect to government policies to attract investment for the sector, it is needed to draw the “Thrust Sector”, considering Footwear and Leather Goods as high priority industries for investment in the country (Naiem, 2013). Although the leather manufacturing industry is not as developed as the RMG industry it is also gaining prominence. Classified as “High priority industrial sector” by the Bangladesh Investment Development Authority (BIDA), an organization established by the Bangladeshi government to encourage investment in the private sector, the industry has faced tremendous evolution. Exports of leather and leather goods rose from \$16 million in 1973 to \$1.2 billion in 2017 (Razzaque, Uddin, & Rahman, 2018).

On the other hand, Naiem (2013), indicates factors that counterpoise the above reasons, and help speed up the industry growth:

- Availability of quality raw-hide;
- Low labour costs;
- Low maintenance cost;
- Government assistance.

Proximity with the RMG Industry

Razzaque et al. (2018) in their study of global export product space point out to the leather footwear industry intimate connection to the RMG clusters. They refer that countries with successful garment manufacturing tend to develop a specialization in footwear easier than others without this type of relationships. The export growth in the country has been dominated by the RMG industry, leading to an enlarged export concentration. Despite being an example of success of Bangladesh export capabilities, it also represents a demanding challenge for the country to diversify its exportation base. Therefore, the authors (2018) refer to the leather sector as an important driver for export diversification in the country. The sector, currently, constitutes the second largest export earnings of the country. Despite the healthy growth in the sector, it is still significantly behind its competitors, in terms of productivity and quality, namely Pakistan and India. In order to become a significant player in the global market for both leather and footwear, the sector needs to attract investment and technology to raise its quality standards. The country disposes, right now of an attractive landscape, in part due to Chinese policies. China, the larger leather products producer and the strongest of Bangladesh's competitors, is moving rapidly in the electronic market. This means the progressive abandon of manual industry like leather, RMG, etc. Meaning there is a window of opportunity for the country to seize. In favour of the sector are the backward linkages and the room for generating more value-added products, the country still has a significant percentage in the exportation of raw materials. Adding to all these factors the available labor-intensive workforce for the manufacturing industry it becomes clear the potential of the sector to expand Bangladesh's export levels (Sadiq Ahmed & Sattar, 2004; Razzaque et al., 2018).

Leather Footwear Subsector

The Leather footwear industry in Bangladesh views their products as price and quality competitive (Naiem, 2013). Despite that, the author (2013) identifies some weaknesses in the supply side:

- Tanneries inability to supply the required quantities;
- The lack of design and product development capabilities;
- Shortage of craftsman and technical staff in the factories;
- Environmental constraints in the tanneries space.

On the other hand, according to the author (2013) studies, the footwear manufacturers highlight the following capacities regarding their production:

- Competitive prices;
- Quality products;
- Good time-to-market time of their orders.

Despite these differences between weaknesses and capabilities of Bangladesh, since the study was done, the industry as already evolved and growth signs in the industry are very positive, revealing the potential of Bangladesh in the industry.

1.4. Positioning Strategies

Over the years there were many authors studying the importance of positioning strategies for the success of a company. In order to obtain a holistic view of the subject, multiple author's perspectives will be considered.

Porter (1990), in his studies, identifies three generic positioning strategies:

- Low Price;
- Differentiation;
- Focus.

According to Porter (1990), companies can follow one of these three business strategies.

Regarding low price, the author defends that a company adopting this strategy aims to be a low cost producer. To achieve cost leadership the author identifies four key cost drivers. Input costs, economies of scale, experience and product/process design. Concerning input cost, companies many times seek competitive advantage by establishing their operations in low labour cost locations. The example of manufacturing firms in China is one of the most expressive. Economies of scale are especially relevant in industries where there are high fixed costs, in these types of industries there is available a potential production margin gain. The experience factor is key in terms of efficiency, the more experienced a company is in their business the more efficient it gets at it. Finally, product/process design also affects the efficiency of the company, the product designed components and fabrication process, if optimized, can have an impact on its final cost.

The main alternative to low price strategy, for Porter (1990), is the differentiation. For a differentiation strategy to be successful the company has to possess a unique dimension that is necessarily valued by its customers to allow a price premium. The key for a successful differentiation strategy is dependent on the clarity regarding two key factors, the strategic consumer and the key competitors. The first is vital to identify as it is the one on whose needs the differentiation is based in. Although this may not always be easy to identify. A practical example given by the author is of a newspaper, where the strategic customer could be both, the reader that pays a price of purchase or the advertisers, who pay for advertising. On the other hand, key competitors are the other

factor a company needs to consider in order to be able to set the bases towards the creation of a differentiative characteristic. It is extremely relevant to “keep an eye” on what your strategic competitors are doing in order to better defend your position in the market.

The third generic strategy identified by Porter (1990) is the focus. A focus strategy, as the meaning of the word implies, respects to a narrowing down of a segment a firm is addressing to and at the same time it tailors its products or services towards a specific segment. The focuser achieves competitive advantage by reaching out to target segments better than companies which the main concern is to reach a wide range of customers or needs. Focus strategies can be divided into two variants, cost-focus and differentiation-focus. Either by targeting price conscious clients in areas that cost-based strategies fail due to added costs as consequence of trying to reach a wider range of clients, or by looking for particular needs that broader differentiators do not attend so well.

Another view on strategic positioning is presented by Baines, Kay, Adesola, & Higson, (2005) on their study. They defend that all through the production process there are a set of different activities. Some of the activities are internal to the company and some others are external. According to the authors, the competitive space of the organization is determined by the choices made by the company to combine these activities.

“Most organizations will have a unique competitive space that represents their strategic position in their supply chain networks.”

(Baines et al., 2005)

A complementary perspective is presented by Gherghina (2004), in her analysis. The author claims that in order for a firm to define its position strategy it has to define beforehand its market segmentation, targeting and positioning. The market segmentation is defined according to the company selection of a restricted group of customers. These customers have specific characteristics and needs that will define the company’s portfolio of products and services for each specific segment. On the market targeting the firm defines the segment of customers it wants to direct its offer to. The market positioning implies establishing a positioning strategy in the market segment previously defined and present it with the company specific products/services portfolio for that same segment.

This process of positioning a firm's offer in the market is not an easy process. Designing the supply network strategy will challenge the company to make decisions regarding trade-off choices (Skinner, 1969).

Due to a lack of literature regarding positioning strategies in the footwear industry and since they have a close relation, an overview of positioning in the fashion industry is going to be elaborated. When it reveals pertinent a special emphasis will be given to the mid-high-end segment within the industry, a segment that will further on be the focus of our analysis.

Positioning strategies relevance has increased in the fashion industry especially with the globalization phenomena (Macchion et al., 2015). Globalization brought modifications to the production and supply network configurations. Companies decision to "make or buy" their products become more complex and strategic than ever before (Buckley & Ghauri, 2004). The main objective for fashion companies is to combine customer's needs and expectations with product, brand and production channels (Brun & Castelli, 2008; Macchion et al., 2015). To achieve this combination, the correct definition of competitive priorities is key. This correct definition implies a coherent balance between the choice of production and supply configuration and the firm's CSFs. This balance deserves special attention due to its direct influence on customer satisfaction (Brun & Castelli, 2008). Brun & Castelli (2008) emphasize that: *"A company is not required to excel in the entire set of CSFs that characterize the fashion industry, but its challenge is to excel primarily on a well-selected subset of these factors to overcome competitors."*

Addressing the mid-high segment there is a set of CSFs to have in consideration. In the literature the main factors highlighted were (Brun & Castelli, 2008; Macchion et al., 2015):

- Product Quality;
- Craftmanship;
- Country of origin;
- Style and Design;
- Brand reputation;
- Exclusivity.

Additionally, for the company's overall strategy it is of vital importance its location decision, especially in the production's perspective. It can enable them to obtain better production prices and/or better quality products. In the fashion industry, it was possible to make significant reductions in overall production costs due to production delocalization to low labour cost regions, mainly in Asia (Macchion et al., 2015). If the company's objective is to position itself in the low segment products a shift in production to low labour costs country will probably be the adopted strategic move. If on the other hand, the company strives to position itself in the mid-high segment, producing in a country as Italy or Portugal would bring considerable benefits due to the high-quality perception of products made in these countries – country of origin effect.

For the purpose of the analysis to be developed further on this study the trade-off choices for the investor will be based on the theory presented on this chapter, weighted with the investor's idea of the desired positioning for the industry and the results obtained in the analysis of this study.

2. CONCEPTUAL FRAMEWORK

In order to develop this project, it was necessary to master the thematics addressed in the literature review. These thematics will fundament the analysis with theoretical knowledge, crucial to sustaining future conclusions and suggestions. The Bangladesh country analysis, an overview of the footwear industry, the leather footwear in Bangladesh and position strategies were the four topics included in this research.

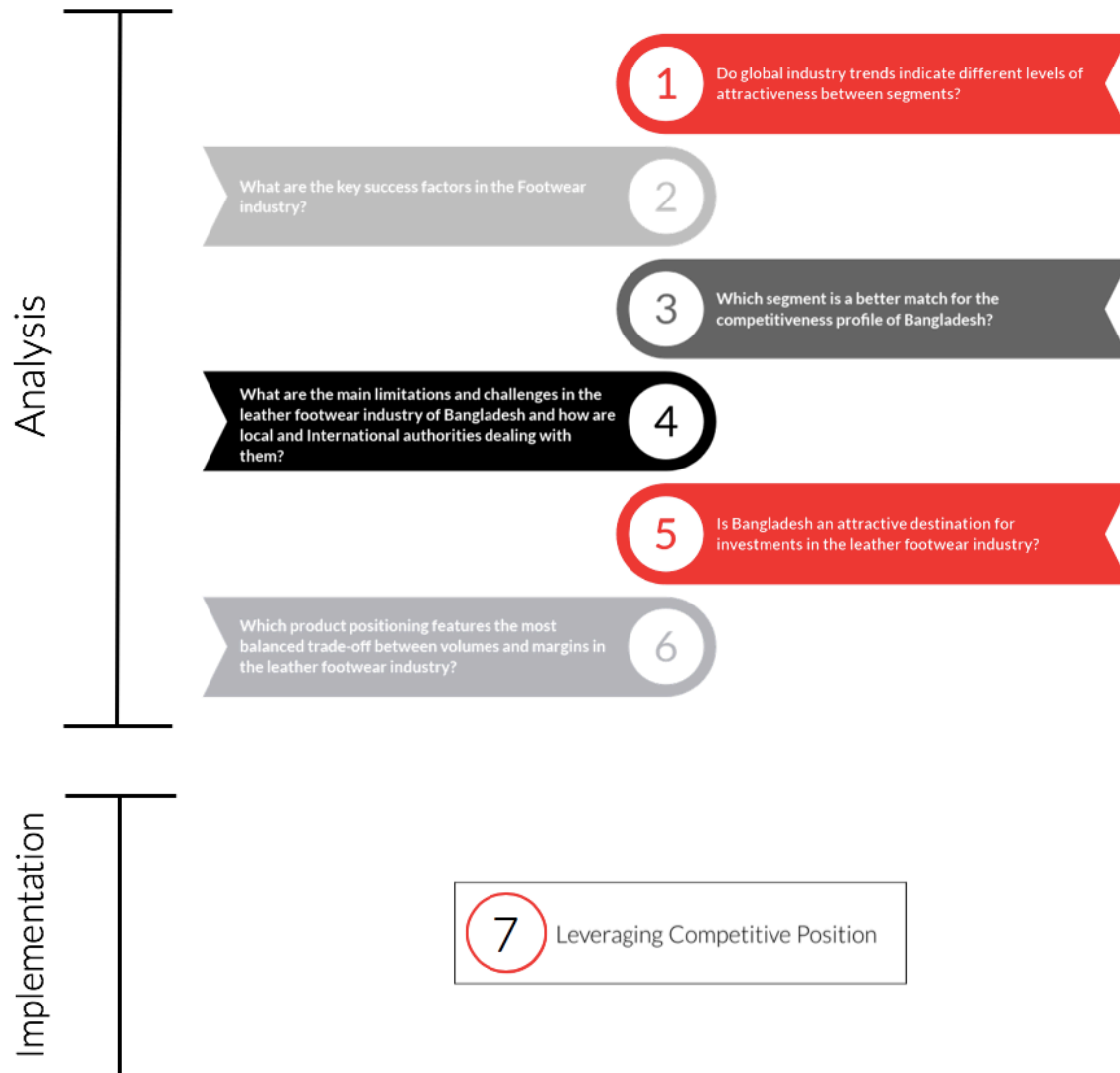
It was only after the study made on the literature review, that was possible to understand which were the key factors needed to be addressed for the successful completion of this project. Based on them that was possible to elaborate the framework that would set the ground for this analysis, lead to the research question and finally send clues and recommendations for further analysis.

Since the beginning of the study, it was known that the objective of the analysis was to identify the most suitable positioning strategy for an investment in the leather footwear in Bangladesh. In order to formulate the research question around this thematic, the literature review was essential to be able to fully understand the thematics that were going to be addressed in the analysis. Only after that, it was possible to clearly formulate the research question that best addresses the several components of the purposed study.

Research Question: Which product positioning features the most balanced trade-off between volumes and margins in the leather footwear industry?

Although knowing first-hand the desired positioning the investor wanted to assume in the market - mid-high segments - in order to validate it, it was needed to recognize if Bangladesh characteristics would make it attractive to compete in that specific segment. For that purpose, a framework was designed. The framework is divided in 6 chapters, with the final one providing the answer to the research question. One extra chapter was added at the end of the analysis with a possible method of implementation to follow.

Framework for evaluating the attractiveness of Bangladesh for Investments in the
Leather Footwear Industry



3. METHODOLOGY

In this chapter, it is presented the operationalization of the conceptual framework previously developed. The objective is to be able to critically analyze the thematic presented in this study and provide recommendations.

This document presents an evaluation of the attractiveness of Bangladesh as an investment destination in the Leather Footwear Industry. For this project, the author will represent the consultancy firm Business Setting and produce an analysis to be presented to the client. The project was elaborated based on secondary data. Meaning that data was collected by someone other than the author of this project (Bryman, A., 2012). Furthermore, the data collected to support this analysis was of a qualitative nature. The study done can be classified as descriptive. The purpose of descriptive studies is to *“describe the characteristics of a particular population, phenomena or establishing relationship between variables.”* (Gil, 1989).

The presented analysis was based on the author's own research, as well as on insights obtained from a network of industry experts.

The analysis is structured as represented on the above framework. On this analysis, the footwear market will be divided in two segments. According to the type of material used in its manufacturing. Leather or non-leather. In the non-leather section, it will be considered all the materials used on the shoe manufacturing with the exception of leather. In section 1 of the framework, we assess the main trends in the leather and non-leather global footwear industry and conclude that the growth in population and higher disposable income, particularly in emerging markets, are positively driving demand for footwear. Despite current trends in consumer preferences for a shift towards non-leather footwear due to sustainability concerns, the demographic trends and higher margins in the leather segment ensure growing returns in this segment as well. Section 2 identifies the Key Success Factors (KSF) in both leather and non-leather footwear. Competitiveness in the non-leather segment is becoming more reliant on automation and technological innovation, in substitution of the human factor and low labour costs, as well as on scale to offset high investments in CAPEX. The leather segment, however, still relies on handcraftsmanship, thus the human factor and low labour costs are still major KSFs to account for. Design, quality of raw materials and compliance with quality, environmental

and social standards, particularly on the upstream side of the value chain, are other KSFs in the leather footwear segment. Section 3 compares the identified KSF with the Bangladeshi competitiveness profile and finds the Leather Footwear segment to be more compatible with the country. Section 4 describes the main challenges and limitations of the Bangladeshi Leather Industry and highlights the ongoing initiatives for overcoming them and improve the country's competitiveness. In section 5 it is concluded that the competitiveness profile of Bangladesh, the strategy towards diversification adopted by the local government and current incentives for the leather footwear industry present an attractive opportunity for investing in leather footwear in the country. In section 6 the author answering to the research question evaluates the positioning of the most relevant brands in the market and found that the most balanced trade-off between volume, complexity and profit margin lies somewhere in between the medium and medium-high segments. For that reason, the author identified those segments as the ideal target for a new leather footwear manufacturer in Bangladesh.

Furthermore, in the chapter forms of implementation, the author provides a specific recommendation for the Bangladeshi investor, interested in the medium-high segments, to leverage its position in the market. This recommendation, section 7, includes a set of objective measures to overcome the current limitations of the country in terms of skills, know-how and compliance with environmental standards, required by international buyers.

4. ANALYSIS - INVESTMENT OPPORTUNITIES IN THE FOOTWEAR INDUSTRY

4.1. Do global industry trends indicate different levels of attractiveness between segments?

4.1.1. Leather

4.1.1.1.Trends

Leather shoes accentuate the personality of individuals. The use of leather footwear has become extremely common in daily lives.

Recent trends expected to drive growth in the leather footwear industry are:

- Growing disposable income (in many burgeoning economies of developing nations);
- Rising working population;
- Manufacturing efficiency;
- Growing adoption of celebrity endorsements;
- Designer shoes gaining traction.

Overall, the industry is expected to continue to grow in many developing and newly industrialized countries, meeting a large proportion of the demand in the industrialized world as well as the needs of growing middle classes in developing markets. To do so, the industry must deliver quality, avoid commoditization, be more creative, and deal more positively with environmental matters of all kinds.

4.1.1.2. Forecast

Asia-Pacific was the highest revenue-generating region, accounting for \$82,164.0 million in 2018. The region is anticipated to reach \$88,528.7 million by 2020, growing at a compound annual growth rate (CAGR) of 3.3% during the forecast period. However, North America leather footwear market would witness the highest CAGR of 4.6% during the forecast period.

Region/Country	2014		2015		2016		2017		2018		2019		2020		CAGR (%)
	thousand pairs	%	thousand pairs	%	thousand pairs	%	thousand pairs	%	thousand pairs	%	thousand pairs	%	thousand pairs	%	
North America	29,606.3	27.1%	31,366.2	26.9%	33,259.7	26.7%	35,305.1	26.5%	37,597.9	26.3%	40,188.4	26.1%	43,229.9	25.9%	5.6%
Europe	23,973.2	22.0%	25,721.8	22.1%	27,624.3	22.2%	29,712.7	22.3%	32,041.2	22.4%	34,696.5	22.5%	37,813.6	22.6%	6.7%
Asia-Pacific	42,029.6	38.5%	44,943.1	38.6%	48,104.3	38.6%	51,579.7	38.7%	55,433.8	38.8%	59,824.7	38.8%	64,978.5	38.9%	6.4%
LAMEA	13,558.6	12.4%	14,522.6	12.5%	15,569.8	12.5%	16,717.7	12.5%	17,982.0	12.6%	19,438.0	12.6%	21,146.9	12.7%	6.6%
Total	109,167.7	100.0%	116,553.7	100.0%	124,558.1	100.0%	133,315.2	100.0%	143,054.9	100.0%	154,147.6	100.0%	167,168.9	100.0%	6.3%

Source: World Footwear Market: 2014-2020 - Allied Market Research

TABLE 5: WORLD LEATHER FOOTWEAR MARKET REVENUE BY GEOGRAPHY, 2014-2020. FIGURES IN US\$ MILLIONS.

4.1.2. Non-leather

4.1.2.1. Trends

Increasing demand for non-leather footwear among individuals is forcing the manufacturers to introduce innovative footwear products in the market. Artificial leather footwear and synthetic footwear are the most commonly used material for manufacturing footwear.

Main trends affecting the industry growth in the following years are:

- Growing disposable income (leading individuals to spend on personal goods);
- Widespread awareness of emerging fashion trends (encouraging consumers to opt for footwear of their preference);
- Rising health consciousness (especially towards sports shoes);
- Eco-friendly footwear;
- Online Sales (convenience and cheaper prices, at least that is the perception);
- New footwear technologies and design.

The industry is expected to continue growing, as globalization trends keep on building up, penetrating deep into traditionally conservative economies. Leading to increased availability of international brands and consequently driving consumer preference for several categories of footwear.

Through the trend and forecast analysis, there is no reason to believe that a specific factor may induce the investment in one of the two industries. Hence a deeper analysis taking in consideration particular aspects such as the investor's profile, production country, and project unique characteristics is needed to make the best decision.

4.1.2.2. Forecast

Asia-Pacific was the highest revenue-generating region, accounting for \$55,433.8 million in 2018. The market is anticipated to reach \$64,978.5 million by 2020, growing at a CAGR of 7.7% during the forecast period. However, European non-leather footwear market would witness the highest CAGR of 8.0% during the forecast period.

Region/Country	2014		2015		2016		2017		2018		2019		2020		CAGR (%)
	million USD	%	million USD	%	million USD	%	million USD	%	million USD	%	million USD	%	million USD	%	
North America	38,664.6	23.7%	40,265.7	23.9%	41,949.0	24.1%	43,743.5	24.2%	45,704.2	24.4%	47,922.1	24.5%	50,538.1	24.7%	3.9%
Europe	34,004.6	20.9%	35,305.3	21.0%	36,675.3	21.0%	38,139.8	21.1%	39,746.4	21.2%	41,573.7	21.3%	43,742.4	21.4%	3.7%
Asia-Pacific	73,337.2	45.0%	75,340.1	44.7%	77,438.9	44.4%	79,682.5	44.1%	82,164.0	43.8%	85,035.6	43.5%	88,528.7	43.3%	2.7%
LAMEA	16,929.0	10.4%	17,590.6	10.4%	18,287.8	10.5%	19,033.2	10.5%	19,850.8	10.6%	20,780.0	10.6%	21,881.4	10.7%	3.7%
Total	162,935.4	100.0%	168,501.7	100.0%	174,351.0	100.0%	180,599.0	100.0%	187,465.4	100.0%	195,311.4	100.0%	204,690.6	100.0%	3.3%

Source: World Footwear Market: 2014-2020 - Allied Market Research

TABLE 6: WORLD NON-LEATHER FOOTWEAR MARKET REVENUE BY GEOGRAPHY, 2014-2020. FIGURES IN US\$ MILLION

4.2. What are the key success factors in the Footwear industry?

On this study, involving leather and non-leather industries there are some key success factors (KSF) impacting both industries and some specifics of each one of them.

Important KSF factors impacting both industries are consistency in the brand image and strategy, execution and delivered the quality of its products, choice of distribution channels, fast time to market cycles and increasing flexibility with their clients.

4.2.1. Leather

For the leather industry, the following factors are key to succeed in the global market.

1. Raw Materials - Regarding suppliers of raw material there are a few determinants to take into consideration. One of them is the quality of the leather. For the production of leather shoes, the quality of the tannery is essential. Good tannery suppliers are key to selling quality shoes. Another impact the leather certifications. These can have an impact too, more on this topic will be discussed in the compliance section.
2. Handcraft Skills - Working with leather requires more skill and handcraft work than any other materials in the footwear industry. Hence the quality of the labour force is a critical factor for an optimal production batch. The industry is still very traditional, meaning with a low level of automation and highly dependable on the human factor. The industry needs qualified people to be able to produce satisfactory pieces of art – shoes. Without people with knowledge regarding adequate techniques, the quality of the final product will not be up to standards. It is of vital importance for an organization to guarantee a skilful labour force for its production.
3. Design – Product innovation is key. Innovation in the footwear industry is based on two factors. Materials/features and design. Regarding materials, in the Leather footwear, in particular, there is not much space left to innovate, especially when compared to other types

of materials. Hence designing is key for companies/manufacturers to stand out. Either through innovative design in their collections or even with special collaborations with high-profile designers.

4. Low Labour Costs – The manufacturing of leather footwear is labour intensive and does not rely on handcraftsmanship, so it is not possible to replace the human factor with automated processes. Thus, there are no economies of scale and increasing production is only possible through an increase in the number of workers. Thus, the price of labour is a critical factor of success.
5. Compliance - Understanding the reasons for the various rules, laws and regulations that govern your business will help you take advantage of any benefits they offer. On the leather industry companies face a set of rules in order to be compliant with the most recent international legislation. Methods of treating and killing animals as part of the process of obtaining tannery for footwear production, environmental impacts and working conditions, above all, are under strict regulations. It is already common for multinational firms to refuse to do business with manufacturers which are not compliant to international norms regarding these topics.

4.2.2. Non-Leather

Regarding the non-leather industry, the following factors are key to succeed in the global market.

1. Innovation in fabrics – More than ever, consumers are conscious of the impacts that certain activities have on the planet and its resources, pressuring companies to assume their responsibilities. As a consequence, research and development investments regarding new materials for footwear production increased in recent years. The pursuit of efficient alternatives for leather materials is now an observable trend in the footwear industry. Manufacturers wanting to compete with leather alternative materials need to invest in replacement fabrics that hold price, quality and durability standards to be a valid alternative to the current elements in the footwear industry. Complementary, vegan trends are also

observable, as many companies are concerned about finding eco-friendly alternatives to leather materials. In this sense, the adoption of more sustainable production practices will be strongly pushed by companies, industries and brands, as they will use sustainability as a source of innovation, developing new solutions and new products.

2. Automation - Footwear production heavily depends upon craftsmanship and handcrafted shoes are valued at a much higher rate. However, to cut down on the lengthy time period taken to make a shoe, some manufacturing processes are now assisted by specialized machinery and mass production of technical shoe manufacturing has begun witnessing highly automated lines. According to the International Labour Organization numbers released in July last year, an estimated 137 million Asian workers could lose their jobs to robots globally in the next 20 years. In January this year, the US Census Bureau suggested that robots will replace around five million workers in the US alone by 2020. Adidas, for example, is already utilizing ‘intelligent robotic technology’ to manufacture some ranges of their shoes. Morgan Stanley says that nearly 20 per cent of production for Nike Inc. and Adidas AG shoes will move to more automated factories by 2023 due to a “buy now/wear now” shopping environment forced by the shift to e-commerce. In this industry, especially in high and medium-high segments, the human factor is being replaced by automated manufacturing processes, which are capital intensive and rely on economies of scale to offset the large CAPEX investments required.

Regarding the non-leather segment, the most relevant factors to consider are automation of production processes and the technological evolution of materials. In the leather industry, it is critical to consider the following factors, the handcraftsmanship skills and cost of labour, the footwear design, raw material characteristics and the compliance with international standards.

4.3. Which segment is a better match for the competitiveness profile of Bangladesh?

In this section, it will be provided an overview of the main sources of competitive advantage of the footwear industry in Bangladesh and match them with KSFs Identified earlier in section 2. It should be noted, however, that footwear is considered a sub-sector of the leather industry in Bangladesh. The available literature and documents issued by academia, government and industry associations rarely distinguish leather and non-leather footwear, and ongoing sectorial reforms address footwear (leather and non-leather) as a sub-stage of the whole leather industry value chain. So, the following insights apply to both sub-categories, and whenever appropriate a distinction between them in terms of impacts will be made.

4.3.1. Global Competitiveness Profile of Bangladesh

Bangladesh ranked 99th in the Global Competitiveness Report (up 7 places from the 2017 edition). In line with other South and Southeast Asian countries, its main sources of competitiveness are associated with

- i. Large market size and economic growth;
- ii. Young workforce and low labour costs;
- iii. Availability of natural resources.

On the downside, the main obstacles and drainers of competitiveness are

- i. Quality of infrastructure;
- ii. Ineffective governmental institutions;
- iii. Corruption;
- iv. Lack of education and training;
- v. Poor work ethic in the labour force.
- vi.

See figures 10 and 11 for an overview of the main competitiveness scores:

Performance overview

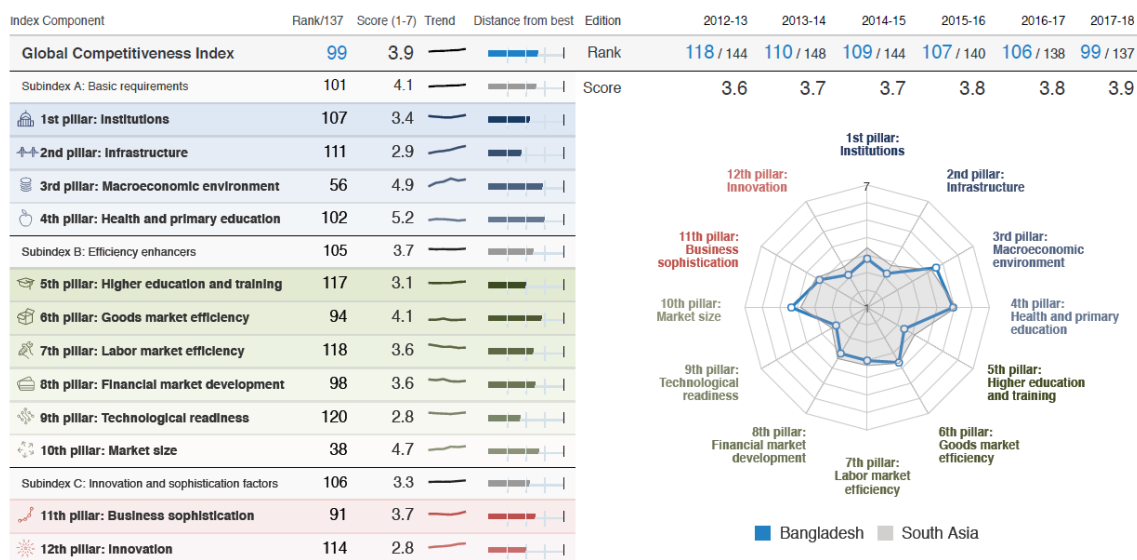


FIGURE 10: COMPETITIVENESS INDEX OF BANGLADESH. SOURCE: GLOBAL COMPETITIVENESS REPORT 2018.

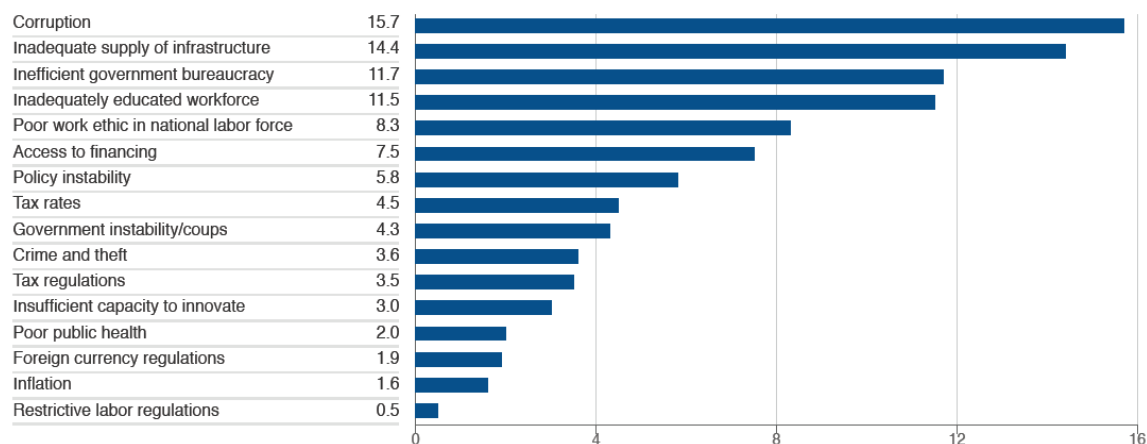


FIGURE 11: MOST PROBLEMATIC FACTORS FOR DOING BUSINESS IN BANGLADESH. SOURCE: GLOBAL COMPETITIVENESS REPORT 2018.

Bangladesh also struggles with environmental issues, which harm its competitiveness as the country's products may not be compliant with the requirements of international buyers.

4.3.2. Competitiveness Profile of the Footwear Industry in Bangladesh

4.3.2.1. Export Performance

The Bangladeshi footwear industry exports exhibited a positive growth during the 2017-2018 fiscal year. Leather footwear (HS Code³: 6403) had a positive growth of 5.33% and export earnings amounted to 565.60 million USD. Other footwear (excluding HS code: 6304) achieved a positive growth rate of 1.33% with export earnings of 244.09 million USD. The overall export earnings from the footwear sector were 809.69 million USD for the reported period, a 4.09% increase comparing to the previous fiscal year. Table 7 provides an overview of the Bangladeshi footwear industry exports performance:

Products & HS Code	Export Target for FY 2017-2018	Export Performance for July- June. 2017-18	% Change of export Performance Over Export Target	Export Performance for July- June. 2016-17	% Change of export performance July- June. 2017-18 Over July- June. 2016-17
Leather Footwear (6403)	600.00	565.60	-5.73	536.96	5.33
Other Footwear (Excluding 6403)	270.00	244.09	-9.60	240.88	1.33
Total	870.00	809.69	-6.93	777.84	4.09

TABLE 7: EXPORT PERFORMANCE OF FOOTWEAR INDUSTRY IN BANGLADESH. SOURCE: LFMEAB ANNUAL REPORT 2017-2018.

As shown in table 8, the Revealed Comparative Advantage (RCA)⁴ analysis of Bangladesh at the HS 2-digit level indicates that along with readymade garments, leather, leather goods and

³ Definition: Harmonized Code is a common term in global trade language, and it's one of the most important elements to bring standardization to international trade.

⁴ Definition: The RCA index is defined as the ratio of two shares. The numerator is the share of a country's total exports of the commodity of interest in its total exports. The denominator is share of world exports of the same commodity in total world exports. RCA takes a value between 0 and $+\infty$. A country is said to have a revealed comparative advantage if the value exceeds unity.

footwear have relatively high RCA scores, indicating Bangladesh's competitiveness in these products.

HS Code	Product label	RCA score	Export in Thousand US\$	% share in total export
53	Vegetable textile fibres nes, paper yarn, woven fabric (jute)	58.21	567460	1.61
62	Articles of apparel, accessories, not knit or crochet	30.78	15128923	43.02
61	Articles of apparel, accessories, knit or crochet	30.22	14991125	42.63
65	Headgear and parts thereof	12.20	239689	0.68
63	Other made textile articles, sets, worn clothing etc	7.45	976257	2.78
41	Raw hides and skins (other than furskins) and leather	4.63	300776	0.86
67	Bird skin, feathers, artificial flowers, human hair	2.72	52300	0.15
03	Fish, crustaceans, molluscs, aquatic invertebrates nes	2.68	584387	1.66
64	Footwear, gaiters and the like, parts thereof	2.58	772732	2.20
46	Manufactures of plaiting material, basketwork, etc.	1.64	8406	0.02
24	Tobacco and manufactured tobacco substitutes	1.35	114762	0.33
42	Articles of leather, animal gut, harness, travel goods	1.14	185468	0.53
57	Carpets and other textile floor coverings	0.98	31201	0.09
78	Lead and articles thereof	0.92	13415	0.04
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	0.62	31492	0.09

TABLE 8: TOP 15 PRODUCTS WITH HIGHEST RCAS AT THE 2-DIGIT HS CODE IN BANGLADESH, 2015 DATA. SOURCE: "LEATHER AND LEATHER GOODS EXPORTS FROM BANGLADESH: PERFORMANCE, PROSPECTS, AND POLICY PRIORITIES" BY MOHAMMAD A. RAZZAQUE.

4.3.2.2. Evaluating KSFs

- **Raw Materials:** The country holds a sizable livestock, and according to the Food and Agriculture Organization (FAO - UN), Bangladesh accounts for around 1.6% of the cattle stocks and 5.5% per cent of the goat stocks. Figure 12 shows the position of Bangladesh in terms of cattle and goat livestock:

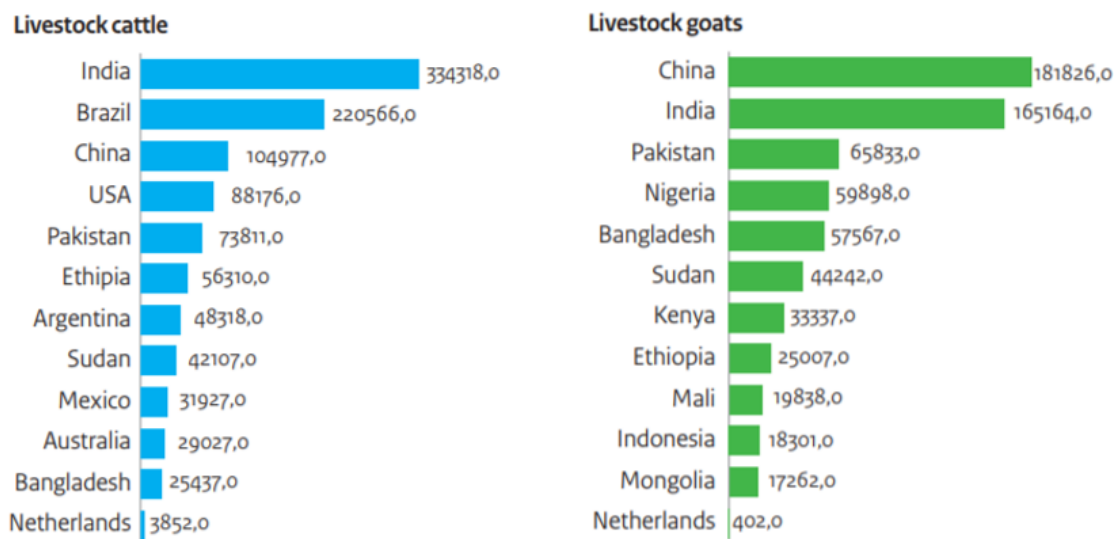


FIGURE 12: CATTLE AND GOAT LIVESTOCK IN 2015 (THOUSANDS OF HEADS). SOURCE: FAO

- Handcraft Skills and Design:** The manufacture of leather footwear requires skills and know how that are close to those used in the manufacture of garments and textiles. The analysis of the economic complexity of Leather Footwear using the Harvard Atlas of Economic Complexity (<http://atlas.cid.harvard.edu>) supports this premise, showing that leather footwear has several 1st-degree connections with garment and textile products exported by Bangladesh. The results are presented in figure 13.

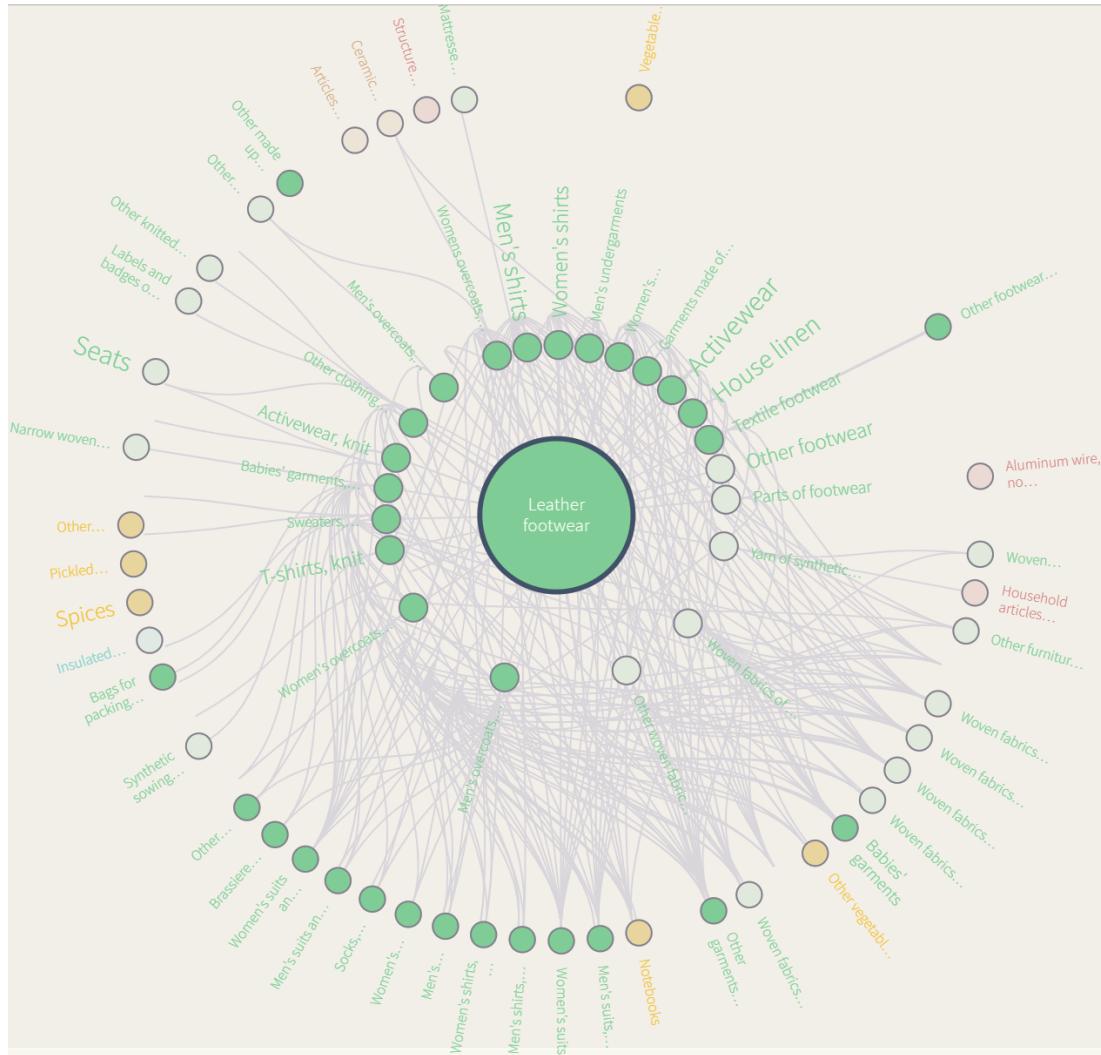


FIGURE 13: ECONOMIC COMPLEXITY OF LEATHER FOOTWEAR IN BANGLADESH – 2016 DATA. SOURCE: HARVARD ATLAS OF ECONOMIC COMPLEXITY

Given the proximity with the garment industry in which Bangladesh specializes, it is expected that the lack of skills and know-how in manufacturing Leather Footwear will be easily overcome with proper investment in training. The same principle should apply to the **design** factor.

- Low Labour Costs:** Low labour costs are considered the most relevant source of competitive advantage of virtually every Bangladeshi product. Also, the country's demographic trends ensure a large enough labour supply to meet growth, as Bangladesh is the 8th most populated country in the World, with 166,4 million inhabitants, and a population growth rate of 3%. Also, similarly to other countries in the region, its population

is very young with a median age of 26 years and 30% of the population being 14 years old or younger. Around 25 million youth will reach working age and nearly 16 million youth will enter the labour market in the coming decade. This factor is more relevant for the leather footwear category, more labour intensive than non-leather footwear which is relying more on automation and scale as sources of competitiveness.

- **Compliance:** The Bangladeshi leather industry exhibits low levels of compliance with international environmental, social and quality international standards, particularly at the earlier stages of the value chain. During Eid-ul-Adha (the most important festival in the country), when most of the rawhides are collected, the slaughtering usually takes place in open places. Even the peeling of raw hides is not done by expert butchers which sometimes damages hides and skins. Furthermore, the industry faces serious logistical and environmental problems related with the Tannery Industrial Estates in Hazaribagh and Savar.
- **Automation and innovation in fabrics:** As mentioned earlier, Bangladesh exhibits very low competitiveness scores in fields related with technology and innovation. Technological development and investment in automated manufacturing equipment are required to improve productivity in the footwear industry, especially in the non-leather category. However, the leather footwear category relies more on handcraftsmanship and is more labour intensive.
- **Backward Linkage with the Leather Industry - An additional source of competitive advantage:** The leather footwear sector has a strong backward linkage in Bangladesh in terms of locally sourced raw materials and intermediate leather products. As mentioned earlier, Bangladeshi authorities regard footwear as a sub-sector of the Leather Industry, so it is important to understand the leather industry as a whole.

The strong backward linkage ensures the leather sector to have a domestic value addition as high as 80-95 per cent⁵. The only raw material that is being imported is the chemicals that are used in tanning blue and wet leathers. Water is the other required key resource for the leather industry. Water supply in Bangladesh is abundant and non-detrimental to the population, provided that effluent is properly treated and monitored according to international standards. This competitiveness enhancement factor is not expected to apply to the non-leather footwear sub-category.

However, as mentioned before Bangladesh is struggling with non-compliance with environmental and social standards demanded by several international buyers, forcing leather footwear manufacturers to source leather from foreign producers to ensure compliance.

Bangladesh enjoys a key competitive advantage for the production of Leather Footwear, namely Low Labour Costs. Despite exhibiting limitations concerning education and training of the workforce, as well as poor design capabilities, the closeness between the manufacture of ready-made-garments and leather footwear in terms of product complexity suggests that these limitations can be overcome with proper investment in training. Additionally, there is a significant potential in leveraging the backward linkage with the country's leather industry, amplified by the availability of raw materials, despite serious compliance issues upstream in the leather industry value chain. For this reason, there is a positive match with the KSFs identified for the manufacture of Leather Footwear. Furthermore, considering the country's poor capabilities in automation and innovation, we conclude that the country does not feature the required success factors for a competitive Non-Leather Footwear manufacturing operation.

⁵ Source: Khondker, B. H. & Eusuf, A. (2015). "Assessing Business Opportunities of Leather Sector in Bangladesh after Tannery Relocation". Dhaka.

4.4. What are the main limitations and challenges in the leather footwear industry of Bangladesh and how are local and International authorities dealing with them?

In this section, it will be described the main challenges and limitations of the Leather Footwear Industry of Bangladesh. Furthermore, it will be highlighted the main ongoing initiatives by Local and International Organizations.

4.4.1. Challenges and Limitations

Currently, the environmental footprint of the Bangladeshi leather industry is so large that it is harming the potential for the footwear sector to leverage on the potential of the backward linkage of the leather industry. This creates a bottleneck in the supply chain and destroys value for the country's manufactures. The main reason why the leather industry does not comply with CRS standards demanded by international buyers is the lack of infrastructure. Particularly, poor hygiene conditions and inexistent waste management capabilities in the Hazaribagh tannery estate. Tanneries in Bangladesh have for more than half a century operated in the Hazaribagh industrial area, which was once on the outskirts of town but today is in the city centre. Hazaribagh developed from a lowly hide and skin collection and export centre to an amalgamate of production units. Here, production goes through the stages from wet blue to crust and finally to finished leathers, which are presently exported mainly to Europe and China. The area lacked any form of organisation, effluent treatment or waste management and was, in fact, considered one of the most polluted places on Earth. The Government of Bangladesh has appointed a new industrial area called Savar and ordered the tanneries to move from Hazaribagh to the Savar industrial area. This order to move has been opposed by the industry over many years, but new tanneries were constructed and already Initiated operations in Savar. The Government has financed the construction of a Central Effluent Treatment Plant (CETP) to ensure environmental sustainability, but the CETP is not yet ready and faces several challenges. The labour conditions in the tanneries, both in Hazaribagh and in Savar, are not compliant with a bare minimum of the International Labour Organization or modern health regulations. Also, all tanneries lack safety equipment and measurements.

4.4.2. Ongoing initiatives and projects to increase the competitiveness of the leather footwear industry in Bangladesh

On this subsection, it will be described the main characteristics of initiatives and projects to increase the competitiveness in the leather footwear industry.

- *Tax Benefits*

Footwear (leather and non-leather) was designated a priority sector by the Government of Bangladesh in 2009. As such, the sector is entitled to the following benefits:

- bonded warehouse facilities;
- 100% duty drawback for re-exported inputs;
- 1.5% income tax (compared with 15% for non-priority sectors);
- Tax-free import of capital equipment;

In addition to these factors, leather footwear exports receive a 12.5% export subsidy targeted toward the export of finished leather goods.

- *The Export Competitiveness for Jobs (EC4J) Project*

Financed by the World Bank, the EC4J Project aims to enhance growth and competitiveness of selected sectors beyond Ready-Made Garments (RMG) and to create more and better job opportunities in the country. The project will focus on 4 priority sectors:

- (i) Leather and Leather Goods;
- (ii) Footwear;
- (iii) Light Engineering;
- (iv) Plastics.

The criteria for the selection of this sectors was the established comparative advantage of the respective sector in the country or the value addition to be achieved with export-oriented sectors.

This project is intended to companies that either already export or have the capacity to do so. It is expected that the effects of this project will also reach small and medium companies, with greater incidence on those integrated into exported value chains. The objective of this project is to support private sector firms dealing with key constraints that are preventing them to access

international markets. Factors as productivity, social and quality standards, infrastructures and environmental concerns are all in the scope of Project EC4J.

The project has the following 3 components:

- **Market Access Support Program** – To assist companies to access global markets and participate in international value chains.
- **Productivity Enhancement Program** – Through the creation of 4 Technology Centers within proximity to existing production clusters.
- **Public Investment Facility for Infrastructure Constraints** - Development of designated facilities in industrial clusters of the targeted sectors. As an example, already planned is the connection of Technology Centers with utility services; access roads, recycling management and storage facility, etc.

- *Centre of Excellence for Leather Skill Bangladesh Limited (COEL):*

COEL's objective is to increase and improve the overall skill level of the workforce of the leather sector. It was established as part of the EC4J Project. It has an area of 12,000 m² and overall capacity to carry out professional training programs for 300 trainees at a time. COEL also partnered with involved factories to establish sub-centres to increase their productivity. The first numbers that translate COEL's achievements until now:

- +16500 Machine Operators trained
- +4500 Mid Level Managers
- 152 trainee Supervisors trained
- 30 Machine Maintenance Technicians trained
- 43 trainees trained Competency Based Training

- *LFMEAB initiatives:*

The LFMEAB is supporting several programs to increase productivity in the sector. The most relevant include:

- **Skills for Employment Investment Program (SEIP):** The program aimed to provide training and education to leather industry workers. During the first stage of the program, between May 2016 and December 2017, LFMEAB trained 4,860 unskilled workers to leather manufacturing specific skills. The implementation of the second stage is underway.
- **ECOLEBAN Program:** The program's objective is to improve the resource efficiency and sustainability of the leather sector in the country. The initiative increased the number of less polluting and more resource efficient leather related products.

The Leather Footwear Industry of Bangladesh faces limitations that are transversal to several other sectors of the country's economy. In particular, poor infrastructure, lack of education and training of the workforce and the absence of environmental and social sustainability concerns are compromising the country's ability to comply with international standards and leverage on the full potential of its competitive advantages. Furthermore, the design is a key success factor in this industry and the country lacks capabilities in this area, which hinders the differentiation capacity of local manufacturers of leather shoes and forces them to import those design inputs. This situation ultimately prevents them from capturing value. These limitations were already identified by local authorities and international organizations, which partnered with local manufacturers' associations to adopt measures to overcome those limitations. This strategy materialized in a series of projects and initiatives, from which we highlight the World Bank EC4J Project and programs led by the LFMEAB, as well as in tax benefits for manufacturing companies to attract investment.

4.5. Is Bangladesh an attractive destination for investments in the leather footwear industry?

In this chapter, it will be used a SWOT analysis and an author own developed model to evaluate the country's attractiveness for investments in the leather footwear.

4.5.1. SWOT Analysis

The following SWOT analysis shows the competitive position of Bangladesh as a manufacturer of footwear, by identifying the country's strengths, weaknesses, opportunities and threats. The analysis was conducted considering the market specifics of the leather industry and the fact that authorities regard footwear as a sub-sector of the leather industry.

It is important to reinforce the pertinence of Bangladesh strengths, very much in line with the requirements to manufacture leather footwear at an international level. Additionally, when the country leverages on its opportunities it will have a unique set of characteristics to compete in the footwear industry. Despite the challenges and implementation issues of the new Tannery Estate in Savar, once the government has sorted out these issues the leather industry of Bangladesh, and particularly in the leather footwear sector, is expected to receive a positive competitiveness shock.

Strengths <ul style="list-style-type: none"> • Abundant and young labour force • Availability of raw materials • Backward linkage with Leather industry tradition • Large domestic market • Country's geographical position • Foreign investment policies 	Weaknesses <ul style="list-style-type: none"> • Lack of modern infrastructure • Lack of compliant slaughter facilities • Low awareness of CSR • Lack of trained workforce and poor work ethics • Low awareness of environmental issues • Insufficient design capabilities
Opportunities <ul style="list-style-type: none"> • Improve quality awareness and consistency • Improve labour conditions • Improve environmental conditions • Full implementation of the Savar Tannery Estate project 	Threats <ul style="list-style-type: none"> • Lack of transparency • Government pushing for change without basic elements in place • Need to import (leather) due to compliance standards

<ul style="list-style-type: none"> • Government support • World Bank development program • Creation of a design center 	<ul style="list-style-type: none"> • Lack or insufficiency of funds • Lack of animal welfare, unfair labour conditions, insufficient environmental protection
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Furthermore, the Bangladeshi government, with the support of international organizations such as the World Bank, is implementing measures to mitigate the identified threats and overcome its weaknesses.

4.5.2. Key Success Factors Evaluation

Figure 14 shows the current status of the Country supported on the previously identified Key Success Factors for Footwear Industry and considering the mentioned ongoing initiatives. In the developed framework, the advantages presented by the choice of Leather Footwear against Non-Leather Footwear become clearer.

Type of Material	Overall Evaluation	Specific Key Success Factors			Evaluation of factor
Leather	<div><div></div><div></div></div>	Quality	Raw Materials	<div></div>	<div><div></div><div></div><div></div></div>
			Handcraft Skills	<div></div>	
			Design	<div></div>	
		Price			<div></div>
		Compliance			<div></div>
Non- Leather	<div><div></div></div>	Innovation			<div></div>
		Automation			<div></div>
		<div></div>	<div></div>	<div></div>	
Current Status	Strong	On progress		Weak	

FIGURE 14: BANGLADESH STATUS IN TERMS OF SELECTED KEY SUCCESS FACTORS. AUTHORS OWN DEVELOPED MODEL.

4.6. Which product positioning features the most balanced trade-off between volumes and margins in the leather footwear industry?

Currently, there is a considerable number of brands marketing shoes all over the world and they have been assuming different positioning strategies over the years. These companies' different cultural diversity and background compel them to compete with different strategies. Choosing a positioning implies a trade-off between margins and volumes, complexity and lead times. High-end products are characterized by lower quantities, higher complexity, shorter lead times and higher unit margins. While low-end products imply higher quantities, lower complexity, longer lead times and lower unit margins. This section aims to identify a positioning that features a more balanced trade-off between those factors.

The investor's preference for positioning is for shoe manufacturing with high unit margin, low quantities and high complexity as key characteristics. These characteristics are represented in the following graphics.

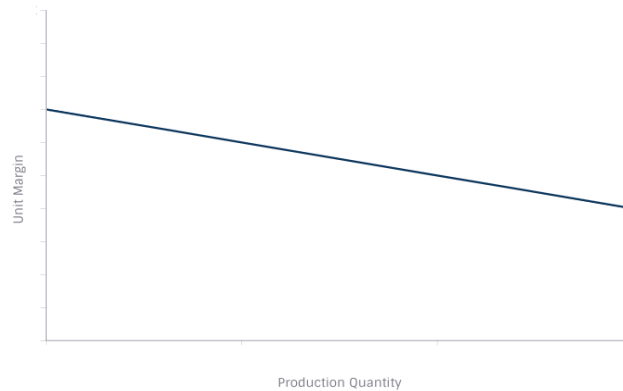


FIGURE 15: MARGIN VS QUANTITY GRAPHIC. AUTHORS OWN DEVELOPMENT

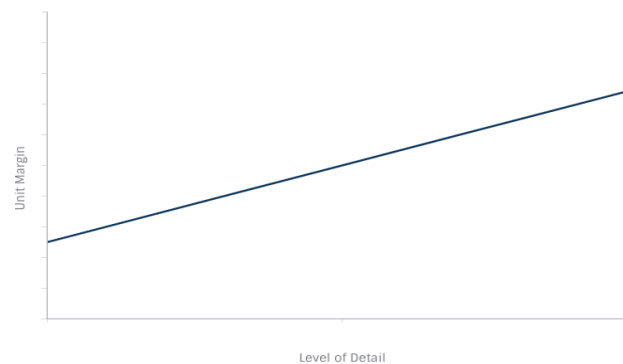


FIGURE 16: UNIT MARGIN VS LEVEL OF DETAIL. AUTHORS OWN DEVELOPMENT

In figure 15, it is represented the relationship between unit margin and the production quantity. An increase in the production quantity has a negative effect on the unitarian margin. Regarding figure 16, as the level of detail on the product increases its unitarian margin also increases. The investor aims to position his investment in the point that matches a high unit margin with a high level of detail and low production quantity.

For this type of positioning it will be analysed which is the ideal brand segment.

The following figure identifies several brands and compares them through price of sale of their products in the United States of America (in dollars). The prices mentioned are hypothetical and were established by the average price of all the brand models (both for men and women).

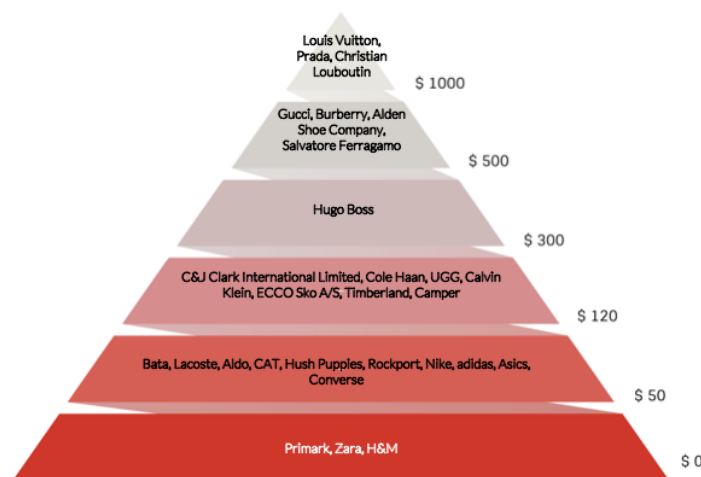


FIGURE 17: GLOBAL FOOTWEAR BRANDS SEGMENTED BY AVERAGE PRICE. AUTHORS OWN DEVELOPMENT

After an elementary overview of the international brands competing in the global market, it can be said that:

1. The brands that sell shoes with prices between \$0 and \$120 are those who compete for price and who seek to sell in very large quantities. The focus, in most cases, is on reducing the production cost, which can in some cases also have impacts on the quality of the shoe.

2. When the prices to the final consumer are higher than \$500, the production process is more complex because every detail is important, and the factories effort should be focused on the product quality (comfort, flexibility, duration, etc.). Globally the demand for this type of shoes is not very relevant in terms of quantity. Thus, if a brand perceived value is not valued in the market it might be a risk to produce this type of footwear.
3. The segments between \$ 120 and \$500 have a combination of characteristics from the other two segments. In other words, these brands have lower price sensitivity when compared to the first segment, the possibility to produce and sell in larger quantities than in high-end segment (without saturating the market) and customers which value the quality of the shoes.

In conclusion, in a first approach to the six positions that companies have been adopting, the balance between the key factors that define them seems to be the best option. Thus, the most attractive segment of the pyramid (Figure 17) - retail price of the shoes between \$ 120 and \$ 500 - can add more advantages and, consequently, coordinate a significant amount of units sold with the concern of producing them with high quality. Here, the customer is willing to pay more to have shoes with better quality and, in the end, the profit margin of the manufacturing process will be higher.

Adopting this positioning, the investor can leverage on the key success factors available in the country – Quality handcraft skills and design – to position himself in the market and supply mid-high segment brands like Hugo Boss, Calvin Klein and Cole Haan.

5. FORMS OF IMPLEMENTATION

5.1. Leveraging competitive position

In the footwear industry, European countries such as Italy, Spain or Portugal are recognized for their technical mastery in the manufacturing of high-quality shoes. All over the world, consumers associate these countries with high-quality standards. Manufacturers from these countries incorporate important differentiating factors such as design, comfort, durability and flexibility in the manufacture of shoes.

Regarding the specific case of a Bangladeshi company positioned on the mid-high shoe segment, it is our vision that an acquisition of a company from one of these economies would be extremely beneficial. Given the fact that one of the main challenges the country faces, in the footwear industry, is the lack of knowledge of its workers and design capabilities, the development of a training laboratory in Europe can be an important step to overcome this gap. The purpose of the lab would be to provide training for the Bangladeshi staff on the best manufacturing techniques so that the gap in the know how that the country has now would be filled in quickly. This transfer of knowledge will only be possible thanks to the years of practice these European countries have already invested in the pursuit of the best manufacturing techniques. It is our profound belief that the same rigour that leads Bangladeshi workers to achieve significant results in the readymade garment industry, will also allow companies to replicate the formula in the short term.

As stated above, the strategic positioning of this companies leverages on country-of-origin effects (COE). For that reason, a foreign company that builds a training center there can also use it on its own advantage for marketing purposes. For example, using a lab in Portugal, the company would be able to shift some of their value chain activities to the country, with that resource allocation it would be able to obtain the stamp "made in Portugal" for its products. As this stamp's value perception is highly valued in the global market, the company would be able to make a valuable addition to its shoes. Hence increasing its profit margins and leveraging its competitive position. This COE helps to explain the difference in exports of shoes between Italy (\$48) & Portugal (\$27) and the rest of the world, at least \$10 higher than Bangladesh.

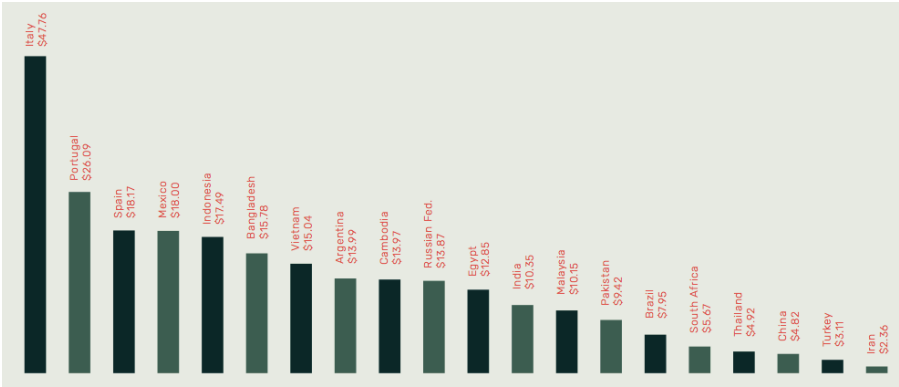


FIGURE 18: EXPORT PRICE AMONG TOP 20 FOOTWEAR PRODUCERS. SOURCE: WORLD FOOTWEAR YEARBOOK 2017.

6. CONCLUSIONS

Business Setting was challenged to analyze an investment opportunity. Assess the attractiveness of the Leather Footwear Industry in Bangladesh.

In order to analyse the viability of an investment a four step model was taken. In this project were described the first three stages of the model, Opportunity Identification, Global Market Analysis and Feasibility in Bangladesh.

The project was divided in two parts. On the first part, steps one and two were included, Opportunity Identification and Global Market Analysis. On the second part the step three, Feasibility in Bangladesh was addressed.

In the first part of the project the objectives were to develop a country study of Bangladesh, to describe the global footwear market main characteristics and dynamics, to understand the leather footwear industry in the country and to review the positioning strategies firms adopt in the market and what impacts them. These objectives were attained and led to the elaboration of the conceptual framework and the research question that guided the second part of the project.

In the second part of the project the objective was to evaluate the Feasibility in Bangladesh. The purpose of this analysis was to identify which were the key success factors impacting the industry and to evaluate them according to the country specific characteristics. With that analysis, was possible to recommend to the Bangladeshi investor which product positioning would better feature the most balanced trade-off between volumes and margins in the industry. The following figure represents the designed model to evaluate these factors.

Type of Material	Overall Evaluation	Specific Key Success Factors			Evaluation of factor
Leather	<div><div></div><div></div></div>	Quality	Raw Materials	<div></div>	<div><div></div><div></div><div></div></div>
			Handcraft Skills	<div></div>	
			Design	<div></div>	
		Price			<div></div>
		Compliance			<div></div>
Non- Leather	<div><div></div></div>	Innovation			<div></div>
		Automation			<div></div>
		<div></div>	<div></div>	<div></div>	
Current Status	Strong	On progress		Weak	

FIGURE 19: BANGLADESH STATUS IN TERMS OF SELECTED KEY SUCCESS FACTORS. AUTHORS OWN DEVELOPED MODEL.

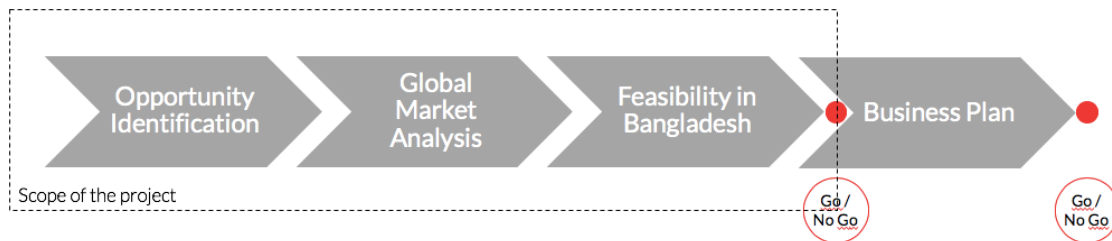
It was possible to conclude that country specific factors as Innovation and Automation were clearly underdeveloped and as a consequence made it difficult for the country to compete on the non-leather footwear industry, where the recent studies and trends of the industry point out for the rising influence of both these factors on the manufacturing techniques in the short term. It became clear that Bangladesh had potentialities in terms of Quality factors. Regarding not only the characteristics of the country in terms of availability of raw materials (hide) but also the developments that are being implemented by the government and other international authorities in qualifying the country in areas such as technical skills and design. For that purpose, the following initiatives are already in course, the development of programs as the Skills for Employment Investment Program and the opening of the Centre of Excellence for Leather Skill Bangladesh Limited. Furthermore, the country is implementing measures in the most diverse areas, with special relevance on the tanneries, to become compliant with international standards (social and environmental). Finally, the price of production in the country remains low and extremely competitive if we take into consideration the quality of its finished products.

Through the analysis of the key success factors, it is possible to conclude that these are compatible with the country competitive profile. Furthermore, it is expected a rise on the attractiveness of the industry in Bangladesh due to measures that are already been taken by the

country's government and also by international organizations to set the bases for a sustainable development of the leather footwear industry in the country.

In the end, and as an outcome of unitarian margins, quantity, level of detail in the product analysis, it was possible to identify the mid-high segment as the most suitable for investment in the Bangladeshi landscape.

For future analysis, it would be interesting to continue evaluating the development of the country, as it is now in a period of high economic and social development. It would also be interesting to access to which degree the country can overcome its negative factors. Another extremely relevant factor for the success of the footwear industry will be to understand to which extent will the country be able to comply with international standards in the tanning industry.



To conclude, Business Setting recommendation is that the investor should GO to the next step, the development of a business master plan. The development of a business master plan will provide the necessary missing information regarding the next steps to be taken. Once concluded the elaboration of the business master plan it will be possible to finalize the analysis of the footwear industry feasibility for an implementation project in Bangladesh.

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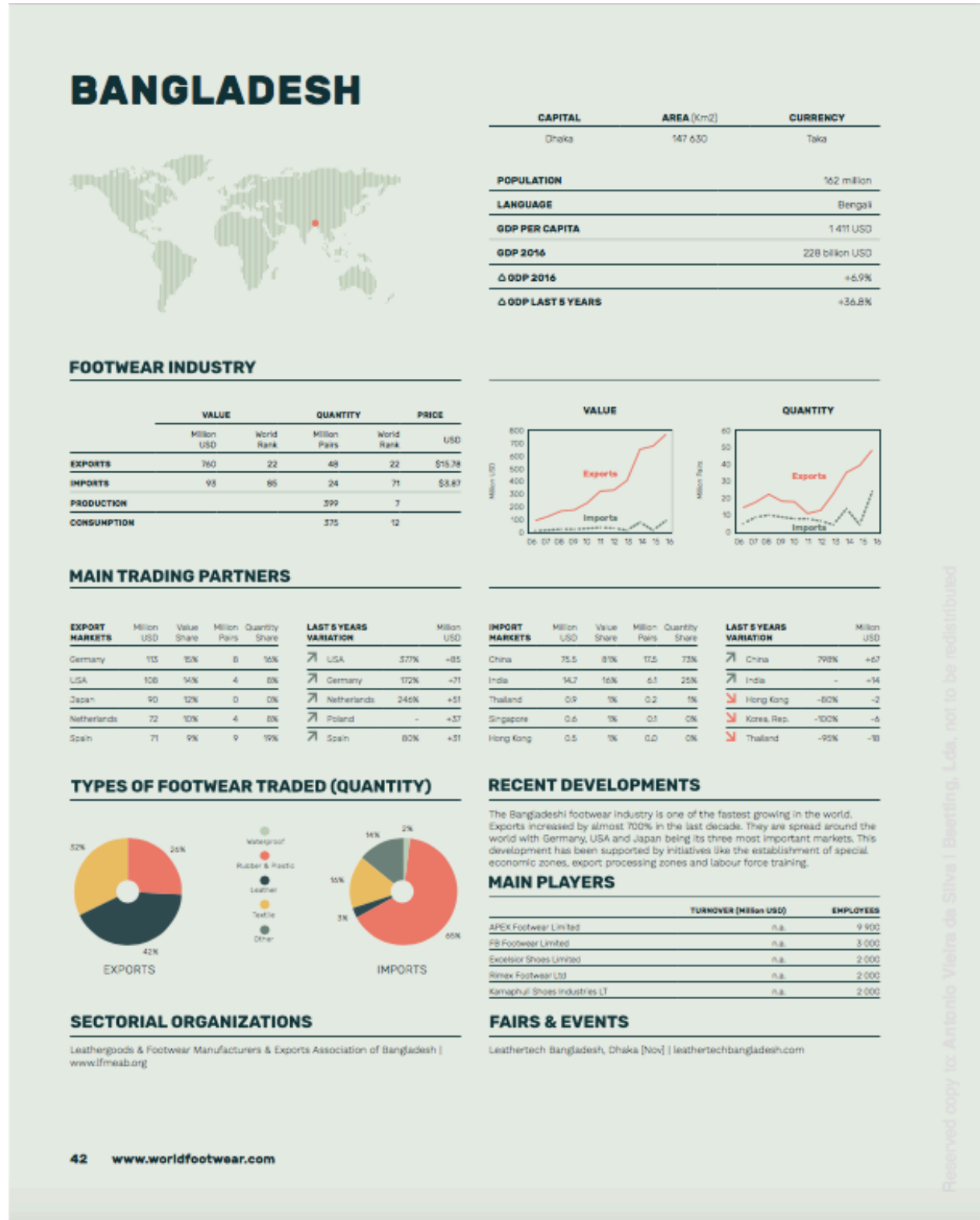
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8. ATTACHMENTS

Attachment 1: Bangladesh Footwear Industry Overview. Source World Footwear Yearbook 2017



Attachment 2: Historical and Forecast GDP Growth in Bangladesh. Source IMF 2014.

