Sports market is a breath of fresh air

Italian footwear manufacturer Geox has branched out into the sports sector with its new, patented NET System, which it says offers not just breathability, but "supertranspiration".

After four years of research and development, the firm is to apply the technology to a new line of sports footwear that will release sweat through the sole of the shoe to keep the sole of the foot drier during intense physical activity. At the same time, the system will stop moisture and dirt from coming through in the other direction.

This is coupled with a waterproof, breathable membrane, which the Veneto-based brand insists will improve wearers' foot health and comfort, with the chances of avoiding ailments such as athlete's foot particularly improved.

"We are creating a sport range that breathes," said company president, Mario Moretti Polegato, on announcing the new development. "This is in response to demands from our consumers, who are now used to their feet 'breathing' in our shoes, and are seeking the same benefits for their sportswear."

Geox, until now a specialist in mid-priced casual-comfort shoes, has drawn inspiration from the fact that the athletic footwear sector accounts for approximately 50% of world footwear expenditure, offering a huge growth opportunity—in theory.

It's a category that has been struggling to maintain growth levels in the biggest domestic market, the US. Even so, data from the US National Sporting Goods Association's recently released 'Sporting Goods Market in 2008' report shows retail sales of athletic footwear in 2007 went through the $17 billion mark for the first time, reaching $17.4 billion, an increase of 2.7% on the 2006 figure, when sales were $16.9 billion.

This is part of an overall US retail spend on athletic equipment, footwear and clothing of $53.5 billion, an increase of 2.8% on the year before.

The largest category of athletic and sports

Geox's new NET System, the basis for its new breathable sports shoe range, is the result of four years of research and development.

Geox

footwear was walking shoes, which reached $4.2 billion in 2007, an increase of 3% over 2006, when consumers spent just under $4.1 billion on footwear of this type. This may be particularly encouraging for Geox, although the Italian company says golf shoes are another category it has in its sights, another good idea as US sales of golf shoes in 2007 were up 5% to $243.7 million.

But the 2.7% increase in sales of athletic footwear is the smallest increase since 2003 and 2004, which both showed 2.1% sales growth. In contrast, 2005 sales growth was 6.6% and for 2006, the figure was 7.6%. Nevertheless, the US market is still indicative of the fact that the athletic footwear market is huge, suggesting that this new Geox venture could be a good move.

Italian heart—US ambition

The company's chief executive, Diego Bolzonello, says that Italy is still Geox's most important market, with 38% of total sales in 2007, but he confirms that it is working hard (at a tricky time for business there) to expand its business in the US. "It's a vast and strategically important market," he says.

He acknowledges that there have been more propitious periods in US retail history than the one in which his company has decided to stake its claim. "There are winds of change there," the chief executive continues, "but we will act in a simple way, setting up single-brand shops where it feels they will succeed and supplying multiple-brand retailers in other parts of the country.

He has already had "interesting meetings" with footwear buyers from big retail chains such as Bloomingdales and says performance footwear is becoming a popular choice in department store collections.

"The second half of 2007 was good for us in the US," he continues. "Like-for-like, business was 20% up, so we know this is a market we have to pay close attention to. We're going to continue to build up our relationships as a supplier to the department stores as well as opening more stores of our own there."

The company's own-brand store in Los Angeles. It now has 45 stores across the US and will open 15 more in the course of 2008.

Geox

He says Geox will open 15 new own-brand stores in the US in the course of 2008 and, in three years, the company hopes to have 45 shops in the US, but it will keep selling through big US retail chains too. The company's expansion plan is to have 45% of its business in Geox shops (either company-run or franchised) by 2010 and the other 55% in multibrand retailers.

Mr Bolzonello describes the US market as "different rather than difficult", but he insists that it is as strategically important as it is vast. "The key to success there is to think like a US company rather than a European one," he says. "That means you have to give good service to the client. We will do that. The turnover we have there, €70 million, is only the beginning;

The Alpha shoe from the Geox Sport range for women. The system works by allowing sweat on the sole of the foot to evaporate through the sole of the shoe.

Geox

ADVERT LI PENG ????

The men's Alpha shoe in black and silver.

Geox

our target is to have the same turnover in the US alone as we have in Europe at the moment."

To achieve this, the company knows it will have to invest money in advertising to raise brand awareness and time and hard work in building up the supply chain relationships that can be the key to lasting success.

He admits that currency fluctuations have been a stumbling block up till now and says margins in the US market are low. "What we need to do is to supply shoes based on US dollar costs," he says. He acknowledges the part outsource manufacturers, such as Paquetá in Brazil, are playing in the company's growth, saying: "We've been lucky enough to have top level partners who are able to produce in high volumes."

Global view

For his part, the company president observes that the Geox model—"our investment in a good management team, in human resources and in technology"—is more a US than an Italian one. "We're proud to have produced out of Italy one of the top footwear brands in the world in this sector," Mr Polegato says. "But we are creating a global brand, and we're creating consumer loyalty around the world."

This is the main reason he gives for refusing to become upset—at least in public—by the 33% drop in Geox's share price over the last six months. "There is certainly nervousness on the stock exchanges of the world at the moment," he says, "but I really couldn't care less what analysts on the Milan exchange say because we are a global brand."

Besides, the most recent full-year figures give him plenty of grounds for optimism, even if, in the words of the *Financial Times*, "a serious setback" because they were "below analysts' high expectations". Turnover for the year was €770 million on which the gross margin was €432.3 million, an increase of 56.7% on the year before. Opening and running your own stores, of which Geox now has 724, is an expensive business.

Diego Bolzonello explains that the sports footwear launch is just one element of a three-year growth plan in which Geox will concentrate on entering important new markets—such as China, other markets in Asia Pacific, and Latin America—on building global awareness of its brand (the longest and most complex of the tasks in hand, he adds), on boosting the volumes of shoes it sells in all sectors (including children's and women's shoes) and, finally, "consolidating leadership" in the market.