EXPORT COMPETITIVENESS STUDY OF THE DOMINICAN FOOTWEAR INDUSTRY

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ACRONYMS

ADOZONA	Dominican Association of Free Trade Zones, Inc.
CAFTA-DR	United States, Central America, Dominican Republic Free Trade Agreement
CEI-RD	Dominican Center for Exports and Investments
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin trade partnership Act
CNC	National Competitiveness Council
CNZFE	Nationa Council for Free Trade Zones
DR	Dominican Republic
DST	Daylight Saving Time
EU	European Union
FDI	Foreign Direct Investment
FIT	Fashion Institute of Technology
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GBTI	General Business, Trade, and Investment component of the Support for Economic Growth and Institutional Reform (SEGIR) Project
GODR	Government of the Dominican Republic
INFOTEP	National Intitute for Technical and Professional Training
KWH	Kilowatt Hour
LM	Lean Manufacturing
MM	Modular Manufacturing
MTB	Miscellaneous Trade Bill
PVA	Polivinyl Acetate
PVC	Polivinyl Chloride
SEGIR	Support for Economic Growth and Institutional Reform Project
SOW	Scope of Work
SPC	Statistical Process Control
SWOT	Strengths, Weaknesses, Opportunities, Threats
TQM	Total Quality Management
TPR	Thermoplastic Rubber
US	United States
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WTO	World Trade Organization

Executive Summary

Executive Summary

This study was financed by the United States Agency for International Development (USAID) in collaboration with the National Competitiveness Council (CNC) and the Association of Free Trade Zones of the Dominican Republic (ADOZONA).

The focus and intent of this report is to identify the opportunities and constraints related to the Dominican footwear sector and to recommend specific steps that may be taken to accelerate the growth and industry market share.

The US market for footwear is growing by 5.3% annually, while at the same time, the US domestic production is declining at a rate of 20 million pairs per year.

Many shoe companies are closing their US based plants and are outsourcing the production to foreign manufacturers that can deliver the complete package. That means the development of the product all the way through to the delivery of the product at the door of the customer.
Yet the DR has been losing market share, shipping only 7,262,000 pairs to the US in 2004, compared to 16,519,000 in 1997.

The United States (US), Central America, DR Free Trade Agreement (CAFTA-DR) legislation that is slated to take effect probably in January of 2006 supersedes the current Caribbean Basin Trade Partnership Act (CBTPA) provisions that were enacted in December of 2004. CAFTA-DR allows duty free access, with the exception of 17 rubber footwear products, for all footwear assembled in the country or any combination of CAFTA-DR countries.

These factors combined with the geographical location provide a window of opportunity for the DR to gain market share by providing a full service industry to the US and Canadian markets. The DR, however, can not compete, long term, on labor cost. There must be a reason, strategic or otherwise, for companies to locate plants or production in the DR

Many executives say that the price of the product is often third or fourth in the list of priorities in selecting a source of supply. The presence of a complete infrastructure is usually number one, along with quality and on-time delivery of the product.

The presence of the supply chain reflects upon the ease of doing business in that country and the expectations of on time deliveries. In order to compete and stay in the game, the DR footwear industry must soon begin to develop the infrastructure and supply chain to include the major factors that are now missing, such as mold making, last making, box making as well as other supply chain vendors. The D.R must take advantage of the opportunities afforded by CAFTA-DR. and provide a strategic location and fast turn service for the US footwear market. This can be done while importing needed components and at the same time building the domestic supply chain.

The primary constraints that the DR must overcome in order to take advantage of these opportunities lie in four areas:

- Excessive growth inhibiting government regulations;
- Inadequate industry infrastructure;
- Un-reliable and high cost of electrical energy; and
- Lack of industrial cluster organization and strategic focus.

The process of the development of the industry can be divided into three major categories or steps:

A. Immediate. The Immediate steps are the actions that should have priority and be undertaken first.
B. Near Term. The near term steps are those that might require recruiting efforts for foreign direct investment (FDI). The education of designers and certain staff and technical occupations requires a more- than- immediate time frame.
C. Long Term. The long term steps should focus on having the infrastructure complete and functioning.

Immediate Steps

Governmental

- The Government of the DR (GODR) must become “Pro Business” and eliminate the excessive regulations such as exist in the process of incorporation.
- The burdensome tax structure for components transfer from the Free Trade Zones (FTZ) to the non-FTZ plants inhibits the growth of the domestic industry.
- The cost of electricity should be placed on par with other Caribbean countries.
- Incentives for FDI could include rent concessions and INFOTEP training assistance.

Industry

- Combine the FTZ and non-FTZ manufacturers into one organization. Develop cluster cooperatives to share in the sales and supply so that more business is developed within the country.
- Put in place a Director of the cluster organization charged with the responsibility of meeting with business owners and executives all over the world, to present the advantages they would derive by doing business in the DR, thereby attracting FDI in the country.
- The long term development of the industry depends upon the emphasis the manufacturers place on developing and improving the manufacturing technology applied in the industry. New and more modern methods of management and manufacturing such as Modular Manufacturing and Statistical Process Controls must be adopted.

- The industry must up grade the machinery and equipment used to include machines with automatic needle position capability, under trimmers, stand-up sewing machines, and “direct attach” technology.
- Product development turn times and capabilities must be improved so that samples and prototypes can be delivered faster.
- Fast turn technology should be developed within the group so that the full advantage of geographical proximity can be realized and sold.
- Increase the present level of production of men’s work footwear as well as expanding the product line to include high end, high quality men’s shoes. The hand sewn skills now present can be a benefit in this sector.
- Add infrastructure and component suppliers to include mold manufacturing as well as last, heel and sole manufacturing.

Near Term Steps

- The industry must add infrastructure to include shoe laces, shank and toe suppliers; eyelet makers; synthetics, sheet foam, fabrics and linings, reinforcements as well as box printing and making.
- Add women’s molded shoe production to the product mix.
- Apply modern manufacturing practices such as Lean Manufacturing (LM), Modular Manufacturing (MM), and Statistical Process Controls (SPC).
- The education and development of the manufacturing staff must be given priority. The full service provider must have Designers, Patternmakers, Engineers as well as Planning and Logistics specialists on the staff.
- Scholarships provided by the Ministry of Education, as well as industry, should be awarded to select individuals that have demonstrated aptitude and interest in the careers of Designers, Patternmakers, production Planning as well as other positions.

Long Term Steps

- Develop a complete supply chain in the country. This includes raw materials and components that are made in the DR as well as having suppliers that import materials for distribution and sale to the various plants.
- Further develop the women’s molded shoe industry.
- Further develop the high-end, high quality men’s footwear industry.
- Develop a kidskin leather industry.

SECTION I

INTRODUCTION

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INTRODUCTION

This study was financed by the United States Agency for International Development (USAID) through a task order to the General Business, Trade, and Investment (GBTI) component of the Support for Economic Growth and Institutional Reform (SEGIR) Project in collaboration with the National Competitiveness Council (CNC) and the Association of Free Trade Zones of the Dominican Republic (ADOZONA).

The objective of this report is manifold:

- To analyze the present structure of the footwear industries in the Dominican Republic (DR), and identify its strengths and weaknesses.
- To identify opportunities for growth and development within the industry.
- To identify the threats or constraints both domestic and foreign that inhibits the development of a strong footwear industry.
- To target areas of need that would be attractive to foreign investors.
- To recommend specific near-term as well as macro strategies for the long term development of the industry and the acceleration of the exports of footwear.

The scope of the project covered information provided in interviews with the key stakeholders in the DR such as the National Competitiveness Council (CNC), The Association of Free Trade Zones (ADZONA), the Dominican Center for Exports and Investments (CEI-RD), and USAID.

Additional resources included interviews with the owners and managers of some of the major companies in the DR, the top management of some of the American companies that are represented in the free zones as well as interviews with the top management of companies not now doing business in the DR. Specific data quoted from research is identified in the footnotes and in the charts and graphs provided.

The market analysis was concentrated in the US and Canada due to the potential benefits derived from the recently ratified US, Central America and the Dominican Republic Trade Agreement (CAFTA-DR) that provides special rules of origin provisions for footwear manufactured in the DR.

An executive summary precedes this section. An overview of the industry is presented in Section II and a market analysis in Section III. Section IV presents a detailed discussion and comments of the research findings, and Section V presents a summary of the report along with major recommendations. The references cited are listed in Section VII. A detailed Strength, Weakness, Opportunity and Threat (SOWT) analysis is presented in Annex A, followed by Annex B presenting the list of persons interviewed and Annex C the scope of work of the study.

SECTION II

INDUSTRY OVERVIEW

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INDUSTRY OVERVIEW

The Dominican Republic has 8.2 million people of which 50.2% are women and 49.8% are men. More than 66% of the population lives in urban areas reasonably near the present FTZ's. Approximately 2 million people live in the greater Santo Domingo area.[1]

The unemployment rate for the DR was 17% for the year 2003. This rate has climbed from 13.8% in 1999.[2] ; providing an ample supply of labor for expanding industries. Much of this population has industrial experience and training.

The footwear industry in the DR today is comprised of three segments:

1. The first segment is the Free Trade Zone (FTZ) manufacturing companies that produce footwear for export.
2. Second are the manufacturers outside the FTZ's that produce for local consumption as well as for export.
3. The third segment is the tanneries and chemical companies that supply the footwear manufacturers.

The D.R. is signatory to the WTO agreement and as such the FTZ's (Free Trade Zones) will lose their tax exempt subsidy status at the end of 2009. The FTZ companies then become subject to the same taxes as the manufacturers outside the FTZ.[3]

The Dominican footwear industry has experienced some reversals in recent years. The down turn in business has been due primarily to the rules of origin imposed upon the industry by the Caribbean Basin Economic Recovery Act, (CBERA), coupled with the major shift of the US manufacturers and shoe buyers to sourcing in China and other countries in the Far East.

Table II-1 Exports of Footwear from the DR to the US, 2001-2004

Year	2001	2002	2003	2004
1000's pairs	8,885	8,191	7,800	7,262

Source: American Apparel and Footwear and Footwear Association Trends Annual 2004.

[1] Doing Business in the Dominican Republic" Pellerano & Herrera 2003

[2] American Chamber of Commerce of the Dominican Republic, Key Economic Indicators 1998- Sept 2004

[3] Nate Herman American Apparel and Footwear Association

A. Free Trade Zone Manufacturers

There were 18 footwear manufacturing companies in the free zones in the year 2000 that employed a total of 7067 people. The number of employers declined in 2003 to 13, and employed 5743 people. In 2004 the number of employers was further reduced to 12; however the employment was back to 7086*. The export value in US dollars continued to drop, however, from 293.6 million to 195.6 million dollars.

Table II- 2 Free Zone Manufacturing Companies in the DR, 2000-2004

Year	No. of Companies	No. of Employees	Exports Millions US$
2000	18	7067	293.6
2001	18	6366	286.3
2002	13	5588	201.4
2003	13	5743	202.6
2004	12	7086	195.59

Source: Consejo Nacional de zonas Francas de Exportación. Visión histórica del Sector Calzados 2004.

The twelve companies operate in ten free zones. Seven of the companies are U.S. based companies; one is an Italian based company and four are Dominican.

Table II- 3 Free Zone Manufacturing Companies by Country of Origin, 2005

Country	Number of Companies	Participation
United States	7	58.3
DR	4	33.3
Italy	1	8.3
TOTAL	12	100

Source: Consejo Nacional de zonas Francas de Exportación. Visión histórica del Sector Calzados 2004.

The foundation for a growing and thriving shoe industry exists in the DR There are seven US manufacturers of boots and shoes in the FTZ and at least two of them have plans to increase employment and production. Some of the major companies are:

A1. Five Star Enterprises. Located in La Vega, it employs 594 people in two plants, making hunting boots, hand sewn slippers, and a variety of other styles. The plant produces approximately 2,300 pairs per day of over 250 styles, all for export.

A2. The Timberland Company. Located in Santiago, it employs approximately 1,600 people in 10 buildings. Timberland makes boots and shoes and produces approximately 11,000 pairs per day. Seventy percent of the units produced are exported to Europe and thirty percent to the US.

A3. Wolverine Worldwide Inc. Located in the Las Americas Free Zone in Santo Domingo, It employs 1,550 people in four plants and two warehouses. The products include boots, hand sewn moccasins, and molded slippers. Wolverine has its own tannery in the US, however buys leather from the DR, Mexico, China, New Zealand, and Australia.

A4. The Bojos Group. Located in Santiago, It produces leather for the boot manufacturers in the free zones such as Timberland, as well as for the shoes made in its own plant. Seventy five percent of the leather is exported to free zones on the island or used in their own plants. Twenty percent of the leather is exported to Europe, and five percent of the leather is sold locally. The company produces 8,000 to 10,000 pairs of shoes per day for export. Sixty percent of the production is exported to the United States and forty percent is exported to Europe. The company employs 226 people in the tannery and 1,300 people in the footwear plant. The company also makes molded soles and other parts for the shoe industry.

B. Manufacturers outside the FTZ

The domestic footwear manufacturing sector consists of 182 companies that employ 3,549 people.[4] The majority of these companies are very small businesses. Of these companies, 82% have less than 10 employees and only three have 51 or more, while only thirty two of the companies have some sort of organizational structure. Within the 182 companies, the information regarding 120 is representative of the group.

Table II- 4 Distribution of Companies by Number of Employees, DR, 2004

Employees	Companies	% of Total
1 to 5	56	46.7
6 to 10	42	35
11 to 15	5	4.2
16 to 20	6	5
21 to 50	6	5
46 to 50	0	0
51 or More	3	2.5
NC	2	1.7
Total	120	100%

Source: Estudio Impacto Sector Calzado Zona Nacional.

[4] Estudio Impacto Sector Calzado Zona Nacional p34.

Table II- 5 Distribution of Companies by Location, DR, 2004

Location	Companies	% of Total
Santo Domingo	41	34.2
Santiago	35	29.2
Moca	35	29.2
San Francisco de Macorís	9	7.5
Total	120	100

Source: Estudio Impacto Sector Calzado Zona Nacional.

Three of the larger companies make most of the export footwear. The footwear is made of plastic and is exported to Haiti and Central American Countries.

B1. Calzastur S.A. It is a domestic producer of footwear and produces for export. Smaller domestic producers such as Calzastur S.A. have demonstrated very fine skills in shoe manufacturing. Given the right opportunity, companies such as these can grow and prosper. Many other domestic manufacturers may employ less than ten people and provide range of footwear primarily for the domestic market.

B2. Francisco H. Espejo. It is also a traditional maker of footwear in the domestic sector.

B3. Caribbean Plastic Shoes. It is maker of plastic footwear for export.

B4. Petroquim. It is a chemical components provider and manufacturer of plastic footwear for the export market.

B5. Compuestos Dominicanos. They are manufacturers and exporters of plastic footwear.

C. Support Industries

The major support industries for the footwear industry in the DR are the following:

C1. Artículos de Piel Los Favoritos. They tan excellent leathers for the Dominican footwear producers such as Five Star Industries, Timberland, and Wolverine as well as for export to the automotive and furniture industries. The company employs 356 people on three shifts.

C2. The Bojos Group. As mentioned above, they produce excellent leathers for the footwear industry as well as molded soles.

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C3. Tenería Acra. Located in San Francisco de Marcorís, it produces tanned leathers for the footwear industry.

C4. Multiquímica Dominicana. It makes polyvinyl chloride (PVC) compounds and polyvinyl acetate (PVA) adhesives that are supplied to the domestic as well as the free zone manufacturers.

C5. Petroquim. It produces shoe components, rubber soles, TPR, PVC, Neolite, as well as leather soles for the Manufacturers in the FTZ. Additionally, the company makes plastic shoes and sandals for the local market and for export to the Haitian market and Central American markets. The company employs 500 people on three shifts.

Multiquimica Dominicana and Petroquim are two very capable chemical producing companies that have the capacity to expand production as well as product offerings if the demand exists in the DR.

SECTION III

MARKET ANALYSIS

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MARKET ANALYSIS

To determine the correct direction to focus the efforts of expanding the Dominican footwear industry, one must know and understand the market to which the efforts are directed. Several questions have to be answered:

- Who are the major customers?
- What are the customers buying?
- Who is the competition?
- How is he so competitive?
- Where are the market opportunities?
- What does the DR need to do to take advantage of the opportunities that are identified?

A. Major Market Customers

The FTZ footwear exporting companies ship products to five major countries, as presented in the following table.

Table III- 1 Number of Footwear Companies by Countries where they Ship, DR, 2004

Countries	No. of Exporting Companies
U.S	13
CANADA	3
SPAIN	2
ITALY	2
U.K.	2
OTHER FTZ	6

Source: CNZFE Informe Estadístico 2004, Cuadro 27.

The US and Canada are the major recipients of DR footwear. The US and Canada have similar markets with fashion concepts flowing across the borders freely. The two countries could be considered as one style market. Haiti is the major customer of footwear made in the plants outside the FTZ, along with the US, Puerto Rico, and Cuba, as can be seen in Table III-2.

The consumption of footwear in the US is growing rapidly. The average annual consumption **growth** over the eight year period from 1997 to 2004 was 73,362,000 pairs. The information in Table III-3 titled “US Consumption of Footwear”, details the statistics.

The total consumption of footwear in the US for the year 2004 increased 7.5% over the previous year for a total consumption of 2.12 billon pairs. Imports accounted for 98% of the US market.

Table III- 2 Footwear Exports from Companies outside the FTZ by Recipient Country, DR, 2003

Recipient Country	US$ Exports	% of Total
Haiti	$1,475,720	44.7%
US	$643,455	19.5%
Puerto Rico	$600,540	18.2%
Cuba	$354,974	10.7%
Europe	$182,678	5.5%
Caribbean	$42,533	1.3%
Other	$3,838	0.1%
Total	$3,303,738	100.0%

Source: Asesores de Comercio Exterior S.L. 2004 p. 53.

Source AAFA Shoe Stats 2005 US Consumption of Footwear).

Table III- 3 U.S. Consumption of Footwear

1000's Pairs	Import Penetration Comparison									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Production	220,400	196,000	190,100	163,200	120,877	86,645	79,718	61,400	39,810	35,218
Imports	1,425,834	1,376,080	1,488,118	1,512,323	1,632,622	1,764,900	1,784,687	1,898,066	1,968,089	2,123,761
Consumption	**1,646,234**	**1,572,080**	**1,678,218**	**1,675,523**	**1,753,499**	**1,851,545**	**1,864,405**	**1,959,466**	**2,007,899**	**2,158,979**
Import Penetration	86.6%	87.5%	88.7%	90.3%	93.1%	95.3%	95.7%	96.9%	98.0%	98.4%
Import Growth in Pairs		-49,754	112,038	24,205	120,299	132,278	19,787	113,379	70,023	155,672
Consumption Growth in Pairs		-74,154	106,138	-2,695	77,976	98,046	12,860	95,061	48,433	151,080
% Imports Over Previous Yr.		-3.5%	8.1%	1.6%	8.0%	8.1%	1.1%	6.4%	3.7%	7.9%

Average Annual Domestic Production Decline 1997-2004	**20,098**	**Total Consumption Growth 2004**	**7.5%**
Average Import Growth Per Year 1997-2004	**93,460**	**Yearly Percentage Growth 1997-2004**	**5.3%**
Average Consumption Growth Per Year 1997-2004	**73,362**		

Source: Shoe Stats 2005 American Apparel and Footwear Association

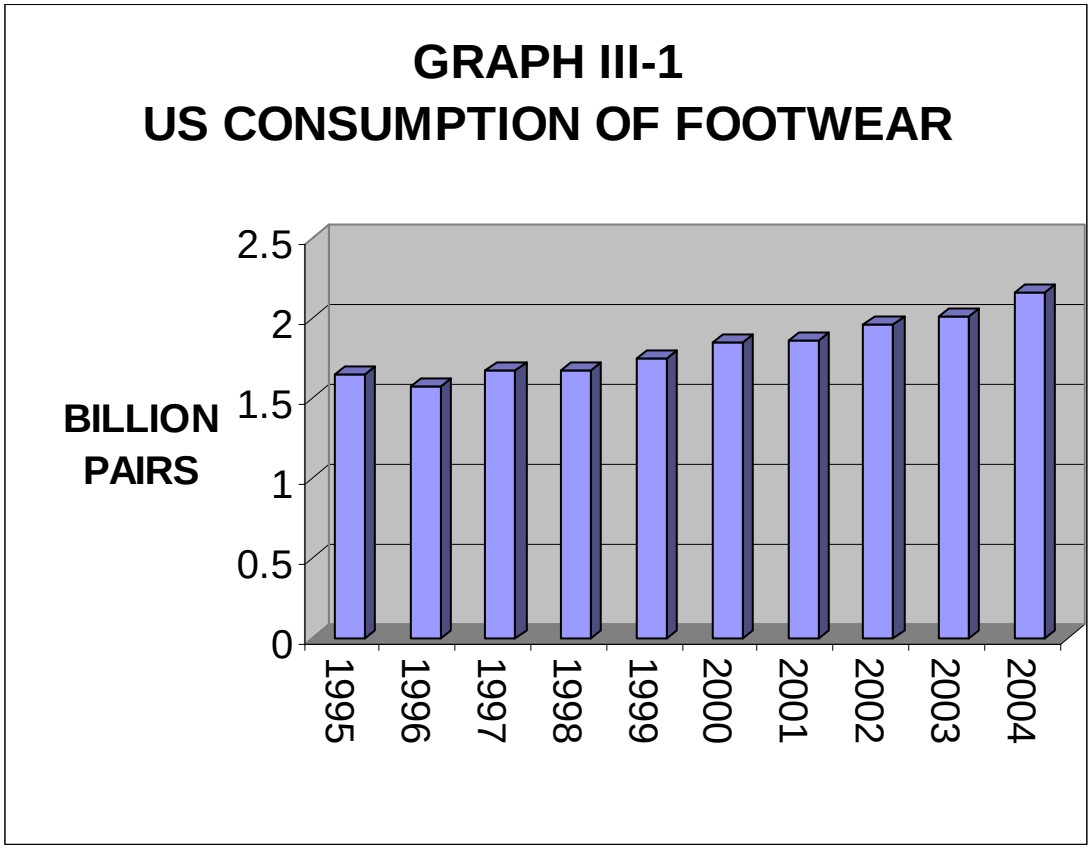
The United States has been increasing the footwear imports at an average rate of 5.3% or 93,460,000 pairs per year for the same period. The US is increasing imports at a

greater rate than the growth of the market. That means that domestic production must be falling at a severe rate. In fact, the rate of decline is over 20,000,000 pairs per year for the last eight years.

Based on the US Census Bureau's 2004 population estimate of 293,655,404 people,7.4 pairs of shoes were purchased by every man, woman, and child in the United States in 2004. Graph III-1 illustrates this growth curve.

B. What are the Customers Buying?

The men's category, inclusive of shoes and work footwear, accounts for approximately 12.5% of the US market. Women's shoes account for 37.9% of the market followed by athletic footwear at 16.8% of the market. Juvenile shoes make up 12% of the market.[5] The Dominican footwear industry is heavily weighted on 12.5% of the potential US market. Table III- 4 below details the statistics. Graph III-2 displays the category relationships.



Source: AAFA Shoe Stats 2005, US Consumption of Footwear.

[5] AAFA Shoe Stats. 2005.

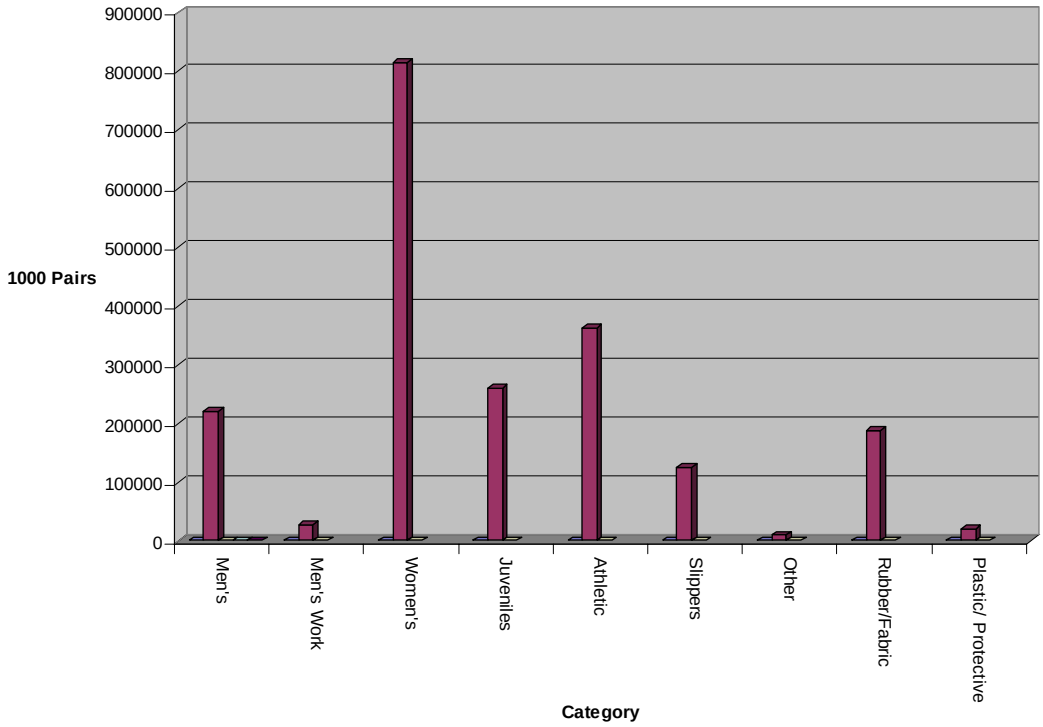
Table III- 4 U.S. Consumption of Footwear by Category

(1000 pairs)

Product Class					% Change	% of total
	2001	2002	2003	2004	03 - 04	Consumption
Total Consumption	**1,864,405**	**1,959,466**	**2,007,899**	**2,158,979**		
Men's	219,184	217,796	226,015	232,578	2.9%	**10.8%**
Men's Work	32,508	31,429	34,607	36,635	5.9%	**1.7%**
Women's	631,378	681,777	735,722	819,023	11.3%	**37.9%**
Juveniles	219,344	234,927	251,731	260,043	3.3%	**12.0%**
Athletic	293,621	347,729	345,346	361,929	4.8%	**16.8%**
Slippers	103,115	90,925	88,383	127,582	44.4%	**5.9%**
Other	7,961	7,044	9,578	9,744	1.7%	**0.5%**
Rubber/Fabric	305,900	282,426	236,939	196,807	-16.9%	**9.1%**
Plastic/ Protective	22,155	21,493	24,486	26,007	6.2%	**1.2%**

Source: Shoe Stats 2005 American Apparel and Footwear Association

GRAPH III-2 **U.S.IMPORTS BY CATEGORY 2004**



Source: AAFA Shoe Stats 2005, US Consumption of Footwear.

C. Who is the Competition?

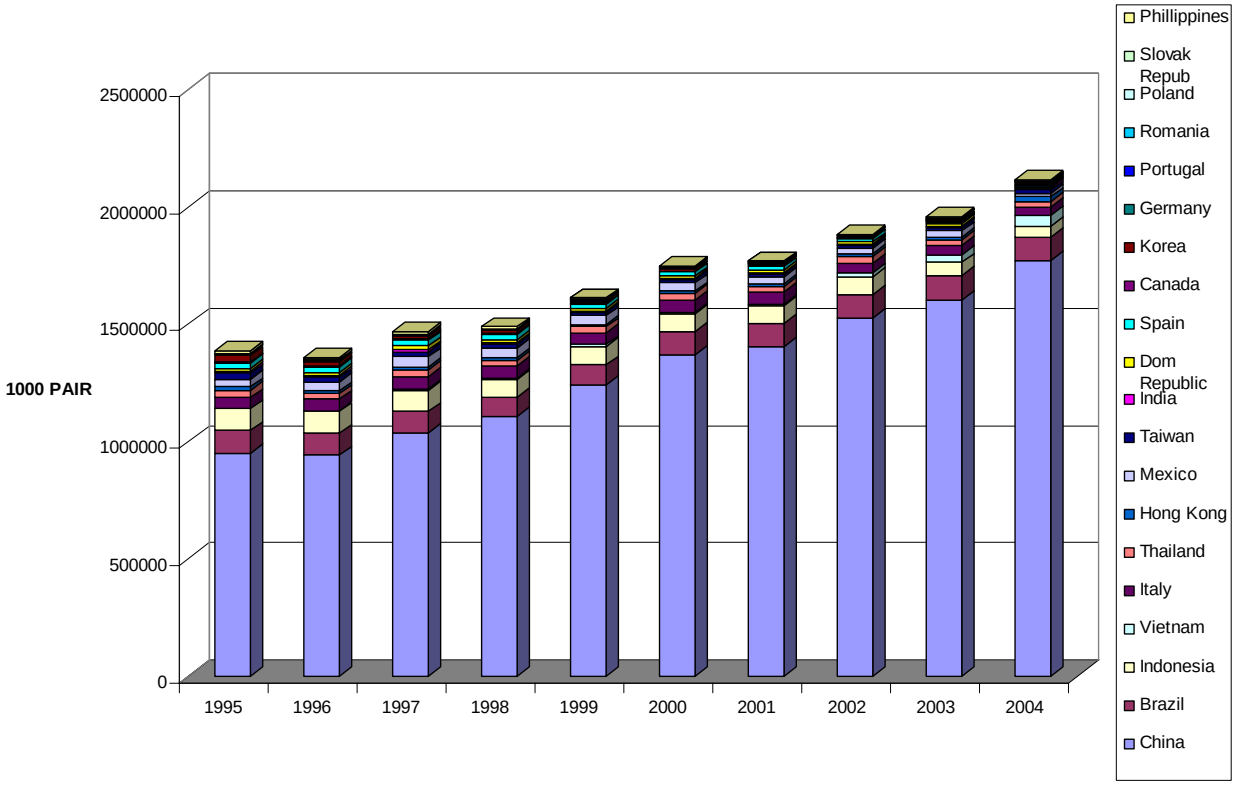
In the year 2004, China captured 83.5% of the US import market, followed by Brazil at 4.7%. Indonesia and Vietnam shipped 2.3% and 2.1%, respectively. Brazil, Indonesia, Italy, Mexico, Taiwan and "The Rest of The World" are all losing market share while Vietnam and Hong Kong are gaining. The DR footwear imports are included in the above figure of "The Rest of The World" at 2.1% of the US footwear market.[6]

The DR imports for 2004 decreased by 6.9% from the previous year and account for only 0.3% of the total US imports. This places the DR in eleventh place in the import rankings. The United States imported 16.5 million pairs of footwear from the DR in 1997. That number has fallen to 7.2 million in 2004.

Table III- 5 titled "US Imports of Footwear by Country" details the quantities of footwear imported to the US by country by year, and provides the percentage of the total for the year 2004. Graph III-3 provides a graphical view of the import picture and vividly depicts the large percentage of the imports from China. Graph III- 4, titled "US Imports from Dominican Republic", shows how the imports from the DR have declined since 1997.

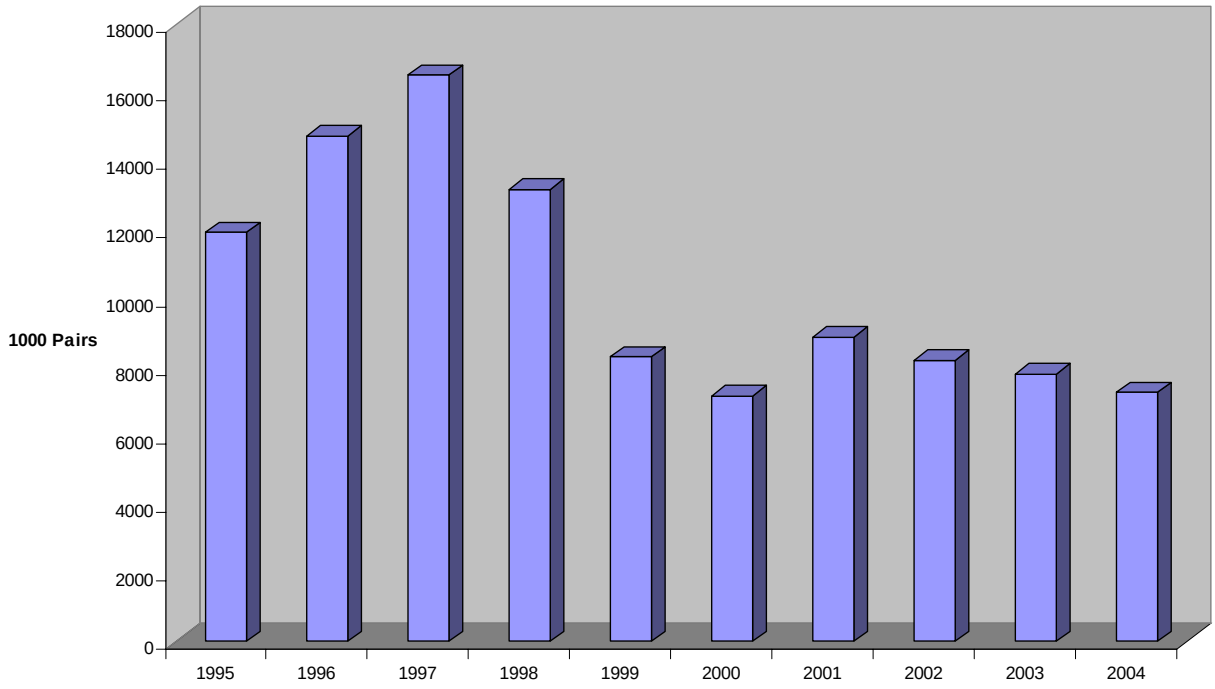
[6] AAFA Shoe Stats. 2005.

GRAPH III-3 **U.S. IMPORTS FOOTWEAR BY COUNTRY**



Source: AAFA Shoe Stats 2005, US Consumption of Footwear.

Graph III-4 **U.S. IMPORTS FROM DOM. REPUBLIC**



Source: AAFA Shoe Stats 2005, US Consumption of Footwear.

D. How is China so Competitive?

Obviously China is a low cost producer, but more importantly, China is a full service provider of end use products. That means that China can provide all the services required to produce the product from design to shipment. The turn time required for the footwear producers in China to produce a prototype and a projected cost is measured in hours and days. The turn time required for a prototype to be developed and complete bill of materials and costs in the DR is measured in weeks.

The Chinese look upon potential business as business for the country, and thereby create a consortium of companies to provide all the materials necessary for the development and production of the product. The individual companies cooperate in the sale to make it happen. Additionally, the supply chain is complete within the country. Very little is imported and delays are kept to a minimum. This cooperative or "Consortium" mentality is one of the major strengths of the oriental approach to business.

The lack of that consortium mentality (cluster) and the lack of willingness of western companies to share information and band together for the common sale and marketing advantage is a major weakness in the DR and in the West in general.

E. What are the Market Opportunities?

The men's shoe category and the men's work shoe category make up only 12.5% of the total consumption. That leaves 87.5% of the total US market as opportunities for the DR footwear industry to target (See Chart C-2). Close evaluation of the numbers reveal that even in the men's category, substantial growth is available for the DR to compete.

The imports from the DR were 7.2 million pairs and account for .3% of the total market. The men's work shoe market alone is 36.7 million pairs or 1.7%. That leaves a market of 29.5 million pairs of opportunity. Factoring in the annual growth rate of 5.9% that number becomes 31.2 million pairs of opportunity that can be tapped in the work footwear category.

The market for men's shoes is even greater at 232.6 million pairs annually and growing. Much of that market is for high end shoes of finer leathers. Brazil, India, Spain, and China produce much of the high quality kidskins and calfskins for the higher end footwear. High end, high quality men's footwear turned rapidly and delivered to the customer could be a major marketing advantage for the DR.

The women's shoe market is the largest at 819 million pairs sold in 2004. That market is also the largest import segment at 814 million pairs. This provides a tremendous opportunity for the DR to provide a quick response for the frequent style changes involved in this segment. This segment would also require accessory and trim suppliers to move their businesses to the DR to supply the fashion requirements.

F. What Are the Needs of the Customers?

The best way to determine the needs of the customers is to listen to what they have to say regarding what they expect when sourcing a manufacturer for product. Following are the notes taken during interviews with the top management of companies in the US that produce or buy footwear.

F1. Dansco. Mr. Soren Christensen is the Vice President of Dansco, located in West Grove Pennsylvania. Dansco make 2 million pairs of women's and men's shoes per year, with the majority being women's. Dansco does not own plants, but outsource all production, mainly in Europe. Mr. Christensen is now looking for other sources for his supply chain and will consider the DR as a possible source. When asked what he would be looking at in terms of a supplier country, he listed the following:

1. The major item is a complete raw material supply chain. This means leather, polyurethane, soles, molds, lasts, boxes, etc.
2. Product development capability. The design concept drawing would come from Dansco. The plant would then develop the product, create the prototype, determine the costing and submit the prototype for approval. This would have to be done in 10 days or less.
3. The quality and consistency of the quality is a major factor in the selection of a supplier.
4. He would expect delivery of product to be 4 to 6 weeks from receipt of order to delivery. The delivery from Europe is now 8 to 10 weeks, and he would like to shorten that time span.
5. Price, although important is not at the top of the list.
6. Dansco must now contend with the fluctuations of the Euro in the costing structure. Mr. Sorensen would like to see a more stable currency on which to base his costs.

The first orders would be 40,000 to 60,000 pairs for the first season. There are two seasons per year.

F2. Redwing Shoe Co. Mr. Wes Theis is the Vice President of Supply Chain for Redwing Shoe Co. in Redwing Minnesota. Redwing is a 100-year-old company that makes outdoor and work footwear. Mr. Theis said that Redwing now has approximately 55% of their production in the US and 45% in Asia. China has a complete infrastructure for shoe manufacturing and can provide all necessary components.

Mr. Theis said that Redwing did have production in the DR for approximately one year. Much of the materials had to be imported resulting in production and delivery problems.

Mr. Theis said that they are still interested in the DR as productions source due to the proximity to the US. Their concerns however are that the country lacks infrastructure

and a source of supply of needed components. He also expressed concerns about the lack of technology and antiquated methods especially in the bottoming and sole application operations.

Mr. Theis said that he would be interested in making outdoor footwear as well as work footwear; however he would like to have “direct attached” capability. I asked him about price, and he said that it is important and must be competitive; however quality and delivery are also very important.

F3. The National Shoe Retailers Association. The National Shoe Retailers Association is a buying cooperative of independent shoe retailers. There are 1,000 corporate members representing 4,000 stores nationwide.

Mr. Bill Boettge, the Director of the association is helping the association get started in the sourcing of private label footwear. Mr. Boettge has never visited the DR and has no knowledge of the capabilities and capacities available.

There are 49 companies representing 300 stores now participating with more to come. The products were being made in Mexico, but as a result of inconsistent quality and late deliveries, the Association does not want to place orders in Mexico. Most of the sourcing is now done in Brazil, and they are pleased with the quality and delivery. The reputation of and area or country is very important to the association members.

The association does not design nor style the product. They purchase the styles designs and colors presented by the manufacturer. All leathers are considered. The average retail price for a man’s shoe in the US is $32.00. The average retail price for a man’s shoe in the independent shoe stores is $88.00 to $100.00. Orders from the various stores are consolidated into one purchase order with a common label. The average order would be 240 pairs per color per pattern.

F4. Rocky Boots. Mr. David Dixon, Vice President of Manufacturing said that at the present time Rocky is making 70 to 80% of their production in China and approximately 20% in the DR. Plans have been made to bring an additional 120,000 pairs of production back to the DR. There will be additional capital investment in equipment as well as additional employees required for this build up.

Mr. Dixon is pleased with the quality, cost and delivery from the plants they own and operate in the DR; however he said that the major problem for the DR footwear industry is a lack of infrastructure. There are many problems associated with getting molds made in Mexico and delivered on time. Other components must be imported form other countries.

Rocky is now training selected individuals in-house for Designing, Patternmaking and Product Development positions; however, the difficulties associated with obtaining visas for travel make the training more difficult. Designers need to travel to trade shows, and

shopping trips to keep abreast of style trends. The plant located in La Vega generates 95% of its own power primarily for dependability reasons.

F5. Wolverine World Wide. Mr. Steve Duffy, Executive Vice President and President of Global Operations said during our discussions that Wolverine makes 70% of their production requirements in the Far East and China. They keep their options open as to the locations that they place production due to style and capability requirements.

Wolverine has its own tannery in the US; however, it buys leather from the DR Mexico, China, New Zealand, and Australia. The boot uppers are sewn in the DR and shipped back to the US for assembly to the soles. The hand-sewn shoes are made in the DR, which has excellent hand sewing capabilities.

Wolverine is pleased with the quality and delivery of the product that they are producing in their plant in the Las Americas Free Zone. However, Mr. Duffy said that the DR should focus on better quality footwear with faster turns of inventory. One major problem with this is the lack of a complete supply chain with mold and last makers as well as other materials that can provide quick response to style requirements.

Mr. Raminel Nunez, Vice President and General Manager of Dominican Operations, mentioned the same concerns regarding the infrastructure by explaining his personal experiences with Chinese manufacturers providing samples in a matter of hours rather than weeks. He also expressed concerns about the energy supply, reliability and costs. Mr. Nunez said that his company is now pre-packing and shipping orders to stores as well as individual orders received over the Internet.

F6. Timberland. Mr. David Warren, Vice President and general manager of Caribbean Operations said that the footwear business is on the way up and that Timberland is planning an expansion of business in the DR. He said that an additional 3 million more pairs could be made on the island.

Mr. Warren and his staff have applied modern modular manufacturing techniques very successfully and have increased productivity by 76% since 2001. The Timberland plant is now making boots as cheap as those made in China, considering the dollar savings generated by the reduction of inventory as a result of the faster turn and close proximity to the US

Individual orders can now be taken over the Internet, produced in a special fast turn sewing module and shipped to the customer's home address. Mr. Warren noted that it takes 3 weeks to get molds from China. He also has to import ¾" foam from the US. A complete supply chain including molds, foam and synthetics would be a great benefit to the footwear industry on the island.

F7. Artículos De Piel Los Favoritos C.S.A. Mr. Aquiles Bermudez, the President of the company said that he could increase the production of shoe leather by 30% without

making any additional capital expenditures. He will be willing to invest additional capital as the demand for the leather increases. The company employs 356 people on three shifts, and is providing leathers to Timberland, Five Star industries, Wolverine, Minnetonka, and GST.

Mr. Bermudez lists the major constraints of the industry as the lack of a complete infrastructure to provide the components, the high cost of electrical energy, and the high cost of incoming freight. Mr. Bermudez is ready to build a sole and heel manufacturing plant if the demand will justify the investment.

F 8. Weyco Inc. Racine Wisconsin. Mr. John Florsheim is the Chief Operating Officer. Weyco make the Florsheim, Nunn Bush, and Stacy Adams brands. Weyco does not operate their own plants, but outsource all production in India and China. The company develops long standing relationships with plants and suppliers. Designs drawings and specifications are provided to the plants, and the product development is done at the plant location.
I asked Mr. Florsheim to describe the criteria used to select vendors for is product line.
First on the list are plants that provide a complete service; product development through shipping to the warehouse. The location must be near a supply of components.
The working conditions for the employees are a very important consideration.
Quality and value are very important for a moderate priced shoe line, therefore price is also important.
The leathers are bought from all over the world. The kidskin shoes are bought in India from companies with whom Weyco has had long standing relationships.
Mr. Florsheim has not been to the D.R. and the D.R. is not on their radar screen for sourcing.
He said that the close proximity to the U.S. is an advantage for the D.R.; however, the country should focus on higher priced shoes made on a quick turn service basis.
A complete source of components and supply chain is required for that kind of service.

F9. Ariat Inc. Union City California. Mr. Jack Teague is the Director of Sourcing.
Ariat Inc. makes and market equestrian and cowboy boots as well as work boots and some casual hand- sewn shoes. Sales are to independent retailers and Tractor Supply Inc.
Mr. Teague had the following to say regarding the experience at Ariat:
The production was sourced in Mexico, however, the complete supply chain was not available, and components had to be imported. The management was not good, supplies were not dependable, quality was inconsistent and late deliveries were the norm rather than the exception.

All of the production (100%) is now sourced in Southern China.
The companies are joint ventures between American and Chinese companies. The leather is imported from all over the world, components are supplied locally, and the quality is good. The turn time is 90 to 120 days, including 21 days of ocean freight.

Southern China, however, is having problems retaining labor. The turnover is high and the training costs continue. Operators do not want to work in factories for long periods of time.

Mr. Teague said that the problems with the D.R. are a lack of infrastructure, and inconsistent quality due to weak management.
Mr. Teague would consider The D.R. for hand-sewn shoes, and work boots, but would like to see the infrastructure developed and the quality improved

G. What Does the DR Need to do to take Advantage of Those Opportunities?

One of the caveats that must be understood is that the DR cannot compete with China and the Far East on labor cost alone. With the loosened rules of origin as defined in the Miscellaneous Trade Bill of 2004 (MTB), and the CAFTA-DR legislation, the DR can become an assembler of parts imported from around the world, and have duty free access to the US market.

That provides a tremendous opportunity for the DR to very quickly gain additional share of the US footwear market. That position, however, is a dangerous position to assume long term.

A country that assembles parts, is not, and will not be the answer to a thriving footwear business for three major reasons:

1. Although labor costs and prices in general are rising in China, there will always be another developing country that can produce at a lower cost than can the DR.
2. With increasing imports for raw materials, the only value added to the product is the labor and very little to Gross Domestic Product (GDP). The best way to stabilize the industry and add to the GDP is to develop the infrastructure so that local vendors supply the majority of the raw materials.
3. Customers want to do business in a country that makes the conduct of business easy. Part of that ease of doing business is the presence of a complete supply chain so that all parts can be easily obtained and deliveries more assured.

Now is the time for the DR to take advantage of the CAFTA-DR legislation and develop the infrastructure to support a growing footwear industry. The Dominican Footwear Industry must find a way to distinguish itself and provide something different, some reason for the customer to buy from the DR include:

1. Examine the market focus and determine how that view might be expanded:
    a. Expand production of men's work footwear.
    b. Add men's high end, high quality men's shoes.
    c. Add women's shoes to the product capability list.

2. Develop the infrastructure and place recruiting efforts to fill the needs of existing producers as well as for additional business:
    a. Add molds production and supply.
    b. Add last maker to the list of vendors.
    c. Add trim, buckle, laces and ribbon supplier to vendor list.
    d. Add synthetics supplier.
    e. Add a sheet foam making operation.
    f. Add a metals supplier for shanks, eyelets etc.
    g. Further develop the leather industry.
    h. Add box printing and making.

3. Increase the efforts regarding the training and development of Designers, Industrial Engineers, Planners, Patternmakers, Quality Assurance Technicians, Logistics as well as Management.

4. Evaluate the strategy of the Dominican business owner and determine if it fits within the needs of a growing and thriving Dominican economy:
    a. Develop consortiums to fill the gap of needs that the individual business owners cannot provide alone.
    b. Technology sharing.
    c. Cooperative sales and manufacturing.

Some of these strategies will require a feasibility study that will determine when the industry can afford to make the required investments.

SECTION IV

DETAILED DISCUSSIONS AND COMMENTARIES

SECTION IV

DETAILED DISCUSSIONS AND COMMENTARIES

With the detailed discussion of the customer's needs and viewpoints in mind, let us examine in detail the strengths and weaknesses that we have in the Dominican Footwear industry, and determine what strategies can be employed to make the DR more competitive to attract foreign direct investment (FDI) and increase exports.

A. Geographic Location

The DR has a very important geographical location in close proximity to Canada and the US. The geographic location does provide a potential advantage to the DR with a three-day ocean shipping time to the US as compared to four to five weeks from the Far East.

This proximity is important to companies such as Rocky Boots that receive products from the DR to the Distribution center in Nelsonville, Ohio in 10 days. The time required to ship from China to Nelsonville is five to six weeks. This advantage, however, can be lost if the turn times in development, production and supply issues are not resolved. This is often perceived that the manufacturing will be done in the same way, late.

Recommendation: The recommendation is for DR footwear Industry to start now to develop and implement Fast Turn manufacturing processes, and take advantage of the geographic location and the assets that are discussed below.

A fast turn manufacturing process may be developed by incorporating and applying the principles used in Lean Manufacturing and Modular Manufacturing to reduce the through put time by eliminating delays encountered in the normal line manufacturing system. Lean Manufacturing is a management approach that seeks to eliminate waste at every level and process of the business. This approach includes all parts, functions and materials as well as process time. Modular Manufacturing can be a part of a lean manufacturing strategy by the application of Modular techniques to the process.

B. Time Zone

The DR is already on the same time schedule as the Eastern part of the US whenever the US is on Daylight Savings Time (DST). Although not enacted as yet, President George W. Bush recently proposed extending the DST rules for an additional period of time. This would be an opportunity for the DR to be on the same time schedule as the Eastern US for a longer period of time and thereby provide the all-important frequent contact with the customer.

The time zone advantage that can be enjoyed by the DR means that the customer in the US may get total production, quality and shipping details the same day and be able to correspond with questions, making the relationship much easier.

Recommendations: Further development in the infrastructure of electronic information processing, communications and the access to the Internet can only benefit the industry growth.

C. Transportation

C1. Seaports. With seaports in the north and south, the access to ships leaving for the US is very good. Shipping time to the US by ocean freight is generally three days to Miami, and six days to Philadelphia. Table IV-1 details the shipping schedules of three ocean freight lines that presently serve the DR to US business.

Recommendations: As the industry flourishes, additional shipping opportunities might be required. The Industry association can influence the schedules of the ocean freight lines to accommodate the needed shipping days.

Table IV- 1 Ocean Freight Shipping Schedules from the DR, 2005

	Leaves	Arrives
Tropical Shipping Lines		
• From Puerto Plata to Port of Palm Beach	Monday Saturday	Wednesday Monday
Antillian Marine		
• From Puerto Plata to Miami	Monday Friday Sunday	Thursday Monday Wednesday
• From Boca Chica to Miami	Wednesday Sunday	Monday Wednesday
• From Rio Haina to Miami	Thursday Saturday	Monday Wednesday
Seabord Marine		
• From Puerto Plata to Miami	Monday Friday	Wednesday Monday
• From Boca Chica to Miami	Wednesday	Saturday
• From Rio Haina to Miami	Wednesday Thursday Sunday	Saturday Monday Wednesday
• From Rio Haina to Philadelphia	Friday	Wednesday

Source: Antillian Marine, Tropical Shipping Lines, Seabord Marine.

C2. Airports. With major airports in the North, East and South of the country, airfreight can be a major asset in a well-planned strategy. This might require an effort of several manufacturers to combine shipments to a break bulk terminal in the US so that the customers can enjoy the benefits of fast turn, direct shipment to the retail stores and the resulting inventory savings. The FAST TURN STRATEGY can be a major selling point as e-commerce grows and individual orders are more frequent. Timberland is already engaged in a program of individual orders that operates in e-commerce.

Recommendations: Utilize the assets of well distributed airports in conjunction with a fast turn manufacturing strategy. Provide air freight service and shipment of finished products to the US and Canada by the coordination of shipping activities of several manufacturers.

C3. Roads. The DR has major highways and roads system that provides easy and rapid access to seaports and airports. Transportation to any of these ports can be a matter of hours rather than days and weeks as in the case of China.

Recommendations: Use this highway asset to the best advantage and provide prompt service to the customer by either means.

D. Education

The Strength of Manufacturing Lies in the Staff. The development of a strong industry depends upon the capabilities and educational levels of the staff and workforce. The Dominican government industrial training program, INFOTEP, provides a very good training source for the workers in the plant to learn the operations and produce a quality product. That has been a successful program and is evident by the quality of the products being produced in the plants.

The staff, however, must be comprised of people that can grow with the industry and as such must be capable of learning and applying new knowledge. Patternmakers, Engineers, Designers, Logistics, Production Planners Technicians and Managers must have the educational opportunities to gain the knowledge and experience required for companies to compete in the world market.

As reported in the Listin Diario, The Ministry of Education recently awarded 1,815 scholarships for university studies abroad. Additionally the government will assist 352 professionals who will travel abroad to take short courses.

Recommendations: The Industry cluster association should select certain individuals for further education in the Design, Engineering and technical fields, and secure some of the government sponsored scholarships for individuals in the Dominican Footwear Industry. Some of those sponsorships could be for seminars and courses that are offered in footwear related industries. The cluster association should also sponsor

seminars for the business owners and Managers to learn about Modular Manufacturing, Statistical Process controls, and Lean Manufacturing.

E. Governmental

The DR has a reasonably stable democratic government. Although many of the industry leaders that I spoke with view the government as weak, the executives also commented that they are doing business in other countries with weak governments as well. The DR has a 'window of opportunity" to correct some of the inhibitors to progress as well as some of the errors made by previous administrations.

Recommendations: The government should adopt a "Pro-Business" attitude in order to attract and hold FDI in infrastructure industries. The focus must be on making the process of doing business in the DR much easier. This might be reflected in simplifying the cumbersome processes of incorporation as well as simplifying and streamlining the importing and exporting paperwork process. Additional incentives might be in tax concessions, real estate or rent concessions for a period of time, as well as the INFOTEP assistance.

F. Currency

One of the frequent criticisms mentioned in the research was the fluctuation in the value of the currency. All currencies fluctuate in value; however, the drastic fluctuations that have been seen in the Dominican Peso have been severe.

The results are fluctuating costs associated with producing the products, sourcing, planning and logistics challenges for the manufacturers and possibly eroding margins.

Table IV-2 Exchange Rate DR Pesos Vs. US Dollar, 2000 - 2004

Year	2000	2001	2002	2003	2004
Exchange Rate (RD$ = US$1)	16.42	16.82	20.75	34.95	30.6

Source: American Chamber of Commerce of the Dominican Republic. Key Economic Indicators, 1998- September 2004.

President Leonel Fernandez is taking steps to control the fluctuations and the Central Bank is stepping in to assist.[7]

The major threats are:

- The time required correcting the errors of previous administrations.
- Companies now making in the DR will source more of their product in other countries.
- China has a more stable currency.

[7] Listin Diario September 2 2005.

Recommendations: The cluster associations headed by strong leadership can influence the political leaders to be more "pro- business" and provide incentives that will attract other infrastructure industries and foreign investment. Additional foreign investment and a greater gross domestic product (GDP) can result in a more stable economy and currency.

G. Energy

The supply, dependability and cost of electrical energy in the DR are major problems for industry in general. The government has for the most part, left it to each business owner to solve his own energy problems. This has resulted in the erosion of some of the cost advantage that the DR has over some other nations. The energy costs in the DR range as high as $.28 per KWH as compared to $.09 to $.14 per KWH in other Caribbean Basin Initiative (CBI) countries.[8]

Overhead and production costs are higher due to the inefficient production, distribution and consumption of electricity. The undependable and frequent interruption of power results in production stoppage and delays that are costly not only in money but delivery time as well.

Efforts are being made to resolve some of the problems. The government is carrying out several projects to increase energy production; however, the distribution system faults and the collection of money for energy consumption provided are major factors as well.

The regulations provide that a company having its own sub station and consuming 200 KW or more, has the right to become "non-regulated" and purchase electricity directly from the producer rather than the distributors.[9] The cost of that electricity would be approximately $.09 per KWH.[10] The government, however, is not allowing that regulation to be applied.[11] Energy costs will remain a constraint until the reliability and costs are on par with competing Caribbean Basin countries.

Recommendations: Segregate the industrial rates and place the DR on par with the other Caribbean countries.

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[8] Javier Alvarez, Director of Manufacturing, Grupo Lovable, San Pedro Sula, Honduras Jesus Dieguez, Owner, Calzastur,S.A. Santo Domingo, Dominican Republic.
[9] Ibid.
[10] Listin Diario, Sept 5, 2005.
[11] Javier Alvarez, Director of Manufacturing, Grupo Lovable, San Pedro Sula, Honduras Jesus Dieguez, Owner, Calzastur,S.A. Santo Domingo, Dominican Republic.

H. Taxes

The DR is a member of the WTO and as a result the tax-free status of the FTZ manufacturers will end in 2009. However that leaves four years for the DR to develop a tax plan that will be beneficial for both the country and the manufacturers.

Non-FTZ manufacturers are now at a disadvantage with the present tax structure by having to pay the Dominican taxes that the FTZ manufacturers do not pay. Additionally the non-FTZ manufacturers must pay an 8% tax when buying components from an FTZ.
There is an opportunity for the DR to level the playing field for four years and allow non-FTZ manufacturers the same opportunities as the FTZ's. This might provide the opportunity for some of the companies to grow and hire more employees that pay taxes. That could more than make up for the lost revenue from the business itself.

Recommendations: Provide a four-year moratorium on taxes on non-FTZ footwear manufacturers that export footwear to other countries and eliminate any transfer taxes on components from the FTZ to the non-FTZ manufacturers.

I. Regulation and Documentation

The cumbersome documentation system and process for incorporation is an impediment to doing business in the DR The time required to start a new venture can be 78 days as compared to hours in Jamaica. Other Caribbean countries accomplish the task in seven to ten days.

The documentation and the excess red tape required for imports and exports was frequently criticized by manufacturers and noted as a constraint in the process
The interest of the DR Government should be to make the process of doing business in the DR as easy as possible, however the existing regulations and institutions become roadblocks to progress. The World Bank concluded that the quality of business regulation and the institutions that enforce it are major detriments of prosperity.[12]

The streamlining of government controls and processes is an important part of streamlining the manufacturing process, and as such should be a major focus of the DR Government. UASID has been working with the DR Government in evaluating the incorporation process as well as the processes that are needed in international arbitration.[13]

The threat in this process is a very slow response to an impediment that is an immediate constraint to FDI at a time that other nations are competing for the same investors.

[12] USAID document "the establishment of in the Dominican Republic, Feb 2005.
[13] Ruben Nunez Ph.D., Manager of Operations, Chemonics International, Santo Domingo, DR.

Recommendations: Streamline the regulations and red tape required for incorporation, as well as for the importing and exporting of converted materials. The Industry Associations, business owners and managers should meet with the CNC and other appropriate government agencies to provide insight as to the constraints that exist within the manufacturing group. Determinations can then be made regarding the technology that can be utilized to aid in speeding up the process, and reduce time and costs on both sides.

J. Travel

The DR has excellent access to airports with connections to the US Canada, Central and South America, as well as Europe. The DR is the major tourist attraction in the Caribbean with close to 51,000 hotel rooms. Occupations rates are as high as 70%.[14] European visitors arrive in chartered flights to the northern beaches weekly. Access to the DR for vacations is easy.

Travel connections are also easy for the industry staffs to get to meetings and seminars that are held in other countries. This type of travel is necessary for the growth and development of staff members to be exposed to the constant change of fashion.

Recommendation: The footwear cluster association as well as the Ministry of Education should sponsor selected students for attendance at seminars and trade shows to further the educational opportunities for the students.

K. Industry Specific - Infrastructure

The infrastructure available in any country can now become a “make or break point” in a customers decision as to where to place orders for footwear or any other product. A complete infrastructure is no longer a convenience, but a necessity for the future development and stability of an industry. The reasons are clear:

- The logistics of sourcing all components and assembling the various parts is a monumental task fraught with delays, and late deliveries, and lost customers.
- The ease with which the customer can do business in a country that can provide all needed components is often as important as the price
- The country that relies only on assembly is selling labor, and as such is subject to the changing political climate in emerging nations.

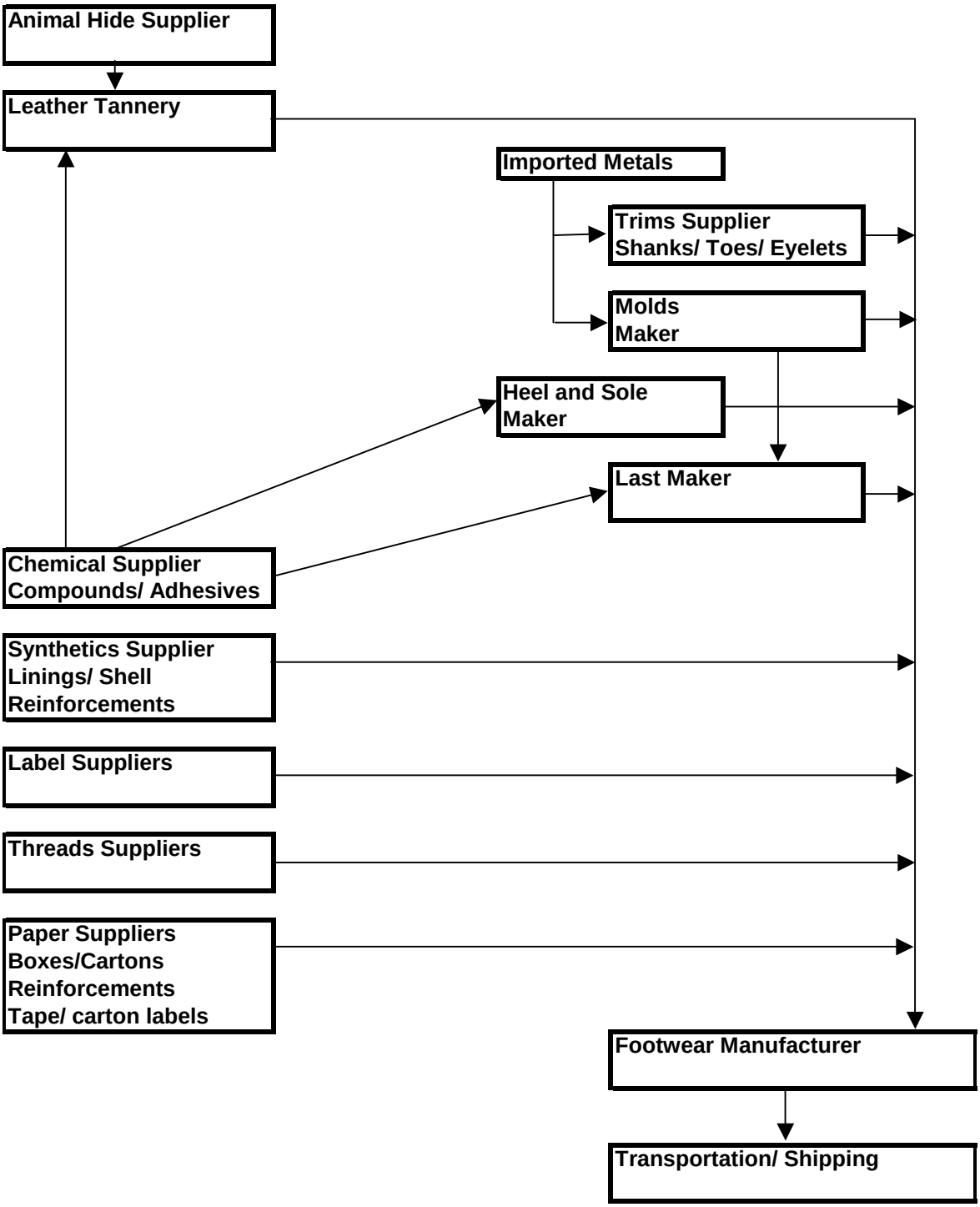
The DR has leather tanning companies that provide excellent quality side leather. Fine quality calf skins and kidskins for high end shoes are not tanned in the DR, however the capability exists. The DR also has chemical companies that provide plastics, compounds and adhesives.

[14] Doing Business in the Dominican Republic.Pellerano & Herrera. Oct 2003.

The country is lacking in mold making, last making, synthetics supply, trim supply, shank and reinforced toe suppliers; and box printing and making.

(See Supply Chain Diagram for Men's Boots/ Shoes Graph IV- 1)

GRAPH IV -1


Animal Hide Supplier
Leather Tannery
Imported Metals
Trims Supplier
Shanks/ Toes/ Eyelets
Molds
Maker
Heel and Sole
Maker
Last Maker
Chemical Supplier
Compounds/ Adhesives
Synthetics Supplier
Linings/ Shell
Reinforcements
Label Suppliers
Threads Suppliers
Paper Suppliers
Boxes/Cartons
Reinforcements
Tape/ carton labels
Footwear Manufacturer
Transportation/ Shipping

The opportunities for the expansion of the supply chain can be realized in several ways. Some business leaders have expressed willingness to invest in technology to provide the needed components, if the demand will be sufficient to warrant the investment. Foreign owned plants as well as joint ventures with foreign companies could be the solutions to the infrastructure requirements.

Recommendations: Provide incentives for supply chain companies to locate businesses in the DR. The Industry Association representative should call on companies in various countries to present the advantages of location their plants in the DR:

- Ready list of customers.
- Excellent access to Central and South America.
- Tax incentives.
- Training cost assistance.

L. Industry Cluster Organization

The Asociación Dominicana de Fabricantes Del Calzado, Inc is an industrial organization for the domestic footwear manufacturers. The organization is reported to be somewhat ineffective due to lack of interest. There is a somewhat loose organization of FTZ manufacturers that share machinery and parts but have no real formal organizational structure.

What is needed is a cluster organization that represents all the manufacturers in the country and has a voice in the political arena. The organization should have as its Director, an energetic person that can sell the advantages of manufacturing in the DR to prospective customers and prospective supply chain manufacturers.

Recommendations: Provide to the cluster organization a Director to lead and direct the revitalization efforts of the industry, to locate and place supply chain manufacturers in the DR, and to locate potential sales opportunities for DR production. The Director would also be responsible for organizing seminars targeted for industry education and development.

M. Marketing

There is no cohesive strategy to market the DR as a source for footwear. The need here is for the industry to develop a strategy for the marketing of the DR for sales and manufacturing. This could be done in conjunction with the cluster organization and the USAID agencies. The threat here is the lack of marketing skills.

Recommendations: Develop within the cluster organization the strategies for the marketing of the DR as a location for supply chain manufacturers to be; as well as the marketing of the DR as the source for sales. Hire a marketing firm to assist in the development of the strategy and marketing effort, not only to supply chain companies, but to manufacturers and end product customers as well.

The focus should be on the following:

- The benefits of having a production base in the DR and the advantages that are derived from the proximity to the market and to other countries in South and Central America.
- Available buildings, rent concessions, tax incentives, INFOTEP training assistance.
- The demonstrated skills of the workforce and the quality of the products produced.
- The unique had sewn skills that the country has to offer.
- The pro- business climate of the GODR, and the ease of doing business in the DR.
- The educational opportunities that are offered to students that are in the footwear industry.
- The developing infrastructure and the resulting reductions in cycle times.
- The excellent access to ocean and airfreight services.
- Fast turn capability including air freight and delivery to the client.

N. Training and Development

There is an ample supply of people to perform the manufacturing tasks. The Dominican industrial training program INFOTEP provides the training necessary for the plant employees. The training required for Designers, Patternmakers, and Engineers is substantially different. The training for this level of staff requires not only classroom and on-the-job training, but exposure as well. Scholarships can be made available for select individuals to study in the US, Spain and other countries. The Fashion Institute of Technology in New York is a very good school for the training and development of designers, patternmakers, fashion coordinators, etc.

Recommendations: Start now to develop Designers, Patternmakers and Engineers for work in the DR Select several talented people for design school and provide scholarships for them to attend the selected school. Production Planners, Logistics Managers, Purchasing Managers will all be required in developing the industry. Provide opportunities for staff development by attendance at trade shows, and seminars as well a US and European shopping trips.

O. Product Development

Product Development, in addition to the production value, is also a management and sales tool, that can be utilized to great advantage if done correctly and rapidly; or if left alone, can be a sales loser. The development process in the traditional view was a tedious and time-consuming process that had to be repeated several times because the customer was never satisfied.

Today the view is different. The customer is expecting to see prototype within a reasonable time frame, and four weeks is not considered reasonable. Some product development training is underway now in a major manufacturer. The number of people being trained is small in comparison to the number of developers that will be needed as the industry changes from one of contracting to manufacturing. The weakness in the DR is a lack of trained talent for the development process. Designers, Patternmakers and Engineers are required.

Recommendations: Start now to train and develop Designers, Patternmakers and Engineers. Invest in the education of selected individuals as discussed in the segment on education.

P. Manufacturing

The DR has the capacity and the skilled operators to produce high quality footwear at competitive prices provided that the turn times are reduced. This is evident in the examination of the products produced and the comments by the top management of several companies. Many of the plants in the DR, however, are sorely lacking in modern manufacturing techniques. Much of the equipment should be updated by utilizing more modern sewing machines as well as attaching technology.

Modular manufacturing is a much more efficient system than the line system and reduces significantly the work in process levels as well as the turn time per order. The reductions of turn time result in products that can be delivered quickly and thereby reduce work in process and inventory. These are major selling points to potential customers.

Statistical Process Controls (SPC) can be a much better way to control the process than by inspection after the product is complete. Total Quality Management (TQM) involves everyone in the organization by improving all steps and processes rather than the narrow view of having one person as the “Quality” supervisor.

Lean Manufacturing is a management approach that seeks to eliminate waste at every level of the business. This includes paperwork, raw materials, management and manufacturing time, as well as faster deliveries. Modular Manufacturing, SPC and other techniques can all be a part of the Lean manufacturing strategy.

Manufacturers need to recognize that the time allotted for the development of a product in the world market, is a declining number. Companies are expecting the same performance that they are seeing in competing nations. DR companies must evaluate each step in the development process and reduce delays and the time required for each of the processes. The example so often repeated, is so often true, that a customer can get a sample or prototype in a matter of days or even hours in China, Taiwan and Korea as opposed to the four to five weeks that is often required in the DR. The threats are that the mind set will not change and the same practices will continue.

Recommendations: Conduct seminars and educate business Owners and Managers in modern manufacturing techniques such as Modular Manufacturing, Lean manufacturing, SPC, and other management strategies. Conduct seminars and educate business Owners and Managers regarding Industrial Engineering, Methods and Operation Standards. Conduct seminars and educate business owners and managers in modern manufacturing techniques such as Statistical Process Control (SPC), TCM and Modular Manufacturing. Conduct seminars and educate business owners regarding Industrial Engineering, Methods and Operation Standards.

Q. Product Line

High quality men's boots are made in the DR that rival the quality and sometimes the cost of the same boot made in China. Except for the plastic footwear made by the domestic manufacturers, the product line of the FTZ producers is heavily weighted toward men's boots and shoes. The US market for this product class is growing. The men's work footwear category grew at 5.8% from 2003 to 2004, for at total of 36.6 million pairs. The men's shoe market grew at 2.9% for the same period for a total of 232.6 million pairs (See Chart C-2 "US Consumption of Footwear by Category"). There is plenty of room in this market, and the DR should still enjoy growth in this product class.
Slippers are also produced in the D.R. and are a category that enjoys a substantial market in the U.S. The category comprises 5.9% of the market at 127.6 million pairs annually.

The DR would benefit, however, by expanding the product line in other directions as well. For example, the niche market recommended by more than one executive is high-end high quality men's shoes. The margins are higher and the labor cost is not as much a factor as for the lower priced shoes. Many of these higher priced men's shoes are now made in Spain, Asia or India of calfskin or kidskin.

The women's shoe market is the largest. Growing at 11.3% over 2003, the consumption in 2004 was 819 million pairs. Style changes are more frequent in the women's market making a complete infrastructure imperative.

Recommendation: The DR should continue to expand in the present market of men's boots and shoes, and at the same time attract high end men's shoe manufacturers to the Island. Women's shoes should be added to the product line as the infrastructure grows and the industry can sustain the needed supply chain. The industry should start now to put in place a marketing and sales effort to expand the offering by bringing other manufacturers to the DR.

R. US Trade Bills

CAFTA-DR legislation provides an excellent opportunity to develop the DR footwear industry and re-gain market share by providing duty free access to the US market for Dominican products.

The Miscellaneous Trade Bill of 2004 (MTB) amended the Caribbean Basin Economic Recovery Act (CBERA) and modified the rules of origin previously defined. The bill took effect in December of 2004. The previous rule of origin requirement of 55% of the value of the product to be of Dominican origin was reduced to 35%, in order to be classified as Dominican. There is an additional provision that up to 15% of the 35% can be of materials of US origin, or materials from other CBERA countries. The remaining 20% can be the Dominican labor or materials required to fabricate the footwear. These rules are in effect with the exception of 21 rubber footwear classified products. The impact of this legislation is potential. It can mean a substantial increased share of the US market. The liberalization of the rules of origin is in effect for 2005.

CAFTA-DR legislation that is proposed to go into effect in January of 2006 further liberalized the rule of origin and states that the assembly of the product is all that is necessary for the product to be considered Dominican and therefore qualify for duty free access to the US market. These rules are in effect with the exception of 17 rubber footwear classified products.[15]

Under these rules, components may come from many countries be assembled in the DR or any combination of CAFTA countries to be considered as Dominican and qualify for duty free access.

This provides the DR the opportunity to start assembling shoes of imported components while at the same time, building the infrastructure to support the industry.
The duty free access further reduces the cost to the customer providing an additional financial incentive for customers to look at the DR as a source of product.

The value of this legislation and the effect that it can have on the Dominican economy depends upon how rapidly the Footwear Industry in the DR can respond to the challenges and the needs of the customer by developing the infrastructure and delivery capabilities required by the customers.

[15] AAFA Comparison of footwear rule of origin and market access provisions with CBTPA (July 18, 2005).

S. Out of the Box Opportunities for Future Growth

The market niche that would be a good fit for the DR and one that was mentioned by more than one executive is the fine quality men's shoe segment. Fine quality men's shoes are now produced in Spain, Asia, Brazil and India as well as China. The shoes are generally made of calfskin or kidskins.

The DR could import these leathers and develop a good niche of fine quality men's shoes made in a fast turn plant and delivered rapidly to the customer. What is needed first is to locate a fine quality shoe manufacturer to move to the DR or to place his production in a local contract plant.

The DR does not have the land available for large cattle raising ventures. It does however have an excellent climate and terrain that is suitable for raising goats. Young goats provide the skins for the finest shoes. In addition to the fine hides and leathers that can be supplied here on the Island, other benefits can be derived.

- A goat cheese industry might be developed. Goat cheese is a delicacy in the US and sells for $3.00 per ounce in some US supermarkets. The Goat cheese industry could be a real benefit for the DR and an added bonus to the GDP.
- The meat derived from his operation opens other possibilities. Meat butchered under US Department of Agriculture (USDA) guidelines could become another export industry.
- The pasteurized milk can be sold as such or made into ice cream.
- Almost two million visitors come to the DR every year. Most of the shops at the tourist locations sell cheap trinkets made in China. There is an opportunity to market fine shoes, leather belts and other items made in the DR at these locations.
- Changes in the tax laws would be required to permit the flow of goods out of the FTZ to the stores in various tourist locations.

According to one local executive, the quality of DR hides is not very good because of the damage done to the hide by the barbed wire and thorns that grow locally.
The encouragement and development of and industry such as this would require an intensive education process for the growers. It would require them to adapt and change the way animals are kept and fed so that the quality of hides would equal the requirements.

SECTION V

SUMMARY AND RECOMMENDATION

SECTION V

SUMMARY AND RECOMMENDATION

CAFTA-DR can be the gate that opens the road for the DR to rebuild the footwear industry. The measure provides for duty free access for footwear assembled in the country. Much work has to be done however to lift the constraints imposed by government regulations, develop the infrastructure, modernize the manufacturing processes, educate staff, and become the source for fast turn, high quality footwear.

The DR must now enter the world market and encounter and beat world competition. In order to do this the plants should strive for world-class performance. That means world-class service as well as quality. Clients expect product to be developed within days rather than weeks; orders are expected to be on time and the quality must be according to specifications.

The steps in the process are categorized as Immediate, Near Term, and Long Term.

A. Immediate Steps

- The GODR should be pro-active in the following:
    - Reduce the excessive regulations regarding forming a new corporation.
    - Place electricity costs and dependability on par with other Caribbean nations.
    - Promote incentives such as building rent concessions and INFOTEP training assistance.

- Develop the footwear cluster organization
    - Combine FTZ and non-FTZ manufacturers into one organization.
    - Put in place a Director of the organization charged with the responsibility of meeting with business owners and executives all over the world, to present the advantages they would derive by doing business in the DR thereby attracting foreign direct investment (FDI) in the country.
    - Form cooperatives in securing sales orders, cooperative buying, warehousing, etc.
    - Improve the manufacturing technology applied in the plants such as Modular Manufacturing and Statistical Process Controls.
    - Conduct seminars on Lean Manufacturing, Modular Manufacturing, Statistical Process Controls, Logistics, and Work Measurement.
    - Develop Fast Turn Technology knowledge within the group.

- The cluster should expand the present production in men's footwear by doing the following:
    - Expand present product line production of boots and work wear.
    - Add high end, high quality men's shoes to product offering.

- Add mold, last , heel and sole manufacturing

B. Near Term Steps

- The cluster should pursue the development of the following activities and investments:
- Add infrastructure and supply chain to include:
    - Shoe laces manufacturer.
    - Shank and toe supplier.
    - Eyelets and buckles supplier.
    - Synthetics and reinforcements supplier.
    - Sheet foam supplier.
    - Fabrics linings and shell vendors.
    - Box printing and making.

- The cluster should promote the educational development of staff and operations at the Universities and INFOTEP.
    - Educate Product Development staff:
        - Patternmakers.
        - Designers.
        - Technicians.
        - Logistics Managers.
        - Engineers.

    - Educate Operations Staff:
        - Production Planners.
        - Logistics Managers.

- Develop fast service logistics including cooperative airfreight as a strategy for fast turn/ fast delivery.

C. Long Term Steps

- Complete the development of a complete supply chain in the country, including raw materials and components that are made in the DR as well as having wholesale suppliers that import materials for distribution and sale to the various plants.
- Further develop high end high quality men's shoes as market niche.
- Further develop women's shoe manufacturing.
- Develop kidskin leather making.
    - Develop goat herding as an industry.
    - Add additional benefit sectors such as cheese and meat.

SECTION VI

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SECTION VI

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ANNEX A

SWOT ANALYSIS

ANNEX A

SWOT ANALYSIS

A. General and Environmental

A1. Geographical location

i. **Strength**: The geographical location provides the advantage of three days shipping time vs. three to four weeks from the Far East.
ii. **Weakness:** N.A.
iii. **Opportunity**: The advantage of close proximity is valid only if response time is as short as the competition.
iv. **Threat:** Other developing nations are providing quick response services.
v. **Recommendation:** Educate business leaders and mangers on the need for quick response and the application of fast turn technology.

A2. Time zone

i. **Strength**: The DR has similar time zone whenever the US is on Daylight Savings time.
ii. **Weakness**: N.A.
iii. **Opportunity**: President Bush has recently proposed extending Daylight Savings Time in the US.
iv. **Threat**: N.A.
v. **Recommendations**: Take full advantage of the similarity during DST, and be flexible during the winter months.

A3. Transportation

A3a. Seaports

i. **Strength**: The DR has seaports in the North to serve the industrial cities there, and in the South to serve Santo Domingo and surrounding industrial areas.
ii. **Weaknesses**: Delays in the receipts of raw materials and the shipment of finished products are the result of a cumbersome paperwork process that is both a time and cost constraint.
iii. **Opportunity**: Consult with business leaders on the needs of industry and the new and more modern means by which the information may be transmitted.
iv. **Threat**: Security of shipments in both directions must be a major focus of the law enforcement community.
v. **Recommendations**: Streamline the paperwork process to make the process faster and cheaper, while at the same time maintain a high level of security of shipments.

A3b. Airports

i. **Strength:** The DR is well served by International airports that are located in Santiago for the northern industrial cities, in Santo Domingo for the surrounding industrial area, and in the East at La Romana, for that area and San Pedro de Macorís**.**
ii. **Weakness: N.A.**
iii. **Opportunity:** The DR has the opportunity to develop the marketing advantage of a fast response, fast turn service to the US and Canada.
iv. **Threat:** Not taking advantage of this asset.
v. **Recommendations:** Utilize the assets of well distributed airports in conjunction with a fast turn manufacturing strategy. Provide air freight service and shipment of finished products to the US and Canada by the coordination of shipping activities of several manufacturers.

A3c. Roads

i. **Strength**: The DR has an excellent road system that provides good access to seaports and airports.
ii. **Weakness:** N.A.
iii. **Opportunity**: Develop overall fast turn strategy.
iv. **Threat:** Other nations developing better road systems.
v. **Recommendations**: Utilize road system as part of a fast turn manufacturing strategy for industry.

A4. Education

i. **Strengths:** The DR has several universities in the larger metropolitan areas.
ii. **Weaknesses:** Much of the observed workforce is undereducated and not well prepared for responsible supervisory and managerial positions.
iii. **Opportunity:** Develop programs to improve educational levels.
iv. **Threat:** The DR cannot compete with many other nations on low cost labor alone**.**
v. **Recommendations:** Develop specific educational programs that fill the needs of industry

B. Governmental

B1. Democratic Government

I. **Strengths:** The DR has a reasonably stable democratic process that provides a change in government every four years.
II. **Weaknesses:** Viewed by other nations and industrial companies as weak.
III. **Opportunity:** Utilize this “window-of Opportunity” to position the country on the right course.
IV. **Threats:** The time required to “right the wrongs” of past administrations could be of long duration.

V. **Recommendations:** The position of GODR must be “pro-business” by changing regulations in order to make “doing business in the D.R easier. At the same time the DR must provide incentives to attract additional business and foreign investment to the country.

B2. Currency

i. **Strengths:** Attempts are being made to stabilize the currency.
ii. **Weaknesses:** The currency value fluctuates rapidly resulting wild swings in exchange rates.
iii. **Opportunity:** Stabilize value.
iv. **Threats:** Other nations such as some Central American countries as well as China have a more stable currency.
v. **Recommendations:** Work toward a stabilized currency.

B3. Electrical energy

i. **Strengths:** Attempts are being made to remedy a very poorly managed system.
ii. **Weaknesses:** The cost of electricity is much higher than in some Central American countries**.** The system is un-reliable and supply interruptions are frequent**.**
iii. **Opportunity:** Provide reliable supply of energy, even if at a slightly higher cost**.**
iv. **Threats:** High cost and un-reliable supply of electricity might thwart some foreign investment prospects.
v. **Recommendations:** Segregate the industrial rates and supply and make the rates competitive with other Caribbean countries.

B4. Taxes

i. **Strengths:** Free Trade Zone’s provide tax haven for four more years.
ii. **Weaknesses:** The tax structure is punitive to the domestic producers when importing from free zones in the DR.
iii. **Opportunity:** Level the playing field.
iv. **Threats:** Some taxes inhibit intra-country transfer of components.
v. **Recommendations:** Begin now to develop tax plans for 2009. Eliminate tax constraints on domestic producers and intra- country product transfers.

B5. Regulation and Documentation

i. **Strengths:** There are processes in place that control incorporation regulations, bankruptcy, Imports, and exports shipments and receipts. There are also processes in place to allow foreign investors to establish corporations in the DR
ii. **Weaknesses:** These processes are slow, cumbersome, and are inhibitors to business growth and development.
iii. **Opportunity:** Update the regulations, system and process.

iv. **Threats:** Other nations enacting regulations that make doing business easier, not more difficult.

v.

vi. **Recommendations:** The industry association in conjunction with USAID should consult with the proper GODR officials to enact legislation to relieve the burdensome incorporation process as well as streamlining the cumbersome import and export paperwork system. Industry leaders can advise the GODR as to the application of technology now present that can be applied to the process.

B6. Travel

i. **Strengths:** Available airports with connections to the US, Canada, Europe as well as South and Central America.

ii. **Weaknesses:** NA

iii. **Opportunity:** Provide educational opportunities for selected students to attend trade shows and seminars in other countries.

iv. **Threats:** Emerging nations provide educational travel opportunities for selected students.

v. **Recommendations:** Industry must rely on the continual development of its staff. Seminars, trade shows, and staff meetings are a part of this development. Industrial Managers recognize this need and require certain staff to travel to these events. The Ministry of Education can provide for selected students that have an educational focus of the footwear industry, opportunities to attend this kind of educational venue.

C. Industry Specific

C1. Infrastructure

I. **Strengths:** The DR has a competent leather tanning industry that has additional capacity for footwear growth. The DR chemical industry can provide the necessary compounds for compounds such as plastics, soles and adhesives.

II. **Weaknesses:** The DR has no mold or last makers, no common supply of synthetics, no major supplier of laces, eyelets, shanks and other parts.

III. **Opportunity**: The development of a complete component supply chain in the DR

IV. **Threats**: Other developing nations are also developing a full supply chain of vendors.

V. **Recommendations**: Provide incentives for companies from other countries to locate their businesses in the DR so that the needed supply chain industries will be readily available.

C2. Marketing

i. **Strengths**: NA.

ii. **Weaknesses**: There is no cohesive marketing strategy for the industry.

iii. **Opportunity:** To develop footwear industry focus and market strategy.
iv. **Threats:** Lack of marketing skills for industry development.
v. **Recommendations**: Hire marketing firm to assist in the development and promotion of the marketing strategy.

C3. Training and Development

i. **Strengths:** An existing pool of talented people that is trainable in the DR**...**
ii. **Weaknesses:** No structured training programs for Designers, Patternmakers, and Management.
iii. **Opportunity.** The Dominican Ministry of Education provides scholarships for study abroad.
iv. **Threats:** Other countries are developing complete infrastructure of design through delivery of product.
v. **Recommendations:** Select several talented people for educational opportunities at such schools as the Fashion Institute of Technology in New York as well as other schools.

C4. Product Development

i. **Strengths:** Some product development training is now underway in a major manufacturer.
ii. **Weaknesses:** Two to three weeks is required for the development of a prototype product in the DR**.** The manufacturers in China can develop a prototype and provide a cost in a matter of hours and days.
iii. **Opportunity:** Reduce the product development process time, and utilize the geographical proximity to the US to provide a rapid response product development cycle.
iv. **Threats:** Countries and companies that can deliver developed products rapidly will get the business.
v. **Recommendations:** Develop an industry cooperative to develop designs, molds, and lasts to provide fast turn prototypes.

C5. Manufacturing

i. **Strengths:** The DR has excellent demonstrated operator skills and quality of products produced. Hand sewing skills are recognized as excellent.
ii. **Weaknesses:** Some DR plants have outdated equipment and antiquated manufacturing processes. The old equipment and processes should be upgraded to improve efficiencies and reduce throughput times.
iii. **Opportunities:** The DR companies can share technology to improve overall industry performance and reduce throughput times.
iv. **Threats**: Failure to modernize manufacturing processes and change mindset will result in sluggish growth and loss of business opportunities.
v. **Recommendations:** Educate owners and Managers regarding Statistical Process Control (SPC), Modular Manufacturing (MM) and Lean

Manufacturing (LM) as well as other concepts. DR companies must update machinery, processes and manufacturing strategies.

C6. Product Line

i. **Strengths:** High quality men's boots are produced in the DR at costs that rival the Far East.
ii. **Weaknesses:** The DR product line is narrow, allowing for growth within the three major American companies.
iii. **Opportunity:** The CAFTA-DR legislation provides opportunities to expand product line offering by allowing duty free access to the US market for footwear products assembled of imported parts
iv. **Threats:** The DR will need a complete component supply chain to compete in the fashion footwear market.
v. **Recommendations:** The industry should continue to build the men's work footwear segment while at the same time focus on the development of the high end footwear business. That segment uses higher quality leathers and relies on quick turn of inventories. The Women's footwear segment is a real opportunity, especially for the Polyurethane molded shoe market.

C7. Industry Organization

i. **Strengths**: An industry organization does exist.
ii. **Weaknesses**: The organization is ineffective.
iii. **Opportunity**: The organization can be re-focused to promote industry growth.
iv. **Threats**: The lack of leadership combined with apathy and inaction are the greatest threats.
v. **Recommendation**: Provide to the industry organization a director to lead and direct the revitalization, marketing and educational efforts of the industry.

C8. CAFTA-DR

i. **Strengths:** Provides country of origin advantages and duty free access to the US market.
ii. **Weaknesses:** Other countries in the Central America have the same advantages.
iii. **Opportunity:** The opportunity to build the product line while building supply chain infrastructure.
iv. **Threats:** Lack of complete supply chain in the country.
v. **Recommendations:** Utilize CAFTA-DR to best advantage while developing a complete supply chain infrastructure.

ANNEX B

PERSONS CONTACTED

ANNEX B

PERSONS CONTACTED

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ANNEX C

SCOPE OF WORK

ANNEX C

SCOPE OF WORK

United States Agency for International Development (USAID)
Dominican Republic

Chemonics International, Inc., Contract No. PCE-1-830-98-00015-0

Scope of Work
Export Competitiveness Study on Footwear

This Scope of Work (SOW) provides the background and specific tasks required to contract consultants to prepare a strategic report on the footwear sector in the Dominican Republic (DR), examining the opportunities for and constraints on the DR's competitiveness in this sector, and recommending a strategy with specific initiatives to resolve near-term barriers to growth and set the stage for accelerating industry export development.

BACKGROUND

The export sector has been an important source of growth for the DR. Over the 1990-2000 decade, DR exports increased from US$850 million to US$4.8 billion. Three important factors influencing the growth in exports were the proximity to the US market, the Free Trade Zones that provided incentives for investment in the DR, and the textile and apparel quota system that provided market advantage to the DR.

The Central America, United States (US), DR Free Trade Agreement (CAFTA-DR) was signed on August 5, 2004, and will probably be ratified by all the legislative bodies in every country during 2005. This provides duty free entry to the US market, subject to some constraints. The Agreement is likely to significantly enhance trade between the participating nations, creating new opportunities, as well as possible threats for specific sectors.

The Free Trade Zone (FTZ) system will change significantly. Under current WTO rules, FTZ benefits are considered export subsidies and must be phased out by 2009 for all countries with a per capita income greater than $1,000 (a formula has been established to adjust the threshold income level, originally set in 1994, to account for inflation), including the DR.

The DR export sector must prepare for these challenges. The Export and Investment Center of the DR (CEI-RD), the Dominican Association of Free Trade Zones (ADOZONA), the National Competitiveness Council (NCC) Secretariat and USAID/DR have been engaged in discussions on how USAID/DR can assist them in meeting the challenges facing the sector.

The activity described below will assist the above organizations to collaborate in the development and implementation of strategies to address these challenges. The objective is to analyze the potential of the footwear export sub-sector to increase production and exports and become a leading growth sector for the DR economy. As part of the analysis of export growth potential, the Consultant will identify the constraints, domestic or foreign, that must be addressed for the sub-sector to fulfill that role, and recommend actions to be taken to address the constraints. These recommendations will be utilized by CEI-RD, ADOZONA and the NCC Secretariat to implement export development strategies necessary to accelerate export growth in the footwear sub-sector and to address the constraints to accelerated growth in the sector. They may also be used to develop and conceptualize assistance – both donor and public sector – to the industry.

As sectors that have served as traditional sources of growth in the Dominican economy mature, there is a need for the identification and promotion of new growth sectors that will serve as growth poles. The DR is fortunate to have several sectors which appear to have rapid growth potential. What is required is an analysis of their growth prospects, the sources of competition and the policy or other constraints that could limit that growth.

The consultant's report will examine the opportunities for and constraints on the future competitiveness of the DR in the export of footwear. The report will recommend areas on which to focus and recommend a strategy with specific initiatives, as appropriate, to resolve near term barriers and accelerate export growth.

OBJECTIVE

The objective of this study is to prepare a strategic report on the footwear sector in the DR, in the form of a SWOT analysis (strengths, weaknesses, opportunities, and threats) that will present to public sector and industry leaders a clear picture of where the DR is positioned at this time to compete in the global market place (including niches, competitors in these niches). The consultants will outline steps required to enhance this competition at both a macro level but also concrete steps that can be taken over the short run. In effect, the consultant will recommend a strategy with specific initiatives to resolve near-term barriers to growth and set the stage for accelerating industry export development.

TASKS

The Consultants will perform the following tasks:

- Interview key stakeholders in the DR, such as the CNC, ADOZONA, CEI-RD, and companies operating in the DR in this sector.

- Analyze the potential of the export sub-sectors (niches) in footwear to increase production and exports and become a leading growth sector for the DR economy.
- Based on available data and the consultant's knowledge of the industry provide benchmarking background on leading competitors, including their own strengths and weaknesses, for example, known incentives provided by countries to attract foreign direct investment (FDI) in the industry.
- Describe the role that FDI plays in the industry of leading competitors. If FDI is essential to building a successful industry, what steps must the DR take to generate it?
- Identify the constraints and threats, domestic or foreign that must be addressed for the sub-sector to fulfill that role, and recommend actions to be taken to address the constraints.
- Identify the impact of CAFTA on the industry, especially the opportunities that CAFTA may represent in generating market access to the US and the Central America region. The contractor will quantify this impact in terms of increased sales and employment.
- Map the key players throughout the supply and value chain in the shoe sector, from raw materials suppliers, manufacturers, transportation, exporters/distributors, as well as other stakeholders that potentially contribute to the sector's productivity such as institutions of higher learning, technical schools, etc.
- Present an outline of the report within 10 days of the assignment.
- Present a draft report to the Competitiveness and Policy Program (CPP).
- Incorporate observations made by report reviewers.
- Make a formal presentation to a wide audience of stakeholders in this sector in the DR, with emphasis on CAFTA implications and opportunities.

DELIVERABLES AND OUTCOMES

The Consultants will deliver to USAID/DR:

a) A strategic report/SWOT analysis on the footwear sector in the DR, examining the opportunities for and constraints on the Dominican Republic's competitiveness in this industry, and recommending a strategy with specific initiatives to resolve near-term barriers to growth, provide a long-term vision, and set the stage for accelerating industry export development.

b) The report will be delivered in Microsoft Word (Arial 12) in digital form and hardcopy (25 copies). English is acceptable.

c) A Power Point presentation of the major findings of the report.

Intellectual property rights of the reports, presentations, research, data and work produced by the consultant is of Chemonics. All the drafts and materials obtained during

the consultancy must be delivered to Chemonics International upon completion. The consultant agrees not to publish or make any other use of the materials without previous written approval from Chemonics and USAID.

IMPLEMENTATION OF THE TECHNICAL ASSISTANCE

The consultants will be contracted by Chemonics International under a task order from USAID, and will be under the supervision of Dr. Ruben Nuñez from the CPP. The consult will also coordinate his work with Lic. Lynnette Batista from the CNC.

LEVEL OF EFFORT

The level of effort is estimated in 23 person days. Time in and out of the country will be agreed upon between the consultant and Chemonics.

REQUIRED QUALIFICATIONS

The Consultants will have the following qualifications:

- Proven, excellent, first hand knowledge of the markets of footwear, mainly what is produced in FTZs around the world and market niches where the DR competes.
- A minimum of 10 years related industry experience in academia, private industry and, preferably, a combination of both.
- Knowledge of the international footwear industry.
- Good oral communication in Spanish for one of the consultants.
- Excellent oral communications skills and ability to conceptualize and identify market opportunities.
- Excellent writing skills and ability to produce a good written report and a power point presentation.