



Where are we now and where should we go?

# GAP ANALYSIS OF FOOTWEAR SECTOR



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## Introduction

CREDO Krajina is a project financed by the Swedish International Development Agency – SIDA and implemented by the Development Agency EDA, Banja Luka, in cooperation with the Association for Development – Nerda, Tuzla. The aim of the project is improvement of competitiveness of medium and small size companies in the area of Krajina, in order to create and maintain jobs, reduce poverty and improve the economic status of this area. The project should support creation of around 200 new jobs and maintain up to 1000 jobs in the companies/sectors encompassed by the project interventions. The CREDO Krajina Project lasts for 30 months and it consists of several phases and components. Through an initial analysis of the priority commercial sectors, a selection of industrial sectors with a significant potential for creation of new jobs was done and representatives of companies from these sectors, through sectoral boards, defined priority needs for advisory assistance and training. Additionally, a part of an advisory and financial assistance is directly aimed towards the municipalities with intention to significantly improve local business environment and establish a permanent and efficient dialogue with the private sector.

This analysis is based on the two previously performed analyses within the CREDO Krajina Project. The first one is “Baseline Study of the Industrial Sectors”, the aim of which was to explore and identify the sectors with the biggest potential for growth of competitiveness and growth of employment. On the basis of this analysis, a decision was brought that the CREDO Krajina Project will focus on the sector of metal industry, food processing industry, wood industry and leather and footwear industry. The second analysis is the value chain analysis for footwear sector. The focus of this analysis was on the production, processing, distribution and sales together and this has enabled us to analyze each step in its comparison to the previous one and to compare it to the next step in the chain. The results of this analysis are being used to a great extent as a basis for the GAP analysis.

GAP analysis has offered an overview of the situation in the footwear industry, from the point of view of comparing the current reality with desirable possibilities offered at the market. GAP analysis is a business analysis tool, which implies defining of differences between the current and desired state and manner of functioning of the branch.

In its basis, the GAP analysis asks two questions:

- Where are we now?
- Where do we want to be?

This document consists of the three basic parts. The first part is a description of the current situation, which starts from the situation on the market and it describes a way in which the producers and the whole value chain correspond to the demand from the market. The second part shows what a desired situation would be, that is, it responds to the question what this branch would look like, if its developmental potentials would get achieved. The third part is related to determining the gap between these two states, the so-called gaps and their description. Specific measures for overcoming the gaps are defined in the process of work with the Footwear Industry Sector Board.

*We thank all the companies that participated in the survey, sectoral coordinator Aleksandar Draganić, sectoral expert Zoran Grumić, members of the Sectoral Board and workshop participants. We owe special gratitude to Shawn Cunningham and Frank Waeltring from German company Mesopartner and Zdravko Miović, the director of Eda, for the advisory support in preparation of the analysis.*

## 1. Where is the leather and footwear industry today?

The area in which the CREDO Project is being implemented has a long tradition and a good international reputation when it comes to the leather and footwear industry. Progress has been made in the modernization of production units and introduction of new technologies, with the aim for the whole sector to become a part of the global market. This area has an experienced and qualified labor force with fine knowledge and practical experience. Its close vicinity to the markets of the Western and Eastern Europe is its main advantage. Leather and footwear industry owns capacities and good reputation on the European market. New partnerships have brought new equipment and know-how in company management.

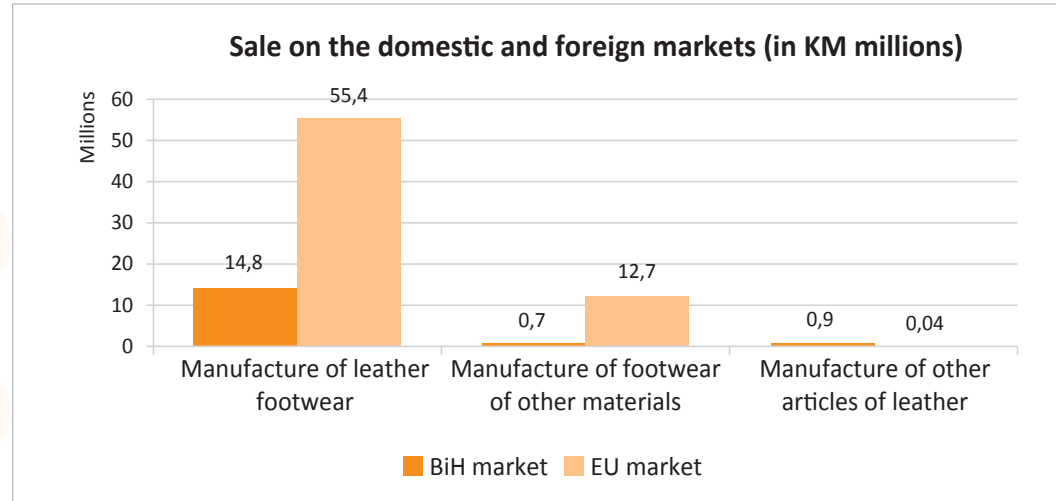
Leather and footwear sector, in 44 companies, registered for these activities, employs 4,150 employees. Total income that is realized in the area of all the 34 municipalities, in this sector, is about KM 90 millions. Out of that, about 80% of it goes to export and profit rate is about 7%. This confirms that the sector, on the whole, has a positive business and is strongly export-oriented. The biggest number of activities is in the production of leather footwear, where 33 companies operate and the remaining 11 deal with either production of shoes made of other materials or production of leather accessories.

### Market position of footwear industry

Total sales that the leather and footwear industry realized in the area of all the 34 municipalities is about KM 90 millions. Out of that, about 80% goes for export and KM 6 million is the realized profit. This shows that the sector, on the whole, operates positively and is strongly export-oriented.



Graph 1 - Sale on the domestic and foreign markets (in KM millions)



Source: APIF RS and AFIP FBiH

On the basis of researches performed until now, it may be concluded that the biggest dynamic is to be found in the leather footwear production sector. This is confirmed by quantitative and qualitative indicators (qualitative assessment of participants in research). All the other activities within this sector are to be neglected.

The companies that have marked high growth rates of production and growth of the number of jobs are mainly oriented towards external markets. This is why all the bigger companies are export-oriented, while those who do not export are mainly smaller companies.

The most significant market, which leather and footwear industry producers work for, consists of large European producers. This is related to several leading countries in this branch – Germany, Italy, Austria, etc. It must be emphasized that individual producers have made finished shoes for large international brands. Thus, for example, Sanino, Derventa, produces for Adidas, while Sportek, Kotor Varoš, for Nike, soccer shoes worn by the most famous international soccer player.



*Cristiano Ronaldo wears football boots that firm Sportek is producing for Nike*

European producers annually produce about 2.1 billions of pairs of shoes, in the value of about 49 billion Euros. By this, the EU covers about 5% of international production. Even though this seems small in the international context, it must be emphasized that the European producers focus on high market segments, where a decisive role is the role of design and high quality of shoes. Also, there is a trend, according to which European producers move direct production from the Far East, to the areas inside the EU or in the close vicinity of the EU. This happens because of the increase of production costs in the Far East and, more importantly, long delivery times and lack of flexibility of producers from the Far East. Also, one of the reasons is that this area of Central and Eastern Europe, when globally observed, produces the highest quality leather (because of the breed and manner of cattle breeding), which is important for a high quality of footwear, which the European producers are focused on.

**The key reason why our companies may do business with large European producers is their ability to produce footwear of top quality, with flexibility for customers' demands, short delivery times and a relatively low price.**

Producers, in the area covered by CREDO Project, are concentrated in 4-5 municipalities in which there is 90% of production of shoes in this area. Domestic production of shoes has a long tradition, from the former SFRY, where the production of shoes was done in several large socially-owned companies. Majority of owners/directors of the present factories used to be directors of those companies from the previous system, which are well familiar with the market and have connections with the old, particularly, European customers.

## The creation of value added in lohn production

Dominant relations with the European customers mean production under contract, according to which the customer is also a supplier of raw materials. This is the so-called lohn production, where, in principle, it does not create a lot of additional value. However, the analysis of value chain has come up with some surprising knowledge in this area. Namely, not all lohn production is the same. The usual assumption, that the lohn production does not create a lot of additional values, has proven to be accurate with one part of the producers, most often with those less developed. Such companies mainly produce and export only upper parts of shoes, the so-called 'upper part', while all the other operations are performed elsewhere.

### *Partial lohn production*

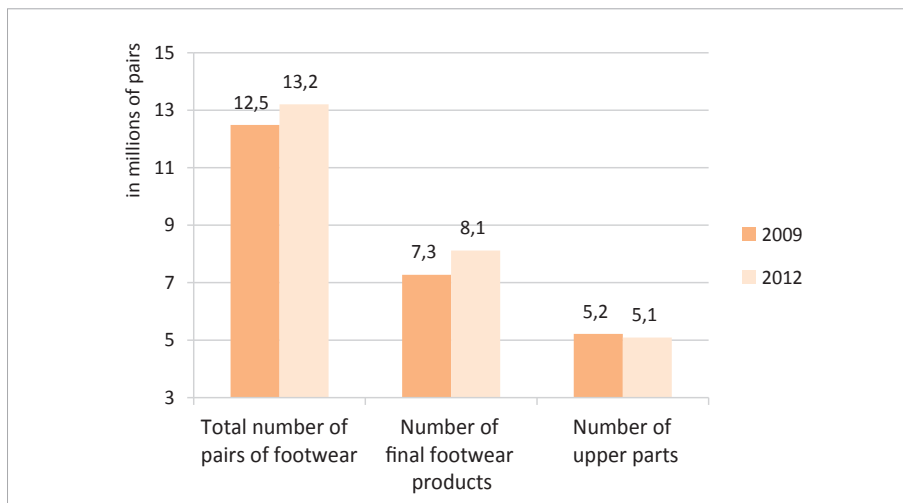


### *Integrated lohn production*



However, it is surprising that the lohn production, in which there is a higher degree of integration, creates much more added value. The higher the degree of integration in production, the higher the added value. Also, there is a noticeable trend that the producers have advanced from simple operations towards the integration of several operations to the integrated production of finished shoes.

Graph 2 - Number of produced pairs of shoes in the RS (in millions of pairs)



Source: Statistical Institute of the RS

This is seen according to data on production shown in Graph 11, where the number of exported pairs of finished shoes has significantly increased, whereas the total number of exported pairs of upper shoe parts has declined. There is also a small part of the companies trying to develop and produce domestic shoe models; however, this presents less than 5% of production. Those companies mainly produce shoes for the domestic market – private and public consumption.

### Production and technology

Our most advanced shoe producers are not far from their competitors today in terms of technology and machines used in production. The other producers have sound, but old equipment. New technology and machines usually come from large European companies. This equipment comes with production of new series and models, on the basis of the contract between a foreign partner and local producers. What has been noted is that the majority of domestic companies do not have sufficient capital for purchasing of such equipment.



*Production facility, „Sanino“ Derventa*

There is another shortcoming. Namely, majority of European producers have developed capacities for technical development and preparation of production (transformation from the designer drawing to complete technical documentation ready for production). Our companies still lack this capacity.

It is the same thing with the design. Majority of European companies either have their own design or they hire specialized designing companies. Our companies do not even have this function. Surveyed companies believe that it makes no sense to develop this function within individual producers, as one designer or a designing company can serve the whole sector in the region.

### Supply of raw materials

What is obvious, in terms of raw materials, is that almost 100% of input materials are being imported. A chronic problem, which occurs from one year to the next, is the lack of leather production, as the main raw material. During the SFRY times, this area accommodated some very successful plants for leather production, but they got closed after the war. Currently, there is only one factory which, nominally, exists, but there is no production in it.

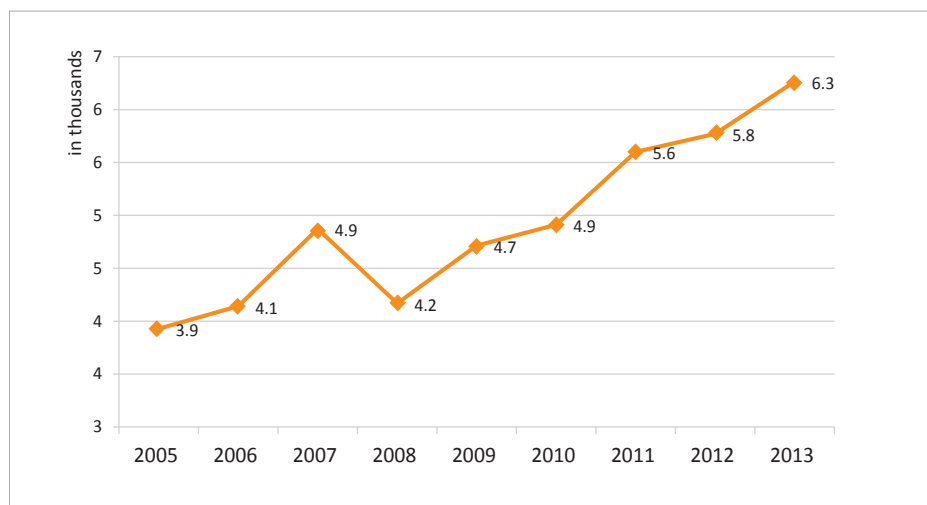
This is rather negative, as one of the most significant determinants for competitiveness and creation of added value in the shoe production is precisely the leather production. This is particularly unfavorable,

bearing in mind the quantity of raw, untreated leather that is exported from BiH. In 2013, the value of about KM 125 million of leather was exported from Bosnia and Herzegovina, while our processing companies, from the area covered by the CREDO Project, exported the value of shoes of about KM 60 millions. What is even worse, according to information from shoe producers, a part of raw leather is even thrown away. Namely, this is a huge shortcoming, which, if resolved, could significantly increase the potential of this industry.

### The work force

Present labor force in the footwear sector is qualified and well trained; however, the problem here is that the age structure of workers in this industry is disadvantageous. The biggest part of well qualified workers consists of the ones who used to perform this job in the previous system, they are relatively older and they may be expected to retire in a while. The biggest problem here is the lack of new qualified workers, who could replace the ones who are about to retire and respond to the needs of production increase.

*Graph 3– Number of employees in footwear production in the Republic of Srpska (in thousands)*



Source: Statistical Institute of the RS

As we can see in Graph 12, the number of employees in this sector has increased a lot in the last nine years. In 2013, the number of employees increased by 494 employees. However, in 2013/2014 school year, only 144 secondary school students specialized in footwear production. This is very little compared to the needs. Producers, in this situation, tend to have change of qualifications of people with other secondary education, which creates additional costs to companies. Such people get employed and receive their salaries while being trained and, also, those who train them work less in production, etc. and all this costs. Even though increasing of employment is one of the most discussed themes in the society, when it comes to change of qualifications, majority of companies have no support. An exception is the company Sanino, which, supported by the project “Prilika Plus” by the SME Development Agency of the Republic of Srpska, created a Training Center for footwear workers, which has already trained 65 people. It should be noted that it is expected that the Faculty of Technology in Banja Luka will open a department for specializing in footwear production, so, in 4-5 years we could expect to have educated engineers and designers in this area.

### Cooperation between the companies

Currently, the cooperation happens at an ad hoc level, depending on individual initiatives between individual companies. Generally speaking, cooperation between companies is at a low level, unlike in the EU and developed world, where the companies often intensively cooperate. The producers often perform similar activities, but all do it separately for themselves, even though they could have a joint approach to achieve better results. This is also related to small companies that produce its finished goods, which mainly operate as independent.

In the previous system, all the producers of leather and footwear were organized in the so-called complex organizations of associated labor (SOUR), which have mostly encompassed one whole value chain, from production of raw materials to final products. In our area, SOUR Krajišnik has encompassed all the leather and footwear producers in the municipalities of Banja Luka, Kotor Varoš and Laktaši. As we have said already, the owners and directors of the present companies in this area come from the previous system and have the knowledge and experience in connection and joint work of several connected companies.

## Support and development institutions

Public policies for development of this and other industrial sectors are mainly based on empty phrases and those documents are mostly a dead letter on a piece of paper. Those policies are not adopted without significant consultations with business companies, they are often not developed into specific activities and project tasks, no financial constructions are made for the realization of priority projects and there are no reports on realization of those projects either in public or in professional circles.

Except for the Chambers of Commerce, the leather and footwear industry companies are rarely members of some other business associations. The RS Chamber of Commerce is an institution, which is a main RS Government partner in terms of representing the private sector in defining different public policies. Leather and Footwear Department, within the Chamber, was very active in the area of advocating for and lobbying for different initiatives, with more or less of success. In principle, the initiatives towards the state institutions at the BiH level for a change of certain customs regulations had no results. At the same time, the entity level had more of an understanding for these initiatives, including the subsidies by workers or financial support for competitiveness and export.

SME Development Agency of the RS is an institution that has supported establishing and development of small and medium-size companies and entrepreneurs in the Republic of Srpska and it has a task to create a system to support to small and medium-size companies. As we have said already, the most significant project for the footwear sector inside the SME Agency of the RS is the project “Prilika Plus”, financed by the Swiss Government and it has supported establishing of a Training Center at the company Sanino. Until now, this Center has trained 65 workers, which later got employed at the Sanino company.

Generally, no cooperation exists between the sectors and education institutions (secondary schools or faculties). The Faculty of Technology of Banja Luka has no programs that deal with the production of footwear or design of these products. Even though the production of shoes generates constant growth and increase of employment, there are very few secondary schools that educate shoemakers and other relevant profiles. The reason for this is the lack of measures of public policies that would connect the education system with businesses. The first specific activity between the faculty and footwear producers is expected to happen to the end of this year. Namely, Faculty of Technology of Banja Luka is planning to introduce a new study program related to the production of footwear and design. Currently, the program has not been accredited yet and this will be done to the end of the year.



## Financing of investments

One of the big problems that companies are currently facing are unfavorable lending conditions. Banks are “very expensive”. Commercial lending rates are much higher in comparison to the EU. Thus, for example, for loan in Slovenia and the same amount and the same purpose, the interest rate is 3.9 % and 6.62 % of BiH.

The positive thing mentioned by businessmen themselves in financing investments are subsidies given by certain ministries. As for the footwear industry, the most common form of subsidy is the one for increasing competitiveness. The aim of subsidy is supporting the implementation of development projects of economic entities, in order to improve their development, improving competitiveness, establishing quality systems as well as increasing employment. The maximum amount is 200.000 KM.

In addition to the grants that are awarded, it is certainly important to mention the assistance to the sector through credit lines of Investment-Development Bank of the Republic of Srpska. The amounts range from KM 30.000 to KM 5,000,000, depending on the purpose and form of organization of users, the payback period is 1-15 years, grace period ranges from 12 to 24 months, with interest rates ranging from 4 % to 4.9 %. However, some business respondents complain that these loans can be obtained only by political affiliation and that they are not equally available to all.

## Business environment and framework conditions

Companies from footwear industry are in a disadvantage in terms of the environment in which they operate, in relation to European competition. Unlike us, cities, regions and countries in EU are fighting to attract firms, in order to employ people and pay taxes on their territories. Therefore, the conditions in which firms operate in the EU are much more favorable.

We have a completely opposite situation. Existing tax legislation indicates that the real economy is burdened with many tangible and intangible liabilities. For example, in the RS tax rates are formally low (profit tax 10% and VAT 17%), but the legislative is very complicated, so the company is obliged to adhere to over 20 laws related to fiscal and parafiscal charges, and about 30 laws that talk about the penalty provisions. The firms submit more than 100 different applications and forms in the course of the year. In the Federation, the situation similar for many things, except for one, significant, positive exception.

Export-oriented firms in Federation are supported by fiscal stimulus measures. Namely, all companies that export more than 30% of total sales, do not pay profit tax. This is a significant incentive and positive move of decision-makers in the area of fiscal policy.

This is an exception, but generally most of procedures are harder and more complicated for firms, because these procedures are a source of “institutional rent”. For example, process of issuing building permits and other permits is very complicated and laborious task, and requires a significant financial effort and a large number of administrative procedures. There are also some incongruities that make life difficult for firms. State or entity may be delayed in payment to firms (public procurement, VAT, etc.), but the reverse is not possible. It often happens that the state has debt to particular company, but the company still has to pay its debts to state. Also, BiH as a state has not adopted the regulations and directives of the EU in terms of technical requirements and characteristics that products must meet, so it is necessary to meet the criteria and procedures specifically designed in Bosnia and Herzegovina.

These are just examples, there are more of them and we are not going to state all of them here but it can be concluded that the legal and institutional framework in which the economy operates is very complicated, there are intricate and lengthy procedures that require a lot of costs, formal and informal, and that those who make decision on this framework often do not understand the conditions under which the economy functions.

## Culture and values

Modern approach to economic growth and development means that the productivity and competitiveness of a country are not conditioned by its material assets - natural resources , physical and financial capital, but by “intangible” characteristics of the population - the quality and quantity of knowledge, entrepreneurship, creativity, innovation, work ethic. Only societies that value highest civilizational characteristics such as creativity , knowledge and work can, in modern conditions, count on greater prosperity . In such societies , these values play a major role not only in the economy but also in the building of social structures , in general change in education, culture, mentality and quality of life.

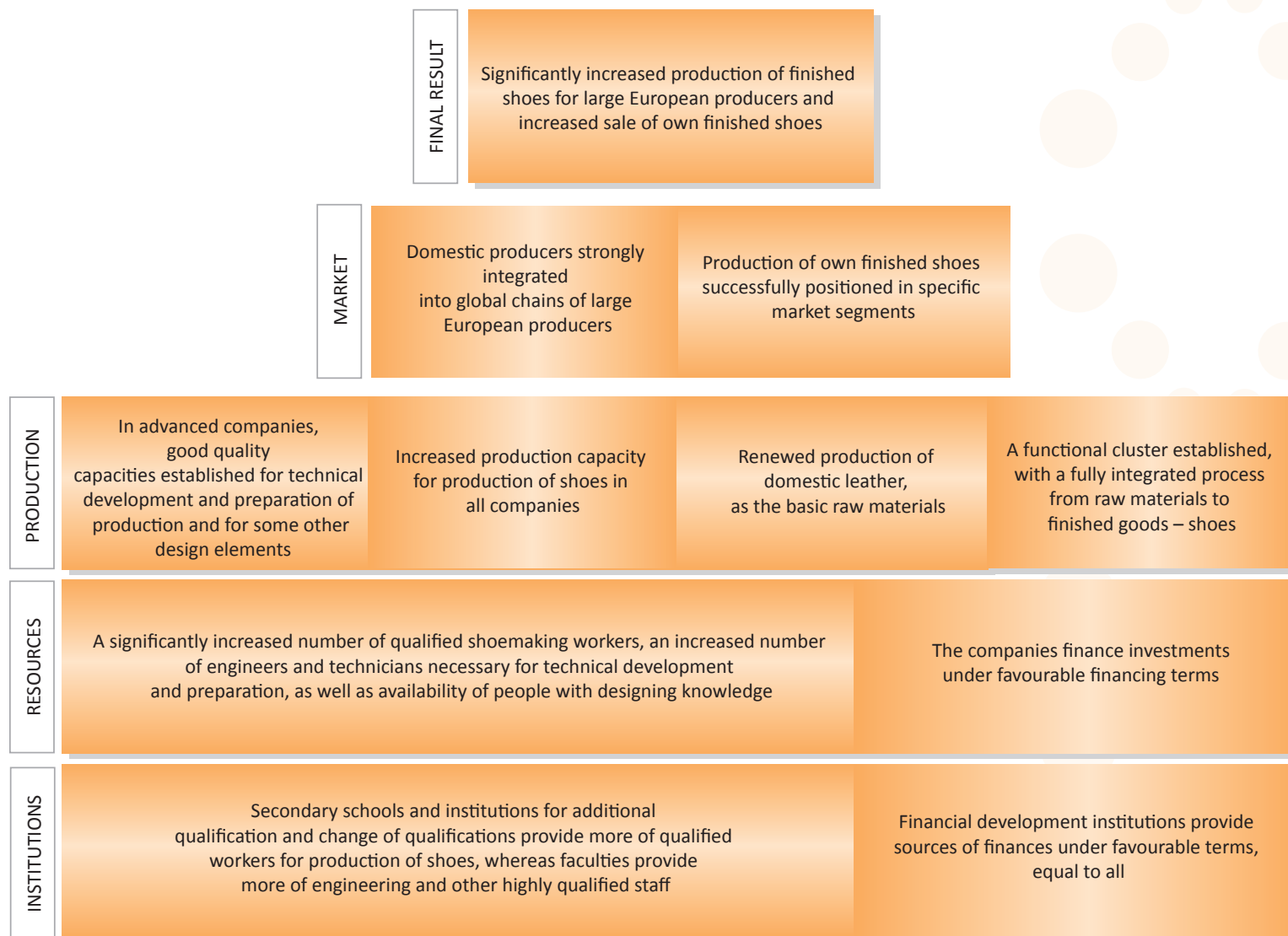
However, characteristics valued in BiH, unfortunately, are not these. Neither RS , nor FBiH are a society that creates fertile ground for highest civilizational characteristics such as creativity , knowledge and work. In our society , instead of knowledge and ideas there is more focus on party and family ties, instead

of hard work, ability to accomplish things without work is valued more. In our system of values least valued are those that create most of new, added value, which is not possible without creativity, knowledge and work. It is well known that the business people from the real sector are often on the margins of society by reputation. Even the common name for the business people - "privatnik" has negative connotations and bad reputation.

This is supported by scientific research in this field. Lack of confidence among the people of Bosnia and Herzegovina recorded in these studies, is a direct result of poor system of values. According to these studies (eg, Salaj 2008, the European Values Studies), measured general level of confidence shows that only 16 % of inhabitants believe that most people can be trusted. Let us remind that in countries where the creativity, knowledge and work are highly valued, such as the Scandinavian countries, according to the same research, 60-65 % of people trust other people.

Having this in mind, it becomes clear why are institutions uninterested in economic development, why "privatniks" have a bad reputation, why business associations are weak, why there is no real dialogue between business and government, and why, at the end, there is no compelling vision and development strategy. Because of this value system we have fallen into the trap from which it is difficult to get out. Our society does not value creativity, knowledge and work sufficiently, and the result is current situation - low creation of new, added value, low productivity and slow development. It is therefore important to support the producers in the footwear sector, because they are the exception to the rule and a positive example of how creativity, knowledge and work can create good results.

## 2. Where do we want to get to?



### 3. Which are the most significant gaps to be overcome?

On the basis of the so-far performed analysis of the existing situation and projections of a desirable future state, it results that the most significant gaps, to be overcome between these two positions, are as follows:

- Qualified labor force
- Technological aspect of production and business processes
- Cooperation between the companies
- Lack of domestic raw materials

#### Qualified labor force

Footwear production sector has been on a strong and continuous growth, with an increasing need for qualified shoemakers. The biggest problem here is the lack of new qualified workers, who could replace the ones getting retired and respond to the needs of production increase. This presents a significant problem for further growth of this sector.

What the education system produces is insufficient. As we have stated already in the analysis of the current situation, during the last year, the number of employees increased by 494 employees, while, at the same time, only 144 secondary school pupils got enrolled into the shoe-making department. This is very little compared to the needs. Producers, in such a situation, over bridge the issue by doing re-qualification of people with other occupations, which creates additional costs to companies. Those people get employed and get their salaries while being trained and, also, those who train them work less in production, etc. all of which creates costs. Even though the increase of employment is one of the most mentioned topics in the society, in the area of re-qualification, the majority of companies do not receive any support. An exception is the company Sanino, which was supported by the project “Prilika Plus” (Opportunity Plus) of the Agency for SME Development of the Republic of Srpska and it created a Center for Training of Shoe-Makers, where 65 persons were trained already. Such initiatives could be larger if we want to have undisturbed growth of this sector.

Also, it is expected that opening of a department for production and design of shoes at the Faculty of Technology in Banja Luka, therefore it is expected to have educated engineers and shoe designers in this area in the next 4-5 years.

The aspect	Why is it important?	Found weaknesses	Main actors	Area of activity and potential interventions
<b>GAP – LACK OF QUALIFIED LABOR FORCE</b>				
<ul style="list-style-type: none"> <li>• Key skills - shoemakers</li> </ul>	<ul style="list-style-type: none"> <li>• It presents a factor without which there would be no growth of this sector</li> </ul>	<ul style="list-style-type: none"> <li>• Secondary school occupational education does not produce shoemakers with practical skills</li> <li>• Little transfer of know-how from experienced shoemakers to the young</li> <li>• No continuous practical training for shoemakers</li> </ul>	<ul style="list-style-type: none"> <li>• Secondary School centers</li> <li>• Sanino/Prilika Plus</li> <li>• Companies interested to organize training</li> </ul>	<ul style="list-style-type: none"> <li>• Support to building partnership relations between the project/centers for re-qualification of the adults (Sanino, Prilika Plus, etc.) and companies</li> <li>• Support to building partnership relations between the secondary schools and companies</li> </ul>
<ul style="list-style-type: none"> <li>• Key skills - Technologists / Engineers / Designers</li> </ul>	<ul style="list-style-type: none"> <li>• It presents competitive advantage – Technologists / Engineers / Designers</li> </ul>	<ul style="list-style-type: none"> <li>• Faculty (or faculties) do not produce sufficient Technologists / Engineers for the industry</li> </ul>	<ul style="list-style-type: none"> <li>• Faculty of Technology</li> <li>• Owners /SME Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Support to transfer of know-how and skills from experienced technologists and shoemakers to the young (eg. 6-months' programs, etc.)</li> <li>• Building of partnership relations between the Faculty of Technology and companies</li> </ul>

## Technological aspect of production and business processes

The key advantage of our footwear industry is technological and organizational ability to have a reliable and fast delivery, within 15 days, of high-quality products to European customers, unlike Asian competition, which can hardly deliver the goods below 45 days. This advantage should be further developed, as the relation with the European partners should be based on it.

In the footwear industry, all the producers follow developmental route of the three leading companies, Sportek, Sanino and Bema. Namely, this is the route from the production of simple parts, towards integrating several parts into finished goods. However, the process of integration of production process has not been completed for these three leading companies. Namely, only Sportek owns technical development, that is, technical preparation of production, while these two companies lack these functions, as the first step in further integrating of the production process, while all, as the final step, lack designing of new products. These functions are also significant for those companies, focusing on the sale of own models.

Technical preparation, which presents production in a small scale, implies preparation of prototypes based on obtained design, as well as making of technical drawings and technical documentation, so the production could be fully prepared. In present times, this is the first step for the leading companies in further integration of production. The further step is design. However, only the famous international producers have their capacities in this area, whereas the most often practice is to hire external designers or designing companies. Regardless to that, the companies must be ready and have qualified staff to be able to communicate, in a high-quality manner, to designers.

In addition to this, it would also take changes of the key business processes. In our companies with strong growth, this growth is not supported by adequate management and organizational transformation. Many owners/directors are aware that they are becoming bottle necks for their company's development and that it would take a transformation in management. Also, in some of them there is an intention of the successors to seriously get into management of the company, while in some others, there is either no successors or they are not interested.

The aspect	Why is it important?	Found weaknesses	Main actors	Area of activity and potential interventions
<b>GAP – TECHNOLOGICAL ASPECTS OF PRODUCTION AND BUSINESS PROCESSES</b>				
<ul style="list-style-type: none"> <li>Investment capital for purchasing of new equipment and introduction of new technologies</li> </ul>	<ul style="list-style-type: none"> <li>Companies have the need for investment into better equipment and technology</li> <li>Introduction of new products and technologies</li> </ul>	<ul style="list-style-type: none"> <li>Expensive loans</li> <li>Access to the IRB funds more difficult and conditioned</li> <li>No more subsidies for increasing competitiveness (for export)?</li> <li>Owners not ready to try new ways of obtaining capital (equity...)</li> <li>There are still no risk capital funds</li> </ul>	<ul style="list-style-type: none"> <li>Banks,</li> <li>IRB,</li> <li>Loans and Guarantee Fund</li> <li>Western Balkans Innovation Fund?</li> <li>Companies with positive experience</li> <li>Stock market</li> </ul>	<ul style="list-style-type: none"> <li>Support to purchasing of key equipment through the project's development fund</li> <li>Training and consulting on obtaining investment capital</li> </ul>
<ul style="list-style-type: none"> <li>Key processes – technical preparation of development and design</li> </ul>	<ul style="list-style-type: none"> <li>Increase of productivity and speed of reaction to customers' orders through:</li> <li>Decrease of the time necessary for the preparation and execution of production</li> <li>Simulation and removal of possible problems/mistakes</li> <li>Flexibility to changes in customers' requirements</li> </ul>	<ul style="list-style-type: none"> <li>Except in Sportek, there is no technical preparation of production</li> <li>The companies are aware of the need for support in this area</li> <li>Very few companies have their products (a part of companies' strategy is: own product vs. service production)</li> </ul>	<ul style="list-style-type: none"> <li>Successful companies (eg. Sportek)</li> <li>Faculty of Technology</li> <li>Individuals/</li> <li>companies offering these services</li> </ul>	<ul style="list-style-type: none"> <li>Checking of possibilities of cooperation in this area (joint capacity for technical preparation, development and design)</li> <li>Support to strengthening cooperation between the faculties and companies in technical preparation of development and design</li> <li>Support to training of key staff</li> <li>Support to companies doing integrated Lohn production (finished shoes) to start producing own products</li> </ul>



The aspect	Why is it important?	Found weaknesses	Main actors	Area of activity and potential interventions
<b>GAP – TECHNOLOGICAL ASPECTS OF PRODUCTION AND BUSINESS PROCESSES</b>				
<ul style="list-style-type: none"> <li>• Key processes – organization of production</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of productivity and speed of reaction to customer orders through increasing efficiency and decreasing production costs (lower prices and/or higher profit)</li> </ul>	<ul style="list-style-type: none"> <li>• There is interest of companies for this area</li> <li>• Few experts in this area are in this region</li> </ul>	<ul style="list-style-type: none"> <li>• Companies and experts from the neighboring countries with good experience in this area</li> <li>• Faculty of Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Training and consulting in the organization of production</li> <li>• Connect the work of students (exercises) with problem-solving in specific companies</li> </ul>
<ul style="list-style-type: none"> <li>• Management and organization</li> </ul>	<ul style="list-style-type: none"> <li>• Directors are decision-makers, as all operational activities and organizational culture depend on them, especially having in mind (an assumption) that they delegate very little...</li> <li>• Entrepreneurial manner of companies' management by the founders when there are limitations in the company growth</li> </ul>	<ul style="list-style-type: none"> <li>• Directors in search of practical solutions, experiences and their exchange</li> <li>• Some owners are aware that they have become bottlenecks for their companies' development and that transformation in management is necessary</li> <li>• Some intend to have their successors get seriously involved in running the company, some do not, as they do not have them or these are not interested</li> </ul>	<ul style="list-style-type: none"> <li>• Companies, which have successfully resolved a problem,</li> <li>• Organizations having experience in training of directors (eg. Adizes)</li> <li>• Organizations having experience in "tacit" transfer of knowledge (<i>Eda</i>)</li> <li>• Sectoral experts</li> </ul>	<ul style="list-style-type: none"> <li>• Organization of events for the exchange of experience and knowledge for Directors</li> <li>• Training and consulting about selected topics (preparation according to the companies' requirements)</li> </ul>
<ul style="list-style-type: none"> <li>• Introduction of quality standards and certification</li> </ul>	<ul style="list-style-type: none"> <li>• ISO standards are preconditions for cooperation with foreign partners</li> <li>• There will be no growth and development without foreign markets</li> </ul>	<ul style="list-style-type: none"> <li>• A great number of small companies has a possibility to export, but their standards (CE, ISO) are an obstacle</li> </ul>	<ul style="list-style-type: none"> <li>• Companies and experts from the neighboring countries with good experience in this area</li> <li>• Faculty of Mechanical Engineering in BL</li> </ul>	<ul style="list-style-type: none"> <li>• Support to companies in introducing of the standards and certification of the products</li> </ul>

## Cooperation between the companies

Unlike the other sectors, which have been in the focus of the CREDO Project, the footwear industry companies are exceptionally well geographically concentrated in the area of the municipalities of Prnjavor, Derventa, Kotor Varoš and other municipalities in this area. Also, the owners and directors of the present companies in this area come from the previous system, where all the leather and footwear producers were associated and they have the knowledge and experience in connecting and joint work of several connected companies.

Which is why these companies are perfect for stronger mutual cooperation. However, the initiative started by the GTZ a while ago, was not successful for a number of reasons. It seems now that such an initiative was more successful, as the shoemakers have, in the meantime, ended up with the need to join up, because they see that further development of the sector depends on their ability to cooperate more strongly. The approach here is to build trust and initiate individual possibilities of mutual cooperation, however, if this proves to work, then the formalizing this cooperation would be in the form of a cluster.

The aspect	Why is it important?	Found weaknesses	Main actors	Area of activity and potential interventions
<b>GAP – COOPERATION BETWEEN THE COMPANIES</b>				
<ul style="list-style-type: none"> <li>Establishing Of a better cooperation between domestic companies</li> </ul>	<ul style="list-style-type: none"> <li>Important for the increase of capacities of the sector for cooperation with foreign producers</li> <li>Significant increase of the sector's capacity for the production of own products</li> </ul>	<ul style="list-style-type: none"> <li>Key problem is the lack of trust amongst the companies</li> <li>Domestic companies are geographically concentrated, though the cooperation is still at a low level</li> </ul>	<ul style="list-style-type: none"> <li>Domestic footwear companies, particularly those with positive cooperation experience</li> </ul>	<ul style="list-style-type: none"> <li>Organize events for the exchange of experience and knowledge for directors</li> <li>Organize joint training in individual areas</li> <li>Support in identification of possibilities for cooperation of domestic companies</li> <li>Support to the initiatives for formalizing the clusters</li> </ul>
<ul style="list-style-type: none"> <li>Establishing of a better cooperation with foreign partners (bigger and better export contracts)</li> </ul>	<ul style="list-style-type: none"> <li>The most significant factor for increasing the scope of production</li> </ul>	<ul style="list-style-type: none"> <li>There are market possibilities, which domestic companies may face on their own</li> </ul>	<ul style="list-style-type: none"> <li>Foreign partner companies</li> <li>Domestic companies</li> </ul>	<ul style="list-style-type: none"> <li>Support in strengthening and expansion of cooperation with foreign partners</li> <li>Support in the identification of market possibilities requiring bigger cooperation of domestic companies</li> </ul>

## Lack of domestic raw materials

What is obvious in terms of raw materials is that almost 100% of input material is being imported. A chronic problem, occurring from one year to the next, is a constant lack of leather production, as the basic raw material. At the time of the SFRY, there were several successful leather production facilities; however, they got closed after the war. Currently, there is only one factory which, in principle, exists, but there is also no production in it.

This is a rather unfavorable issue, as one of the most significant determinants for competitiveness and creation of added value in the production of footwear is precisely the production of leather. This is particularly unfavorable having in mind the quantity of raw, untreated leather, which is exported from BiH. In 2013, the value of KM 125 millions of raw leather was exported from Bosnia and Herzegovina, and, as a reminder, our processing factories, from the area covered by CREDO, export the value of shoes of about KM 60 millions. Even worse, according to information of leather producers, a part of raw leathers is also disposed of. Namely, this is a huge shortcoming, which, if resolved, could significantly increase the potential of this industry.

The aspect	Why is it important?	Found weaknesses	Main actors	Area of activity and potential interventions
<b>GAP – LACK OF DOMESTIC RAW MATERIALS</b>				
<ul style="list-style-type: none"> <li>Investing into capacities for raw leather processing</li> </ul>	<ul style="list-style-type: none"> <li>Better possibilities for creation of higher added value in the sector</li> </ul>	<ul style="list-style-type: none"> <li>Domestic companies import all the production materials</li> <li>KM 125 millions of raw leather is exported from BiH</li> </ul>	<ul style="list-style-type: none"> <li>Foreign partner companies</li> <li>Domestic companies</li> </ul>	<ul style="list-style-type: none"> <li>Support in the examination of possibilities to have joint investments of domestic companies and foreign partners in processing of raw leather</li> </ul>



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