

Market Study on the footwear industry in Kazakhstan – Executive Summary

Kazakhstan is one of the most developed countries in Central Asia, with a rapidly developing political and economic nature. Being the ninth largest country in the world, Kazakhstan has a low population – 17.5 million of inhabitants. The country, rich for oil and natural resources, is an oil – driven and export oriented country, importing most of the consumer goods and services from abroad.

Kazakhstan is an initiated member of Eurasian Customs Union, and one of the main trend-setters for the internal procedures and inner trade of the Union. The recent few years in the region have changed the import map significantly, and the share of Russian goods' flow to the market is growing rapidly.

The footwear market of Kazakhstan is going through the developing stage in terms of the competition of the suppliers and growing customer preferences of the main population of the country. Footwear industry in the country is represented by less than 55 entities, producing anywhere from 20 to 200 pairs of shoes on daily basis. More than 78% of the manufacturers produce shoes for the specialized institutions under the public procurement, such as medical and healthcare centers, military, detention facilities, construction companies and other state and social projects.

The inner competition among the local shoe manufacturers is quite insignificant, as the market share of the local producers does not exceed 2% of the total market turnover. High prices of the output materials, outdated technologies and relatively low quality of the product are main weaknesses and disadvantages of the local producers compared to the importers. In 2014, more than 6.1 million pairs of footwear were imported in Kazakhstan. The quantity is 18% higher than the previous year.

The total official retail turnover of the footwear in the country amounted to USD 885 million including 52% of retail trade in the officially registered sale points such as branded stores, boutiques and representative stores. Remaining portion of the country turnover is accrued to the local private merchants on the open-air bazars and pavilions. The mentioned number, however, does not include growing share of the e-commerce in the country. Due to the large number of spontaneous and unregistered deals, the total turnover of the online trade is hard to be determined, but can be estimated at the level USD 110 million in 2014.

As previously mentioned, the footwear market of Kazakhstan is import-oriented, almost entire consumer market is brought to the country from abroad mainly China (46%) and Russia (14%). The rest of the market import share is allocated among a number of different countries of South-East Asia and Europe. Nevertheless, the large proportion of imported goods on the footwear market and the government intentions to support the local



producers, the market entry for the new brands and foreign manufacturers still remain unhindered and smooth.

The tax burden for the businesses in Kazakhstan is relatively low, which provides a favourable environment, both for merchants and manufacturers, to establish either sale points or production lines. The customs and VAT tax burden are approximately on the level of 10% and 12% respectively. Once the tariffs for entrance duty are paid, the goods are subject to free circulation within the countries – members of the Eurasian Customs Union.

The situation with the certification of goods still remains weak, less than 40% of the merchants and producers on the market certify their production, despite the reasonable standards and regulations that are fairly easy to meet. The cost of certification can reach as much as 2-2.5 % of the production cost, thus, many of the entrepreneurs try to avoid such additional expenses. The distribution of the goods on the territory of Kazakhstan is done through the official stores, multi – brand stores owned by individual entrepreneurs or official retail companies.

Opportunities on the footwear market in Kazakhstan:

- The majority of the country population are historically oriented to be more depending on their appearance rather than Europeans and Western inhabitants. Thus, locals spend more on the apparel, footwear and accessories, compared to other well-developed countries.
- Consumer habits of the majority Kazakhstanis are going through the “spending stage”, rather than “saving culture”. Less than 5% of the income of the average citizen is dedicated to future savings, whereas the rest of the monthly income is spent for food products, services and non-grocery items, such as clothing and electronics.
- Low tax burden, uncomplicated quality standards, absence of trade and import limitations provide absolute business – friendly environment for new market entries.

In spite of the number of advantages for the new market players, there are few challenges to face:

- Growing customer preferences force the supplies to find new ways to attract buyers.
- Quite complicated nature of preferences in some ways can be controversial, as younger immature population are more fashion addict, rather than price or quality oriented, while middle and upper age clients are divided to those who chase the price or the quality in priority.
- Increasing variety of choices for the buyers lead merchants spend more on advertising and promotion to win the battle over customers, while the number of those are relatively limited due to the low population in the country and restrained spending capacity of citizens.

Being a rapidly developing state in the middle of Central Asia, Kazakhstan is one of the most opportunistic markets with a high growth potential. Flexible customers and regulations,



along with the open market positioning on the international arena, give a number of advantages for new market imports.

