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## THE LA LIBERTAD FOOTWEAR INDUSTRIES: LOOKING FOR COMPETITIVE ADVANTAGE

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**ABSTRACT:** The footwear industry in Peru is facing a new competitive scenario since the internalization of the economy and its integration to international markets. Many of the companies of La Libertad/Peru have an intensive use of labour and lack of technology compared to others worldwide. These companies need to establish logistics competitive strategies to differ from their competitors and aggregate value to their products. The aim of this paper is to show that Time-based competition represents a powerful and sustainable competitive advantage to the footwear industry in Peru as time has been outstanding as a prevailing dimension in a global competition.  
**KEYWORDS:** time-based competition, logistics, competitive advantage, footwear companies, Peru

### INTRODUCTION

The Peruvian footwear industry is mainly composed of small specialized firms that participate in different links of the production chain. According to [1], these firms have small outputs and produce a wide variety of items and suffer from a series of structural constraints producing mainly for the domestic market and requiring technological upgrading.

There are three major agglomerations of shoe firms stated by the mentioned author: 1) the districts of San Juan de Lurigancho, Rimac, San Martín de Porres and Comas, near Lima; 2) the districts of El Porvenir in La Libertad; and 3) the city of Arequipa.

The La Libertad region is considered one of the most important footwear production region in Peru with El Porvenir the main production centre, consisting of 68% of footwear manufacturing companies followed by Trujillo, with 16%. Many of the companies of La Libertad have an intensive use of labour and lack of technology compared to others worldwide, this means that these companies need to establish competitive strategies to differ from their competitors and aggregate value to their products [2].

As mentioned by [2], the footwear industry located in La Libertad region compared to other countries has a lack of technology in production processes, is intensive of labour force and mainly handcrafted. The companies believe that the implementation of new technologies would provide better productivity and competitiveness to the companies. On the other hand, the employees perceive technology as a factor of increasing unemployment.

[3] and [4] stated that time-based competition (TBC) is a competitive strategy that enables companies to develop a sustainable leadership in both domestic and international markets. Time-based competition involves compression of the time needed to perform a series of operational activities such as planning, design, product development, innovation, manufacturing, logistics, marketing and distribution according to customers' needs and expectations [5]. The success pattern in TBC is due to its characteristic of supplying the customer with the most aggregated value of product or service for the least cost in the least time [6].

The footwear companies are inserted in a competitive globalized market. [2] argued that the Peruvian footwear companies are facing a new pattern of competition mainly because of the augment of imports from Asian countries, which are jeopardizing the domestic companies as well employment.

The small and medium enterprises (SMEs) are mostly affected in this scenario. These companies have less productivity capacity and technological capabilities to compete both in domestic and international markets with quality products, competitive design and costs. According to [2] and [1], the Peruvian footwear companies need an intensive re-organization and modernization process in the whole productive chain aiming to improve competitive patterns.

This paper aims to focus on the aspects of TBC and logistics showing that Time-based competition represents a powerful and sustainable competitive advantage to the footwear industry in Peru as time has been outstanding as a prevailing dimension in a

global competition. Methodologically it can be considered a bibliographical, exploratory and descriptive research focusing in identifying TBC and logistics strategies that may enhance SMEs industries competitiveness.

### **TIME-BASED COMPETITION**

The concept of time as a competitive advantage began with the Japanese industries' search for a leadership position among western companies [7, 3]. According to [8], the use of flexible factory systems introduced in the Japanese context has led to a sense of the importance of time in operations and the notion that its constant reduction leads companies to improve their capacity in developing a greater product variety in a shorter amount of time that is of high quality and a lower cost, according to customer needs.

[9] defined Time-based Competition as: "a strategy that firms try to gain competitive advantage by getting their product to market faster through all the phases of design, production and distribution". It also can be seen as a set of tactics which focus on compressing the time required for businesses activities [6]. The focus is reducing the cycle time in every phase from the product creation up to delivery cycle.

[10] contend that TBC competitive strategies involve the development of a holistic approach managing the internal and external supply chain as the result of a set of restructuring measures beginning with the changing of the organizational values, roles, responsibilities and processes aiming to align the entire supply chain and value chain according to consumers' needs. The authors stressed as a result of implementing TBC strategies, the companies gain a high performance and a competitive advantage in the consumer market, also a structure which facilitates intercompany integration, superior levels of coordination and material flow's synchronization.

There are several strategies for a company become time-based. [3] posit that for companies succeed the managerial focus must be on flexibility and fast response implementing the following strategies: determine time as the strategical parameter; use the fast response to be close to the customers; establish the innovation path; introduce a value chain focusing on time; make the necessary changes on business' processes and sustain the improvements.

According to [11], there are seven fundamental strategies to the implementation of TBC: 1) system simplification; 2) system integration; 3) standardization; 4) introduction of parallel activities; 5) variance control; 6) automatization; and 7) diminishing resources excess. These strategies deal with the lead time problems on product development, manufacturing and distribution.

On the other hand, [12] presented some managerial tactics to improve speed in business operations, such as: adopt time as an important factor; reduce the managerial bureaucracy; give more authority to the working teams; respect programming and scheduling; remember the important rule of distribution; and introduce the concept of speed and time in the organization's culture. On the other hand, [13]

demonstrate operational strategies focusing on reducing time on ordering, delivering, product development, manufacturing and supplying network processes.

[14] also showed different authors' views and TBC strategies to reach competitive advantage. However, they did not discuss the focus adopted by the companies, namely: the focus on reducing time in product development cycle (innovation), the focus on reducing time in processes (order, production and logistics) or reducing time in both product and process.

The strategies taken into consideration intend to reduce the business' activities cycle time and as a consequence the total cycle time. The reduction cycle time basis the distinction of aggregate value processes and non-aggregate value processes [15]. The purpose is to diminish or eliminate the non-aggregate value processes or activities in order to create a linear flow from receiving an order up to its delivery in less time. [16] illustrate a case of a small furniture company that succeeds implementing TBC strategies obtaining competitive advantage compared to their competitors.

As showed above there are several strategies that can be implemented by companies aiming to become time-based. The question is how to determine which are the most effective one regarding the SMEs or large companies' goals. In this sense, what would be the best strategies for the Peruvian footwear industry to reach a sustainable competitiveness in a globalized world? We argue that the main targets for the companies that plan to adopt the TBC strategies are: 1) share the awareness that time is the main driven; 2) the implementing strategies must have the participation of all hierarchical levels; 3) less cycle time in respond to customers' needs should be in place (developing and introducing new products and services, ordering, manufacturing and delivering); 4) reduce non-aggregate time in business activities; 5) develop flexibility; 6) develop efficient logistics systems; and 7) provide integration with customers and suppliers.

### **THE PERUVIAN FOOTWEAR INDUSTRY**

La Libertad region was characterized to be an agriculture region with large farms dedicated to sugar plantation in the beginning of XX century. After the land reform during the seventies, the large farms were converted into co-operatives producing rice, sugar cane and asparagus. Nowadays the La Libertad region is considered one of the most important footwear production centres in Peru, with El Porvenir consisting of 68% footwear manufacturing companies followed by Trujillo, with 16% [2].

[17] showed the reasons for migration in Peru and how the migrants established industries that became important sectors as the case of Trujillo which is known as an 'industrial district' formed of small-scale footwear manufacturers. According to [2], those Andean migrants have developed a production, supplying and commercialization network unique in Peru. In El Porvenir, the district which concentrates the majority of enterprises, it has been estimated that in each home there are among 1 to 2 persons

employed in this sector. Figure 1 [2] shows the localization of La Libertad region detached in the map of Peru.



Figure 1 - La Libertad Region Geographical Location - Peru

As presented by [1], leather and footwear production is a traditional and mature manufacturing sector in Peru. The Peruvian shoe industry produces mainly for the domestic market. Leather shoes (upper and soles) and shoes made of textile material (upper) are the most exported. Colombia has become the main export destination for Peruvian shoes, followed by Ecuador, Chile and the United States. According to the author, the importance of Andean countries in export may reflect the effect of lower tariffs.

Leather and footwear production in La Libertad is a conglomerate of over 2,000 small and micro footwear manufacturing enterprises, including 300 materials and components suppliers, close to 500 stores and specialized services. Also the sector employs thousands of people generating incomes to over 100,000 people considering the families. The shoes from this region are commercialized all over the country through an extensive network and it is estimated that the production in La Libertad represents 50% of the Peruvian footwear production [2].

The district of El Porvenir has the majority of companies in the Libertad region as can be seen on Table 1 [2]. At present, the districts of El Porvenir, Florencia de Mora and La Esperanza condense 37,3% of Trujillo's population. All the enterprises are small and micro, business family mostly and handcrafted. The manufacturers of Trujillo, El Porvenir, La Esperanza and Florencia de Mora intend to offer the best product as possible for the least price aiming the popular consumers [2].

Table 1 - Footwear Companies from La Libertad

Number of registered companies	1,014
Number of leather companies	49
Percentage of footwear companies in El Porvenir	68%
Percentage of footwear companies in Trujillo	16%
Percentage of footwear companies in Florencia de Mora	10%
Percentage of footwear companies in La Esperanza	4%

According to [1, p.17]: “Peruvian footwear companies are composed of small specialized firms that participate in different parts of the production chain. Firms in Peru are not specialized; they undertake multiple stages of production and are consequently inefficient. In addition, very few firms manufacture shoe components or provide services such as design”. This lack of development and competitive strategies limit technological change, creativity and differentiation in the Peruvian shoe industry.

Peru as almost all Latin American countries has been facing huge transformations in production processes caused by the transferences of companies from the public to the private sector during the nineties. In consequence of the changes in economical policies, there have emerged a large number of micro and small enterprises absorbing the majority of labour force. The micro and small companies represent the second type of business in Peru [2].

[1] contends that 97.5% of all shoe firms in Peru have fewer than 10 workers, and 99% of firms have fewer than 20 workers. Fewer than 10 medium firms, most of them family-owned, export part of their production. As mentioned above, those firms show up limited technological capabilities which reflect in the low quality of their products mainly sold in the domestic market.

In Peru micro enterprises are considered as the ones that have from 1 to 10 employees and sales that do not exceed 150 unities of tributary tax per year. Small enterprises are considered the ones that have from 1 to 100 employees and sales that do not exceed 1,700 unities of tributary tax per year [18]. As mentioned by [6], classifying companies' size across the countries is a difficult issue. For instance, in Brazil, the patterns differ between government business agencies. Likewise in the production structure of European countries is heterogeneous, and the size of the companies is one of the elements that contribute to this heterogeneity. There are differences among countries according to those definitions, as well as relative to the number of employees and turnover.

The Peruvian government has settled a number of initiatives to foment the micro and small enterprises during the last years. These enterprises are responsible for 98,2% of all enterprises' employment [18]. The micro and small enterprises are an important factor in promoting employment and income for a great variety of families. Therefore, the Peruvian small and micro footwear companies need to establish competitive strategies so as to prevail not only in domestic markets but in global competition as well.

**CURRENT SITUATION AND PERSPECTIVES**

Peru like Latin American countries in general is facing new challenges in global competition after the commercial openings and economic activities resulting from globalisation and economical internalization. The footwear industry is not exempt from this new world context. Market changes are affecting the entire sector and the search for quality to satisfy customers is making enterprises even more

competitive. In terms of the footwear industry, the products must satisfy consumers, in terms of design, innovation, technology and flexibility.

The constant import increase from Asian countries has generated a search for new ways of production and technologies as it has been endangering a large number of companies that create jobs and income to the majority of population. On the other hand, footwear production from other Peruvian cities hardly competed to Trujillo's footwear, characterized, in large part, to develop shoes at low prices to a market segment with limited income. The products of higher quality and price from Trujillo supply Lima markets. This trend has strengthened in recent years because the best prices are available in Lima, where the market is basically geared by the footwear from Trujillo [2].

In addition, because of the economical recession, unemployment and lower incomes, there has been a change in the pattern of footwear consumption in Peru. Part of the population has chosen to buy cheaper goods like sandals and shoes imported made with synthetic material at the expense of traditional footwear produced in Trujillo. As a result of this process, smaller companies have been facing bankruptcy, while those with better organization and technology have more capacity and better business opportunities [2].

Therefore, an intense process of modernization has been required of the whole sector, including the supply chain, so as to enhance its capacity and to improve the quality of labour, production processes in both management and technology, as well as linking and articulating the changes in companies. All the contextual changes involve efforts far greater hitherto undertaken.

According to [2], the companies' modernization process should involve: a) a decisive transformation in selection, introduction and management of technology; b) an intensive process of training the workforce; c) a constant introduction of flexible production techniques and flexible organization and inter/business relationships to encourage specialization and complementation of the companies; d) a consistent strengthening of supply and services network; e) an aggressive trade policy focusing the foreign markets; and f) identifying strategic business alliances between producing, supplying and marketing companies.

For the Government support bodies and institutions:

- a) a clear policy for local promotion strategically guided and with public/private participation in its formulation and implementation;
- b) an active relationship between universities, research centers and companies to support and sustain the creative business environment and produce high competitive human capital;
- c) development of modern rules capable of regulating the market and of creating mechanisms for standardization;
- d) a medium-term financial policy to support the modernization process.

We also argue that together with the modernization process and policies listed above the TBC competitive

strategy focusing on reducing time spent on product innovation, development, manufacturing, commercialization, distribution and logistics cycles can be seen as a path to enhance the Peruvian footwear companies' competitive advantage.

Total time cycle compression is accomplished if the non-valued time in different business areas, such as engineering, design, production, manufacturing, information, innovation, marketing and distribution, is reduced in the business processes so as to attend to the customers' needs and expectations. This enables companies to become more integrated with their markets, enabling them to launch better services and products than their competitors. Thus, the partnership between companies, suppliers and customers must become closer to facilitate a better awareness of the real needs of customers and improve logistical strategies.

[8] pointed out that in a survey conducted on furniture companies located in different countries most of time strategic factors were strongly geared towards seeking local partnerships as a way to improve cultural differences and logistical partnerships.

Seeking local partnerships, such as universities, research study institutes, suppliers and enterprises, was perceived by the respondents as a way to reduce time: to receive service information, manufacturing, distribution, trace information about services, order transmission and information, trace executed services, and satisfy customer needs. Partnerships are seen as an important factor in improving companies' logistics (manufacturing, distribution, information and services), and business partnerships, so they could be integrated and in tune with the needs of the markets. In addition, they can strengthen mutual relationships and communications.

[19] also expounded that in the city of Franca in Brazil, known as the footwear production worldwide, the success relies on the arrangement of enterprises' networks and clusters. This integration promotes processes, product and services innovation in addition to approximating enterprises, suppliers, distributors and partners. [20] developed a study in the small Brazilian footwear companies located in Vale dos Sinos' cluster and showed that design is also an important factor for the competitiveness of footwear small companies.

According to [2], the current industry conditions, growth and importance, as well as their new challenges, clearly indicate that the spontaneous growth has come to an end. It is necessary therefore to systematically strengthen the entrepreneurial efforts through the generation, systematization, dissemination of technological and organizational knowledge, which does not occur spontaneously. In order to do so, it is necessary to promote local knowledge and experience so as to create conditions to consolidate small and micro footwear companies.

TBC allied to logistics, supply chain strategies in addition to enterprises' partnerships and clustering can be considered a competitive strategy and may be the cutting edge for the Peruvian footwear industries to obtain competitiveness in both domestic and

international markets. We emphasize that the companies will succeed inasmuch as are aware of the real expectations and needs of their consumers, taking into account that those needs and expectations are culture oriented.

Organizations, especially in a competitive and globalized world, require an infrastructure compatible to their needs and demands, in order to get their products and services among the different producers and demanding centres situated in different places in the world. Apart from that, according to [21], the sensibility to the cultural dimension helps the understanding of many crucial factors concerning business around the world. This must be perceived by the companies integrated in global market, namely those in and partnerships as well as by suppliers and customers, who must become closer in order to promote awareness of their real needs and improve logistical strategies and competitiveness.

### CONCLUSIONS

The primary aim of this investigation was to illustrate that Time-based competition strategies in addition to logistics and supply chain represent a powerful and sustainable competitive advantage to the footwear industry in Peru as time has been considered an important point in global competition. Peruvian footwear companies are facing new challenges to improve their competitiveness and sustain their position in both domestic and international markets.

The ingress of Asian countries as players in production and commerce of footwear has been endangering a large number of Peruvian companies, mainly small and micro enterprises, which are responsible for most part of job creation and income. Therefore, those enterprises require an intense process of modernization, as well as the whole sector relative to the supply chain strategies so as to enhance capacity, quality and production processes to achieve competitiveness.

We recommend that future studies investigate the application of time-based and logistical strategies in Peruvian footwear companies as a case study in addition to the primary investigation presented in this study. Companies may want to investigate and compare their performance after implementing and improving their TBC and cultural strategies. We also suggest following investigations on local partnerships and their roles in improving TBC and logistical strategies in improving companies' competitiveness.

The modernization process and the TBC competitive strategies focusing on reducing time can be seen a path to enhance the Peruvian footwear companies competitive advantage. However companies will succeed if they be aware of the real expectations and need of their consumers. Also, partnerships are seen as an important factor in improving companies' logistics (manufacturing, distribution, information and services) and business network, so as to foster integration and in connection to customers' needs and expectations. In addition, they can strengthen mutual relationships and communications.

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