CBI MARKET SURVEY

THE HUNGARIAN LUGGAGE AND (LEATHER) ACCESSORIES MARKET

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments in the luggage and (leather) accessories market in Hungary. The information is complementary to the information provided in the CBI market survey 'The luggage and (leather) accessories market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo

1 Market description: consumption and production

Consumption

- The Hungarian market for luggage and (leather) accessories is valued at € 80 million in terms of retail sales.
- Hungarians spent € 7.9 per capita per year, which was less than half the EU average of € 19.7 in 2005.
- Hungary is the tenth smallest luggage and accessories market in the EU and this small-sized market is similar in size to a cluster of countries including Denmark, Ireland, Finland and the Czech Republic.

Table 1.1 Consumption of luggage and (leather) accessories in Hungary, 2001-2005, € million

2001	2002	2003	2004	2005	Average ann. % change	Population (million)	Consumption per capita €
63	66	70	74	80	6.7	10.1	7.9

Source: Euromonitor, Trade Estimates (2006)

- The best-performing sectors were briefcases, laptop cases and luggage. The growth of computer cases reflects the rise in household penetration of laptop computers, while the growing sales of luggage are attributable to the rise in the number of Hungarians who travel, both within the country and abroad. The improved functionality of luggage, which is lighter and has wheels, has also helped to increase sales of these products.
- Sales increased steadily since 2001 and especially between 2004 and 2005, when sales of luggage and (leather) accessories rose by 8%, from € 74 to 80 million (see table 1.1).
- Handbags is the largest sector within the luggage and accessories market, but as it was the best established at the beginning of the period, sales increased more slowly. Handbags have long been popular in Hungary, but the nature of demand is changing. Consumers are now showing a greater willingness to pay for high-quality leather handbags.
- Wallets, purses, belts and other small accessories was the third largest group. The trend here is similar to handbags, where there is a shift towards high-quality leather products.
- Sales of sports bags and travel bags recorded the poorest performance. Consumers are switching from travel bags to luggage when they travel.
- Hungarian sales of € 80 million are forecast to continue to grow from 2005 at rates higher than the EU average. This is primarily due to disposable incomes, which are continuing to rise. Consumers will have more money to spend on leisure items. Sales of laptop cases are not expected to grow, as it is becoming common for the computer case to be provided with the computer itself. The handbag sector is expected to grow more

in value than volume as consumers continue trading up to higher-quality products.

Production
- Hungary is a medium-sized producer of luggage and (leather) accessories compared to other EU countries.
- The value of production is estimated at € 18.9 million in 2005, up from its 2001 levels, when production stood at € 16.7 million, as table 1.2 indicates.
- Since 2002 production has increased, largely due to producers having greater access to other EU markets after joining the EU, and also due to outsourcing by some neighbouring countries such as Germany and Austria.

Table 1.2 Production of luggage and (leather) accessories in Hungary, 2001-2005, € million

2001	2002	2003	2004	2005	Number of companies	Number of employees
					(2005)	(2005)
17	21	21	21	19	100	3,500

Source: CTC, Eurostat, National Statistics (2006)

- Production in Hungary used to be dominated by handbags and other bags, with some production of luggage. Now luggage production is the largest segment (48%), followed by handbags and other bags (44%). The remaining 8% is small accessories.
- The reduction in production in 2005 is an indication that the increasing numbers of low cost imports arriving on the market is impacting on local production. Smuggling, dumping and counterfeiting are important issues in the market. They all affect the health otherwise of domestic producers. While technical expertise and quality is high, capital equipment is poor and investment in the industry is required to enable it to compete in the future. This will affect whether production will increase or decrease in the future.
- Leading companies in Hungary include St Bőrgyár (mailto:st.borgyar@axelero.hu), Bőr-diszmü who manufacture handbags (http://bordiszmu.com) and Marylla who manufacture suitcases and handbags (http://www.marylla.hu)

A list of leather goods producers in Hungary can be reached via the website of the Hungarian leather testing and research organisation (http://www.bimeo.hu/huncomp) and via http://www.textilforum.cel.hu.

Opportunities and threats

\+ The main drivers for the growth in demand are the ongoing growth of a middle class in Hungary. This has been accompanied by a demand for more fashionable as well as branded handbags and accessories as Hungarians are aspiring to international tastes and styles.

\+ The greatest opportunities may be at the lower end of the market in the independent trade, as Western European retailers are strengthening their position in the high end of the market.

\+ As the Hungarian luggage and accessories market is now polarizing into a lower quality/price and higher quality/price sector, exporters from developing countries can find opportunities with fashion and accessories specialists in the middle sector. A Hungarian retailer or distributor will expect some form of comparative price advantage when buying from a developing country.

\+ Hungarian producers may be interested in forming partnerships with exporters from developing countries as a means of improving their own competitive position in the marketplace, and as a means of accessing new design and production capabilities.

More information on opportunities and threats can be found in chapter 7 of the CBI market survey 'The EU market for luggage and (leather) accessories'.

2 Trade channels for market entry

- The distribution of luggage and accessories is mainly carried out by the specialised independent retail trade. Hungary is similar to other Eastern European countries with a highly fragmented distribution structure and a large number of independent retailers and small regional chains. Agents and wholesalers are the principal import channel for developing country exporters.
- A list of leather goods wholesalers in Hungary can be reached via the website of the Hungarian leather testing and research organisation (http://www.bimeo.hu/huncomp).
- In 2005, the number of retail outlets selling footwear and leather goods was around 3,714.
- Large international retailers and the growing number of large shopping centres are changing the retail landscape in Hungary. This is creating a big difference between the urban and rural areas. Independents are dominant in rural areas but are being challenged in the towns and cities. The department store sector is not strong, with the exception of Marks & Spencer, but large international clothing chains such as the French-owned Vivarte (http://www.vivarte.fr) and hypermarkets such as Auchan and Tesco are taking an increasing proportion of the trade.
- In each trade channel different margins and prices apply, with multiples of 2.6 up to 3.1 of the manufacturer's or importer's price. Agent's margins are between 8% and 15% depending on quality. Generally wholesalers' margins range between 30 – 40% of the CIF price, while retailers' margins are between 55 – 75%. More information can be found in chapter 3.2 of the CBI market survey 'The EU market for luggage and (leather) accessories'.

3 Trade: imports and exports

Imports

- In 2005, Hungary's imports of luggage and accessories were valued at € 47 million, or 9 thousand tonnes. Out of the 27 EU countries, Austria is ranked eleventh smallest, and as such is regarded as a small-sized country for luggage and accessories imports. (Note imports of "made of leather" items in this group were valued at € 9 million or 1 thousand tonnes.)
- Between 2001 and 2005, Hungarian imports grew by an average of 10.9% per annum in value and 21.9% in volume (1% and 7% respectively for "made of leather" items). Most of this growth occurred in the period after 2003.
- Imports exceeded exports by 30% in value and three times in volume in 2005. Imports are increasing more quickly than exports. The same period has seen a small increase in luggage and accessories production and an average annual increase in consumption of 6.7%.
- Around 39% of Hungary's imports come from developing countries in 2005 (28.3% for "made of leather" items). This proportion was 55.8% in 2001 (23.6% for "made of leather"). The reason for this fall was that Hungary imported more from neighbouring countries such as Germany, Austria, Italy, France and other eastern EU countries.
- China accounted for 89% of all developing country supplies by value in 2005, followed by India (4.2%) and Turkey (1.8%). Malaysia and Vietnam were also important suppliers. While China's supplies increased by less than 10% over the period, supplies from India decreased.
- By product group, Hungarian imports by value can be sub-divided as follows:
    - Around 60%, valued at € 28 million consisted of bags, of which € 4 million were "made of leather". Within this group travel bags (€ 13 million) was the largest sub-group, of which less than € 0.5 million were "made of leather".
    - Around 26%, valued at € 12 million, consisted of cases, of which less than € 2 million were "made of leather". Suitcases was the largest sub-group, valued at € 7 million. Of these less than € 0.5 million were "made of leather".
    - Around 14%, valued at € 7 million consisted of small accessories such as belts, wallets, purses and pouches, of which € 4 million were "made of leather". Within this group, other small accessories (wallets, purses and pouches) valued at € 5 million

was the largest sub-group, of which € 2 million were "made of leather". The remainder of this group is belts, valued at € 2 million, all of which was "made of leather".

Exports

- Luggage and accessories exports from Hungary were valued at € 37 million in 2005, representing 3 thousand tonnes.
- Between 2001 and 2005, the average annual increase in exports was 8.2% by value, but a decrease of 3.4% by volume.
- There may be a limited amount of re-exporting, but this does not appear to be a major factor in the Hungarian market. However much is being destined for Germany and Austria which outsource their production in Hungary.

Opportunities and threats

+ Products made of leather do not offer a major opportunity in Hungary. The main growth opportunities for developing country suppliers are bags and cases, particularly travel bags and briefcases. Developing country suppliers of small accessories are increasing in volume but value increases are less spectacular – supplies of belts have increased but supplies of wallets and purses have decreased.

See Chapter 7 of the CBI market survey 'The EU market for luggage and (leather) accessories' for more information on opportunities and threats.

Useful sources

- EU Expanding Exports Helpdesk - http://export-help.cec.eu.int/
- Eurostat – official statistical office of the EU - http://epp.eurostat.cec.eu.int
- Hungarian National Statistics – http://www.ksu.hu

4 Price developments

- Prices of luggage and accessories in Hungary are below the EU average, although prices are polarising. There is still a lot of this product group sold through markets at very low prices, but higher priced products of well-known brand names are appearing on the market as the retail trade develops. Prices of handbags remained strong due to their popularity.
- The website of Hungarian National Statistics (http://www.ksu.hu) publishes harmonised indices of consumer prices. Prices in Hungary increased by 7.8% in 2005 but prices for this market sector increased by less than this. A useful website comparing luggage and accessories prices in Hungary is http://www.nextag.com.
  The luggage manufacturer Samsonite has a link to Hungary and prices can be accessed here (http://www.samsonite.com).

5 Market access requirements

As a manufacturer in a developing country preparing to access Hungary, you should be aware of the market access requirements of your trading partners and the Hungarian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select leather goods and Hungary in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packaging/packit.htm

Information on tariffs and quota can be found at http://export-help.cec.eu.int/

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. For more information on doing business in Hungary, visit the following websites:

- http://www.bimeo.hu is the Hungarian Association of Footwear and Leather Manufacturers and Traders. They produce a journal for the industry called Leather and Shoe Technique. The magazine Next is distributed to manufacturers, importers and retailers in this and other sectors (http://www.nextmagazin.hu).
- CEL is a Hungarian Business Information service working in this sector (http://www.cel.hu). Their main activity is publishing a monthly trade journal, Textil Forum which specialises in accessories amongst other products.
- The main trade fair in Hungary, called Bor-es Cipoipari (Leather and Shoe Week), takes place twice a year in March and September. Their contact website is http://www.bcefair.hu. Other information on trade fairs can also be found at http://www.hungexpo.hu. The Budapest International Fair may be relevant to some exporters (http://www.bnv.hu).
- The Hungarian Investment and Trade Development Agency is a good point of contact for doing business in Hungary (http://www.itd.hu) as is the Budapest Chamber of Commerce and Industry (http://www.bkik.hu).

This survey was compiled for CBI by ***Searce***