CBI MARKET SURVEY

The market for leather garments in Bulgaria

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Introduction

This CBI market survey gives exporters in developing countries (DCs) information on some main developments in the leather garments market in Bulgaria. The information is complementary to the information provided in the CBI market survey 'The market for leather garments 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 rate of economic growth has been accelerating in the last three years, primarily due to Bulgaria's accession to the EU. Inflation has been relatively high and experts forecast that the economy will contract by 3.8% in 2009.

Total consumer spending on leather garments in Bulgaria amounted to € 27 million in 2008, which was 2.1% of total outerwear expenditure. The leather garments market grew annually 31% during the period 2004-2008. This represented a high growth rate in the EU.

Bulgaria ranked 20th in EU consumption of leather garments, behind Slovakia and Hungary, and accounted for a limited 0.5% of total EU consumption. Despite its 8 million inhabitants, Bulgaria is still a small EU market. Per capita expenditure on leather garments amounted to € 4.05 in 2008, which was far below the EU average of € 13.75 and one of the lowest spending per capita in the EU.

Table 1.1 Consumption of leather garments in Bulgaria, 2004-2010, in € million

	2004	2006	2008	AAGR*	2010 forecasts
Total leather garments	**12.0**	**15.6**	**26.7**	**+30.6%**	**26.0**
Total outerwear	914	1,037	1,252	+9.2%	1,210
Consumption of leather garments in % of total outerwear	1.3%	1.5%	2.1%		2.1%

* Average annual growth
Sources: Derived from Eurostat (2009) and Euromonitor (2009)

The financial or economic crisis will lead to a fall in leather garments spending of 4% in 2009, but after this fall experts forecast a slight growth in 2010.

Demand for leather garments is determined by several factors like type of products, demographics, attitude of consumers towards fashion and economic developments. These factors are discussed below. Other more general factors are discussed in chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Type of products

A detailed breakdown of the different types of leather garments is not available, as explained in appendix A of the CBI market survey 'The market for leather garments in the EU'. However, it can be assumed that about 90% concerned jackets and coats. This share will decrease in the coming years, to the detriment of other leather garments such as trousers, leggings, skirts and waistcoats, the latter all being encouraged by West European influences through international chains operating at the Bulgarian market.

Demographics

The population size in Bulgaria decreased as from 1980 from 8.9 million to 7.6 million in 2008. In the four years leading up to 2008, the population fell by 2.7%. High life expectancy and a low level of births have resulted in Bulgaria's population being somewhat weighted towards the older age groups. Like other EU countries, Bulgaria also has an ageing population, in which over 65s account for 17.4% of the population. The younger age group is in decline: 16.8% of the population was younger than 15 years in 2000 against 13.2% in 2008.

Women represented the largest share of leather garments expenditure. This is expected to rise further as fashion becomes more important and because of more fashion influences coming from other EU countries.

Attitude of consumers towards fashion

Bulgarian consumers are becoming more familiar with the wide variety of imported products now available in all sectors of the market – from the cheapest to the most expensive. In fact, there is quite a high degree of polarisation between market segments. However, a mid-priced market will emerge, as disposable incomes continue to increase.
After 2010, growth in expenditure on leather garments will be driven by the increasing levels of disposable income and more choice on the market. The arrival of international retail chains and the building of shopping centres in Bulgaria will further facilitate this trend. Note, however, there is still a wide discrepancy between the large urban areas and the rural areas, in terms of awareness of and interest in new styles.

Economic developments

The Bulgarian economy has recovered impressively from the problems experienced during the 1990s. In 2004, GDP growth in real terms accounted for 6.6%, stabilized at a growth rate of 6.2% during 2005-2007 and reached 6.0% in 2008 driven by increased consumption. GDP growth contracted to 5.1% in 2009, there being significant decreases in industrial production and retail sales, as well as rising unemployment. A mild recovery, with growth picking up to 0.6%, is forecast for 2010, followed by a stronger growth to 3.2% in 2011, as both private consumption and investment begin to grow again more strongly.
Annual inflation is forecast to average 2.4% in 2010 and 2011, as domestic demand recovers only slowly from the economic crisis and world oil prices remain relatively low.

Trends

- Increasing brand awareness combined with more frequent travel abroad by Bulgarians makes the local clothing market receptive to popular import brands. For example, Mango, New Yorker, Miss Sixty opened stores in Bulgaria. If the current pace of growth in consumption is maintained, more market events of this nature are likely to occur.
- High-end designer retail is a niche sub-sector enjoying increasing success. Its development is likely to consolidate the association of brand with quality and prestige.
- Frequent travel abroad and communication with foreign business partners are likely to further introduce more western fashion styles in Bulgaria.

Production

According to Euratex/Prodcom, leather garments production in Bulgaria amounted to € 913 thousand in 2008, of which 75% was exported. However, based on export figures, the domestic production of leather garments should be 2.5 times higher. The possible reason for this discrepancy: almost 90% of the Bulgarian clothing companies is small and medium-sized enterprises (SMEs), which are under-represented in official statistics.

Bulgaria depends heavily on its low cost workforce (the country has the lowest paid workers in the new EU, only slightly better paid than those in Belarus, Serbia and Montenegro).

Bulgaria remains heavily dependent on CMT (cut, make and trim) business. A detailed explanation of CMT and other forms of sub-contracting can be found at chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Trends
- A limited number of companies possesses own trade marks. A number of companies had distinguished themselves with trade marks and high quality products. Some of them have their own (domestic) store for distribution.

Opportunities and threats

\+ The Bulgarian apparel sector is mainly dependent on the low labour price. However, entrance into the EU will lead to higher wages and result in higher prices.

\+ Opportunities exist to supply leather garments directly to the domestic market because Bulgarian consumers, especially younger women, look for more interesting styles of fashionable clothing.

± Opportunities also exist for supplying leather garments to the lower-priced end of the market. This is a large segment in Bulgaria, but there will be competition from market stalls and second-hand outlets.

\- According to Eurostat, wages in the Bulgarian apparel industry are the lowest of the EU countries and even lower than DCs, like Turkey, Tunisia and Morocco. Another threat to most DCs is the fact that the Bulgarian clothing industry also accepts small orders.

The same development or trend can be an opportunity for one exporter and a threat for another. Exporters should therefore analyse if the developments and trends discussed in this survey provide opportunities or threats. The outcome of this analysis depends on each exporter's specific circumstances.

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

2 Trade channels for market entry

The Bulgarian leather garments market can be entered in several ways, of which the most interesting for exporters in DCs are importing manufacturers (either or not vertically organised) as discussed in the previous chapter and wholesalers.

Which channel will be chosen, depends on factors like (among others):
- Which type of leather garments producer (CMT, FOB, private label or own brand producer) tends to export to Bulgaria. These types of producer are described in chapter 1 and 2 of the CBI survey 'Guidelines for exporting leather garments to the EU'.
- The resources available and the priority given to the Bulgarian market.

Manufacturers

Leather garments manufacturers in Bulgaria can be found at the site of the Bulgarian Fashion Directory - http://www.bgfashion.net. This website contains information and links to the websites of more than 1,000 manufacturers, among which about sixty are active in leather garments. Some companies are, among others, Enigma Leather (http://enigmaleather.com); G.& V. class (http://www.givclass.com); Rockeds (http://www.rockeds.net); Zlatna Belka (http://www.zlatnabelka.com); Milvena (http://milvena.eu); Sleazy Studio (http://www.sleazystudio.com)and Silver (http://www.silver-bulgaria.hit.bg).

Wholesalers

An association of clothing wholesalers in Bulgaria has not been encountered. For that reason, the usual trade directories (as mentioned in the CBI market survey 'The market for leather garments in the EU') should be used. The same survey discusses the role of importers/wholesalers, just like other trading partners.

Retailers
Bulgaria became a full member of the European Union on 1 January 2007. The EU membership attracted a number of European retailers into the Bulgarian market, but it nonetheless remains one of the least developed in Europe. Family-run enterprises comprise the majority of retail businesses and despite the fact that the capital Sofia and some of the larger cities such as Plovdiv, Varna and Burgas have attracted some foreign investment, the market is still largely made up of small, independent retailers.

Most recent figures for the clothing retail sector indicate around 10 thousand outlets, which have almost 19 thousand employees. Market stalls have traditionally played an important role in the Bulgarian retail scene, but the modernisation of the market is starting to transform life here.

Foreign chains, active on the Bulgarian market, are among others: Mango (6 stores, Spain), New Yorker (4 stores, Germany), Orsay (2 stores, Germany), Marks & Spencer (1 store, UK), Sprider (3 stores, Greece) and Miss Sixty (7 stores). The most important international chain is Kenvelo from the Czech Republic, accounting for 22 stores in Bulgaria.

Main super- and hypermarkets in Bulgaria are the voluntary group CBA (210 outlets), the Austrian hypermarket chain Billa (http://www.billa.bg, 23 outlets in Bulgaria), supermarket chains Piccadilly (http://www.piccadilly.bg, 10 stores owned by Bolyari Group) and Ramstore (http://www.ramstore.bg/maine.htm), a subsidiary of Migros (http://www.migros.com) in Turkey), while competition came from Germany's Schwarz Group, which operates through ten Kaufland (discount) hypermarkets in Bulgaria (http://www.kaufland.bg) and 31 T-Market stores owned by Maxima from Lithuania. Germany's Metro Group operates nowadays through 9 cash & carry stores in Bulgaria.

Margins
Margins will vary depending on which market segment is being approached. Price is an important selling factor, especially in the lower segments of the clothing market (hyper- and supermarkets and discounters), whereas in the higher segments factors like quality and fashion are more important than price. An indication of differences in price levels by types of outlets has been given in chapter 1 of 'The market for leather garments in the EU' and an overview of margins valid for the levels distinguished in the clothing market can be found in chapter 3 of the same survey.

3 Trade: imports and exports

Imports
Bulgarian imports of leather garments accounted for 218 tonnes, with a value of € 7.9 million in 2008. Total imports increased by an annual 97% in the period 2004-2008, mostly caused by booming imports (+287%) in 2007 compared to 2006. Imports in 2008 increased by 14% compared to the previous year.
Bulgaria is the 18th largest importer of leather garments in the EU, behind Slovakia and Romania, and accounted for 0.5% of EU total imports in 2008. Bulgaria is regarded as a small-sized country for leather garments imports.

In 2007, Germany became the leading supplier to Bulgaria, accounting for an import share of 49% (in terms of value), followed by Italy (17%) and Turkey (16%). Imports from these major suppliers varied strongly in 2008: Germany (-32% to an import share of 29%), Italy (+80% to a share of 27%) and Turkey (-32% to a share of 10%). Imports from Spain (seven times higher in 2008 than in 2007) reached an imports share of 13%) while France (2.2 times higher) reached a share of 5%.

Total Bulgarian imports from DCs decreased by almost 4% annually in the period 2004-2008 to an import share of 13% (in terms of value) in 2008, against 59% in 2006 and 73% in 2004. This fall can mainly be ascribed to decreasing imports from Turkey. Other DCs, exporting leather garments to Bulgaria, were China (import share of 2% of total imports), Pakistan (1%) and India (<1%). Imports from other DCs can be considered as negligible.

Exports
Bulgaria exported 84 tonnes of leather garments, valued almost € 1.4 million in 2008. Bulgaria is the 20th largest exporter of leather garments in the EU, behind Portugal and Greece, accounting for 0.1% of EU total exports in 2008. Total leather garments exports (in value) decreased annually by 10.5% during the period 2004-2008; Bulgarian exports fell 27% in 2008 compared to 2007.

Destinations were mostly (99% in value) other EU countries. Romania became the leading destination of Bulgarian exports, 31% of total exports went to this country in 2008. Other destinations were Latvia (20%), France (17%), Greece (14%) and Germany (9%). Leading destination outside the EU was Kosovo (1% of total exports).

Re-exports
The size of re-exports cannot be derived from the available trade statistics, but is assessed as negligible.

Opportunities and threats
+ Based on the value-for–money concept, the traditional lower range market segment, but also the middle range market segment, may offer opportunities for exporters in DCs.
+ Many of the Bulgarian clothing companies are faced with the problem that employees are leaving the country, to take better paid jobs in Western Europe.
± A strongly decreasing share of Bulgarian imports came from DCs, accounting for 13% in 2008 against 59% in 2006. This share was far below the EU average of 61%.
- Large exporters in Turkey and China are a threat to DC exporters in other countries, due to their scale and access to capital and the latest technology.
- During the period January-November 2009, imports of leather garments by Bulgaria decreased 28% in terms of value (compared to the same period in 2008), which is much lower than the EU average (-11%).

More information on opportunities and threats can be found in chapter 7 of the CBI market survey ‘The market for leather garments in the EU’.

Useful sources
- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu ➔ go to: trade statistics
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu ➔ go to ‘themes’ on the left side of the home page ➔ go to ‘external trade’ ➔ go to ‘data – full view’ ➔ go to ‘external trade - detailed data’
- Understanding Eurostat: Quick guide to easy Comext ➔ http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf
- Euratex bulletins - http://www.euratex.org

4 Price developments

Consumer prices
Inflation remains very high and climbed from 6.1% in 2004 to 11.7% in 2008, which is far above the EU average. The average rate of inflation is forecast to fall back to 3.7% in 2009 and further to 1.3% in 2010.
Growth in the Bulgarian clothing market was one of the highest in the EU in the period 2004-2008 and can be characterised by high increases in consumer prices. In 2006, clothing prices increased 3.8%, 7.0% in 2007 and 3.7% in 2008. It should be noted that consumer prices for clothing have been increasing at a lower rate than prices in general in Bulgaria.

According to a price level study by Eurostat, clothing prices in Bulgaria were far below (-16%) the EU average in 2008. Price level of clothing is similar to the UK and Romania.

The VAT rate for leather garments in Bulgaria is 20%.

Import prices
Prices of imports into Bulgaria increased considerably during the period under review, as table 4.1 indicates. Growth has been caused by much higher import prices for intra-EU trade. Import prices from DCs are 37% of the level of intra-EU import prices.

Table 4.1 Bulgarian average import prices of leather garments in € per kg., 2006-2008

	2006	2007	2008	AAGR*
Total imports	28.89	29.15	36.09	+6.2%
Intra-EU	48.39	36.26	43.45	-2.6%
DCs	22.95	14.42	15.90	-7.5%

* Average annual growth
Sources: Eurostat (2009)

Useful sources:
The website of Bulgarian National Statistics (http://www.nsi.bg) publishes harmonised indices of consumer prices, which includes the clothing sector.

5 Market access requirements

As a manufacturer in a DC preparing to access Bulgaria, you should be aware of the market access requirements of your trading partners and the Bulgarian government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select garments and Bulgaria in the category search, click on the search button and click on market access requirements.

There are several aspects to the **labelling** of leather garments of which you should be aware:
- Basic information includes brand marking and sizing.
- Labelling has to be formulated in the Bulgarian language.
- Outer material and materials used for lining and eventually interlining must be mentioned separately.
- In the case of leather garments, labels of 'genuine leather' (leather mark) are found on most products.
- Country of origin labelling.
- Care labelling, i.e. the inclusion of cleaning instructions. The recommendation 'special dry cleaning' has to be mentioned on a label to avoid claims, therefore use Ginetex symbols, the system used throughout Europe (see: http://www.ginetex.net). Leather garment care can give additional information like storage, drying, cleaning, advice to prevent damage.

General information on **packaging** can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packaging/packit.htm. More information about packaging of leather garments can be found in chapter 6 of the CBI market survey 'The market for leather garments in the EU'.

Information on **tariffs and quota** can be found at http://exporthelp.europa.eu.

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 Bulgaria, visit the following websites:

- Textiles Spring and Textiles Autumn, international trade fairs for textiles, clothing, leather goods and accessories. These fairs in spring and autumn (respectively March and September) are organized by the Bulgarian Chamber of Commerce and Industry (http://www.bcci.bg/fairs.html). This website includes a directory of exhibitors.
- http://www.bgfashion.net includes information and links to the websites of more than 2,000 Bulgarian fashion companies - designers, manufacturers, wholesalers and retailers.

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