

CBI MARKET SURVEY

The market for leather garments in the Czech Republic

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Introduction

This CBI market survey gives exporters in developing countries (DCs) information on some main developments on the leather garments market in the Czech Republic. 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

Total consumer spending on leather garments rose by an average 6.6% per annum during 2004-2008 to reach almost € 61 million, including sales tax, in 2008. Leather garments accounted for 2.5% of total outerwear expenditure in 2008. The Czech Republic is at present one of the rapidly growing fashion markets in the EU.

The Czech Republic ranked 15th in EU consumption of leather garments, behind Denmark (13th) and Finland (14th), and accounted for 1.1% of total EU consumption. Per capita expenditure on leather garments amounted to € 6.90, which was far below the EU average of € 13.75 in 2008.

Table 1.1 Consumption of leather garments in the Czech Republic, 2004-2010, in € million

	2004	2006	2008	AAGR*	2010 forecasts
Total leather garments	48.2	55.4	60.9	+6.6%	58.0
Total outerwear	1,919	2,156	2,459	+7.0%	2,338
Consumption of leather garments in % of total outerwear	2.5%	2.6%	2.5%		2.5%

* Average annual growth

Sources: Derived from Eurostat (2009) and Euromonitor (2009)

The financial and economic crisis will lead to a fall in outerwear as well as in leather garments spending of about 6% in 2009; after this fall, experts forecast (slight) growth in 2010.

Demand for leather garments is determined by several factors like type of product, demographics, economic developments and attitude of consumers towards fashion. 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'.

It can be assumed that about 90% of leather garments consumption concerned jackets and coats.

Demographics

The population size in the Czech Republic increased very slowly from 10.2 million in 2004 to 10.3 million in 2008, due in part to a high level of emigration and a deficit in the number of births.

Like other EU countries, the Czech Republic also has an ageing population in which over 65s account for 14.6% of the population. The younger age group is in decline: 15.2% of the population was younger than 15 years in 2004, against 14.3% in 2008.

Attitude of consumers towards fashion

Just like for total clothing, leather garments expenditure saw a robust growth in the period 2004-2008, boosted by the entry of more foreign, particularly European, brands into the market. Nowadays, many international fashion companies are present in the Czech market as will be described in chapter 2 of this survey. This resulted in more aspiring to and favouring a West European way of dressing behaviour by Czech consumers. Czech women are very interested in fashion, especially young women, and endeavour to follow the latest trends. On the other hand, older generations, particularly older men, are not particularly fashion conscious, but appreciate quality in clothing.

Generally spoken, Czech consumers are not loyal to a particular brand. Very often, for financial reasons, they choose to buy non-brand apparel at hypermarkets (such as Tesco and others) rather than in clothing shops, where prices are much higher. This development will be much stronger in 2009 and 2010.

Economic developments

From a real growth of 6.8% in 2006, growth fell to 6.1% in 2007 and to 2.5% in 2008. Heavy reliance on Germany, which is in recession, has a strong impact on the Czech economy. The worries about the economic outlook and the prospect of rising unemployment will have held back consumer spending in 2009. The heavily export-oriented Czech economy will benefit from an economic recovery in the euro zone in 2010. This should allow for a modest recovery in domestic demand and exports, enabling the economy to grow by 0.9%, following a contraction of 4.3% in 2009.

Experts forecast that private consumption will have contracted by 0.5% in 2009, after rising by 2.7% in 2008. However, it should rise by 1.4% in 2010, as the economy begins to recovering. Inflation will remain low over the forecast period: 1.0% in 2009 and 1.6% in 2010.

Trends

- Experts forecast that leather garments expenditure will fall in 2009 but recover slightly in 2010, caused by the global economic developments.
- Growth in the levels of international travel and influences of media (TV and international magazines such as Elle, Cosmopolitan etc.) are bringing new fashion influences and encouraging the Czech people to emulate Western trends.

More general trends and trends about fashion in leather garments can be found in chapter 1 of the CBI market survey 'The market for leather garments in the EU'.

Production

Just like in previous years, the Czech clothing industry was faced with lower demand in 2008, caused by considerably increased imports from DCs. The weak dollar made imports into the Czech Republic cheaper, which led to a further loss of orders for domestic manufacturers.

According to Eurostat/Prodcom, production by the Czech leather garments manufacturers amounted to € 1.6 million. Based on export figures (including re-exports), production can be estimated at € 6.3 million in 2008. This discrepancy was caused by the fact that SMEs constitute a significant part of the Czech leather garments industry.

In 2008, 75% of total Czech leather garments production was exported, with other EU countries accounting for 94% of exports.

Trends

- Increasing entry of foreign, particularly European, brands into the Czech clothing market.
- Growing imports from low-cost countries will lead to further reduction in the number of employees, and to cut-backs and closures in the Czech clothing industry.

More trends related to production of leather garments can be found in chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Opportunities and threats

- ± Demand for leather garments in the Czech Republic is estimated to fall by 3.8% in 2009, followed by a slight increase in 2010. Czech consumer behaviour changed in recent seasons; the popularity of buying outerwear at hypermarkets and to a lesser degree from home-shopping companies increased.
- ± Younger people are more and more interested in brand name clothing. The influence of (international) media such as television and Internet inspires youth to follow fashion trends and they are willing to spend more for (mainly) European brands.
- Czech manufacturing companies mostly export garments to other EU countries. This can be a threat to exporters in DCs, because Czech manufacturers are often producing on short terms.

The same development or trend can be an opportunity for one exporter and a threat to 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 most interesting way for exporters in DCs to enter the Czech leather garments market is export to importing manufacturers (either or not vertically organised). The number of wholesalers and domestic retail organisations is limited.

Which type of channel will be chosen, depends on factors like (among others):

- Which type of leather garments producer (CMT, MT, FOB, private label or own brand producer) tends to export to the Czech Republic. 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 Czech market.

Manufacturers

Leather garments manufacturers in the Czech Republic can be found at the website of the Czech trade association Atok (<http://www.atok.cz>), on the list of exhibitors at the fashion trade fair Styl (<http://www.bvv.cz/styl-gb>) or at <http://catalog.czechtrade.us/clothing-textiles-and-accessories/clothing-and-apparel>.

Specialized leather garments manufacturing companies in the Czech Republic are, among others, Francoux (<http://www.francouz.com>); MLD (<http://www.odevnikuze.cz>); Strnad & Cervinka (<http://www.strnad-cervinka.cz>); D&H Leather Fashion (<http://www.dahkuze.cz>) and Blazek (<http://www.blazek.eu>).

Importers/wholesalers

The number of Czech wholesalers is limited and can be found at the site <http://catalog.czechtrade.us/clothing-textiles-and-accessories/clothing-and-apparel> by searching for wholesale clothing.

Some specialized wholesalers are, among others, Francoux (<http://www.francouz.com>) operates also as manufacturer; Kožené oděvy (<http://kozeneodevy.cz>) and Jamo Trading (<http://www.jamotrading.com>).

The international fashion fair Styl (twice a year in Brno) would be a good place to make contacts. More information can be found at <http://www.bvv.cz/styl-gb>. It has to be noted that participation by exhibitors in the product group leather garments is very limited: only one company in September 2009.

Retailers

In contrast to most European countries, Czech clothing specialists' sales, as a proportion of all retail sales, have been rising since 2003. We predict that this will continue, helped by the nature of consumers, who are increasingly keen to adopt West European styles and fashions. Specialist clothing retailers accounted for an estimated 55% of the market in 2008, of which an estimated 25% was independent retailers and 30% clothing multiples. However, they face increasing competition from other channels, in particular from the super- and hypermarkets discussed below.

The leading domestic family clothing chain is Kenvelo, operating through 258 stores in Europe, of which 62 in the Czech Republic and also active as wholesaler (<http://www.kenvelo.com>). Je Holding (<http://www.jeholding.cz>) is a small chain.

Foreign clothing chains including leather garments in their assortment and active in the Czech Republic, are among others: C&A (38 stores, Germany), H&M (19 stores, Sweden), Etam (6 stores, France), New Yorker (41 stores, Germany), Reserved (18 stores; owned by LPP, from Poland), IC Companys (6 stores, Denmark) and, Inditex (15 stores, of which 6 Zara stores, from Spain).

Non-specialist retailers accounted for 45% of the market in 2008, of which 15% was department and other general stores, 15% was hyper- and supermarkets, 5% sports shops and 10% was other channels like home shopping companies, street markets and general wholesalers.

Department and other general stores are Prior (20 stores; <http://www.prior.cz>) and Coop Morava (27 stores; <http://www.coopmorava.cz>) and from abroad: Marks & Spencer (15 stores; UK). Bonprix (<http://www.bonprix.cz>) is active in the home-shopping sector.

The Czech Republic has been a success story for many European hypermarket operators, who have found that their price-conscious offer has a widespread appeal. Major hypermarket chains are: Kaufland (75 stores; owned by Schwarz, Germany), Tesco (51 hypermarkets and 6 department stores; UK) and Hypernova (56 stores; owned by Ahold, The Netherlands). Lidl, owned by Schwarz from Germany, is active through 152 discounters on the Czech market and competes with other chains from abroad, like Penney Market. In spring 2009, Rewe-owned Czech discount operator Penny Market acquired rival Plus-Discout (Tengelmann, Germany) and increased its overall outlet number to over 300. Penny Market has integrated 121 units, with the remaining outlets going to Rewe's supermarket chain Billa. 12 Metro/Makro cash & carry formula are exploited by the German Metro Group in the Czech Republic.

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 leather garments market can be found in chapter 3 of the same survey.

3. Trade: imports and exports

Imports

In 2008, the Czech Republic imported 508 tonnes of leather garments, valued € 21.0 million and accounted for 1.3% of EU total imports. Out of the 27 EU countries, the Czech Republic was ranked 14th largest (behind Poland and Portugal) and was regarded as a small-sized country for leather garments imports.

Between 2004 and 2007, Czech imports fell by 9% per annum in value to € 16.4 million and by 12% in volume to 480 tonnes. However, imports increased by 28% in value and by 6% in volume in 2008.

Imports exceeded exports by 2.5 times in value and 2.2 times in volume in 2008. Imports continue to represent a high proportion of the domestic market. There appears to be re-exporting, mostly to neighbouring countries, as exports significantly outweighed the value of domestic production.

Germany remained the leading leather garments supplier to the Czech Republic in 2008, with an import share of 15% (in value), the same share as in 2006. India became the second supplier (import share 14%), followed by Slovakia (12%), China (11%), Pakistan (10%) and five EU countries Italy (9%), Belgium (8%), Austria (5%), Poland (3%) and Spain (2%). Imports from India (+13%), Pakistan (+35%) and the EU countries mentioned (except Austria) (+49%) increased considerably, while imports fell from China (-57%) and Austria (-48%) in 2008 compared to 2006. It can be assumed that a large share of German and Belgian exports, to the Czech Republic concerned re-exports and transit trade.

Total imports by the Czech Republic from DCs decreased in terms of value (-21%) in the period 2006-2008, this fall can be ascribed to China. Imports from DCs reached an import share of 37% in 2008 against 51% in 2006.

Export by India, China and Pakistan to the Czech Republic covered 95% of total exports by DCs, which indicates that exports by other DCs remained limited.

Exports

The Czech Republic exported 155 tonnes of leather garments valued € 8.4 million in 2008. Total leather garments exports fell by an annual 11% during the period 2004-2008.

The Czech Republic is the 13th largest exporter of leather garments in the EU, behind Romania (11th) and Poland (12th) and above Slovakia, and accounted for 0.8% of EU total exports in 2008.

Destinations were mainly (94% in value) other EU countries, like Slovakia (33% of total exports), Germany (30%), Italy, France and Poland (each country 7%) and Bulgaria (2%). The leading destination outside the EU was Russia (2% of total exports), followed by Japan, Switzerland, Croatia and Ukraine (each country 1%).

Re-exports

The size of re-exports cannot be derived from the available trade and production statistics but can be estimated at 15-20% of total imports during the period under review.

Opportunities and threats

- + A decreasing share of Czech imports came from DCs. This share accounted for 37% in 2008 (against 51% in 2006), which was very low compared to other EU countries (61% in 2008).
- + The increased imports from DCs and German re-exports in 2008 compared to 2007 will put further pressure on Czech producers and force them to source abroad.
- + The Czech Republic will continue to depend on cheap imports from other countries to meet demand at the lower end of the market.
- It can be assumed that re-exports by other EU countries, like Germany, are preferred above direct imports from DCs.

- Large exporters in India 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 the Czech Republic decreased 25% in terms of value (compared to the same period in 2008), which is much more 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

The annual rate of inflation in the Czech Republic was 2.8% in 2004, 2.5% in 2006 and grew to a high 6.4% in 2008. Inflation was high in 2008 as a result of scheduled increases in indirect taxes and energy prices. However, the inflation rate fell to 1.3% in 2009 and will rise slightly in 2010 (1.6%), as the economy recovers modestly and commodity prices pick up.

Annual growth of consumer prices for clothing in the Czech Republic decreased for many years: -5.5% in 2005, -6.3% in 2006, -0.6% in 2007 and -3.9% in 2008.

According to a price level study by Eurostat, clothing prices in the Czech Republic were above (+13%) the EU average in 2008. The price level of clothing is similar to Belgium, Greece, Luxembourg, Slovakia and Slovenia.

The Czech VAT rate for leather garments rose from 19% to 20%, effective January 2010.

Import prices

Prices of imports into the Czech Republic increased during the period 2006-2008, caused by increased prices from other EU countries, as table 4.1 indicates.

Table 4.1 Average import prices of leather garments in the Czech Republic (in € per kg.), 2006-2008

	2006	2007	2008	AAGR*
Total imports	32.78	34.19	41.33	+13.0%
Intra-EU	39.80	43.15	53.43	+17.1%
DCs	28.39	27.16	30.24	+3.3%

* Average annual growth

Sources: Eurostat (2009)

Useful sources:

An impression of average prices can be formed by browsing through the catalogues of home-shopping companies on Internet, such as <http://www.bonprix.cz>. For websites of other retail companies, we refer to the previous chapter.

The website of Czech National Statistics (<http://www.czso.cz>) publishes information on consumer prices, including clothing.

5 Market access requirements

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

For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select garments and the Czech Republic 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 Czech 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' are found on most products.
- Country of origin labelling (not compulsory).
- 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 the Czech Republic, visit the following websites:

- The Association of Textile, Clothing and Leather Industry in the Czech Republic is ATOK (Asociace Textilního Odevního Kozedelného průmyslu) and can be reached at <http://www.atok.cz>
- The international fashion fair Styl (twice a year in Brno) would be a good place to make contacts. More information at <http://www.bvv.cz/styl-qb>

This survey was compiled for CBI by *Fashion Research & Trends*

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