

## **Sector: Textile and Clothing**

Prepared by the Danish embassy in Sofia

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### **Abstract:**

Quality clothing and design retailers have experienced dynamic growth in the last few years. Rising disposable incomes, greater variety in terms of product assortments and better leasing schemes making products affordable for more consumers has propelled growth in the sector. Bulgarian companies are heading towards mid and upper-mid price segments of the European confection market. These are the positions that the Bulgarian apparel producers are targeting and expect to explore further in the years to come. This further illustrates that Bulgaria represents an opportunity for producers and exporters of quality clothing and design.

## Introduction

Bulgaria is a small-sized textile and clothing producer, with a good reputation for quality in its garments sector, recent inward investment connected with European Union accession, and many small and medium-sized producers.

## Market indicators

According to Ministry of Economy and Energy and National Statistics Institute (NSI), this sector is about 5% of the industrial one and is responsible for about 8% of the value added to the Bulgarian industry.

Latest data of NSI shows that there is an increase of 17,5% in the retail of apparel and shoes which according to experts is due to seasonal change, while the increase in textile is 19%.

According to the website of “Global apparel and textile industry news” the textile industry accounts has exported goods for the lump sum of 1,5 billion euros for 2012 which represents 8.9 % from the whole export of the country. Textiles and apparel is therefore still a pillar of the Bulgarian economy.

Profits from T & C industry, reached the amount of 1176 million Euro and in the export structure of Textile and Clothing industry (T&C industry) traditionally predominant is the sub-category “Clothing”- 82%, while the sub-category “Textile” is 18%.

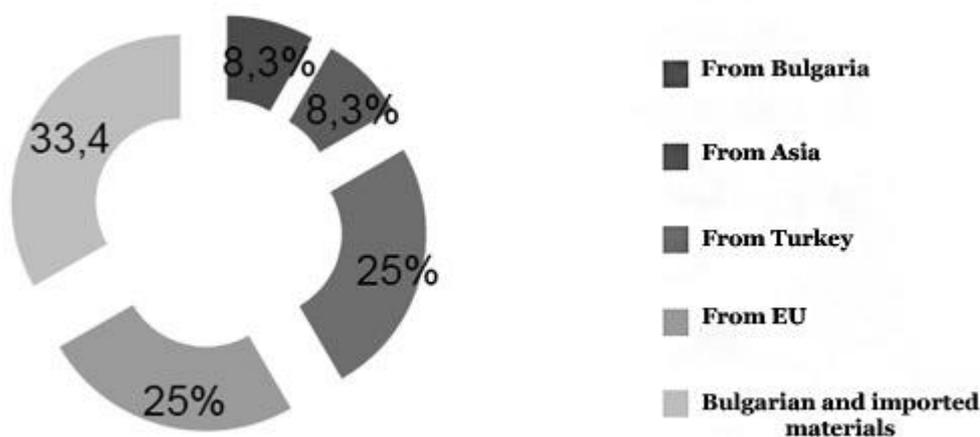
The internal market realizes about 5.3% of production while 90% of the export is to EU countries

With its population of 7.6 million people, and the accession to the EU together with Romania, 1st of January 2007, the years from 2000-2007 looked as if Bulgaria would take over Romania's role as the biggest eastern European apparel supplier to markets in Western Europe. Exports in EU started falling in 2008, and it also did in Bulgaria, but latest figures show that there has been a growth for the past year in the T&C industry in Bulgaria.

Nowadays many Bulgarian clothing companies are involved in cut-and-sew operations, with less of a presence in more lucrative areas such as design, distribution, marketing and sales. It is clear, however, that the immediate focus is on how to respond to the slump in demand – some companies have already had to close and workers have been laid off.

Bulgarian apparel producers have a good reputation for producing trousers, suits, overcoats and shirts.

## Origin of the materials, used in the Bulgarian apparel companies



### Production changes in % according to NSI:

	2011	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Leather and leather products	-9.9	8.9	-5.2	1.0	8.6	-10.2
Production of textile	7.9	4.5	-10.9	3.7	2.1	-1.9
Production of apparel	-0.8	4.6	-0.7	-2.7	6.9	-6.9

### *Companies*

In 2012 there were about 3500 active companies in the industry from which 72% produce to middle price segment and 24 % produce middle to high price segment.

The textile sector in the country has been fully privatised and presently the predominant part of the apparel producing companies in the country is small and medium-sized enterprises (SMEs) with no more than 250 employees.

The majority of the companies in the sector are producing on CMT basis (materials supplied by the customer) and their production is mainly export oriented.

**Most widely known brands that are produced in Bulgaria are:** Hugo Boss, Strellson, Betty Barclay, Escada, Vivienne Westwood, Sonia Rykiel, Jean-Paul Gaultier, IKKS, Chloe, Iceberg, Guess, Mexx, Joop, Kenzo, Lacoste, Cerruti, Armani Jeans.

Very price-competitive for CM/CMT production of woven apparel: trousers, suits, overcoats, shirts, etc.

Bulgarian producers have started to focus on developing their own apparel production and development of own brand, rather than working upon client's request. The number of producers, including small enterprises, which are registering their own brands or they have already been established on the market, is increasing.

### *Labor cost*

More than 90% of the production companies are SMEs and they have hired around 113,260 employees which represents 5% of the total number of the employees in Bulgaria.

In 51% of the companies the average monthly salary for 2012 is above 330 Euro.

Bulgaria is also very price-competitive as a CM/CMT producer of garments. According to KSA's Global Sourcing Reference 2009, the total cost of producing clothing in Bulgaria is lower than Belarus, Albania, Slovakia and Ukraine.



***SWOT-Analysis: Status of the Bulgarian Textile Industry***

<p><b><i>STRENGTHS</i></b></p> <ul style="list-style-type: none"> <li>• Flexibility, producers accept very small orders;</li> <li>• Very good and comparatively new technology in the factories;</li> <li>• Proximity to markets (mainly EU countries) and suppliers of material (EU and Turkey);</li> <li>• Experience in working with Western customers;</li> <li>• Still very competitive labour cost;</li> <li>• Well-functioning sector associations that support the business</li> <li>• Liberal international trade regime which has contributed to the improvement of market access and competitiveness of the sector ;</li> </ul>	<p><b><i>WEAKNESSES</i></b></p> <ul style="list-style-type: none"> <li>• The sector is undervalued by the Bulgarian government;</li> <li>• Negative image makes it difficult to attract new workers;</li> <li>• Limited local market;</li> <li>• Unsatisfactory vocational education and training;</li> <li>• Importance of grey economy;</li> <li>• Difficult access to financing, especially from the EU;</li> <li>• A relatively small share of the companies in the sector is marketing their own trade mark;</li> <li>• Need for investment in safety and better working and health conditions;</li> <li>• Strong competition I the international markets;</li> </ul>
<p><b><i>OPPORTUNITIES</i></b></p> <ul style="list-style-type: none"> <li>• Intensified transfer of capital, know-how, technologies and design to Bulgaria in regard to the EU membership of the country ;</li> <li>• Increased market demand of apparel in small series ;</li> <li>• Higher quality and design expectations by the domestic consumers ;</li> <li>• Promote it to foreign investors;</li> <li>• Improve image;</li> <li>• Search opportunities in new markets;</li> </ul>	<p><b><i>THREATS</i></b></p> <ul style="list-style-type: none"> <li>• Strong competition in international markets;</li> <li>• Possibility of considerable number of company liquidations due to the cut of CMT orders ;</li> <li>• Dumping imports from China and Asian countries ;</li> <li>• Import of fake brands on the EU market on low price levels mainly from Asian producers;</li> <li>• The majority of the companies are dependent on very few key customers;</li> </ul>

### ***Role of foreign investors:***

Over the last decade many Europeans have invested in Bulgaria to take advantage of low labour costs and proximity to European markets. Important foreign investors in the textile sector are the Italian groups Miroglio, Safil and Salvadori. Other investors include Dewavrin (France), Maser Holding (Turkey), Alt Group (Germany), Coats (UK), Marland International (Ireland) and Stambouli (Cyprus).

In the apparel sector, the biggest foreign investor is German company Rollmann & Partner Fashion Management Ltd, which in 1998 took over Pirin Tex, a men's wear supplier to companies like Hugo Boss and Strellson with 2,200 employees.

Other foreign investors include:

- Germany: Canda International OHG, Loger Fashion, Hainer & Peter Roesler
- Greece: Kosmos Textile, Unitex, Blue Point
- Italy: Kalcedonia
- Denmark: Brandex

### **Market trends**

In the coming years, European retailers will be forced to import the majority of large order, commodity clothing from China in order to remain competitive. But remaining competitive for these firms will also mean reducing opportunity costs of lost sales resulting from mid-season stock-outs, particularly for higher quality items. China, due to its slow delivery and inability to ship in small quantities, will not be an option for retailers and buyers to respond quickly to spontaneous fluctuations in demand. European retailers must look closer to home for these solutions.

### **Bulgaria's Role in this Future**

Bulgaria is Europe's quick response solution. Bulgarian firms are rapidly developing the internal capabilities to manage all aspects of their supply chains to European partners, including sourcing, design, transport/logistics and own branding. These capabilities, combined with Bulgaria's strategically favorable location, make working with Bulgaria a critical and valuable component to your company's strategy.

**In short, Bulgaria is Europe's most reliable, capable and cost-effective solution for high quality, small orders that need to be there yesterday.**

The Bulgarian fashion industry has experienced positive developments during the years before the economic crisis - constant increase in production, winners at design competitions, awards and distinctions at prestigious foreign forums and participation in fashion weeks in the world capitals of style. The industry has experienced low production levels in 2009 however the years after are of stabilization.

### **Conclusions and recommendations**

Presently, Bulgaria is Europe's most resilient market for the production of apparel. The local companies are developing their production taking into consideration specific niches of international markets where demand is characterised with preference to smaller series of apparel products with a complex design. At the same time, Bulgarian companies are heading towards mid and upper-mid price segments of the European confection market. These are the positions that the Bulgarian apparel producers are targeting and expect to explore further in the years to come.

One of the major advantages of Bulgarian apparel and textile producers is the ability to make fast deliveries to the European market. Compared to the industry in China and India, Bulgarian companies are able to respond in a shorter time frame to unexpected fluctuations in the demand. Moreover Bulgarian textile producers have already specialized in production of high quality products, implementing orders for famous international brands, which give them advantage in this segment of the world textile market.

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