Bulgaria

Followers of fashion

Low-cost textile firms are shifting into higher value production to survive

Local textile firms have the skills needed to adapt to new styles for small orders

A few companies are offering their own collections for foreign private labels or as their own brands

It has been a success story so far. As of 2004, the textile and garment industry accounted for almost a third of Bulgaria's manufacturing jobs and a quarter of its exports. In euro terms, exports of textiles and textile products rose 2.4-fold between 1999 and 2003—and probably another 20% in 2004, with 80% going to EU-15 countries.

Foreign direct investment (FDI) in the sector is also rising, with $226m invested since 1998. Miroglio (Italy), for example, has four factories, with a fifth planned, while Rollman (Germany), which bought state-owned PirinTex in 1998, now employs 2,000 workers making Hugo Boss and Rollman brands. According to Tomi Luhtanen, owner of INA Trading (Finland) which has been selling apparel-making machinery in Bulgaria since 1988, sales have never been brisker. Those companies that are prepared to invest in new machinery will be alright, he says.

Several factors underpin this success. Low monthly wages in the sector, at Lv186 ($124) in 2004, has certainly helped, and productivity has outpaced wage growth. But as Bulgaria graduates from mass to fashion production, the combination of proximity to EU markets, flexibility, and fast turnaround times has been far more important, says Mr Luhtanen. Mass production means long production runs of predictable products, ordered by the container months in advance. "Fashion production means much shorter series, more rapid ordering, and flexibility as to what, and how much, is produced." US firms that demanded long production runs forsook Bulgaria seven or eight years ago, but picky EU retailers got what they demanded. "You can often place orders of 200, 100 or even 50 pieces in Bulgaria, which is hard in the Far East", says Petko Shishkov, board chairman of Bourgas-based garment-producer Ropotamo, which employs 800 people. They have the skills needed to adapt to new styles for small orders, he notes.

Another key factor is company size. Communist-era factories were much smaller than their Romanian counterparts, explains Elly Hennessy, whose Rainbow Clothing Agency puts together contracts foreign garment firms. Post-1990, many smaller satellite factories went independent, and the bigger players have become nimbler since privatisation. Their minimum turnaround time used to be six weeks, she recalls: today it's two weeks. Nowadays, firms are 60-70% engaged in fashion rather than mass production, adds Mr Luhtanen.

There's more scope for development. While, "cut and make" (CM), where the customer provides all inputs, is still common (90% of materials for garment making are still imported) firms are slowly moving to "cut, make and trim" (CMT), where the producer procures some or all accessories. That means better margins for the producer, fewer headaches for the customer, and more difficulty in relocating production out of the country—always a threat in labour-intensive industries.

A few medium-sized firms are going further, offering their own collections, whether for foreign private labels or as their own brands, but Mr Shishko, is cautious about this trend:. "Personally, I prefer to keep all options open...Higher value-added isn't always very much higher. And the risks are greater." Moreover, own brands must first be built on the domestic market before being exported, and Western brands already dominate Bulgaria's small high-end market.

Another spur to higher value production is competition at the low end. The Multi Fibre Agreement (MFA) which came into force from January, removes quotas on garment imports from China, India, and other low-cost countries. Although these were already being imported illegally, without VAT or customs duty, the MFA will make life tougher in Bulgaria's key EU and US markets, particularly for basic items such as T-shirts or jeans. Indeed, low-wage workshops in southern Bulgaria—already some distance from EU markets—have been squeezed.

A stitch in time

However, Mr Shishkov, who also chairs the local industry association, expects increased sales of higher value added products to offset the drop in low-value sales. For both fashion production and procurement, Bulgaria's flexibility and proximity will remain crucial for EU markets, especially Italy, as well as Turkey. Chinese textiles often don't suit EU firms despite some good technical fabrics, observes Ms Hennessy, and shipping European fabrics to and from Asia also involves heavy transport costs.

Longer term, however, the threat could be greater, particularly from neighbouring Macedonia and Ukraine whose efficiency and access to EU markets will begin to improve. Meanwhile, EU accession will push up Bulgarian wages, making the country less competitive, but also creating a stronger domestic market which will help firms keep afloat. But they could also do more for themselves. Why, Ms Hennessy asks, are Bulgarian firms so shy of laying on trucks to pick up materials and deliver finished goods, when foreign clients love to be spared such headaches? "I'm neither unconditionally optimistic nor pessimistic," concludes Mr Shishkov.

Rob Whitford, Sofia

© The Economist Intelligence Unit Limited 2005