

# The Polish Market for Seasonal Products – the Apparel Segment

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## Abstract

The article discusses the apparel segment of the market for seasonal products in Poland. Its purpose is to characterise the segment and to determine how competitive domestically-owned manufacturers are. To this end, the authors use GUS (Central Statistical Office) data, their own findings, as well as data derived from the Polska 2000 ranking. The first part of the article presents secondary data and formulas that were used to compute values illustrating the size of the market segment selected and the changing shares of domestically-made products. In the second part, the scope of the research is extended due to the lack of other secondary data, except for aggregate (on clothing, footwear, and accessories). The last part of the article presents a ranking of the largest companies operating in the selected segment of the Polish market by the type of ownership (Polish, foreign). As the GUS data used in the analysis were collected in the period of global financial crisis, its impacts can be seen through the research outcomes.

**Key words:** seasonal products, Polish apparel market, economic crisis.

## Introduction

The reason why leather, woven and knitted apparel has been chosen as the primary object of this research is its relatively large share in the Polish market for seasonal products. The political and economic transition launched in the late 20<sup>th</sup> c. is commonly believed to have downgraded the Polish apparel industry, reducing it to a structure made of small-sized companies that are quite unimportant for today's national economy. However, data on the apparel industry presented in *Table 1* seem to question this opinion.

At the end of December 2011, the group of medium and large manufacturers of apparel consisted of only 381 organisations (2.6% of enterprises in the industry), but they employed 47,400 people (42% of the industry's employment, estimated at 114,800) and delivered PLN 8,334.4 million worth of products (41% of the total sales of apparel). At the same time, it is also the only group of manufacturers that welcomes technical, technological and organisational innovations. For these reasons, the scope of the research was limited to apparel companies with annual sales exceeding 145 million PLN. The purpose of the research was:

- to determine the **value of apparel output in Poland** -  $P$  and sales by

- destination ( $R_k$  – domestic market and  $E$  – export),
- to assess the **size of the domestic market for apparel** -  $R$  and the share of products delivered by Polish-owned manufacturers,
- to analyse the competitiveness of Polish-owned manufacturers of apparel operating in a market affected by economic crisis.

The research was conducted in a market characterised by strong competition between Polish-owned and foreign-owned organisations, the latter having long-standing experience of operating in different business conditions. While each barrier to growth is difficult to overcome by itself, their coincidence (the world economic crisis, market competition, etc.) produced a particularly unfavourable operational environment for the apparel industry.

## Production, export, and import of apparel

The analytical part of this article is based on the GUS time series (the Central Statistical Office). The authors found them appropriate '... to estimate changes in the economic situation of the industry' [7]. *Table 2* was compiled with the 2005, 2009, 2010, 2011 times series derived

from the Statistical Yearbook of Industry - Poland 2012. In the years analysed:

- total apparel output ranged from PLN 8.893 bn to PLN 9.716 bn,
- apparel exports declined from PLN 5.2 bn to 3.3 bn (by 36%),
- apparel imports declined from PLN 3.9 bn to 1.8 bn (by 54%),
- employment cuts reduced the apparel industry's workforce from 184,000 to 114,000 (by 38%),
- average wages increased from PLN 1,185 to 1,754 (by 48%).

Data selected for analysis are provided in the first five lines of *Table 2*. As a result of computations, the next four lines were added.

*Table 2* shows that the total apparel output kept rising in Poland until 2009 by an average of PLN 206 million a year. It was not until 2010 that the negative impacts of the global economic crisis hit Poland, but even then they were offset already in the next year, when the output rose by PLN 586 million. The annual apparel output in Poland is estimated to be around PLN 9 billion, regardless of the business cycle phase. A sudden increase in output in 2011 (despite the continuing global economic crisis) is a prognostic that it still has the potential to grow. This fact is important for the national economy, because the apparel industry uses production technologies combining machines and manual labour so it can generate a relatively large numbers of jobs.

The total apparel output in the years analysed was not correlated with the industry's employment that declined between 2005 and 2011 from 183,700 to

**Table 1.** Polish apparel industry at the end of December 2011; **Source:** developed by the authors based on Statistical Yearbook of Industry – Poland 2012, Wydawnictwo GUS, Warszawa 2012, pp. 42, 50, 109, 117, 217, 222.

Specification	Total	Employment of 50 or more employees	Share of medium and large companies, %
Number of firms	14,468	381	2.6
Employment, thousands	114.8	47.4	42
Sales, million PLN	8,334.4	3,510.5	41

114,400 people, i.e. by 38%. However, apparel output in the two years was PLN 8,893.1 million and PLN 9,591.7 million, respectively, hence the numbers are almost comparable. There are two possible explanations of the situation. Firstly labour productivity increased in the apparel industry (likewise in the entire economy of the country). Secondly alongside improving productivity new work organisation methods were introduced, such as outsourcing, which allows high production volumes to be achieved despite employment cuts. An example of the second approach is the LPP company (see the last section), which has reduced its core structure to modules handling the pre- and post-production stages.

**Table 2** also indicates that the steep decline in apparel output that started after the market was liberated from government control in the 1990s was stopped several years ago. The statistical Yearbook of Industry – Poland estimates the total apparel output in 2006 at PLN 9,238,400 million, i.e. in excess of the usual 9 billion [7].

In the period analysed, apparel exports prevailed over apparel imports. Between 2005 and 2011, the surplus rose steadily from PLN 1,275 million to PLN 1,509 million. Polish manufacturers export full-cycle products that they are made completely by themselves (their costs include the costs of product creation, materials and labour, etc.) and those assembled for Western European firms under B2B contracts (the value of the service is usually equal to the cost of labour). In the latter case, most apparel is made today in small series for upper-end customers who are less sensitive to product prices, but appreciate high-quality workmanship [1]. Polish manufacturers can meet the requirements.

Polish manufacturers that went through restructuring processes and chose to provide B2B services are competitive against Asian manufacturers and have no problem winning new contracts. There are several reasons for this. While it is true that the wages they pay rose from a gross average of PLN 1,185 in 2005 to PLN 1,754 in 2011 (by 48%), the increase was correlated with improving quality of labour. The level of wages in Poland still makes the country more competitive than countries in Western Europe. It is also noteworthy that luxury apparel must be transported on hangers, which is not pos-

**Table 2.** Polish apparel industry and the domestic market for apparel; **Source:** developed by the authors based on the Statistical Yearbook of Industry – Poland 2012, Warszawa 2012, pp. 85, 211, 303, 356, 360.

Specification	2005	2009	2010	2011
Total apparel output [P], PLN millions	8,893.1	9,715.7	9,006.2	9,591.7
Apparel exports [E], PLN millions	5,224.5	3,366.8	3,229.0	3,321.2
Apparel imports [I], PLN millions	3,949.5	2,018.3	1,910.8	1,811.5
Employment in the apparel industry (annual average), in thousands	183.7	140.1	122.4	114.4
Average monthly gross wages, PLN	1,185.5	1,577.2	1,654.2	1,753.9
Surplus of exported over imported apparel, PLN millions	1275.0	1348.5	1318.2	1509.7
The size of the Polish apparel market [R], PLN millions	7,618.1	8,367.2	7,688.0	8,082.0
Domestically-made apparel sold in the Polish market [R <sub>k</sub> ], PLN millions	3,668.6	6,348.9	5,777.2	6,270.5
R <sub>k</sub> as a % of the Polish market	48.2	75.9	75.1	77.6

sible when intercontinental shipments are involved, and Polish manufacturers offer the benefit of proximity.

The main problem faced by Polish producers is the depreciating Polish zloty, which makes production less profitable. The elimination of low-paid apparel assembly services has changed the proportions between the export of manufacturing services and full-cycle products, as well as reduced the volume of exports (see **Table 2**). Manufacturers' tendency to reduce the export of B2B services is favourable because countries allowing services to play a greater role turned out to be more sensitive to crisis than their competitors with more balanced economic structures. Unfortunately whether or not this hypothesis is correct cannot be corroborated because the export of ready-made apparel and apparel assembly services is not presented separately in GUS statistics.

### Evaluation of the Polish apparel market

External circumstances that led to integration of the Polish and EU markets have been discussed in the earlier articles [2, 4, 8]. The 1989 deregulation of the Polish market, which initially disintegrated the apparel industry, was followed by restructuring and privatisation processes (private producers of apparel account for 99% of the industry today). In the meantime, the domestic market was flooded by Asian apparel, which customers initially welcomed for its attractive designs and low prices. It soon became very clear, however, that the quality expectations of many Polish buyers were moulded by the Polish Standards (requiring apparel not to lose its shape, fade, pill, etc. in the first year of wear and maintenance), which seems to explain why domestic products

recaptured a considerable share of the apparel market after a time. To find out whether this hypothesis is true, computations were made to establish the size of the Polish apparel market as well as the share of domestic products in the market.

The size of the market  $R$  was calculated using the following formula:

$$R = P + I - E$$

where  $P$  - total apparel output,  $I$  - value of apparel imports,  $E$  - value of apparel exports.

As shown by the data in **Table 2**, the market segment analysed kept expanding until 2009. With the rising level of wealth in Poland, larger amounts could be spent on apparel. However, the economic crisis reduced the market between 2009 and 2010 from PLN 8,367 to PLN 7,688 million. As the economic situation in Poland turned out to be better than in other European countries, in 2011 the apparel market recovered to PLN 8,082 million, but even with this upward trend it was still smaller than in 2009 (by PLN 285.2 million).

The subsequent calculations aimed to determine how much apparel was delivered by domestic manufacturers and sold in Poland, as well as its percentage shares in the years selected. To this end, the total apparel output  $P$  was diminished by the value of apparel exports  $E$  according to the formula:

$$R_k = P - E$$

where:  $R_k$  - the value of domestically-made apparel on the Polish market,  $P$  - total apparel output in Poland,  $E$  - the volume of apparel exported from Poland.

The juxtaposition of  $R_k$  and  $R$  values shown in **Table 2** produces interesting re-

sults. After a period when Polish apparel was losing its market share (in 2005 it was only 48.2%), it managed to regain its status. Between 2009 and 2011 its share increased to 77.6%, meaning that most of domestically-made apparel was purchased by Polish consumers.

The value of  $R$  alone increased between 2005 and 2011 by 6.1% (from PLN 7,618.1 to PLN 8,082.0 million). At the same time,  $R_k$  rose by 70.9% (from PLN 3,668.6 to PLN 6,270.5 million) and apparel imports declined dramatically from PLN 3,949.5 million to PLN 1,811.5 million (it is interesting to note that sales levels improved despite considerable rises in wages (48%) and employment cuts (38%)). This proves that the share of domestic apparel in the Polish market [ $R_k$ ] rose steadily between 2005 and 2011, from 48.2% to 77.6%.

### Major producers of apparel in the domestic market for seasonal products

In this part, apparel manufacturers in Poland are analysed using the source of their founding capital, which divides them into:

- Polish-owned organisations,
- foreign-owned organisations.

**Table 3.** Largest Polish-owned firms (apparel, footwear, accessories) after 2011; **Source:** developed by the authors based on *Polskie przedsiębiorstwa. Lista 2000*, „Rzeczpospolita”, 24 Oct. 2012.

Ranking	Company	Sales, thousand PLN	Sales dynamics 2010/2011, %	Net result, thousand PLN	Assets, thousand PLN	ROE, %
144	LPP SA GK (Gdańsk)	2,492,510	119.9	269,146	1,613,868	29.60
306	NG2 SA GK (Polkowice)	1,091,260	106.1	122,776	965,613	24.80
761	Vistula Group SA (Kraków)	387,703	109.5	6	642,905	0.00
783	Redan SA GK (Łódź)	380,376	117.4	2,587	187,595	3.40
1461	Gino Rossi SA GK (Ślupsk)	186,139	102.5	8,432	142,385	16.22
1825	Wojas SA (Nowy Targ)	145,181	112.5	4,654	138,599	10.20

**Table 4.** Largest foreign-owned firms (apparel, footwear, accessories) after 2011; **Source:** developed by the author based on *Polskie przedsiębiorstwa. Lista 2000*, „Rzeczpospolita”, 24, Oct. 2012.

Ranking	Company	Sales, thousand PLN	Sales dynamics 2010/2011, %	Net result, thousand PLN	Assets, thousand PLN	ROE, %
323	H&M Hennes & Mauritz	1,035,884	107.1	50,517	420,219	16.90
603	Zara Polska	506,381	118.4	80,122	225,943	66.33
645	Bon Prix Łódź	465,462	132.6	28,366	115,975	44.23
664	C&A	452,374	113.6	-19,407	187,135	-82.69
810	Adidas Poland	368,244	97.6	7,131	142,775	18.53
937	Peek & Cloppenburg	304,728	110.3	37,299	175,849	32.10
1550	Triumph International	173,977	101.9	12,648	149,755	10.77
1570	Stradivarius Polska	171,889	166.9	20,786	105,980	36.40
1634	I.O. Venezia	164,773	112.0	2,021	69,010	5.76
1712	Kappahl Polska	157,724	116.4	-39,886	85,999	n/a
1838	Puma Polska	144,271	99.6	-5,350	129,276	-16.83

The data used to compile **Tables 3** and **4** were provided by the analysed companies themselves and derived from the *Lista 2000* ranking [5] of the country's 2000 largest businesses, which was published in 2012. The ranking was prepared from questionnaire interviews, telephone and mail interviews, information obtained from the business intelligence agency Dun&Bradstreet, as well as using data published in *Monitor Polski B*. In other words, the focus of the research was on the most profitable companies in the apparel and footwear business. The two categories of products have to be analysed jointly because in trying to ensure that the range of their products is complete many companies offer accessories (caps, scarves, gloves, etc.) and leather items (handbags, wallets, belts, etc.) in addition to apparel. The products are called “seasonal” because the changing seasons shorten their life-cycles in the market. Individual data on, for instance, apparel sold by the company are not available. This is the case of Gino Rossi SA, LPP SA, Redan, and Vistula in **Table 3**, and of Puma, Adidas, Peek & Cloppenburg, H&M, and C&A, etc. in **Table 4**.

The Gdańsk firm LPP SA, which in 2011 employed 888 people, has been the leader among Polish-owned companies for many years now (**Table 3**). It outsources

all its production processes to fully focus on product creation, the organisation of production processes, market creation and sales. The company distributes its products (apparel, footwear, accessories, etc.) through a chain of its own stores handling particular brands: Reserved, House, Cropp, Mohito, Promo Stars. A new brand, Sinsay, addressed towards young girls, will be launched in March 2013. By the end of June, another 30 Sinsay stores will be open, and 20 more by the end of 2013. In the structure of LPP's sales, exports account for around 30%. LPP SA has stores in the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Ukraine, Romania and Bulgaria, but its largest foreign partner is Russia, which generates half of its export revenue. At the end of June 2012, LPP had 129 stores in Russia. Compared with 2001, when the Stock Exchange priced its IPO at 48 PLN a share, by 16 October 2012 the price amounted to as much as 4,040 PLN apiece, driven by increasing retail space and sales. During 2011, LPP almost doubled its net result to over PLN 269 million. The net result predicted for 2012 was PLN 315 million, and a record high of 399 million in 2013. These optimistic forecasts are fanned by retail space, increasing at 20 - 30% a year. LPP successes ranked it 144th on *Lista 2000*, i.e. among the largest enterprises in the Polish market.

In **Table 3**, right below LPP SA, there is NG2 SA, a footwear group selling 67 registered brands of products, such as CCC, Boti, Quazi, and Lasocki. At the end of 2012, the group had 709 stores (own and franchised), over half of which were CCC stores. This footwear brand is targeted at customers in the middle market segment, who are relatively sensitive to the price-quality ratio. The Quazi products are addressed to better-off customers. NG2 exports its products mainly to the Czech Republic (46 stores), Slovakia, Hungary, Russia, Latvia, Romania, Kazakhstan, and Ukraine. It annually sells around 20 million pairs of footwear in over 2,500 designs, which secures it a 15% share in the domestic market. Most of its products (around 71% of its retail offering) are made in the Far East. The company's own factory in Polkowice produces women's leather footwear, which accounts for the remaining 29%. NG2 SA results ranked it 306th on *Lista 2000*, among the largest businesses in the Polish market. In 2013, the company was renamed CCC Spółka Akcyjna.

The very fact that Polish-owned firms were included in the ranking means that economic crisis does not necessarily have to prevent a firm from being successful, even in the apparel business, which is known to be very sensitive to changes in the business environment.

Among foreign-owned firms operating in Poland, H&M had the highest sales in 2011, amounting to over PLN 1 billion, greater by 1% compared with the previous year. The company also managed to improve its declining dynamics of sales (in 2009 it was 96.3% of that in 2010) [3]. Even so, H&M's sales were twice as low as those of the Polish-owned firm LPP SA, the net result being one-fifth and the sales growth lower by 13%. The highest dynamics of sales among all Polish-owned and foreign-owned companies analysed in this study was noted for Stradivarius Polska (167%). Stradivarius Polska addresses its products to fashion-sensitive young people who prefer casual wear. The products are made from good quality fabric and are characterised by fine workmanship, fashionable colours and designs, hence they are relatively expensive (targeted at buyers in the middle market segment). The firm's sales strategy seems to work well. Even though it was omitted by the *Lista 2000* ranking in 2011, in the following year's ranking it was already 1570<sup>th</sup>. The luxury apparel segment in **Table 3** is represented by Peek & Cloppenburg. Its year-on-year growth rate was 110% (see **Table 3**; 131% in the previous ranking). The mail-order company Bon Prix had growth dynamics of almost 133% in 2011, which ranked it second among the firms sampled.

Considering that the economic crisis did not prevent sales rates from rising, it is quite natural to conclude that its impact on Poland was much weaker than on western Europe. Of the seventeen largest companies present in the Polish footwear and apparel market, only two had negative sales growth rates and three negative net results. It is worth remembering that unlike common opinion, the industry analysed is not all made of small and medium-sized firms. The medium and large companies in **Tables 3** and **4** have sales in excess of 145 million PLN.

## ■ Summation and conclusions

The focus of the research presented, dealing with seasonal products, was on apparel, but when only aggregate data were available it was considered together with footwear and accessories. The glob-

al economic crisis hit Poland later than other countries, as it was not until late 2010 that a slump occurred in the Polish market. The research results lead to the following conclusions:

1. The total apparel output  $P$  stabilised in Poland after 2006 and exceeded PLN 9 bn. In 2010 it dropped to 92.7% of its 2009 level. Even though the decrease was compensated for already in 2011, the output was still lower than in 2009 (by PLN 124 million).
2. Apparel exports consisted of full-cycle products (the production of which is controlled by the manufacturer from design to distribution) and products assembled under B2B contracts. Polish statistics do not account for these two types of exports separately. From the direct interviews with companies it can be deduced, however, that the volume of exports started to decrease with western European firms transferring B2B services from Poland to Asia.
3. In 2011, the Polish apparel market  $R$  was worth PLN 8,082 million. Its 2010 value was lower, likewise the output, accounting for 91.9% of that in 2009 (hence the decline was greater than in the total output by 0.8%), but this decrease was also made up in 2011.
4. In 2011, PLN 6,270.5 millions' worth of domestic apparel products was sold in the Polish apparel market  $R_k$ . The 2010 sales constituted 91% of those in 2009, meaning that  $R_k$  diminished less than  $R$  (the size of the Polish apparel market).
5. The share of domestic apparel in the Polish market  $R_k$  kept expanding. From 2005 to 2011 it rose from 48.2% to 77.6%, which is very important for the Polish economy to have a thriving apparel industry, because the industry's production technologies combining machines and human labour are capable of creating many new jobs.
6. The share of apparel imports in the domestic market decreased considerably (by 54.1%). Their 2005 volume was estimated at PLN 3,949.5 million compared with only PLN 1,811.5 million in 2011.
7. Polish-made apparel is more attractive for domestic consumers than imported products. Its competitive advantage arises from its ability to meet high standards expected by Polish consumers, who prefer apparel and footwear that are more durable.

8. The ranking of the 2000 largest firms in Poland in 2011 included 11 foreign-owned and 6 Polish-owned organisations dealing in seasonal products (apparel, footwear, accessories). The research has established that most firms in the market segment analysed have a majority of foreign capital.
9. The foreign-owned firms presented in **Table 4** had sales totalling PLN 3.9 bn in 2011. The six Polish-owned firms in **Table 3** were estimated to have sales of 4.3 bn PLN, i.e. greater by over 10%, which shows that Polish firms outperform their foreign competitors.

The fact that the share of domestically-made apparel increased in the years sampled until it reached 77.6% in 2011 proves that even with average wages rising by 48% between 2005 and 2011 Polish-owned producers could surpass their foreign competitors. Their ability to enlarge the market for seasonal products in a period of economic slump allowed them to expand into foreign markets. In that respect, the most successful Polish-owned firms were LPP SA (deriving 30% of its sales from exports to 10 countries) and CCC Spółka Akcyjna (selling products in 8 countries).

The authors of this research intend to continue their observations and analyses of future developments in this area. □

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