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FOOT-WEAR DEVELOPMENT

ED/ENR/76/001

HUNGARY.

Technical report:
FOOT-WEAR DEVELOPMENT AND MARKETING.

(1976)

Prepared for the Government of Hungary by the
State Research Institute for Footwear Technology
and Leather Goods
Budapest, Hungary

United Nations Development Programme

FOOT-WEAR DEVELOPMENT

DP/HUN/75/001

HUNGARY

Technical report: Foot-wear development and marketing

Prepared for the Government of Hungary
by the United Nations Industrial Development Organization,
executing agency for the United Nations Development Programme

Based on the work of E. Paschkuss, expert in foot-wear marketing

United Nations Industrial Development Organization
Vienna, 1976

Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

The monetary unit in Hungary is the forint (Ft). During the period covered by the report, the values of the forint in relation to the United States dollar were \$1 = Ft 40 (commercial rate) and \$1 = Ft 20.63 (non-commercial rate).

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

Totals may not add precisely because of rounding.

The following abbreviations are used in this report:

CMEA	Council for Mutual Economic Assistance
DH	Zero Defect
MC	Minőségipőgyár (quality shoe factory)
MERT	Quality control organization

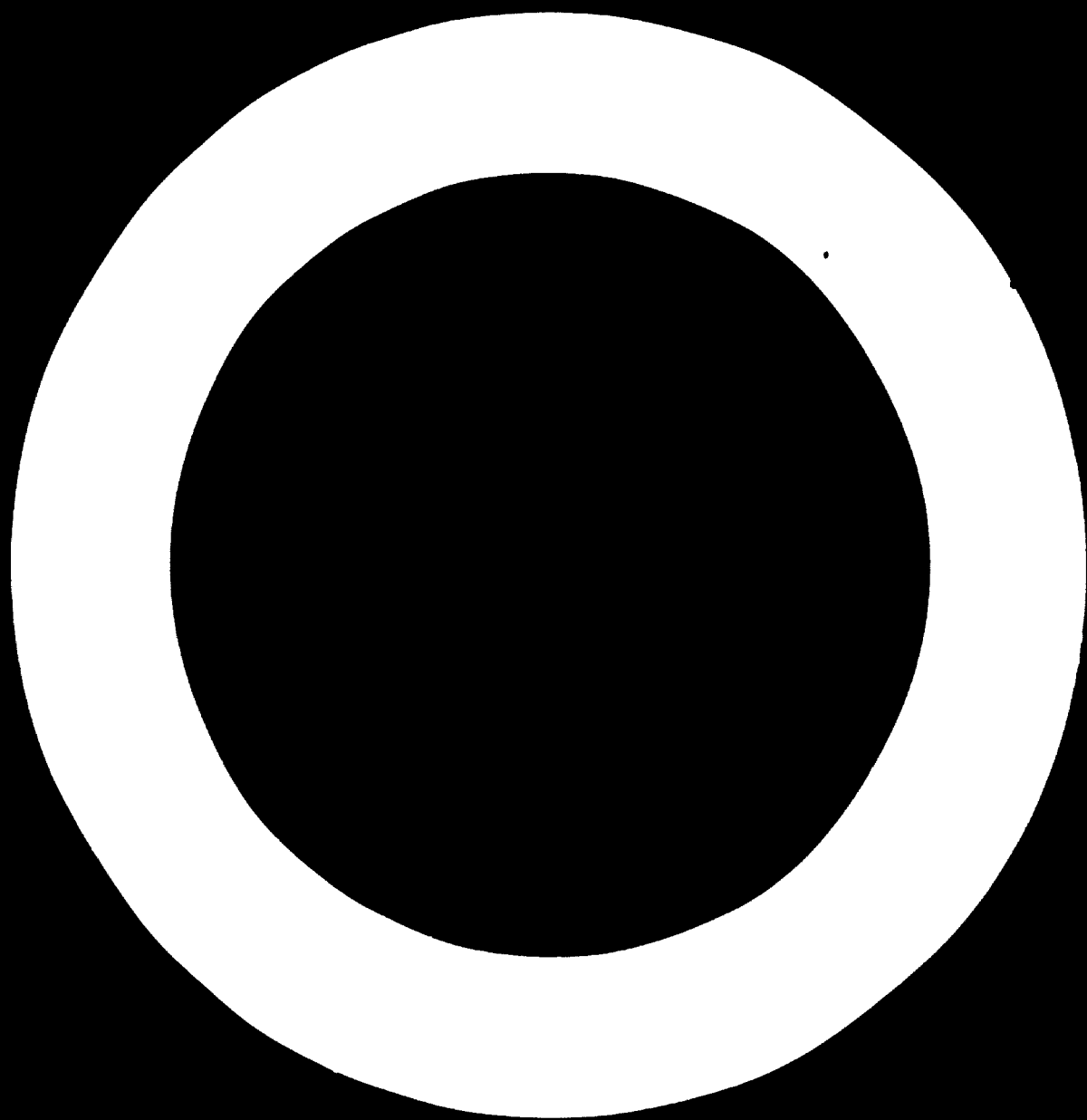
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ABSTRACT

The Hungarian foot-wear industry, within which the leading part is played by the Minőségipőgyár (MC) (quality shoe factory) group, has on the whole been unable to achieve a strong competitive position on world markets, despite the solid quality of its products. To remedy this situation, the Government of Hungary wishes to upgrade shoe production in terms of style, fashion and finish, to increase output, and to organize the MC along lines which could serve as a model to other factories in the industry. With this end in view, a request for the project entitled "Foot-wear Development" (DP/HUN/75/001) was submitted by the Hungarian authorities in March 1975 and approved by UNDP in May 1975, with the Hungarian Ministry of Light Industry designated as the government counterpart agency and the United Nations Industrial Development Organization (UNIDO) as the executing agency.

This report was prepared as part of the above-mentioned project during the expert's four-month mission to Hungary from December 1975 to March 1976. A follow-up mission by the expert has been suggested for 1977. The main conclusion of the report is that a restructured, modernised and more efficient MC which assigned a major role to its marketing department, geared production to demand and fashion trends in both eastern and western countries, and produced higher-quality goods, would lead to a substantial improvement in the competitive position of the Hungarian shoe industry.



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INTRODUCTION

The Hungarian foot-wear industry, which has a total annual production of approximately 45 million pairs and employs about 60,000 workers, satisfies market requirements only to a limited extent, owing to its relatively obsolete modes of production and its inability to adapt to changing demand. It is therefore unable to compete effectively on world markets, although its major exporter, the Minőségi Cipőgyár (MC) (quality shoe factory) group, maintains a consistent standard of quality in conservative styles, over half of its output being exported, mainly to countries belonging to the Council for Mutual Economic Assistance (CMEA). To remedy this situation, the Hungarian Government, as part of its five-year plan for the period 1976-1980, intends to increase and upgrade foot-wear production considerably, and to modernize the industry so as to achieve greater efficiency and adaptability to the rapidly-changing and highly fashion-conscious western markets. To that end, it submitted in March 1975 a request for the project entitled "Foot-wear Development" (LP/HUN/75/001), which was approved by UNDP in May 1975, with the Hungarian Ministry of Light Industry designated as government counterpart agency and UNIDO as executing agency. The original budget proposals provided for government and UNDP contributions of respectively \$82,160 and \$72,550.

This report covers a four-month mission carried out by the foot-wear marketing expert within the framework of the project. The duties of the expert were the following: to assist the project manager in introducing a modern marketing system into the MC management structure; to assess the prospects for increasing foot-wear sales on both domestic and foreign markets, and to advise on the means of achieving that goal; to work closely with the shoe design expert in preparing styles and designs for western markets, and in co-ordinating his efforts with those of other technical experts; and to work with national counterparts and advise on modern trends in the marketing of fashion foot-wear.

The report analyses and evaluates the existing situation, with special emphasis on marketing, and deals with such related problems as the following: leather and raw materials, production, improvements and quality control, styling, modelling and finishing, the availability of qualified personnel, labour shortages and training. Further useful information on the over-all situation of the MC is

provided in F. G. Bailey's report of May 1974, and on the leather industry in general and the P&Cs tannery in particular, in B. G. Lunden's report of November 1975, both of which are on file at UNIDO. The recommendations contained in this report, together with those of other project reports completed or in preparation, are expected to contribute to the achievement of the objectives for which the project was initiated, and for which UNIDO is considering the provision of further technical assistance.

I. PROJECT BACKGROUND

The shoe industry in Hungary produces annually about 45 million pairs in about 80 factories, workshops and co-operatives and employs about 60,000 workers earning an average annual salary of 30,000 forints. The 7 major enterprises, state-owned and controlled by the Ministry of Light Industry, ensure about 70% of total production, over 50% of which is exported, primarily to the Council for Mutual Economic Assistance (CMEA) countries under long-term contracts and at stable prices.

The Minőségi Cipőgyár (MC) is the result of the merger of 8 factories and manufacturing units in Budapest and other parts of the country. Their production in 1975 reached 6.5 million pairs, 3.9 million (60%) of which was exported to eastern countries and roughly 40% sold on the domestic market. Only 6,000 pairs have been sold this year to western countries, a sharp decrease as compared with previous years.

The MC has a work force of about 5,200 employees. It forecast a production of 7,300,000 pairs in 1976, 3,700,000 of which would be for export to CMEA countries, 3,000,000 for the domestic market, and 600,000 for export to western countries. It is hoped, however, that the figure of 7.5 million pairs will be reached, the additional production being reserved for export.

More detailed data about production, sales, best-selling lines, prices and returns for the last 6 years are found in annex I.

The price structure, inventories, purchase of new equipment and machinery, and investments in general are controlled by the Ministry of Light Industry. For the time being, the most important single customer, Rasnoexport (an organization in the Union of Soviet Socialist Republics with responsibilities in the field of foreign trade), seems satisfied with the traditional, solid, heavy look and conservative shoe, which it is choosing for 1977, with only a minor part of the contract including more fashion-oriented models. Even for leathers and colour, the choice seems limited, with patent leathers and whites predominating. Since this line represents roughly 60% of the total production of the MC, it must obviously be continued, with the necessary technical improvements and better quality control, as long as there is a demand for it from such a valuable customer. However, in planning for the future consideration must be given to changes which are bound to take place. Definite signs of change have already emerged on the home market, where, following world market trends, there is greater demand for

fashion shoes, better quality and finishing, and more attractive foot-wear. It is therefore clear that production at MC must be geared to such demand.

With regard to increased exports to western countries, which is the main concern of this project, improved technology and updated production methods will have to be applied to reduce man-hours per pair, enforce higher quality standards, obtain suitable leather, ensure better workmanship, speed up the decision-making process, so very important when dealing with western markets, and upgrade the product.

Market research and analysis should play an important part in planning for the future and determining market trends and requirements, provide a link between top management and the production process, and help to establish forecasts. Management at all levels of the MC is well aware of the need for improvements to satisfy the large eastern export demand and to carry out the equally urgent task of meeting future domestic and western production requirements.

It should be noted that while German is widely used and understood in Hungary, delays do occur in the gathering of information and the preparation of translations.

II. FINDINGS

General observations

This report seeks to give the most complete picture of the MC with regard to the following matters: current collections, styling and shoe design; available raw materials, primarily leather; production methods; workmanship, labour; quality and quality control; marketing; and customer returns.

In the course of his mission the expert held very frank and useful talks with officials of the Ministry, various sales and supply organisations and other shoe manufacturers. The fullest co-operation was extended to him at all levels of the MC in assembling the material on the basis of which the suggestions and recommendations contained in this report are made.

Comments and suggestions were discussed at one time or another with members of the staff and management of the MC, the main purposes of which were the following: to update and improve production so as to obtain higher-quality shoes; to achieve greater flexibility, as reflected in the ability to satisfy customer needs; to study domestic and foreign market trends; to become competitive on world markets in terms of quality, design and finish; and to work towards obtaining a bigger share of western export markets.

A work programme was drawn up including the following participants: one expert to assist the counterpart in foot-wear design and pattern making; one expert in foot-wear production, primarily upper-stitching; one expert in process and quality control; and one marketing expert (the writer of this report). All four experts were to co-ordinate their findings and implement suggestions under the guidance of the project manager. A three-month training programme for three Hungarian technicians was also planned, to enable them to work and acquire practical experience abroad.

Since the recruitment of international experts was delayed, this report covers only the activities of the marketing expert.

Apart from technical problems or shortcomings and the somewhat rigid structure of management, which cause decision-making to be slower and flexibility less than would be desirable, a shortage of labour, skilled labour in particular, represents a serious handicap for future development. A more dynamic marketing

organisation within the framework of the MC would help both to obtain vital data on needs and to establish guidelines, which in turn should have the widest use in planning and forecasting at MC.

Exports to western markets have decreased lately, in large part because of dependence on imports of rawhides, chemicals and colours from western countries, which resulted in increased prices in Hungary, owing to its closer alignment with the inflationary world market prices, and in reduced competitiveness in relation to foreign manufacturers. This development emphasizes the need to upgrade local production and try to compete with higher-priced fashion lines of better quality and finish.

A preliminary report was submitted by the expert on 20 December 1975 and a progress report on 30 January 1976, both dealing with the project and giving timetables of the meetings and discussions which took place.

Styling and modelling

The styling and modelling department belongs to the technical management services and has recently been reorganised under the name of Product Development, with a staff of about 72. Five designers and one apprentice designer are the key members of this group, which is producing about 2,000 samples each year, covering the whole range of shoes manufactured by the MC, primarily ladies', girls' and children's shoes (produced by the Aurora plant since the beginning of 1976). For the eastern market alone, about 500 samples are presented, about one third of which will be selected. The styling and modelling group occasionally visits foreign shows and trade fairs, has access to fashion journals, and is generally aware of fashion trends.

In theory, guidelines for the creation of new samples come from the Technical Director, who in turn receives instructions from the Commercial Director and the marketing department. The decision to accept a proposal sample for a new line of foot-wear is made at jury meetings held at irregular intervals, as the need arises, to consider the models proposed. In addition to the designers and the Technical Director, who presides over the meetings, representatives of the commercial and sales department, and of the quality control and technical development services also attend. The decision to accept or reject a given model is largely determined by preliminary statistical surveys and forecasts. The

technical and production sides seem to be more strongly represented at these sessions than the commercial or marketing services. For the home market an average collection consists of 60 % low-priced, 30 % medium-priced, and 10% higher-priced shoes.

The styling team is both knowledgeable and capable of producing samples of any type of fashion, but is largely limited by the following factors: insufficient advance information concerning demand; available supplies of raw materials, ornaments or accessories; the problem of prices; production difficulties; and the overwhelming influence of excessively conservative styling requirements in the eastern markets.

It is already apparent that the home market is much more fashion-conscious and seeks foot-wear of better finish and higher quality. Despite the fact that over 50% of MC production is sold to the conservative CMEA market, where the heavy look in foot-wear still seems to be predominant, on long-term contracts and at prices fixed for years in advance, changes must be expected in the future towards more modern trends, softer natural-grained leathers and up-to-date fashion lines. The CMEA customer also visits international trade shows and is certainly well aware of world market trends. The MC should therefore be prepared to cope with the change in demand when it eventually occurs. In this connexion, see annex II for the October 1975 timetable of Tannimpex, the official body which deals exclusively with imports and exports for the leather and shoe industry.

Since fashion in general is rapidly becoming more and more world-wide in scope, foot-wear manufacture, as an important accessory to the garment industry, must be given serious consideration in planning for the future, so as to remain in line with world market trends and to meet future demand for quality goods and up-to-date styling.

Leather

A great many complaints from different sources are voiced about upper leather for ladies' shoes. The consequences of the use of poor-quality or unsuitable leather may be clearly seen in the production process and the finished product. Discrepancies too often exist between samples and actual deliveries, such as colour differences, irregular thicknesses and, most often, a hard stiff finish which makes the leather hardly suitable for better-grade lightweight shoes. The importance of a suitable and acceptable quality of

upper leather for upgrading shoe production cannot be stressed enough. It will require the co-operation, goodwill and understanding of the entire industry to cope with this crucial problem.

The tanneries should not ignore the changing trends and the demand for a softer finish and lightweight and natural-grained leather, since they too visit international shows and trade fairs, and must be aware of current requirements. They should therefore assist the local shoe industry in their task of upgrading production. Although slightly higher prices will have to be paid for better-quality raw hides, the difference will be largely compensated for by obtaining a better-finished and upgraded product.

Account should also be taken of the fact that corrected leather is less and less used in western production. Although it shows fewer defects and is easier to cut, owing to its stiff finish it is much less suitable for modern production requirements. Moreover, the standards and rigid rules applied to the local industry since 1964 are more relaxed in the West.

Even the CMEA market is already showing distinct signs of a trend towards softer leathers. In fact, a heavy look does not necessarily mean better quality, which should be kept in mind when promoting lighter, natural-grained and softer leathers for lightweight fashion shoes.

According to information from the Leather and Shoe Institute, preliminary talks have taken place with the Bureau of Standards with a view to a revision of current rules and regulations so as to bring them more into line with modern concepts and western standards (in this connexion, see annex III). The sooner the industry adapts itself to these changes and to current world trends, the quicker improvements will take place and enable the Hungarian shoe industry to compete well on world markets.

With regard to leather quality controls, these are carried out in the tanneries from which deliveries are made. Qualities are downgraded as necessary, but, owing to tight production schedules, rarely rejected. It should also be noted that the cutting room is not made sufficiently aware of the need to watch for such deliveries.

Although the MC is primarily interested in increasing exports and conquering foreign markets with leather shoes of higher quality and better workmanship, improved synthetics and their usefulness for certain types of shoes should not be ruled out. The local industry (in particular, the Graboplast plant) seems to be very competent and progressive, and a greater use of artificial leathers may well be contemplated in the future.

Technological developments and improvements in this fairly young industry should be followed and evaluated by MC. Since nearly 30 per cent of the leather currently in use is already artificial, and taking into account world natural leather shortages and inflationary prices for this commodity, a higher-quality artificial leather might well find increasing applications (in this connexion, see the report of J. F. Lontz on file at UNIDO).

Production, productivity and workmanship

Since three other UNIDO experts under the leadership of the project manager were expected to deal with problems relating to design and styling, process control, stitching, cutting and quality control, attention will here be focused on the following questions: the labour shortage; workers' discipline and training; and upgrading production in general. Some of the productivity problems seem to arise from the fact that MC production facilities are located in eight different places and factories, and that to deal with this situation requires a highly integrated strategy and close co-ordination. Deliveries of raw materials from central warehouses and of half-finished goods to other production units have to be timed and controlled, which in itself is not an easy task. However, the MC factories include on their staff a number of very capable and knowledgeable technicians who could greatly contribute to the achievement of increased productivity, to the analysis of existing procedures, and to other improvements which could lead to time savings and greater efficiency.

The shortage of labour is of course a very real problem for local industry, not only in Budapest, but throughout the country. Since the shoe industry is still labour-intensive, labour-saving devices of all types will have to be considered to alleviate this situation. Worker discipline is another area in which improvements would be welcome, since a number of production problems may be traced to faulty discipline.

Quality control

In endeavouring to improve production from the raw material to the finished product, and, on the basis of improved technology, to give a more attractive appearance and finish to MC shoes, in other words, to upgrade the whole line, whether it is intended for the domestic market or for export, quality control will have an important role to play in establishing and enforcing higher quality standards. It will help to achieve a substantial reduction in the number of rejects and the security pairage, which is so difficult to sell, and to ensure that only perfect shoes leave the factory. In this way, it is hoped that a solution will be found, at least in part, to the serious problems of customer complaints and returns, which cost the entire industry, and MC in particular, a great deal of time and money which should and could be put to more productive uses.

Quality control for leather is carried out at the tanneries for shoes at all stages of production, by means of effective and continuing laboratory tests and analysis of raw materials, leather, cement, etc. But the excessive number of rejects still has to be reduced to below 1%. Only then will it be possible to hold customer complaints and returns within normal limits.

The current procedure is to check the shoes on the conveyor and before packing by MC personnel. For export to eastern countries an additional spot check is carried out by MERT, an independent quality control organisation (average rejects: 2.3%), and by agents sent from the local wholesale houses for their consignments (average rejects: 2.8%).

Marketing

This department, consisting of only one man and his secretary, is unfortunately playing only a minor role within the MC. About 20% of its activity is related to marketing, whereas a more important part of its time is spent on customer returns and complaints, and the preparation of sales and raw materials contracts.

With regard to work in the field of marketing, at present the main activities are the following:

(a) Every 2 months a report containing findings and suggestions is compiled and presented to the commercial director, who distributes relevant paragraphs to the interested departments or persons for further information and action;

(b) Information regarding the domestic export markets is collected from available sources (retailers, wholesalers and Tannimpex);

(c) Twice a year, and just before the creation of the new line, the tanneries are invited to present their new samples or materials for display to the interested parties at the MC;

(d) Twice a year the trade fairs and once a year the international autumn fairs are organised in co-operation with the sales and styling departments and with Tannimpex;

(e) Occasional advertisements in newspapers or on television are arranged;

(f) Arrangements for the display of samples are made with the Fashion Institute and the Marketing Institute in Budapest;

(g) The sample room of the MC is also under the control of the marketing department;

(h) So far one opinion poll has been organised, at the 1975 international autumn fair, and quite interesting results were collected and communicated to management.

It would take too long to mention here all the suggestions and ways and means of establishing an efficient marketing department. A complete programme and appropriate guidelines are therefore given in annex IV, and a tentative organisational chart for such a department in annex V. It will be up to the management to evaluate these findings and recommendations, and to give marketing the role in the MC organisation which it justly deserves.

One of the principal functions of management is to plan ahead, to anticipate new trends and developments, to follow the dynamic and fast-moving evolution of technology, to recognize market needs and demand, and to prepare for the satisfaction of those needs, on the basis of the most complete and reliable information available.

It is particularly with the help of marketing that plans should be made to keep in line with future world market trends, and to organise production facilities and development in relation to customer needs and customer demand. For this important task, an efficient and dynamic marketing organization can make a crucial contribution to the efforts of top management to work out specific targets and strategies, by determining short-term or long-term trends and requirements, and could be a very useful link between production and the commercial department, by facilitating the preparation of estimates and forecasts.

In fact, under the prevailing conditions, in which the major part of MC production is sold under long-term contracts on the eastern and domestic markets, rather than being limited and regulated by production capacity and prices,

marketing has not the same importance or significance as in the United States of America or on western markets. There is not the same fierce competition and struggle for survival locally as is generally encountered on world markets. Moreover, the long-term contracts, the quota system and the quasi monopolistic position of the MC in the Hungarian shoe industry helps to explain why the MC, at least so far, has not been market-oriented. The situation must however be considered in terms of future changes and developments, because of the dynamic evolution of all industrial enterprises and the ever rising standards of living, which makes the consumer increasingly conscious of fashion and quality, even though the home market is currently buying up to the full amount of its quota and eastern importers are still somewhat conservative in their tastes.

In determining the needs of the consumer on the basis of continuing market research and analysis, the MC should be alive to changing trends, and not allow itself to be overtaken by them.

Customer returns and claims

The problem of returns and claims currently tolerated and accepted on the home market dates back to 1964, when a law was enacted to protect the consumer. Since then the consumer has been readily exploiting the weaknesses of the system and causing the stores and factories substantial losses in time and money. It seems that abuses outnumber legitimate complaints about defective shoes. Comparisons between shoes returned from the export or home markets with those returned through customer complaints at the retail level should give the right picture and confirm the need to reconsider the legislation in force.

While certain types or categories of shoes are made for work, for evening wear or for relaxation, and should be used as such, in general any shoe subjected to excessive wear and tear and overuse is finally likely to give out, and this must be considered when dealing with customer claims. By 1961 the average figure for returns was only 0.3%. Since 1964, when the new regulations came into effect, returns have been approved under the following four conditions: simple return and exchange; return and money back; repairs of defective shoes; and price reductions. In fact, only the first two conditions have been widely invoked. This policy on returns was greatly publicized by the radio and the press, and affected 3.2% of production by 1975, 60% of which involved ladies' fashion shoes. Another significant fact is that returns occur mostly at the end of a season, and reach their peak 3 months after the date of purchase.

On the other hand, it must not be forgotten that with the introduction of synthetic soles (polyurethane and others) a few years ago, about 80 per cent. of ladies' shoes are now produced with cemented soles and new technologies. In this respect, very significant data is provided by the Leather and Shoe Institute, which found that for a given batch of returns over 50 per cent of these shoes could have been repaired in 10 minutes or less and with very little work involved. According to figures received from the MC factory, laboratory tests for sole adhesion are conducted for 3 kg/cm, which is higher than the usual ratio (2.6 kg/cm), and the MC still had returns amounting to 8.3 % for 1975.

The above-mentioned points will have to be given serious consideration if a solution is to be found to a problem of such crucial importance to the entire industry, and if the abuses are to be separated from the real and justified complaints. Since the return of 170,000 pairs cost the MC roughly Ft 40 million in 1975, not counting the number of workers and employees necessary to handle all the paperwork involved, measures will have to be taken in co-operation with the industry and the ministry, to reduce this problem to acceptable proportions.

III. RECOMMENDATIONS

Leather

Because of the importance of leather in upgrading ladies' shoes and in keeping pace with world market trends, the improvement of suitable full-grain leather and soft finish should have top priority. Although softness is more of a subjective criteria and not specifically measurable, tanneries and shoe manufacturers should seriously start thinking in terms of soft finishes, uniform thickness and colours.

Strict regulations and standards dating from 1964 need to be revised, corrected leather should be used much less in fashion shoes, and specifications and delivery dates should be scrupulously observed. Once the requirements of the shoe industry are made clear, the co-operation of local industry, the Leather and Shoe Institute and the Organisation of Leather and Shoe Technicians will make it possible to define needs and improve the situation.

Local tanneries are already producing soft, light-weight, good-quality leathers for the Hungarian garment industry, and also contemplating the production of this type of leather for export. It would therefore be logical to assume that upper leather can also be improved if the following steps were taken: the best-quality rawhides should be chosen; corrected leathers should be used much less in fashion models; greater care and attention should be taken in the cutting room where faulty parts must be detected and eliminated; rigid and outdated standards and regulations should be revised, relaxed, and better adapted to present conditions and modern trends in the shoe industry.

Styling, modelling and pattern-making

Since this group, recently reorganised under product development (see annex V), will play a significant role in achieving improved, updated styling to meet increased western export demands and also to supply the home market with shoes of higher standards of quality, fashion and finish, the following suggestions are submitted for consideration:

1. More complete and better information should be provided regarding customer needs and requests, so that a well-balanced line for merchandising can be established. Better marketing guidelines would make it possible to reduce the number of samples (often too much alike), and concentrate more on real needs and original designs.
2. Fashion journals, samples of new styles and pullovers from foreign fashion centers, as well as an ample supply of leathers, accessories, lasts and heels should be readily available at all times, to create a dynamic and stimulating atmosphere and good working conditions.
3. It might be appropriate to involve more technically informed persons, not only artists, in the creation of new styles, so as to create a good balance between designers and shoe technicians, who are better aware of possibilities and limitations in the MC factory.
4. Since lasts are very important in the creation of a new line, special consideration will have to be given to good fittings, particularly for categories such as street and walking shoes for ladies or children's shoes, where good fitting is often more important than style or fashion.
5. Wear tests should play a prominent part in the presentation of new styles, new materials or new constructions, and should be carried out very thoroughly (to ensure in particular the security of the sole attachment).
6. More pullovers at pre-selections and jury meetings should be used; it would be easier and faster to decide on new styles, heels or colours, without going into the longer operation of presenting finished shoes, and the procedure would be more flexible.
7. Jury meetings should be better balanced, with commercial management and marketing taking a more active part in deciding on new lines. It might even be desirable to have outside people occasionally invited to state their views (shoe sales personnel, consumers etc.).
8. To save time, which is so important in the fashion market, it would be of great advantage to grant a fixed dollar amount for the purchase of samples, pullovers, materials or accessories, for example at shows or trade fairs. The MC could thereby speed up its production of samples, trial runs and tests, and shorten the otherwise lengthy administrative procedures for obtaining the import permit required in each case.
9. Finished shoes should be displayed by mannequins in order to ensure better evaluations and presentation and to reach faster decisions.

10. Close contacts should be maintained with the garment industry, which is to a considerable extent influencing shoe fashion, and all participants in local or foreign fashion or trade shows, besides bringing back ideas, should also bring samples of shoes and materials for study and tests.
11. In the search for speedy lines of communications and fast decision-making, consideration should be given to the possibility of incorporating styling into the commercial group, rather than the technical management section.
12. Assistance from UNIDO should be stepped up, so as to acquaint this group with the latest developments in the field of pattern making and to stimulate and simplify its work.
13. It also seems desirable to keep the sample room and all current styles, as well as previous models and samples, within easy reach of the design team; this would considerably facilitate its work.
14. Since CMEA export accounts for such an important part of sales, it would be appropriate for the chief of the department to visit Moscow during the pre-season in order to discuss marketing arrangements and requirements. He might at the same time be able to see samples which Raznoexport has chosen from western manufacturers.

Quality control

This group should be completely free of commercial or technical concerns, having the sole purpose of rejecting each and every pair of shoes which is not up to standard. Strict and precise guidelines must be established for all those connected with quality control. A perfect sample shoe must serve as a prototype for judging finished shoes, and each member of this group must have definite responsibilities, so that rejects can be traced back to the person who let the shoe pass. High standards of stitching, finishing, lining and presentation should be observed for MC production, criteria which are so important for upgrading the product and improving the image and over-all standard of quality.

Of particular importance will be the reception of leather from the tanneries, and the greatest care should be attached to the procedure involved. It might prove to be good policy to reject deliveries altogether from time to time if they do not conform to sample or standards, and to make the tanneries more aware of their duty to fulfil their contractual obligations.

More wear tests should be carried out at regular intervals, and hopefully the newly-adopted system of DH (zero defect) could contribute significantly to the solution of existing problems, in particular the security of sole attachments, which represents the major part of customer complaints.

Of all the factors leading to the production of faulty shoes, work discipline is certainly one of the most decisive. Workers and employees at all levels must be made aware of the need to achieve higher standards of quality and have a certain sense of pride in their work. Professional consciousness should be the theme for each worker and each team.

If it is feasible in the frame work of a wage policy, an effective system of premiums should be devised for those who obtain better or above-average results; this should stimulate the entire work force to improve its performance.

Productivity, training and upgrading production

Improved productivity must be the main target. As mentioned before, the technical staff of the MC is highly qualified; it should form work groups or teams (using DH methods), study procedures in the factory, carry out surveys of different stages of production, monitor work discipline and submit their findings to the technical management for purposes of testing. Labour-saving devices, reduced handling or technical advances could improve current methods. Good ideas and proposals should, of course, be encouraged and rewarded.

Since labour, especially skilled labour, is in short supply, one way to achieve better results would be to motivate the workers, inform them of their tasks, instil professional consciousness, make them quality-minded, and give them a share of responsibility in the production process. An effective training programme should be initiated for both newly-hired and experienced workers. Qualified work forces must be trained in order to improve productivity, product quality and efficiency, and to reduce the volume of defective products, rejects and the security pairage.

The help of UNIDO in trying to find suitable places for three Hungarian technicians to receive in-plant training (as provided for under the present project) could prove very useful and effective. Preference should be given to factories (such as Jourdan) using highly advanced technologies and producing better grade ladies' fashion shoes. It should be noted, however, that the language barrier might raise certain difficulties in the selection process.

Upgrading should become the leitmotiv for everybody in the MC factory; everybody should be quality-conscious and there should be a sense of pride in doing a good job and contributing to the over-all success. Moreover, as previously stated, should it appear feasible under local conditions, an effective system of premiums and incentives could be used to promote good workmanship and improvements, and reward outstanding service by teams or brigades. It should be payed on the basis of merit alone, and not as part of the salary.

Suggestion boxes are currently used in the MC. This system should be further extended. People must be motivated and informed about their functions, and must feel themselves to be a part of the work process. In general, decisions taken in groups have a better chance to succeed than individual decisions or those imposed from above.

Marketing

Existing procedures were outlined above and fairly complete guidelines for the establishment of a modern marketing organisation are given in annex IV.

It is fair to say that technical improvements, productivity, quality control and, above all, leather will have to be considered, before marketing can really become effective and play the role expected of it in improving the image of the MC and satisfying market demand. The next five-year plan (1976-1980) will provide the basis for long-range planning and forecasts, in which marketing could play a vital role (see annex VI).

With regard to current conditions, the following steps should be taken:

1. Consideration should be given to the inclusion of a progressive marketing organisation in the management structure, as suggested in annex V, and more people and more time should be devoted to marketing questions.

2. Market studies should be intensified by frequent contacts with consumers, retailers and wholesalers. Opinion polls should be used more often to determine trends and demand, and to assess the market acceptance and penetration of MC production. Paying more attention to local trends could be very helpful in preparing for export to western countries.

3. Contacts with CMEA customers should be intensified, and marketing should be one of the matters dealt with by agents on visits to Moscow, Leningrad and other centres to gather the first-hand information so valuable for creating a new line. If Tannimpex is not providing enough information and assistance, a thorough and independent research effort should be undertaken before launching into a new line. The eastern market is very important for MC production, and would justify a close look at its real needs and expectations.

4. With regard to western markets, which are fashion-conscious, fast-changing and highly competitive in quality and prices, contacts will be more difficult to establish and market trends more difficult to follow. Here Tannimpex will have to play a more important part in the provision of vital information about market developments, samples and sources of supply. Since Tannimpex is established in trading centres like Vienna, London or Stuttgart, and not in fashion centres, it should be their role to act as an intermediary, to establish contacts with large consumer organizations, wholesalers or department stores, and to try to meet their needs in relation to production capacities and possibilities. It would hardly be practical to prepare even large-scale collections for western markets, which under present conditions would have only very slim chances of success.

5. It does seem, however, that the fastest and surest way to penetrate western markets at this stage and obtain a share of production for export would be to try joint commercial enterprises with western manufacturers or distributors. Contacts should be considered with leading industries, such as Jourdan, Salamander, Bata or similiar organizations, and an effort made to attract their interest in the Hungarian market, and in gradually building up a stable relationship, which could lead to regular contracts in the future, under neutral names or their own brand names, and for either western markets or eastern exports. Such an arrangement could also be profitable for the home market, which is ready to sell better-grade fashion shoes. This would make it possible to work in full knowledge of requirements, to have the advantage of their experience on western markets, their marketing skill and merchandising ability, and their sources of supply if need be, and to build up a regular share of the market, according to production capacities.

6. Tannimpex should by all means present the Mino samples distinctly and separately from the others in their showrooms and displays. The image of Mino should be improved on its own merits with regard to styling, quality and finish.

7. It would also be worthwhile to package shoes in better and more attractive shoe boxes. The very first impression the customer gets is most often that of the shoe box and it should be favourable.

Customer returns and claims

Customer returns and claims raise very serious and costly problems for the entire shoe industry, partly owing to insufficient quality control or production defects, but to a great extent also to an outdated law which leaves loopholes and will need some revision. It will never be possible to establish how many customer complaints or returns are justified, and how many are abuses or even willful defects caused by the customer.

The existing policy of returns should be changed along the following lines:

1. The time limit for returns (currently six months) should be reduced.
2. Minor and easily repairable defects should be repaired free of charge to the customer.
3. Returns from retail customers should be scrutinized more severely and worn-out shoes or obviously inflicted damages not be accepted by the responsible personnel.
4. Greater vigilance and stricter quality controls should be practised in the factories, frequent wear tests conducted, and strict rules of discipline imposed, primarily in the areas of roughing and cementing of soles, which involve over 50% of returns.
5. Claims and related questions should be handled by the economic or financial department, of the NC and not by the marketing group.

Price structure

An in-depth consideration of the very intricate and multi-faceted question of prices and their application would be outside the framework of this report, but an attempt will be made to clarify a few points necessary

for an understanding of the basic problem, and how it relates to calculations and profit margins.

The forint is a non-convertible currency, with one commercial exchange rate against the United States dollar (Ft 40 = \$US 1), and one non-commercial rate (Ft 20.63 = \$US 1). The former is applied for import and export transactions. Four price categories are used, the first of which hardly affects the shoe industry, except for work shoes; otherwise it is mainly applied for basic food items. The second category is a fixed price structure for children's shoes, sizes 19-23, and is subsidised by the Government. The third category is the one which concerns Mino's production the most, as it affects 85% of the home market, and is the most limited and rigid category of them all. The fourth category is a more or less free price calculation, concerning better-grade fashion shoes and better qualities of leathers like patent, aniline-tanned, natural grain and chevreau.

Export prices are generally free in their calculation, but limited of course by competition and the general rule of supply and demand. Under certain circumstances, however, export subsidies can be obtained. With regard to the third category, which is calculated on the basis of total cost price plus 60% of wages plus 10% for profit, and considering that the average wage is Ft 10/pair and the average price of shoes Ft 200, all that is left is a meager Ft 6, or 3% for one pair of shoes.

It is quite clear that under these circumstances, with such limited and low profit margins, improvements in the factory and upgrading production will be extremely difficult, if not impossible. Account must also be taken of the fact that the MC is engaged primarily in the fashion market, which by nature involves much higher risks, and should have an approach different from that applied to the production of everyday utility-type shoes. A good policy would be to encourage local industry, to permit sufficient profit margins to work towards improvements, to allow more flexibility in better grade shoes and better leathers for the home market, and to limit imports of fashion shoes and fashion sandals, which could be produced by Mino. It would also be advisable to prepare a study of home market demand for better quality and up-to-date fashion shoes, in order to determine categories, quantities and price ranges which the local consumer would be prepared to pay, and then to discuss this matter in co-operation with the responsible government

department with a view to obtaining a more realistic calculation for better grade shoes.

A reasonable increase in profit margins could largely contribute to improvements in production and the upgrading of shoes, which is so urgently needed to reach the goal of satisfying the home market to a greater extent, and preparing production for the competitive western export market.

General observations

It is worth repeating that management realizes the need for improvements in all directions, but also knows the limitations and difficulties involved. The ladies' shoe industry is to a great extent dependent on fashion and is changing fast from season to season. In the home market, for example, which according to conservative estimates is satisfying only between 5-10% of local demand, those responsible for the choice of foot-wear supplies for wholesale and retail outlets seem to be insufficiently informed about customer needs or current fashion trends. The choice at the Martini factory gave some clues about the rather conservative thinking of the buyers and their limited choice for merchandising, and the recent showing of high-grade fashion models was not very encouraging.

Under these circumstances, and in view of the need to reach quicker decisions concerning this rapidly changing market and to be able to study market trends first-hand and realistically, it would be advisable for Mino to open one or two retail outlets, primarily for better-quality shoes. This would enable it to obtain market information and experience more quickly and accurately than having to rely on information which might not always correctly reflect what the customer really wants. Fashion shoes or more classical styles could be presented and could compete very favourably with many of the imports currently seen in the local shoe stores.

The expert would be glad to assist in preliminary studies of such a pilot store or unit, which, if successful, could contribute largely to achieving better market information and penetration, and lead to upgraded production in Mino factories.

Annex I

SALES STATISTICS

Table 1. Sales and prices on the domestic and eastern markets

Year	Total sales			Export to eastern countries			Home market			Fixed price			Open price		
	Quantity (thousands of pairs)	Value (million Ft)	Average price (Ft/pair)	Quantity (thousands of pairs)	Value (million Ft)	Average price (Ft/pair)	Quantity (thousands of pairs)	Value (million Ft)	Average price (Ft/pair)	Quantity (thousands of pairs)	Value (million Ft)	Average price (Ft/pair)	Quantity (thousands of pairs)	Value (million Ft)	Average price (Ft/pair)
1970	6,108	921.4	150.85	3,055	526.5	172.34	2,747	343.9	125.19	2,362	295.8	125.19	385	48.1	125.19
1971	5,536	924.0	148.84	2,899	500.9	172.78	2,447	291.2	119.0	1,737	206.8	119.0	710	84.4	119.0
1972	5,675	834.1	146.98	2,660	463.7	174.32	2,917	343.9	117.90	2,188	257.2	117.90	729	86.0	117.90
1973	6,253	909.9	145.51	3,223	542.2	168.23	3,024	366.6	121.23	2,449	322.6	121.23	575	44.0	121.23
1974	6,025	1,102.0	182.90	3,308	662.2	200.18	2,516	405.9	161.33	2,154	328.8	161.33	362	77.1	161.33
1975	6,540	1,446.8	221.22	3,905	969.1	248.17	2,629	476.2	181.13	2,250	407.6	181.13	379	68.6	181.13

Table 2. Sales statistics for each marketing area

Year	Total sales		Home market		Export to eastern countries		Export to western countries	
	Quantity (thousands of pairs)	Value (million Ft)	Quantity (thousands of pairs)	Value (million Ft)	Quantity (thousands of pairs)	Value (million Ft)	Quantity (thousands of pairs)	Value (million Ft)
1970	6,108	921.4	2,747	343.9	3,055	526.5	306	51.0
1971	5,536	824.0	2,447	291.2	2,899	500.9	190	31.9
1972	5,675	834.1	2,917	343.9	2,660	463.7	98	26.5
1973	6,253	909.9	3,024	366.6	3,223	542.2	6	1.1
1974	6,025	1,102.0	2,516	405.9	3,308	662.2	201	33.9
1975	6,540	1,446.8	2,629	476.2	3,905	969.1	6	1.5

Source: Ninšedgi Cipőgyár, December 1975.

Table 3. Gross sales and returns

Year	Home market		Percentage of returns	Export		Percentage of returns
	Gross sales (thousands of pairs)	Returns per thousand pairs		Gross sales (thousands of pairs)	Returns per thousand pairs	
1970	2,791	43	1.5	3,426	65	1.9
1971	2,590	143	5.5	3,250	161	4.9
1972	2,982	65	2.2	2,934	176	5.9
1973	3,092	68	2.2	3,284	55	1.6
1974	2,543	27	1.06	3,550	41	1.1
1975	<u>2,663</u>	<u>34</u>	1.3	<u>3,989</u>	<u>78</u>	1.9
Total	16,661	380		20,433	576	
Average			2.3			2.8

Table 4. Best-selling lines

Year	Production (thousands of pairs)	Number of styles	Pairs/style	Total production for styles produced in quantities of not less than 25,000 pairs (thousands of pairs)
1970	6,264	636	9,849	3,348
1971	5,915	471	12,559	3,791
1972	5,406	448	12,067	2,760
1973	6,166	366	16,847	3,619
1974	6,003	452	13,281	2,806
1975	6,464	536	12,061	2,836

Source: Ninóségi Cipegyár, December 1975.

Annex II

TANNIMPEX TIMETABLE FOR SHOE EXPORT TO EASTERN COUNTRIES IN 1977

The following timetable was received from Tannimpex regarding the preparation of the line of shoes for export to eastern countries in 1977.

About 60% of the new collection, containing all types of shoes, should be sent for preselection. For this preselection one shoe should be sent not later than 5 January 1976. Work will start with Raznoexport on 10 January. The response to the new line will be communicated to the factories by 30 January. With regard to requirements of the other eastern countries, the factories will be informed by 30 January. Technical descriptions must be sent to Tannimpex (as in the past two years) containing a short description of the sample and technical details of new materials. For the other eastern partners, additional samples will have to be provided by 15 March. The complete collection for the USSR must be ready by 15 April and three pairs of samples must each be sent to Tannimpex. Contract discussions with the USSR will start on 11 May in Moscow. The needs of other markets will be communicated subsequently.

Styling suggestions

1. Samples should be included which appear suitable for export to both eastern and western countries at reasonable prices, and which have not already been accepted or ordered by western countries.
2. The composition of the line should include any samples or new styles which might fall into the relevant price brackets.
3. New leathers, artificial leathers and soles should be included in samples of the new line.
4. New fashion soles and heels should also be included in the new line, and it should be remembered that the USSR has lately not been satisfied with the last widths of Hungarian shoes.
5. Pigskin should be used extensively.
6. If velour or split velour is used in the samples, it is important to cut uppers from the regular run of the leather and not from sample leather, because of irregularities found in the latter.

7. Platforms or covered platforms should not be included in exports to the USSR.
8. Ladies' boots should provide samples of corrected leather.
9. The continuing interest in compensated soles should not be overlooked.
10. Sandals should be more closed on the toes.
11. The front uppers of ladies' boots should be of one piece, since models with pieces sewn together have given trouble in the past.

Some technical observations about styling

1. Artificial leather must be used for back lining (except in winter shoes). For unlined pumps, artificial leather can be used at the back, and lining and sock linings can be of artificial leather in sandals.
2. For fur-lined and welted shoes and those with leather soles, only leather insoles should be used.
3. The inner lining must be either felt or original lining glued to an artificial inner sole.
4. Pigskin and split velour are acceptable for spring and summer.
5. Skived seams and edges must be either perfectly folded or, if visible, show a perfectly neat finish.
6. Wherever ornaments or buckles are used and hold leather strips, these have to be sewn on in double stitch.
7. In general all sample shoes should have a better finish, since complaints have often been voiced in previous years about finishing.

Other matters

1. If samples of the same style are presented in leather and artificial leather, different reference numbers should be used.
2. Sample numbers on the inside must be legible, and tickets with details must be glued to the sole with self-adhesive stickers and not attached by string.
3. The sticker should specify the name of the upper leather, the colour, the lining, the sole and the last.
4. Price lists should be forwarded together with the samples.

Annex III

SUMMARY OF TALKS HELD ON 20 JANUARY 1976 AT THE
LEATHER, ARTIFICIAL LEATHER AND SHOE INSTITUTE

Very useful and frank talks were held, and questions concerning the quality of leather, stress and abrasion tests, and standard regulations for the leather and shoe industry have been reviewed. It was established that since the regulations came into force about 15 years ago, they have become somewhat outdated and more of a handicap in the light of the present requirements of the shoe industry. Manufacturers seem to be aware of this problem, and preliminary discussions have already been started with the Bureau of Standardisation for further action and to remedy this situation. Since the Institute has only advisory capacity, it will be up to the Ministry, in co-operation with the tanneries, and the shoe manufacturers, to review and co-ordinate these standards.

The talks also covered other important factors determining the quality of shoes, such as the softness, the grain and the finish of the leather, which will play a vital role in the production of lightweight shoes and the process of upgrading. The Institute is aware that deliveries from the tanneries are not always in accordance with samples or standards, such as those of colour or classification, and that corrected leathers are already used much less in western production.

The problem of customer complaints and returns was also discussed. The Institute is fully aware of the situation, and of the fact that the loosening of soles is the prime cause of complaint. Since the cement is frequently tested, it is much more a problem of work discipline or insufficient roughing. Even if abuses on the part of the customer occur, it is obvious that better work discipline, frequent checks and quality controls could greatly reduce the heavy costs incurred by the whole Hungarian shoe industry as a result of customer complaints. The following recommendations arose from the talks on the improvement and upgrading of current productions:

1. Current standards and regulations for the leather and shoe industry should be reviewed and relaxed to bring them more in line with current technology and demand for modern, lightweight shoes.

2. Better co-operation should be established between the tanneries and shoe manufacturers, and they should be made aware of new trends and demand, and encouraged to meet specifications and delivery dates..

3. The use of corrected leather should be avoided as much as possible.

4. While endeavouring to produce better-grade leathers for the shoe industry and to upgrade production, consideration should be given to allowing higher profit margins as a means of stimulating manufacturers in the shoe industry to produce higher-quality shoes.

5. The training of a competent and disciplined work force should be the target for the whole industry, if over-all improvements are to be obtained.

Annex IV

MARKETING

The primary objectives of the UNIDO marketing programme for the MC are the following:

- (a) To introduce a modern marketing system into the management structure;
- (b) To assess the possibilities for the domestic and export markets and advise on requirements to increase sales in those markets;
- (c) To work with the shoe design expert, achieving styles and designs for export to Western European markets, and to co-ordinate his efforts with other technical experts;
- (d) To work with national counterparts and advise on modern trends as applied to the marketing of fashion foot-wear.

In short, the long-range objective is to introduce a modern marketing system which will help to increase export potential, mainly to western countries.

Marketing primarily determines the needs of the consumer and tries to satisfy them. It helps to establish forecasts and estimates and tries to anticipate and influence the needs of changing production, taking into account consumer demand and general market trends. The marketing concept and related strategies and action plans can also be defined as instruments for production planning and diversification by the following means:

- (a) Marketing planning, in other words, defining and planning the product in terms of specifications, quality, quantity and time, and in accordance with current market trends;
- (b) Pricing strategy, which selects the policy according to competition, purchasing power or national habits;
- (c) Product policy and promotion;
- (d) Selecting channels of distribution of the product;
- (e) Market research and exploratory surveys;
- (f) Assessing marketing results and follow-up.

Shoes are a typical consumer item of great necessity. Consumption has significantly increased world-wide under the stimulus of fashion and technology, and also of an ever-increasing standard of living. Modern technology and fashion are influencing our way of life, constantly creating new possibilities, new products and materials, and new production methods. This trend is spreading and conquering markets faster than at any time in the past, crossing frontiers and making old styles or products obsolete; this has to be taken into account and watched very closely, because new products can influence market trends

and buying habits to a great extent. In Hungary where political and economic stability exists and the standard of living is improving regularly, it is quite natural that the consumer is becoming more conscious of quality and fashion all the time, and requesting better and more up-to-date products.

Market research and analysis will help manufacturers to recognize the increasingly demanding needs of the consumer, and stimulate awareness of fashion and style trends, the development of higher quality standards, and the promotion of better presentation and finishing. Even if some markets are slower to adopt modern trends than others, travelling, television and the press are constantly reducing these time factors, and several examples can be cited to prove that fashion styles and trends are readily adopted, regardless of geographical or political frontiers. Market planning will also provide the tools for establishing forecasts and planning production. Only on the basis of the most complete information and a maximum amount of facts and figures regarding customer demand and market trends should these forecasts be projected over one, five or ten years, or over even longer or shorter periods. Such forecasts should also take into account technical production requirements, the provision of machinery and equipment, raw materials supplies, the production of leather, synthetics, soles, heels and lasts, etc.

There is unfortunately no precise method of establishing accurate estimates, but close approximations can be reached and major mistakes or delays avoided if the basic market surveys and analyses are carried out in co-operation with production and product development services.

A number of suggestions, procedures and guidelines for the establishment of a marketing section at the MC are given below. Some of them might not yet be applicable under present circumstances. Nevertheless, they provide a broad outline of the steps to be followed if marketing is to play the important role expected of it in the modern management structure.

1. Needs should be identified on the basis of quality and quantity.
2. A thorough knowledge of markets, estimates and forecasts should be acquired for future planning.
3. Management should establish a marketing budget to ensure advance planning of projects and campaigns.
4. The production programme for the MC should include the following main categories: ladies' shoes, girls' and teenagers' shoes, and children's shoes.

5. A further subdivision should cover leather and synthetic uppers and the following additional main categories: evening, de luxe and fashion shoes; street, sports and walking shoes; work shoes; sandals, open-toe (or similarly styled) and leisure shoes.

6. Further categories should be established, based on such factors as the following: seasons, home or export markets (possibly eastern and western), price ranges, and the differing needs of town and country (the ratio between the urban and rural population is now about 50/50).

7. Vital statistics for the population as a whole should be kept up to date, and particular attention should be paid to the needs, buying habits and buying power of specific age groups, such as younger and more fashion-conscious women and girls, and also middle-aged and elderly ladies, who are more inclined to prefer good fittings and comfort.

8. Regular contacts should be maintained with the Fashion Institute, and trends in the garment industry, which influences shoe fashion to a large extent, should be followed.

9. Participation in fashion and trade shows should be encouraged. It is important that all participants, either locally or in foreign countries, should obtain sufficient information and supplies of samples for further examination and selection. These should have the widest circulation possible, and most of all among the group of Stylists and designers, so as to stimulate their creative thinking.

10. Plans should be made to meet the needs of both local and foreign holiday-makers and tourists.

11. The home market should be followed very closely, and close contacts maintained with retail stores and wholesale houses to determine their views and needs and to assess performances.

12. There should be frequent contacts with Tannimpex, which should play an important part in supplying information about foreign market needs through their three foreign offices.

13. Regular contact should be maintained with the local leather and accessories organization. Its information and practical assistance should be helpful for the creation of new lines (for example, light California sandals made of pigskin).

14. Marketing considerations must be taken into account at jury meetings and the marketing point of view defended in the selection of styles and models.

15. There should be close co-operation with product development for the solution of mutual problems and the upgrading of production.

16. Fashion and trade publications and also samples of new shoes brought from abroad should have the widest circulation possible, and new ideas should be discussed, not only by technicians, but also by all those connected with sales, especially women employees.

17. Account should be taken of the ever-increasing influence of the active female wage-earner on buying habits and purchasing power (they represent 44% of the total work force as against only 29.2% in 1949).

18. Everything should be done to improve the image of the MC as the foremost Hungarian quality-shoe producer. One important step in that direction would be the use of more attractive packaging.

19. Well-planned publicity campaigns, co-ordinated with the appearance of the new line on the market or other special occasions, could make the MC better known and increase sales.

20. Planning should be directed to the production of large series of shoes (a minimum of 5,000 pairs for each style), using the same equipment for economy's sake, and presenting variations of colour, ornament and in other respects, without changing the basic pattern.

21. Opinion polls should be conducted on special occasions, such as trade shows, sports events, rallies or conventions, in order to gather information about market trends and requirements and the performance of MC shoes.

22. Up-to-date information should be regularly obtained from the Chamber of Commerce about regulations, quotas, shipping rates or import and export conditions, forms to filled out etc.

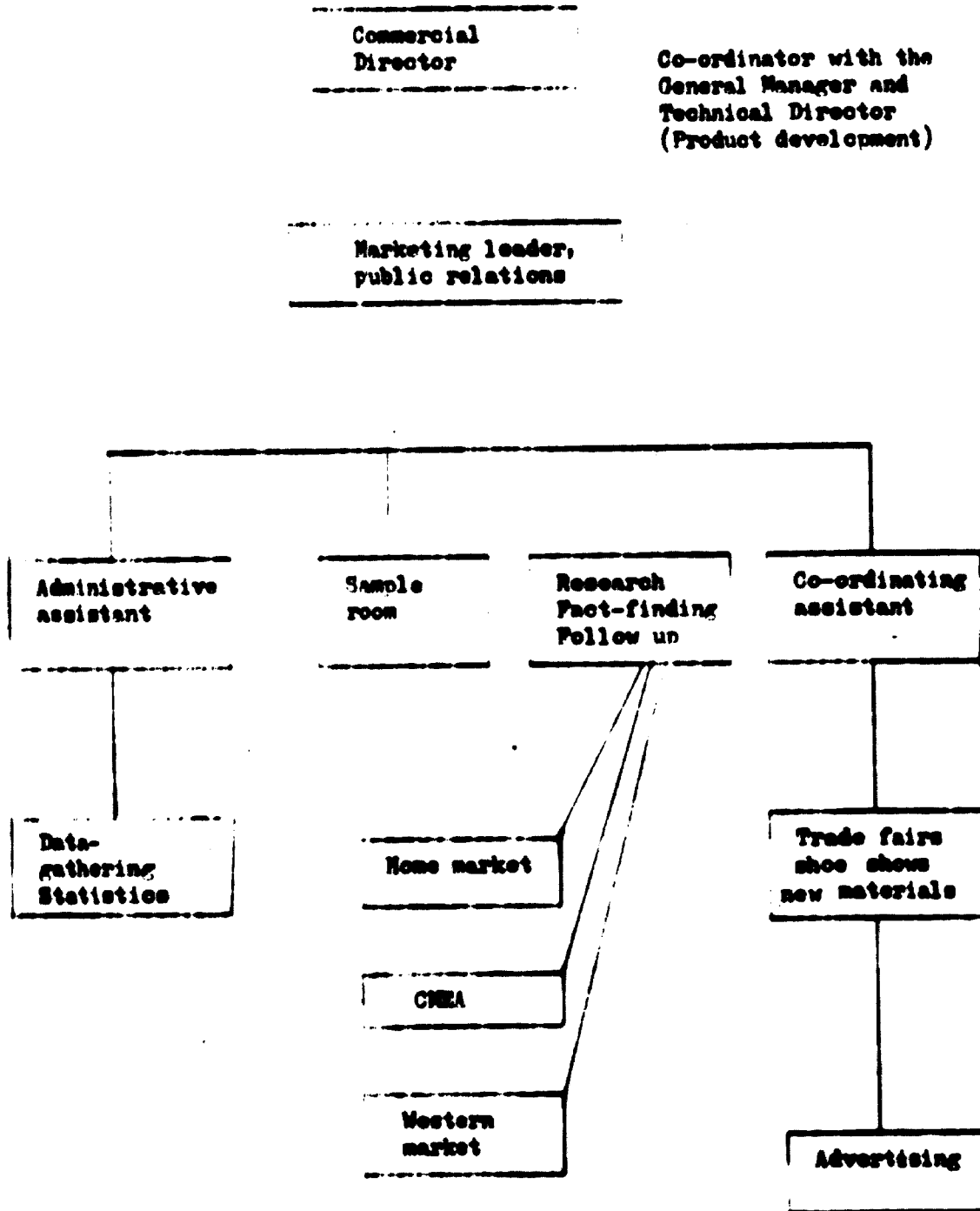
23. The market penetration of the MC in general and of certain styles in particular should be analysed in order to draw up plans for the following season.

24. Marketing personnel should have commercial experience, but college students could be recruited for pure research.

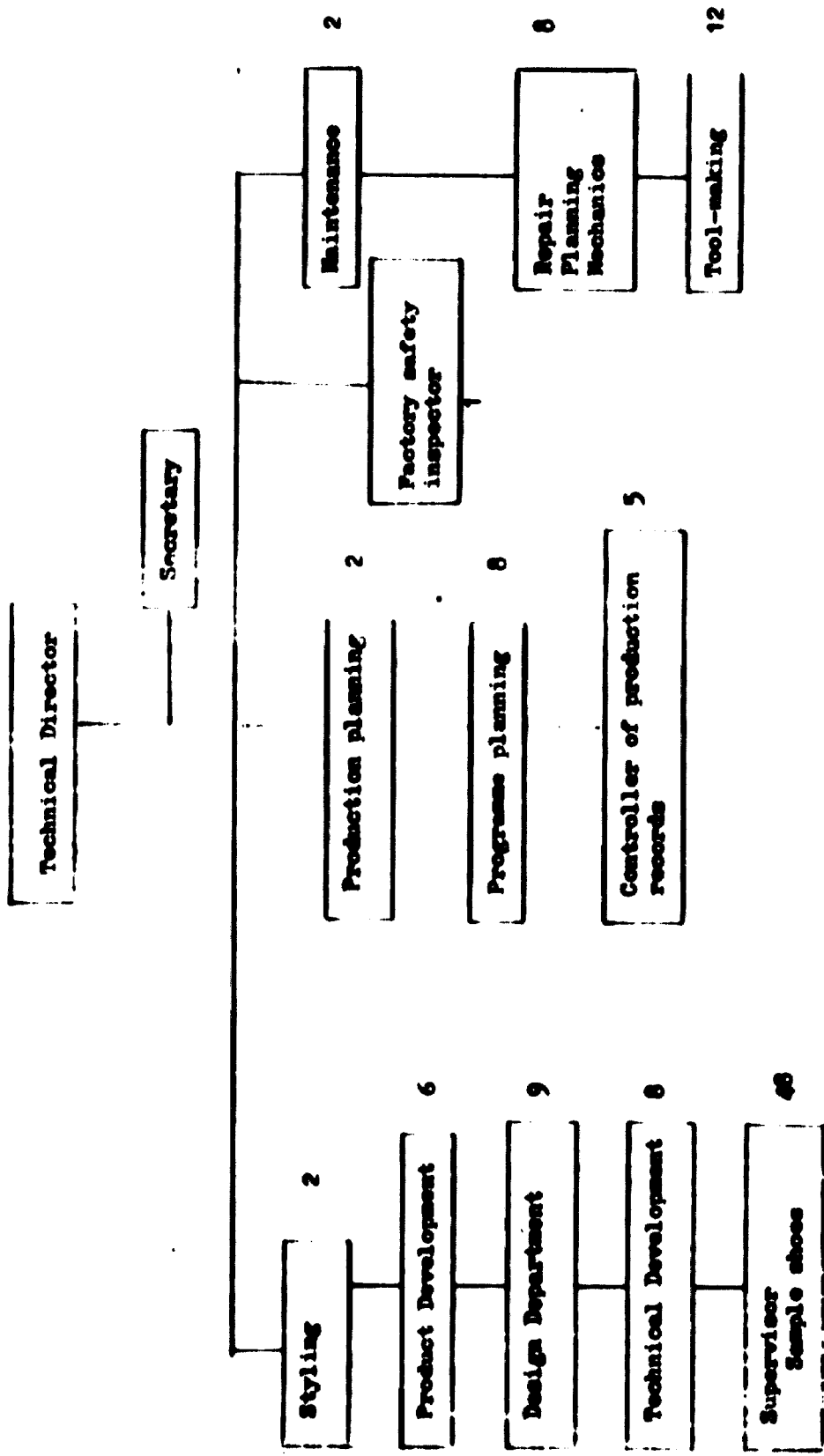
Annex V

ORGANIZATIONAL CHARTS

Proposed marketing organogram

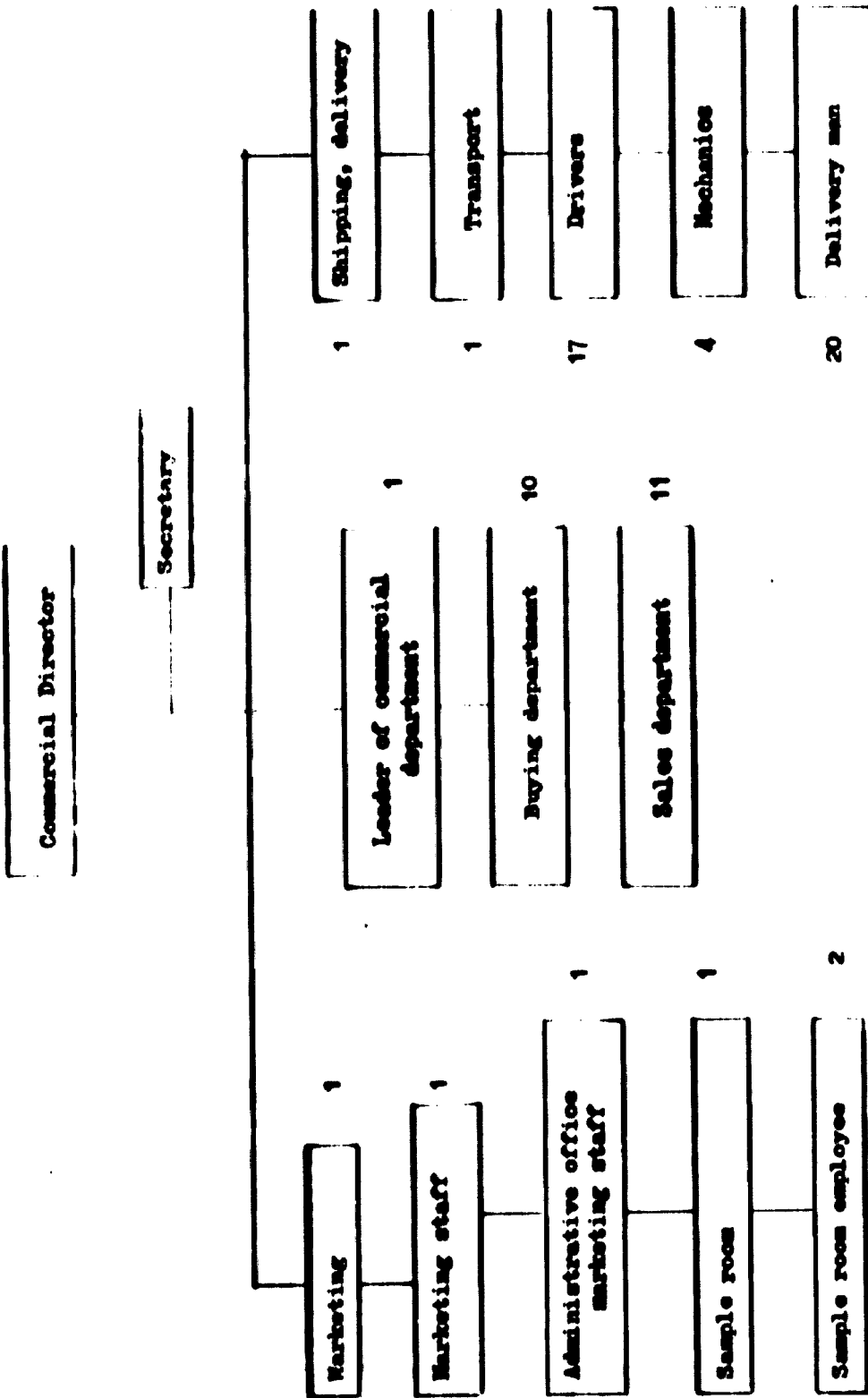


Technical management organogram (1975)



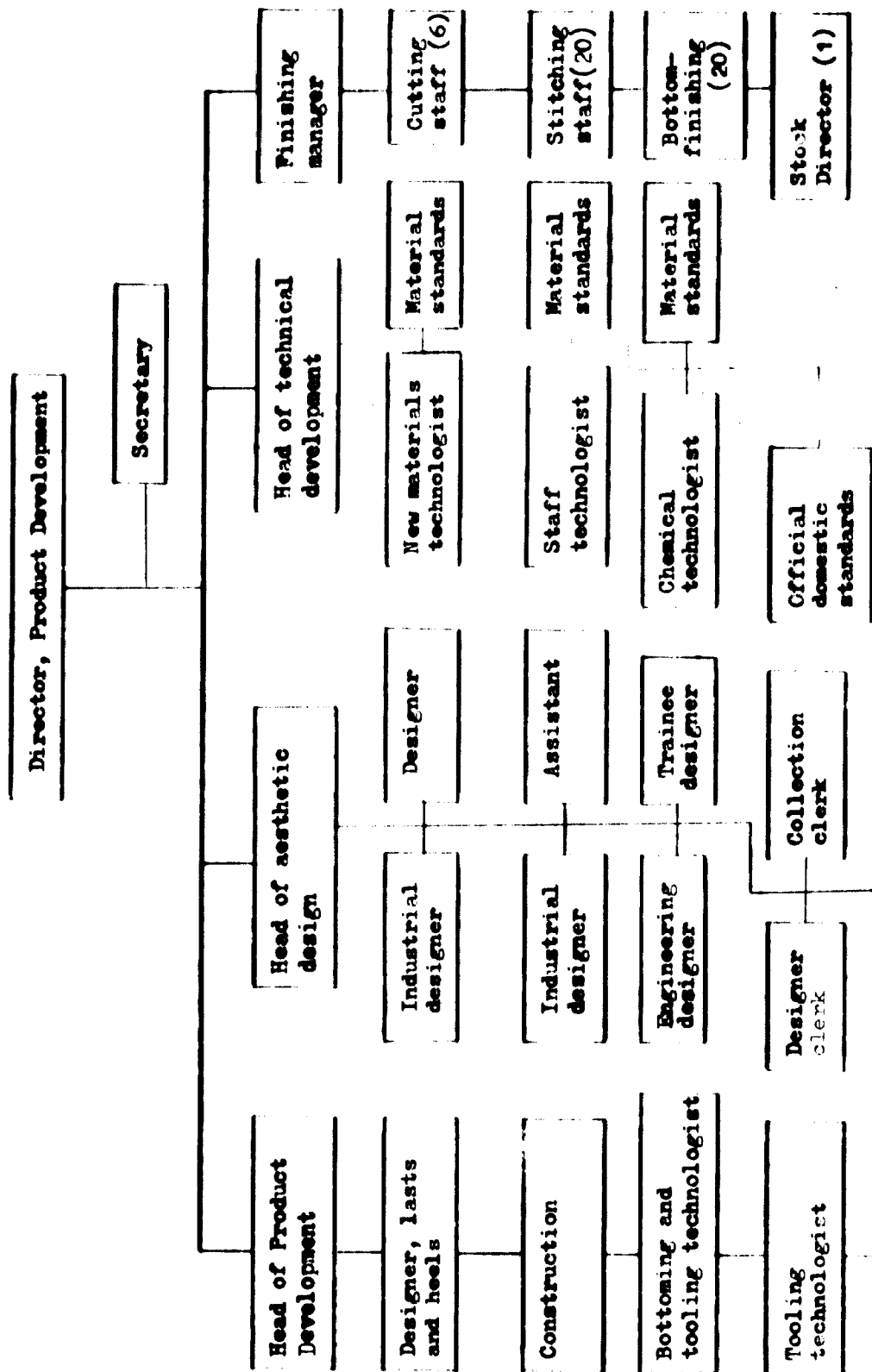
2/ Total of 111 people.

Commercial management organization (1975)



2/ Total of 72 people

Product development organogram^{a/}



^{a/} Number of people:
 Technical 25
 Administrative 1
 Workers 54
 Total 80

Source: Minbađgi Cipđgyđr, Product Development Department, February, 1976.

Annex VI

THE DEVELOPMENT OF THE LEATHER AND SHOE INDUSTRY UNDER
HUNGARY'S FIVE-YEAR PLAN FOR 1976-1980

Official figures and data on the development programme of the leather and shoe industry have been requested but are not yet available. However, the data and proposals on pages 369 and 370 of the official bulletin of the Ministry of Light Industry, No. 29, issued on 31 December 1975, provide some useful indications in this respect.

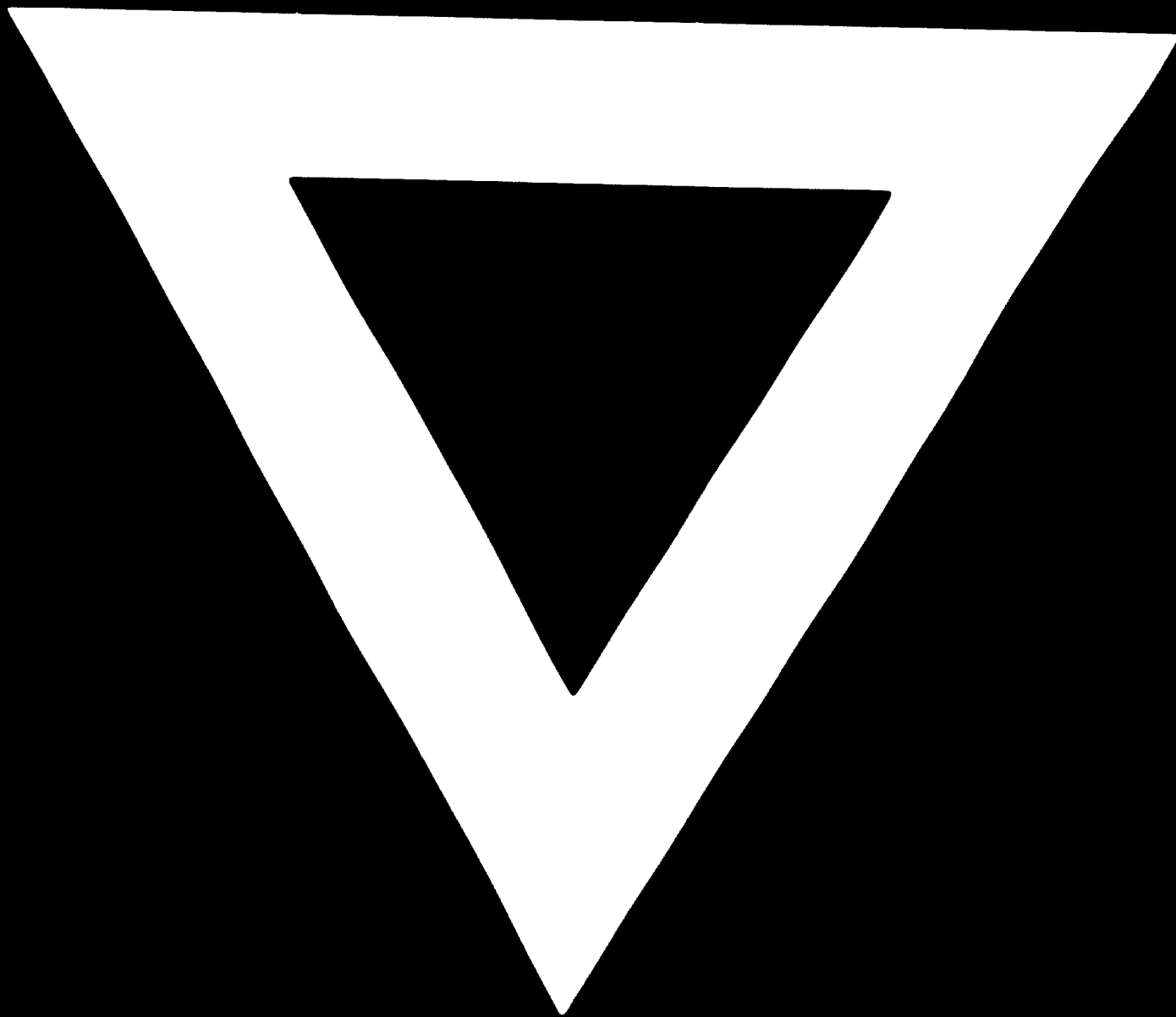
Within the framework of the next five-year plan, the following suggestions are made for 1976:

- (a) Shoe production for 1976 should amount to 45-46 million pairs;
- (b) All production depending on the Ministry of Light Industry and intended for the home market should be increased by 6-7%;
- (c) Every effort should be made to satisfy the home market demand for leather shoes;
- (d) Exports to eastern countries should be slowly and consistently increased, and those to western countries should rise considerably.

The proposals and forecasts of the MC for the next five-year plan, currently under consideration by the Ministry of Light Industry, but not yet finalized, are the following:

- (a) Production should be increased in the following categories: de luxe (+ 5%); fashion shoes (+ 15%); middle class (+ 30%); cheaper categories, textile and synthetics (+ 20%); and children (+ 30%). This represents a total increase of 100%;
- (b) Up to 60% of full-grain leather and 10% of pigskin leather (in ample supply locally) should be used for MC production;
- (c) An additional 10% of imported leather will be used, and the linings of leather shoes will consist of 20% of better-grade leather, 30% of natural leather and 50% of split leather;
- (d) There will be a market for an estimated 8.7 million pairs of footwear in 1980, of which 3.3 will be for domestic consumption, 3.4 for the CMEA countries, and 2.0 for western export;
- (e) The seven state-controlled enterprises should produce 36.7 million pairs, 17.5 of which would be for the home market, 12.6 for the CMEA countries, and 6.6 for western export;
- (f) Hungary's total production of foot-wear should reach 54 million pairs by 1980, 28.6 of which would be for the home market, 16.7 for the CMEA countries, and 8.7 for western export.

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