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**Sector: Food Products**

Prepared by the Danish Embassy in Sofia

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**Abstract:**

The Bulgarian food processing industry has every chance to continue its positive development in the future, using the domestic competitive advantages such as good access to raw materials and low labor costs. Moreover, the possibility for start-up cooperation and joint ventures with existing producers can make the penetration of the Bulgarian market easier.

## **Introduction**

Food processing is one of the historically traditional sectors of the Bulgarian economy. The importance of this sector is determined by its share in the total industrial output, which in recent years amounted to over 20%. The Food and Beverage Industry is the largest and most dynamic sector in the Bulgarian economy. The industry is characterized by a high degree of export and multiple products on a strongly competitive external and internal market.

Specific for the industry is the work with numerous materials and products with limited expiry dates as well as the necessity for highly effective manufacturing, transportation and logistics activities. The companies in the industry are also characterized by complex organizational structures and business processes, a large number of staff as well as the need to observe numerous regulatory requirements in respect to the quality of the end products.

## **Market overview**

According to the National Statistical Institute's Household Survey data for 2012, Bulgarians spend approximately 36.7 % of their income on food and soft drinks, and a further 4,8% on alcoholic drinks and tobacco. On average, the data shows that Bulgarians consume mostly bread and other baker's wares the most –around 9.2kg per person a month, followed by 11kg of eggs, 4,8 kg of fruits and 5,3 kg of meat and other meat products. Bulgarians tend to consume mostly poultry which is around 17,9 kg per person a year followed by pork with 16,6 kg .

Bulgaria's food industry has benefited from a substantial amount of foreign investment in value-added food processors, particularly in the dairy, confectionery and bakery sectors. Most recently, some Romanian companies were reportedly mulling moving their production bases to Bulgaria, in order to take advantage of the more favourable tax and business climate there.

Since 2009, the European Commission has approved 9 promotional programs at total that were suggested by the Bulgarian Cluster Associations and their value is estimated to be 32mln. euro. Three of them are for promoting dairy products in Germany, Spain, Russia, Brazil, Australia and UAE, 2 programs are directed to wine promotion in China, Russia, USA and Australia and 1 program is for promoting canned fruits and vegetables in Germany, Poland and Romania.

Nevertheless, the food industry remains fragmented, with concentration only evident in a few sectors of the industry. Although multinationals are among the largest food and drink companies in Bulgaria, the bulk of market share continues to be held by small- and medium-sized domestic operators, with their continuing popularity attributed to their price competitiveness. However, recessionary and competitive pressures, coupled with the requirement to comply with EU manufacturing guidelines, are driving further industry consolidation. Some of the smaller players have recently been forced to close their operations.

Domestic producers have been hit particularly hard by the financial crisis and subsequent global economic downturn. Many responded with a massive scaling back of production, with a number suffering from deterioration of their financial positions. This loss of productive capital will make it more difficult for Bulgarian firms to respond to the eventual improvement in domestic and external demand. The expansion of discount operators in the country and the still-high unemployment levels will, to a degree negate inflation-driven value increases.

Overall, prices of production on the Bulgarian market have increased with 2,6%.

<p><b>SWOT Analysis</b></p> <p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- Bulgaria provides a cheap manufacturing base, which had attracted Western European companies that needed to reduce production costs and expand into new markets.</li> <li>- Due to large investments, a process of modernization has begun</li> <li>- Variety of goods, packages, types and assortment</li> <li>- The new government has started taking precautions to fight back frauds with EU funding money</li> <li>- Integration of controlling departments</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Accepting the cluster as being very active and perspective partner in EU</li> <li>- Establishing long-lasting interconnection between companies</li> <li>- Acquiring and keeping the interest towards well-known products</li> <li>- The food and drinks market is unsaturated and fragmented, providing plentiful growth opportunities for key domestic and foreign players.</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Offering goods and products that do not comply with EU standards for quality and ingredients</li> <li>- Many small food-processing companies are unable to comply with EU regulations and are closing down, negatively impacting on sector growth</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Problems with severe EU rivalry in the sector</li> <li>- Rivalry causes prices to fall under the accepted minimum</li> <li>- Political and administrative push while making decisions</li> <li>- Strong influence of the European pricing policy</li> </ul>

### ***Dairy Market Segment***

Bulgaria boasts a relatively dynamic dairy industry, supported by high per capita consumption of dairy products. Compared to other major EU producing countries, the production costs are significantly reduced, and all it takes is good transportation to the EU open market, which Bulgaria is a part of.

Most of the Bulgarian milk producers have restructured their farms in order to comply with the EU requirements and be able to sell milk to the dairy farms.

A positive tendency in the milk processing industry is the consolidation of the dairy farms.

There are 221 authorized milk processing facilities.

Recently the results from the European program ‘EU cheese, please’ are very promising. The quantities exported to Russia and Ukraine has doubled for the past year. Also the sales in Germany have increased from 700 tons in 2011 to 1233 tons in 2012, in Spain the quantity has risen up from 46 tons in 2011 to 150 tons in 2012.



Type of Dairy product	Quantity produced	Quantity exported	% of export
Liquid milk products	51112 thousands litres	684 thousands litres	1,3%
Skimmed milk and cream, dairy desserts	148 594 tons	7 841 tons	5,3%

Cheese total	70 164 tons	20 451 tons	29,1%
White cheese	43 239 tons	11 504 tons	26,6 %
White cow cheese	35 806 tons	6 290 tons	17,6%
White goat cheese	7 433 tons	5 214 tons	<b>70,1 %</b>
Yellow cheese	20 512 tons	3 139 tons	15,3%

#### Production and export of dairy products

The twenty biggest milk facilities account for employing 3,7 thousand people at total.

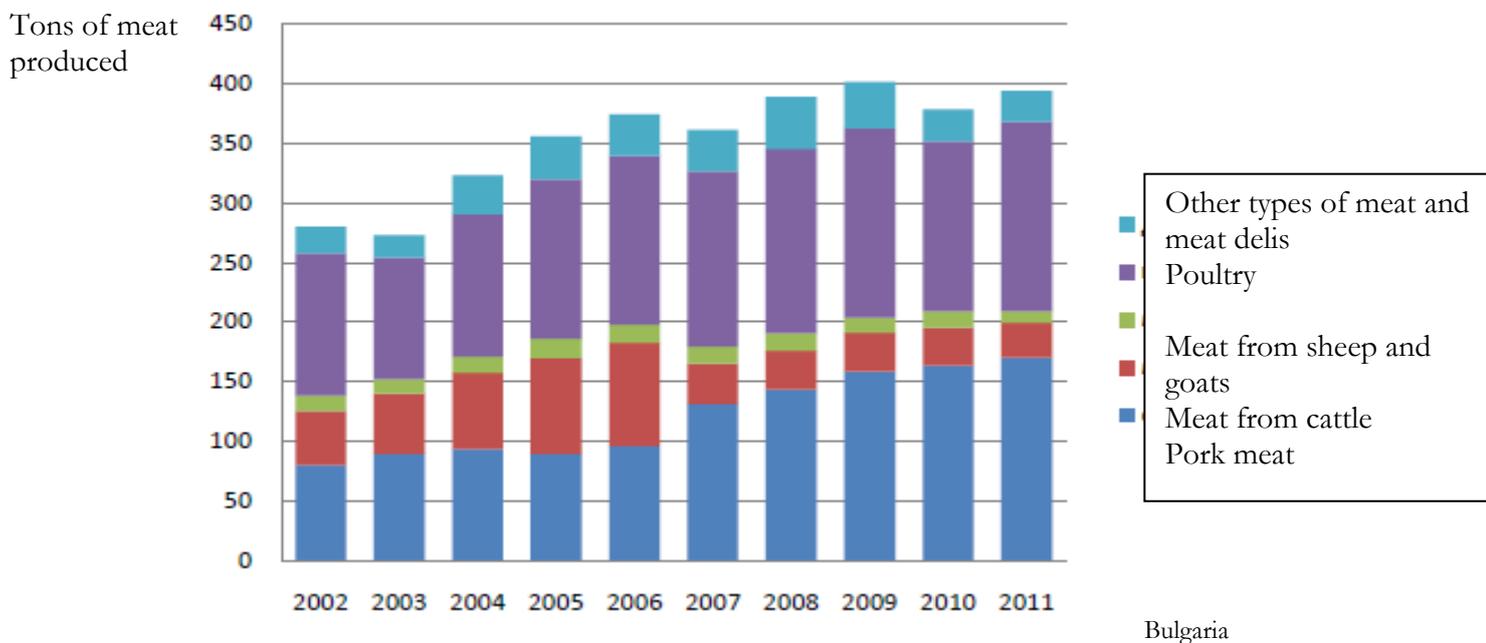
Following the EU accession, a number of foreign companies acquired local players. For example, Spanish private equity firm GED purchased FAMA (Bulgaria's third-largest dairy producer at the time, claiming a 12% market share by volume), with Greek Vivartia taking over the country's leading milk processing company United Milk Company – which claims spot number two in the yogurt market – for EUR18.7mn. More recently, in late 2007, Italian Cola Dairy Products (CDP) purchased a 60% stake in My Day, which is famous for drinking yogurts.

#### *Meat Processing*

Bulgaria has a long tradition in livestock breeding and meat processing. Local producers use some unique recipes for salami, flat sausage (soudjuk) and other meat products. At present, the country holds the protected geographical indication for an authentic product: the flat sausage from Gorna Oryahovitsa (Gornooryahovski soudjuk), and is in the process of receiving the EU protected geographical indication for 7 more meat products.

The meat processing industry features 65 plants processing red meat, 30 white-meat slaughterhouses, 283 meat processing plants and meat factories for automated meat cutting, or a total of 378 companies in the industry.

Figure1: Scope of the Meat Market in tons for 2002-2011, based on the data of meat production in



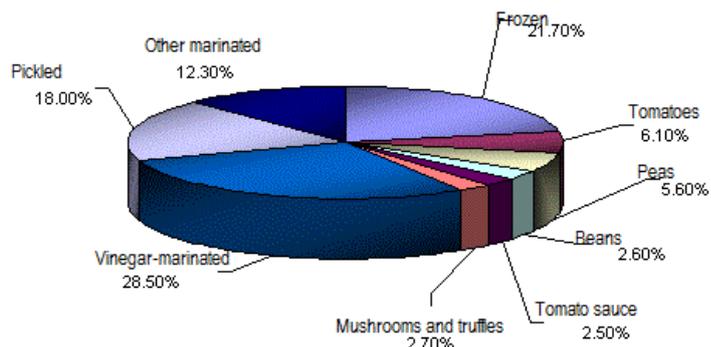
Overall, there is a stable increase of the production of poultry with 33% for the period of 2002-2011. Also, after 2007, there is a growth in the production of pork and it is evident that the quantity doubles up for this period. There is a significant decrease for the market of meat from cattle because of the increase

of the taxes due to EU directives that are related to the new policies regarding all variety of meat imported by third parties (countries outside Europe).

It is expected that there is going to be a rise in the demand of all kinds of meat and it is estimated that quantity from 2009 will be at the same level at the beginning of 2015 due to the fact that only then it is expected the economy of Bulgaria to stabilize and to be of a sufficient growth. Most probably, the significant increase of demand would come in the period 2015-2020 at a level of 470 000 tones for all kinds of meat.

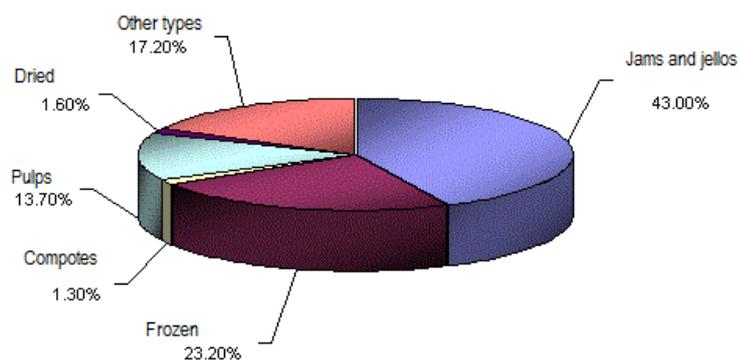
In conclusion, at the moment the market for all kinds of meat is saturated and stagnant, however, in the near future it is expected to grow.

**Canned food**



For the last two years, the production of cans is estimated to be approximately 86-87 thousand tons. The data reveals that 75% of them are accounted to the vegetables and the trend is increasing, while in canning fruits the rate is 25% and decreasing.

Structure of production of vegetable cans



Some of the big players of canned food markets are: Adela, Deroni, Nash Dom, Varna Plod, Kjustendilski Plod and Elvira.

There are 9% of the all employees working in the food sectors that are employed in the canned industry.

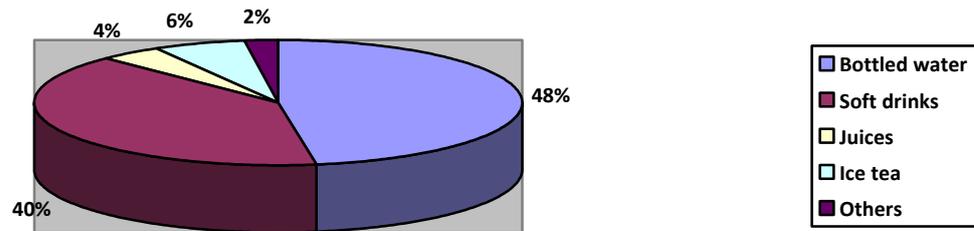
Structure of production of fruit cans

**Classification of companies according to the number of people employed in %**

Number of people	%
Up to 20	58
21-50	16.9
51-100	12.1
Over 100	13

**Beverages**

Bottled water and carbonates dominate the soft drinks sector. Bulgaria places highly in the EU in terms of per capita consumption of soft drinks, indicating the strength of the market, although this is clearly dependent on the wider economic performance. Overall, the trend shows increase with 11,3% in the production of soft drinks. In the consumption data, there is a significant growth in consumption of mineral water with 16 % which is around 74 thousand litres more than previous year.



Consumption of soft drinks for the first half of 2013 in Bulgaria

**Brewery Market Segment** Bulgaria is on 18th place in Europe regarding the consumption of beer per capita. Beer accounts for around 40% of total alcoholic drink value sales and around 80% of volume sales in Bulgaria. Overall, there are 2500 employed people in the sectors of brewing and over 8000 people in the related sectors of delivery.

The data from the National Statistics Institute shows that 96% of the consumed beer in the country has been produced in Bulgaria. The consumption of beer per person per year is estimated to be 73 litres. There are more than 80 assortments of light and dark beer produces as well as more than 10 types of beer mixtures offered. Since the beginning of 2013, most of the brewing companies have expanded their portfolio with about 30 new blends of beer, including the popular fruit mixes.

Carlsberg and Heineken dominate the Bulgarian beer market, with the latter leading with a value market share of about 37%, according to AC Nielsen. Local breweries include Boliarka, Ledenika & MM (which holds under 10% of the local market), Bulbrew, Lomsko Pivo and Agrima. The Lomsko Brewery is owned by diversified conglomerate Enemona.



### **Coffee and tea market**

Coffee is hugely popular in Bulgaria and sales have steadily increased over recent years. Consumers are shifting from consumption of bulk coffee to pre-packaged branded coffees. Consumers are increasingly demanding fresh and quality instant coffee varieties such as espresso and mocha blends, especially on-trade.

Major players in the Bulgarian coffee and tea market are Mondelez and Nestlé, while American coffee shop chain Starbucks and Costa. Kraft Foods has a local coffee-processing factory, which is engaged in the production of Jacobs coffee brands (Aroma, Espresso and Monarch, as well as Monarch Intense). Other coffee trademarks owned by the company include Nova Brasilia.

### **Spirits**



Bulgarian consumers view strong alcoholic drinks as a luxury and are prepared to pay a premium for high-quality goods for special events and as an occasional treat. However, frequency of purchase is falling, with consumers now more likely to opt for cheaper, lower-alcohol drinks such as beer and wine.

Leading companies in the spirits segment include domestic alcohol producers also active in other sectors, namely Carlsberg Bulgaria, Zagorka (Heineken) and Kamenitza (CVC Capital Partners), as well as more spirits-focused producers SIS Industries and Vinprom Peshtera. Vinprom Targovishte is the leading wine producer and is also active in the spirits market, which ranks it within the top 10 players in the overall alcoholic drinks market. The traditional Bulgarian spirit is plum brandy (rakia), although this has been losing popularity among younger generations.



### ***Wine production segment***

Wine production in Bulgaria has seasonal character due to specific climate conditions.

Bulgaria exports about 80% of its wine, and imports of wine are limited, as consumers prefer domestic products owing to their lower price and perceived higher quality. The wine industry is currently shifting its export focus eastward. The Bulgarian Wine Association reports for over 7000 types of wine produced in the country.

According to the NSI, the consumption of wine on the internal market has increased with 10% in 2012. The sales of red wines dominate, while the import of white wines is around 65%. This trend is present due to the fact that Bulgaria has long-lasting traditions in red wine making and its quality is superior to in the white wine production. The average export price of wine is around 1 euro and in

2012 the export rates reached 50 mln litres. In the last few years, the trend for export is steadily increasing: in 2012 the quantity exported was 35 mln litres, while in 2011 it accounted for 40 mln litres. Over 80% of the wine is exported mainly to Russia, Poland and Czech Republic and in the past year the products have very good realization also in the Romanian market.

Data shows that only for the past two months there were 1 million bottles of Bulgarian wine exported to China which is a very good market with possibility for further development.

At the moment Bulgaria is on the 17<sup>th</sup> place in the world regarding the export of wine. Some of the old players on the market are expanding their assortment such as Domain Boyar. The boutique wineries became more exclusive and popular in the last years and producers try to differentiate among one another. A recently break-through was made by introducing the Alfa Vita brand which is a healthy wine which contains 50 times more antioxidants than the usual red wine and is unique due to its healthy qualities.

### **Conclusions and recommendations**

Bulgaria needs to recapture its competitive position on the export market and for this purpose investment will be necessary. Investing in both physical and human capital will strengthen production and the capacity for competitiveness. Renewed sources of capital and equipment are needed so that Bulgaria could comply with EU quality and hygiene standards.

Another area of possible success is the organic products and specialization within organic farming. The demand for organic food has enlarged significantly in many western European countries but this market trend is also being followed, though in smaller proportions, by the Eastern European countries. The assortment of the bio food offered in Bulgaria grew from 1400 to 2000 articles while the number of companies dealing with import and distribution of such food grew three times.

The Bulgarian food processing industry has every chance to continue its positive development in the future, using the domestic competitive advantages such as good access to raw materials and low labor costs. Moreover, the possibility of starting up cooperation and joint ventures with existing producers can make the penetration of the Bulgarian market easier. Investing in existing food producers could open the possibility to enter and strengthen the Bulgarian market position in the EU.

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