

SECTOR ANALYSIS



Bulgaria: Retail Sector

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Abstract:

With approximately 7.4 million inhabitants Bulgaria offers a sizeable market for international retailers and retailer sub-suppliers. The European Union accession has been a departure point for a very dynamic development creating many opportunities within retailing. As the pace of acquiring new markets increases, more foreign retailers have also begun appreciating the increasing political stability of the country and its strong future growth prospects.

Introduction

All retail sectors, ranging from food, beverages and tobacco sales to electrical household appliances sales are undergoing substantial growth that indicates development in the Bulgarian economy in recent years. Bulgaria, being an EU member since 1st January 2007, has become an interesting destination for international expansion. More foreign retailers begin appreciating the increasing political stability of the country and its strong future growth prospects.

Bulgaria presents a considerable market for retailers. Big international players have entered the market and are still spreading their affairs. While some obstacles are presently hampering retail development, there are significant growth opportunities for retailers to develop their operations through format diversification and greater regional expansion.

The forecast for 2013 indicates that the purchasing power in Bulgaria will represent one third of the average European data. At the same time, the retail space per 1,000 inhabitants will be approximately 50% of the average European statistics.

Demand is predominantly driven by food retailers, fashion operators and food and beverage operators.

Market overview

Key factors behind retail market expansion include rising disposable incomes and Bulgarians seeking the choice and low prices offered by foreign and domestic chains.

BMI continues to expect a moderate recovery in the Bulgarian economy to gather pace in 2013, forecasting real GDP growth of 1.5% versus an estimated expansion of 0.4% in 2012. This will be driven by a modest recovery in the Eurozone - we forecast the GDP growth to be 0.5% in 2013 versus -0.7% the previous year coupled with some loosening of the fiscal reins ahead of parliamentary elections in the summer of 2013.

Household consumption has been the principal driver of Bulgarian economic growth in 2012, expanding by 4.5% year-on-year (y-o-y) in Q3. Real wage growth remained robust throughout the year, averaging 4.3% y-o-y in spite of persistently high unemployment ticking up to 11.3% in November. However, high frequency data suggest that private consumption sagged in late 2012, with retail sales contracting by 3.1% y-o-y and by 4.3% in September and October respectively.

NSI indicates that retailers claim an increase in profits for second consecutive month. The increase is about 0.8%.

The smallest rise is in the branch of food, beverages and tobacco products consisting of only 0,2%, however, the profit from retailing of other goods has increased with 14,2% and overall the online shopping orders have risen with 2,7%.

Statistics show that retailing in the textile, shoes and clothes has increased with 17,7%, while the retailing with medical appliances have decreased with 6,0% as well as furniture and other household goods with 2,6%.

The growth in the overall retail market is driven largely by a growing urban population, with higher disposable incomes and an interest in aspirational purchasing. According to the UN Population Division, the urban population in Bulgaria reached 73% in 2011 and will rise to more than 78.0% by 2030.

Retail chains in Bulgaria will keep opening new outlets despite weak consumption. The country currently has a total of 1900 hypermarkets, supermarkets and drugstores, which is 400% more than in 2005, and this number is projected to rise by 6%-7% per year, reaching 2600 in 2016. Retailers currently hold a market share of 35% and it is likely to reach 40% in 2012 and 50% in 2014.

Retail sectors that are likely to expand over the forecast period include consumer electronics, due to the growth potential offered by relatively low household penetration rates for digital products.

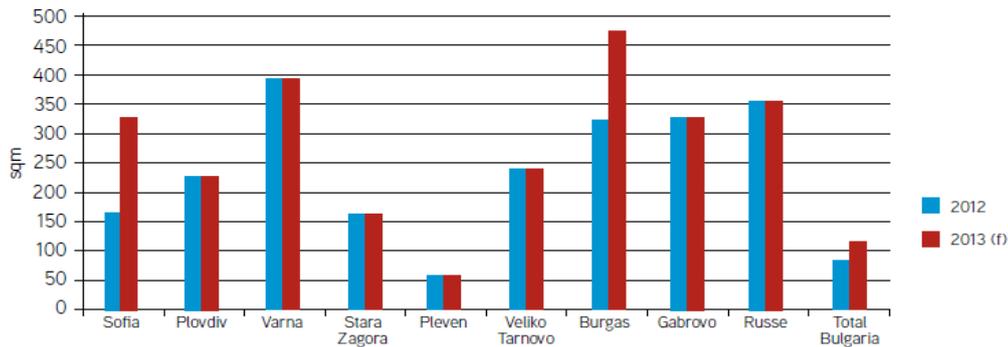
Current situation of the retail stores

The retail sector in Bulgaria has a vast array of different types of stores. They represent everything from the very small basement shop to enormous hypermarkets. The most recent trend is for discount stores chains to enter the market, succeeding the Western market trends.

Bulgaria has more than 20 malls, with another 16 under construction not only in Sofia but also in Plovdiv, Varna and Burgas, as well as secondary cities including Dobrich, Ruse, Pleven and Stara Zagora.

With the opening of Galleria Burgas in May 2012, the total inventory of contemporary shopping mall space in Bulgaria increased to 630,000 sq. m., equal to 83 sq. m. per 1,000 inhabitants.

**RETAIL SPACE IN SHOPPING CENTERS PER 1,000 INHABITANTS
IN THE BIG CITIES OF BULGARIA 2012 AND 2013(F)**



FORECAST

PRIME RENTAL RATES ***(EUR/M2/MONTH)				
LOCATION	SOFIA	PLOVDIV	BURGAS	VARNA
SHOPPING CENTERS AND MALLS	33	20	23	24
HIGH STREETS	38	28	22	23

Modern store formats are primarily to be found in cities and larger population centres, and family-run businesses and kiosks are still a significant part of the Bulgarian retail landscape. About half of the grocery market, for example, is still made up of traditional small stores.

With new shopping areas new retailers enter the market. International players are increasingly setting their sights on the Bulgarian market. Swedish fashion retailer H&M opened its first store in Bulgaria in March 2012 and until now they have more than 10 stores. Some of the other international brands present in the Bulgarian market are: Benetton, Sisley, Miss Sixty, Esprit, Diesel, Levi's, Lee Cooper, Mustang, Puma, Lee, Hugo Boss, Wrangler, Mango, Max Mara, Emporio Armani, Prada, Moschino, Timberland, Reebok, Nike and Adidas. Inditex of Spain entered the Bulgarian market in 2010 with the opening of a Zara store.

Mercator are also already present in Bulgaria as well as Lidl, which opened 55 stores for 2 years and their number reached 65 at the end of 2012.

Food retailers continue to expand by opening new stores on key locations near the subway stations and in densely populated residential districts.

The development of Sofia's subway network is changing the geography of food retail outlets. The central subway stations are becoming key shopping destinations – a good example for the retail power of the subway is “Serdika” station, where the

formula of combining a convenience BILLA store, a “DM” drugstore and fast food restaurants has proven to be successful. The retail potential of travel hubs has also been acknowledged by Piccadilly, who in the first half of the year opened two new stores under the Daily convenience concept close to subway stations.

The expansion of the food retailers during the first six months of 2012 has been mainly driven by the strategy to go closer to their customers. Carrefour opened three new supermarkets, two in Sofia and one in Burgas. Lidl continued to increase its market coverage by adding new stores in Burgas, Ruse, Stara Zagora and Vratza, thus entering the second half of 2012 with a chain of 60 operational stores in the country. The DIY segment continues to be very dynamic and highly competitive. Bauhaus opened its first store in Sofia, occupying 20,000 sq. m.

Chains expand into convenience stores

In almost all categories, retail chains have continued to expand. The main losers from this development are small independent retailers, which are finding it hard to compete with multinationals. In an attempt to diversify into new channels, chains expanded into convenience stores. Examples of this are the Piccadilly Daily (formerly Piccadilly Express) and Carrefour Market chains, as well as the expansion of T-Market into smaller outlets closer to consumers' homes. Billa Bulgaria is also expanding into close-to-home type of convenience stores. Even the Metro Cash & Carry chain, which mostly operates hypermarkets, opened several small cash and carry stores. The popularity of convenience stores is expected to grow further in the long term.

Small-scale grocery domestic players, such as the stores Fantastiko, Familia and CBA still characterize the market. However, in 2006, the market share of big supermarket chains was almost 20 per cent, and after Bulgaria's EU accession their market share has increased even further. Consequently, the market share of individual and small-scale grocery shops will soon most likely enter a stage of severe decline in the big cities. For this reason, local and smaller regional retailers are trying to expand to smaller markets, introducing new store formats and lobbying for government protection of home market retailers.

Presently, it is clear that large supermarket chains are very successful in the bigger towns, but their sales are limited in the provinces. Seeing that competition is tough and the market is approaching saturation, international retail chains have therefore also begun to expand to smaller towns throughout the country by establishing cooperation with smaller stores.

Companies like IKEA, JYSK, DM and others have also opened retail stores in Bulgaria. The DIY sector is represented by companies such as Praktiker, Baumax, Mr. Bricolage, etc.

Online shopping

Data from the National Statistics Institute shows that people who purchased goods online in Bulgaria for 2012 are 9,2% which is about 550 000 people. The number is relatively small but has increased since 2010. The major concerns of online buyers are mostly security reasons. Buyers are afraid that a technical mistake may occur while paying online, there are some impediments registered in finding information about warranty and other customer rights as well as complaints about mistaken or faulty goods and delivery delays. 21,7 % avoid buying online because they would like to try out goods and have a real experience right on the spot without engaging in timely procedures regarding a possible replace procedure. The most bought goods over the internet are clothes and sport equipment with about 63,6%, which indicates that there is a steady demand and entering this market may be profitable.

Group shopping sites boost the popularity of internet retailing

Consumers in bigger cities, especially in the capital Sofia, are more likely to shop online and have greater trust in online retailers. Internet sales during the review period have been growing, mostly due to the increasing popularity of collective shopping sites, which encouraged more internet users to try shopping online for the first time and continue once they see that it is a convenient and safe way to shop. Due to the great success of the concept in Bulgaria, it quickly grew to almost 100 different collective shopping sites. Although they have started consolidating and only the large players are likely to remain, it is expected that online shopping will become a more significant method of retailing over the forecast period

Market trends

Investing in the Bulgarian retail sector has become significantly easier over the past few years. Simplification of legislation and an investment incentive act has made investing in Bulgaria a more profitable venture. Legislation concerning retail outlets is also very liberal. There are no restrictions on pricing, except for pharmaceuticals and there are no restrictions on opening hours or the number of outlets a retailer can have.

However, the higher prices of basic raw materials such as wheat, corn, sugar, petrol, etc. have affected a number of commodities and led to lower incomes, soaring inflation and high unemployment. Fast-moving consumer goods market is getting harder and the budgets of households- lower and lower. That's why consumers switch to products in the lower segments, at lower prices and relatively better quality. The challenges for the retailers are connected with better effectiveness and the introduction of new products which hold consumers' attention. Forecasted trends for the sector are slower growth of the FMCG sector in the following years, a greater share of chain stores, saturation of the market and rigid competition.

Also, DIY retailers continue to grow in Bulgaria in a highly competitive environment and this could present a good market opportunity for player in that sector by penetrating the market with price war or innovative products.

Bulgarian market still offers a raft of modern retail format opportunities and is far from consolidation, which makes it very appealing to foreign retailers. The food industry will be joined by fashion and other sectors in luring in foreign chains.

Conclusions and recommendations

Opportunities for Danish retailers and sub-suppliers

The Bulgarian retail market has large potential for retailers. Considering that the international supermarket chains are rapidly increasing their market share, interested Danish enterprises should consider entering the Bulgarian market before competition is further intensified. Hence, Danish retailers should adjust their strategies to encounter this challenge in order to be able to gain access to the Bulgarian market.

Food retailers continue to expand by opening new stores on key locations near the subway stations and in densely populated residential districts with the construction of new modern complexes, new opportunities for development emerge as well.

As for retail sub-suppliers, the Bulgarian market offers windows of opportunities. The upward trend of maturing consumer tastes provides vast opportunities. There are still steps to be taken to reach Western European standards in regards to quality and efficiency. Hence, improved food quality is a market with great potential and the possibilities for selling products within many different areas in the Bulgarian food sector are extensive.

Alternative opportunities for success

Although in recent years there has been a steady stream of foreign retailers coming in, the Bulgarian retail market is not yet saturated. Entering a market approaching saturation inherently means increased international competition, but choosing the right entry format in the right window of opportunity could provide sizeable market prospects. Therefore, alternative channels of distribution, such as cash and carry, catering, wholesale dealers cooperating with the primary retail chains, etc. ought to be considered.

The increasing number of supermarkets allows food industry companies to take advantage of a large distribution channel. Danish food producers, who have already established relations to large German, French and British retail chains also represented in Bulgaria, should consider this opportunity to exploit existing partnerships as a point of departure for reaching the Bulgarian market. In this way, the trend that international retail chains use the same distributors on their markets will continue.

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