



Sector: Retail

May 2012

Prepared by the Danish embassy in Sofia

Keywords: Bulgaria, Sofia, Retail sector

Abstract:

With 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, even though the Bulgarian retail market is underdeveloped and highly fragmented. 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 country has a great potential to offer in this field.

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.

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 72.2% in 2010 and will rise to more than 78.0% by 2030.

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. Everything from the very small basement shop to enormous hypermarkets is represented. The most recent trend is for discount stores chains to enter the market.

Following the 1997 economic crisis, modern retail outlets began to emerge in Bulgaria and have increased their market share since then. After the initial success of the first four modern shopping centres in Bulgaria, more than 10 mall developments were announced, not only in Sofia but also in Plovdiv, Varna and Burgas, as well as secondary cities including Ruse, Pleven and Stara Zagora.

Bulgaria has 15 malls, with another 16 under construction. In the first half of 2010, Bulgaria was ranked first in the EU and second in Europe, after Russia, in terms of the amount of newly developed retail space (200,000m²), according to real estate firm Cushman & Wakefield (C&W).

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.

The Bulgarian retail market is immature compared with the other countries in the region but consumers are increasingly attracted to new, modern store formats due to the quality and variety of products available, attractive pricing, efficient service and convenient parking.

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. British clothing chain Peacocks also opened its first store in Bulgaria in October 2011. 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.

There have been seen a steady expansion of retail stores chains, such as Billa, Metro Cash & Carry, Kaufland Stiftung & Co KG, HIT Co, Piccadilly. This has created a picture of hypermarkets and supermarkets and other large-scale retail stores dominating the market and slowly taking the place of small family-owned shops as well as independent consumer goods companies, and specialised food outlets, such as bakers, butchers and cheese stores. In 2010 Bulgaria welcomed Carrefour, the world's second largest retailer. Germany's Plus, Penny and the Slovenian Mercator are also already present in Bulgaria as well as Lidl, which opened 55 stores for 2 years and it is planning to increase their number to 65 by the end of 2012.

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.

The development of own brands is an opportunity for chain stores to increase their sales. Some of the chain stores rebrand their own products and enter into new segments- Billa introduced its brand My for hygiene and cosmetic products and it also uses its private label Clever , Kaufland introduced unified own brand K-Classic while in Piccadilli the brand Premia took the place of Mr Pix and Merkato brands

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

Online shopping continues to grow in popularity, with internet shoppers researching and comparing prices in order to find the best deals. The number of Bulgarians who made online purchases more than once a month doubled in 2010, according to a survey by the Allegro Group. In 2010, 22% of the population shopped online compared with only 13% the year before, the survey found. Men were more active than women online and younger consumers predominated – nearly 45% of online shoppers were 36-45 years old.



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.

The A.T. Kearney study, which gauges markets by factors such as saturation, attractiveness and country risks, placed Bulgaria on 30th place in the 2011 Global Retail Development Index, trailing Turkey but still ahead of Romania and Croatia. Out of the 30 countries in the ranking Bulgaria has the most saturated market.

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.

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.

Worth-mentioning is the fact that Denmark is renowned for being extremely competent within the agricultural- and food sectors; hence, Danish cooperation is highly valued. Therefore, many Bulgarian food producers are open to partnerships and alliances with Danish companies in order to create a strong competitive foundation.

Ministry of Foreign Affairs of Denmark

Embassy of Denmark
The Trade Council
Dondukov Blvd. 54
Sofia

Phone no: (+359) 2 917 01 00
Fax: (+359) 2 980 99 01
E-mail: sofamb@um.dk
www.bulgarien.um.dk

The Trade Council is a part of the Ministry of Foreign Affairs and is the official export and investment promotion agency of Denmark. The Trade Council benefits from around ninety Danish Embassies, Consulates General and Trade Commissions abroad. The Trade Council advises and assists Danish companies in their export activities and internationalisation process according to the vision: Creating Value All the Way.

The work in the Trade Council follows specific procedures and quality guidelines. In this way our customers are secured the best possible quality under the varying working and market conditions at any given point of time.