



Sector: Food Products

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Abstract:

The Bulgarian food processing industry continues developing and growing, using the domestic competitive advantages such as good access to raw materials and low labour costs. Moreover, the possibility for start-up cooperation and joint ventures with existing producers can make the penetration on 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.

SWOT analysis

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

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.

Following the EU accession, a number of foreign companies acquired local players. The demand for low-fat products pushed sales of drinking milk products in 2015. Consumers continued to buy them and use them as additions to coffee, breakfast cereals, in cooking or to drink separately. The leading company in drinking milk products in 2015 is Obedinena Mlechna Kompania AD with a share of 31% in value. It is followed at a distance by Nestlé Bulgaria, which commands a 6% value share. The remaining companies within the top five ranks are My Day OOD, Meggle Bulgaria OOD and Danone Serdika AD, My Day OOD and Meggle Bulgaria OOD.



Drinking milk products are not as traditional for the country as cheese and yoghurt products and there is still room for growth.

Yoghurt is one of the most typical dairy products in Bulgaria, along with soft cheese. It is eaten on a daily basis in most households in the country. However, consumers are switching their preferences from the most typical plain yoghurt towards more-modern types such as drinking yoghurt, flavoured yoghurt and fruited yoghurt. This shift is occurring along with the decline in the Bulgarian population and the change of generations. Indeed, between 2011 and 2015, Bulgarians declined in number by 2% to seven million. Plain yoghurt is the choice of the older generation and as generations are changing, this is being paralleled by changes in consumer tastes. Younger consumers are attracted to different yoghurt types, including those that provide convenience in consumption (drinking yoghurt) or have indulgence features (flavoured yoghurt and fruited yoghurt). The forecast period is expected to see yoghurt record better growth rates in volume and value terms. While the review period brought a negative volume Compound Annual Growth Rate (CAGR) of 3%, this indicator is expected to improve and the volume CAGR will be marginally positive over 2015-2020. The constant value sales performance is also expected to improve; in the review period the category posted a -1% CAGR, but in the forecast period the CAGR will be 2%. This will come as a result of generally positive performance for all categories, even the underperforming plain yoghurt. Consumers are becoming more health-conscious and yoghurt offers a tasty and healthy alternative to pastries, pizza or bread.

Cheese is not only one of the most traditional dairy products in the country but it is essential for many Bulgarians. It is eaten on a daily basis and its consumption is deemed as both healthy and easy. The oldest and most traditional type of cheese – soft cheese – posted a negative performance in 2015. The products have been on the market for a long time and they have a very high penetration. Every household in Bulgaria uses soft cheese, sometimes three times a day, since it is eaten as part of a meal or as an ingredient in cooking. However, there is a very low degree of innovation in the category as consumers have very traditional tastes and do not accept cheese with additions in the form of herbs, spices or even products with enhanced health features. For consumers, the most important requirement regarding features is that the cheese is made from dairy ingredients only, with no addition of vegetable-fat and protein. Dimitar Madjarov EOOD, Parshevitsa OOD, BCC Mlekimeks OOD, Ficosota Syntez OOD and LB Bulgaricum EAD were the leading companies in 2015, collectively accounting for 29% of cheese's value sales. The low collective share of the top four companies indicates the fragmented nature of the cheese category. In contrast, the combined share of the top four in other packaged food categories exceeds 50-60%.

Other dairy encompasses a variety of products – cream, dairy-based desserts, chilled snacks, condensed/evaporated milk, fromage frays and quark and coffee whiteners. Other dairy encompasses products with different features to appeal to varied consumer groups. However, the common factor

behind all of them is that they are still seen as novelties and, with the exception of fromage frais and quark, the categories are still in the development phase. The brands are mainly sold through modern grocery retailers, as they command higher prices than those of traditional dairy products such as yoghurt and soft cheese. Thus, the expansion of this retail channel has played a positive role for the development of other dairy as a whole. Other dairy products will continue to be seen as modern and their indulgence characteristics will attract consumers at the expense of rival categories (eg plain yoghurt) over the forecast period. As a result, the category is expected to post a volume CAGR of 3% and a value CAGR of 3% at constant 2015 prices. The anticipated improvement in average disposable income and the desire to indulge in a tasty snack made from natural ingredients will boost the development of other dairy. The category's projected value growth will be derived mainly from shelf stable dairy-based desserts, chilled dairy-based desserts, cream and chilled snacks.

Meat Processing

Bulgaria has a long tradition in meat processing. In 2015, most of the biggest branded players continued to expand their presence, followed by some private label brands. Consumers preferred better quality products with GMO-free certification. Most companies invested in innovation and new product development to overcome the growing trend of consumers switching to perceived better quality fresh meat cuts.



Bella Bulgaria AD was the leading player in 2015, with a 32% share of retail value sales. The company's brands enjoy strong recognition in the market due to more than 20 years of history. Bella Bulgaria offered a wide brand portfolio that covered all price segments. Karol-Fernandez Meat Ltd and Boni Holding AD followed with retail value shares of 15% and 14%, respectively.

Per capita consumption of meat is expected to grow by a 2% retail volume CAGR over the forecast period to reach 11kg in 2020. Local consumers are interested in new types of products with new herbs and flavours. A certain market reorientation towards fresh meat instead of processed meat products has been witnessed. This is expected to stimulate company activity, including innovations. According to category players, processed chicken and pork meat have the greatest potential in the domestic market, and processed chicken and lamb the greatest potential for export.

Packaged Food

Bulgarian consumers are more health conscious and they increasingly use food to manage their health (lower blood sugar, blood pressure, etc). This helps to explain the growing consumer interest in fresh, natural and organic products. Consumers are reading labels and searching for maximum health benefits (antioxidants, vitamins, etc) and minimum unnatural ingredients. Towards the end of the review period, health food witnessed dynamic development, with a growing number of outlets, a wider diversity of products and improving consumer awareness. In 2015, manufacturers directed their efforts towards launching better quality products, a wide choice of flavours and new tastes, in an attempt to respond to the consumer appetite for new, convenience alternatives of well-known products.

Innovation was the main driver of development and growth in packaged food in Bulgaria. New product sales have the potential to be a significant source of revenue and most Bulgarian manufacturers are aware of this opportunity. More than ever, consumers are careful what they buy, taking care to read product labels. Manufacturers understand the growing importance of labels and they increasingly use them to highlight the naturalness and origins of their products. Some companies use labels to state what a product does not contain. Messages indicating gluten-free, no sugar or no preservatives seem effective in helping companies make promises to consumers concerned about potentially harmful ingredients.

Artisanal production has recorded a slight decline in retail value share over the review period, but it still accounts for a higher retail value share than any single company in packaged food. The traditional consumption of artisanal bread and cakes is a key factor for the strong share of artisanal producers. This is why some large retailers, such as Billa and Lidl, have started to promote their baked goods assortments. Despite the aggressive presence of modern retailing, artisanal accounted for a 12% share of retail value sales in 2015.

Traditional grocery retailers continued to lose retail value shares to modern grocery retailers. The latter offer a wider variety of products and price promotions to consumers. In 2015, modern grocery retailers accounted for more than one half of retail value sales, and this positive trend is expected to continue in the forecast period. Within modern grocery retailing, discounters and hypermarkets recorded the highest retail value sales growth in 2015. Mainly because of their private label ranges and special offers.

At constant 2015 prices, retail value growth is set to be positive, and the forecast period CAGR is predicted to be marginally faster than over the review period. As retail value shares of modern grocery retailers grow, small regional players will find it hard to compete with the requirements set by big modern formats. The biggest modern grocery retailers will focus on price promotions. The expansion of private label brands will allow consumers to find more competitive prices. New product developments with improved health features will be the key to the success of premium brands.

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.



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

Beverages

All categories of soft drinks are seeing growth in recent years. The best performers started from a lower base (Ready to drink (RTD) coffee) and offered products considered modern and healthy (RTD tea, sports and energy drinks, and bottled water).

Soft drinks was influenced mainly by the trend of consumers making more careful choices about what they drink as they strive for better health and well-being. Changing lifestyles benefited the development of products with inherently healthy features, such as RTD tea and bottled water. On the other hand, old fashioned products and those considered unhealthy because of high sugar content and artificial additives (concentrates and carbonates) recorded the lowest growth rates or declined.

The market is divided between multinational and local companies. Categories such as carbonates, RTD tea, RTD coffee, sports and energy drinks are dominated by multinationals. In carbonates this is due to the strong position of Coca-Cola HBC Bulgaria AD. Generally, local companies are stronger in categories that rely on locally sourced inputs – fruit juice, concentrates and bottled water.

Soft drinks are popular among Bulgarians and will remain a product category of interest where consumers will spend more in value terms and volume terms over the forecast period. The category's growth will be determined by new product developments and leading brands' promotional activities, as well as by the growing trend for healthier living which will encourage Bulgarians to look for products are positioned as being naturally healthy.

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 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. The category of beer is dominated by three multinational companies (GBOs), Heineken NV, Carlsberg S/A and Molson Coors Brewing Co. Their combined volume share in 2014 through their daughter companies in Bulgaria was 90%. The top three companies representing these multinationals were Kamenitza, Zagorka and Carlsberg Bulgaria, and these were not challenged by the lower ranks and managed to increase their combined volume share by eight percentage points over the review period as a whole at the expense of local companies. These results were achieved due to continuing support of the main brands Kamenitza, Zagorka and Shumensko, as well as the launch of extensions – Kamenitza Fresh, Ariana Radler and Pirinsko Radler.

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 and they are increasingly demanding fresh and quality instant coffee varieties such as espresso and mocha blends, especially on-trade.

Volume sales of coffee in Bulgaria performed better in 2015 than in any of the years following the financial and economic crisis of 2008-2009. The main coffee producers continued to improve the features of their flagship brands and to launch new product extensions, in order to compete more effectively and to overcome the stagnation in sales they were facing in recent years. This, combined with the improving economic situation in the country (with GDP predicted by the European Commission to grow by 1.7% year-on-year), contributed to the 2% off-trade volume growth of coffee sales.

Jacobs Douwe Egberts BG EOOD remained as the leader of coffee in off-trade value terms. Although facing a decline in its share, the company managed to retain its leadership position as a result of its success in the mid-priced and more premium segments, but also due to its active innovations in terms of new product launches. Nova Brasilia remains as one of the most popular coffee brands in Bulgaria as a result of the very well developed distribution networks of the company, combined with broad market promotions across all media segments – television and radio advertisements, as well as printed media and outdoor commercials. In excel, it ranks third with Nestlé Bulgaria AD leading with a 31% value share.

The predicted volume performance of coffee in Bulgaria certainly looks much brighter than its performance over the review period. Sales are expected to witness a CAGR of 2% in retail volume terms,



compared to only a 1% CAGR over the review period. This will be mostly as a result of the category's recovery, rather than the organic increase in volume sales of coffee consumed by Bulgarians. On the other hand, the wide offering of brand promotions and discounts, combined with increasing popularity of private label in the lower price segment will bring the overall value growth below the CAGR of the review period. Over the forecast period, retail value sales will increase by a CAGR of 1% at constant 2015 prices, compared to a 2% value CAGR at constant 2015 prices over the forecast period.

Similar to coffee sales in Bulgaria, tea sales are also set on the path to recovery. The overall retail value sales in 2015 witnessed a healthy 4% increase, a one percentage point higher than the growth witnessed in 2014. The largest category, and also the main driver of sales growth continued to be fruit/herbal teas. It is

dominated by local companies that compete with products with very similar flavours and herbal mixes. Typically, Bulgarian tea companies offer products featuring camomile, mint and other mixed herbal teas, which are consumed as a refreshment or to fight minor health conditions such as colds (thyme tea), stomach problems (mint tea) or insomnia (camomile tea). Bulgarians are not huge admirers of the tea plant, as for them tea is almost exclusively a drink for fighting health problems, and the tea plant is perceived to have fewer health benefits than its herbal counterparts. The tea sales in Bulgaria are expected to grow somewhat faster over the forecast period compared to the review period. Tea is not a very mature category within hot drinks, as Bulgarians usually prefer coffee. Some types of tea however are rapidly gaining in popularity because of the health benefits they bring and because of the marketing efforts of producing companies. Thus, products such as slimming teas or specific herbal teas fortified with additional ingredients such as calcium and those that offer additional health benefits are expected to contribute to an overall retail volume CAGR of 3%.

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.

Spirits posted the first total volume sales decline in 2014 since the beginning of the review period. The main factor that stood behind this negative development was the changing nature of consumer preferences. Consumers are moving away from the most traditional types of spirits: rakia, brandy and other liqueurs. Products seen as no longer trendy, such as tequila and Canadian whisky, also recorded volume sales declines. Vodka showed signs that it was reaching its peak, as in 2014 it recorded stagnant total volume sales.

Vinprom Peshtera led spirits in 2014 with a 26% volume share, while SIS Industries ranked second with 25%. Their strengths lie in their very well-developed product portfolios covering rakia, vodka, gin, aniseed-flavoured spirits, brandy, whiskies, tequila, rum and liqueurs. The leading two players have the early mover advantage and benefit from the scale of their production and their distribution strengths. They compete with very aggressive sales activities to motivate both on-trade and off-trade owners within traditional channels to stock and sell their products.

Spirits is expected to record a stagnant performance in total volume terms over the forecast period, with only RTDs/high-strength premixes set to register a worse performance. Consumer preferences are changing and Bulgarian consumers are becoming more westernised. This has direct consequences on sales of spirits and per capita consumption is expected to remain at the same level of eight litres per year, as during the review period. Shifts are expected to occur within the separate categories, with sales of the traditional choice of rakia shifting towards other types of spirits, such as vodka, whiskies, rum, bitters and cognac – either drunk neat or as part of a cocktail. As a result, the performance in total volume terms over the forecast period is set to be worse than that registered during the review period.

Wine Production Segment

Winemaking in the territory of modern Bulgaria can be traced back as far as the late Stone Age, when the population of the Eastern part of the Balkan Peninsula started cultivating wild vines and created the first local breeds. In fact, the development of viticulture in the Bulgarian region was mentioned even in early Greek mythology. Legend has it that Dionysius, Greek god of wine and agriculture, began the winemaking tradition in Bulgaria by bringing a tiny root of vine to the Thracian valley—the tradition then spread to other parts of Europe.

Today, Bulgaria's established vine growing and wine producing traditions closely follows those of the Old World—rivalling products from France, Italy, Spain, and Greece.



Despite that Bulgaria is considered to be a traditional wine-producing country, wine is still seen as premium drink, suitable for special occasions. Thus, when the economy suffered in the years 2009-2012, commercially produced wine was the first type of alcoholic drink to be sacrificed by consumers. As the economy showed full signs of recovery in 2014, consumers again felt confident enough to purchase wine, especially types with trendy and healthy characteristics. The good performance in 2014 was achieved mainly on the back of growing sales in the major cities, where both locally produced and imported brands were favoured. Consumers were increasingly led by trends and showing deeper interest in wine was one of them. To a certain extent, increasing exposure to wine through different consumer events played a role in its growing acceptance.

LVK Vinprom Targovishte was the leading company within wine in 2014, recording a 12% volume share, although this was a decline on the previous year. It managed to stay ahead due to the previous popularity of its brand name, consumer inertia and being positioned in both still and sparkling wine categories; however, its share was seriously challenged by more-innovative companies that managed to tap into consumer preferences for fruitier tastes and a wider variety. SIS Industries was ranked second, and with a volume share of 11%, it seriously challenged the position of LVK Vinprom Targovishte. Initially a spirits producer, SIS Industries placed a greater focus on wine and its main success came from brands in the BGN5.00-7.99 and BGN8.00-12.00 price bands. SIS Industries is moving away from the lower-priced bands, where it competes with its brand Mehandjiisko. The success of the company lies in a strong sales force and a presence in both on- and off-trade. It managed to build a strong brand by tapping into local heritage and giving it a modern twist. Its marketing budget is mainly spent on on-trade and off-trade promotions, public relations, tastings and events participation.

Wine is expected to penetrate local sales even further over the forecast period, fuelled by the trendy image of the drink. As consumers start to forget the difficult times in 2009-2012, they are on the lookout for new products that fit well with their lifestyles. While saving and cutting unnecessary expenditure was the trend during the review period, health and status will be increasingly important factors over the forecast period. Increasing sales to urban dwellers and improving disposable incomes are expected to boost expenditure on alcoholic drinks by 13% in the forecast period with sales of wine also benefiting. Total volume sales of wine are expected to increase at a CAGR of 2% over the forecast period, compared to growth at a CAGR of only 1% over the review period. This expected positive development will stem from wine being widely accepted as a modern drink that is not only for special occasions.

Conclusions

Strong traditions, excellent climate, availability of quality workforce and low operational costs make this sector extremely attractive to investors. Compared to other major EU producing countries, here the production costs are significantly reduced and all it takes is good transportation to the EU open market, which Bulgaria is a part of. Investing in both physical and human capital will strengthen production and the capacity for competitiveness.

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 ecological food offered in Bulgaria grew from 1400 to 2000 articles while the number of companies dealing with the import and distribution of such food tripled.

The food industry is expected to grow further if utilization of raw materials and low labor costs are optimized. 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 not only in the EU, but on the world market as a whole.

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