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Market Development Reports

Supermarkets Expansion in Bulgaria

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Report Highlights:

Economic growth and change of consumer demand in Bulgaria have allured big supermarkets chains. They are replacing traditional food retail outlets and dramatically transformed existing food supply chains. Supermarkets have triggered an upstream transformation of the marketing system and have become major buyers of local and import products. Retailers are adding upward pressure to improve product quality and food safety in the domestic market.

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Supermarkets Major Trends

Supermarkets in Bulgaria have triggered an upstream transformation of food marketing system and rapidly penetrated the food retail sector. They became major buyers of local produce and have created market for intermediate to high quality products. At the same time retailers are adding upward pressure to improve product quality and food safety in the domestic market and the difference in quality between products destined for local and export markets is narrowing.

The diffusion and expansion of supermarkets is driven by several factors:

- socioeconomic, such as rapid urbanization, income growth, improvements in domestic infrastructure,
- women entering the away-from-home workforce, experiencing an increase in their opportunity cost of time,
- change of lifestyle,
- ownerships of cars,
- access to affordable urban transport systems.

Three major trends have characterized the development of the supermarket sector.

- First, the supermarket sector is increasingly foreign owned;
- Second, the supermarket sector is undergoing rapid concentration, mirroring trends in the developed regions;
- Third, supermarkets are no longer niche operations catering only the rich or even middle class – they have spread well beyond to penetrate the food markets of the poor and from big cities to intermediate and small towns in rural areas.

The success and proliferation of supermarkets are linked to their ability to offer low prices beating wet-markets (produce markets in central plazas or streets) and small family-run stores and traditional market places. Price competitiveness and focus on products of quality and differentiation is supermarket strategy. Supermarkets have sharpened this focus by improving distributional channels through logistical improvements to the procurement process. These changes are noted both for processed/packaged goods (including fruits and vegetables) where large stores have a natural advantage due to economies of scale.

Supermarkets offer one-stop shopping with an increasing range of products and services, including banking facilities, food courts and nonfood products. They present familiar and reassuring atmosphere to customers.

Facing competition from supermarkets food stores have been forced to change as well. Suppliers to the traditional retail sector are facing procurement practices very much like those used in the supermarket sector. Therefore the emergence of supermarkets has implications for the entire food marketing system.

Logistics Improvements

As the number of stores in a given supermarket chain grows, there is a tendency to shift from a per store procurement system to a centralized distribution system serving several stores in a given zone, district or region. Centralization is generally characterized by increased use of centralized warehouses. To defray some of the added transport costs that arise with centralization, supermarket chains have adopted and required that suppliers adopt best practice logistical technology. In accordance with these changes supermarket suppliers are required to adopt practices and make physical investments that enable a more seamless interface with the chain's warehouses.

Private Standards

Retailers use private standards to standardize product requirements over suppliers, who may cover many regions of the country. Standards specify and harmonize the product and delivery attributes, thereby enhancing supply chain efficiency and lowering transaction costs. Private standards of a given chain may also be designed to ensure that public standards are met. In this respect private standards can function as competitive arms against other retail outlets and may cover detailed quality specifications and food safety requirements.

Private Label Brands

There are two types of private label products: products using the name of the supermarket chain, so called store brands and products brand created specially for the supermarket chain. Private label products represent choice to consumers to purchase quality products at considerable savings compared to buying national and international brands. They are important to retailers as well. They increase their business and enhance their image and competition. "Metro", "Billa" and "Fantastico" offer more than 100 products with private labels. They choose the best quality and price offered by producers for different products specified by the management of the chains. Well situated on the market big companies are usually the winners in the competitions for best offer, which is giving good guarantee for high quality. Such companies are having potential for future expansion of products line with new brands and higher prices.

Food Market Shape

The growth of processed food products resulted from ongoing westernization of both consumers and food marketing sectors. Multinational companies and Western brand products have become increasingly visible. Consumers are growing more sophisticated, with greater demand for products offering health benefits and convenience. Busy lifestyles of young professionals have accounted for increases in the demand for labor-saving breakfast cereals, snack foods, ready-to-eat meals. Sales of products as ready meals, frozen pizza, dehydrated soups, dried food products, pasta and other noodles, have been one of the most dynamic growth sectors. Foreign investments in private label product development helped drive the demand for high-value processed foods.

Marketing Research

According to ConsumerScan, GFK Bulgaria, Institute for Marketing Research, local consumers share for purchasing food products and drinks in the overall household budget in 2004 was between 38-44 percent compared to 2003 – 49 percent. The general tendency in Bulgarian food market is to buy more quantity for less price or to have consolidated lower prices for end user. The global trends are to buy bigger packaging for lower price, like bottles of mineral water of 10 ml instead 1.5, beer a bottle of 2 ml, instead of 0.500, margarine 500 gr instead of 250. Same tendency is tracked also to dairy products, soft drinks, chocolate, fats etc. Based on this tendency the share of total purchases of food products and drinks in super and hypermarkets cash & carry chains is showing steady increase - in 2002 – 9.2 percent, in 2003 – 13.9 percent, in 2004 – 25%. Entering of new international and multinational supermarket and hypermarket chains in Bulgaria is speeding up the pre-orientation of consumer's habits.

Drastically changed food distribution channels in past 5 years opened the doors for foreign investors to built chains of supermarkets and hypermarkets in Bulgaria. Great variety of products offered changed consumer's requirements for better quality. National Statistical

Institute registered 17.4 percent growth in foods and drinks purchasing for the first semiannual period 2005 compared to same period 2004. Big supermarket and hypermarket players policy is to change consumer's habits – to offer a great variety of products at one place at a better price and a better packaging at one time visit weekly. Constantly offered promotions of different products are also a challenge for the consumers.

According to "Global Finance" survey for 2004 Bulgarians spent around Euro 7 billion for products and services, 55-60 percentages out of the amount is related to food products, drinks and fast turnover goods.

Foreign Supermarket Chains

In the past few years Bulgaria become attractive for big international chains.

German Metro Cash&Carry, first hypermarket opened in 1999, 7 hypermarkets around the country in most big regional towns. The amount of investment by the end of 2003 was \$49.7 million, profit Euro 13.2 million in 2003 compared to 9.59 in 2002.

Austrian Billa

The Bulgarian unit of Billa is planning to open between five and seven new outlets in 2005 as part of its expansion program. The stores will be located in those big Bulgarian cities, where the company is not present now. Billa has now five supermarkets in Sofia and 9 around the country. The investment is Euro 50 million, they started in Bulgaria in 2000.

German Kaufland is planning to invest Euro 300 million in Bulgaria in the next 6 years and to build 40 hypermarkets around the country with size of 4250 to 7300 square meters. First 10 stores will be opened in 2005. Group "Schwarz" is the owner of Kaufland, having 650 hypermarkets around Europe. Net turnover of the company in 2003 was Euro 23 billion.

German HIT opened first hypermaket in Sofia in 2004. HIT invested Euro 16 million in the second hypermarket opened in August 2005. Investment of Euro 50 million is planned for opening of 15 hypermarkets in Bulgaria, 5 in Sofia and 10 around the country. The infrastructure of the hypermarkets area is including shopping centers, cafeterias, bakeries, dry cleaning, hairdressing etc. HIT is owned by family Dole in Germany, who owns also fresh food chain "Markfish" and "Fuk".

Turkish Ramstore Bulgaria is direct foreign investment to the amount of \$17 million of "Migros Turk", first supermarket opened in Sofia in 2001. Mother company of Ramstore is Koch Holding with annual turnover \$1.3 billion in 2000. The company is determined to increase the number of outlets in Bulgaria and to reach total 10 outlets of different format.

Hungarian CBA, second biggest in Hungary is having 25 supermarkets in Bulgaria, 156 commercial stores, started building 15 big warehouses around the country, annual turnover is \$ 100 million. The strategy of the company is different than other big chains, they are not buildings new outlets, but re-construct existing buildings located in a close-by vicinity.

Food producers and suppliers, who are well established with supermarket and hypermarket chains gain a good profits. Distribution channels otherwise are not providing any sound profits.

British Tesco

The biggest chain in UK Tesco is researching the possibilities for investments in Bulgaria, according to "Financial Times". The company is having leading positions in Hungary, Poland, and Slovakia and now Bulgaria is targeted. The management of company is discussing new

investment plan in Eastern European countries. Lately they paid \$75 million for Turkish chain KIPA.

Tesco's amount of investments in Central European countries – Hungary, Poland, Check Republic and Slovakia is over Euro 1.5 billion. In Check Republic Tesco is second biggest chain after Ahold, managing supermarkets chain Hypernova.

Domestic Supermarket Chains

Domestic supermarket chains are competing successfully with foreign chains and number of stores is increasing rapidly. There are 46 chains with 445 stores around the country. The biggest chains are listed below:

Fantastico

The biggest and the oldest supermarket chain, 27 outlets around the country, 10 in Sofia. The company invested Euro 10 million to built the first shopping mall in Sofia "Sky City" to open the doors by the end of 2005. In the mall will be located hypermarket with wide choice of food products and drinks, variety of entertainments, food court, and boutiques for clothes, household appliances, furniture and cinemas.

Famila

Entered the market in 1999, operating 18 outlets in Sofia and 10 more are under reconstruction. By the end of 2005 total number of outlets will be 49, 21 out of them around the country.

Piccadilly

First supermarket opened in 1995 in town of Varna, at present operates 6 outlets in Varna and another 7 under the brand mambo in Varna and region. Piccadilly will invest Euro 20 million over the next two years in ten new outlets to develop countrywide chain instead of focusing exclusively on the construction of stand-alone outlets and will start renting premises in existing retail centers. They started co-renting commercial facilities with other chain store operators. Piccadilly is popular with high quality products at affordable prices.

Burlex

7 outlets in town of Varna, Euro 1.7 invested in 2005 to expand with new outlets countrywide.

Denitza

5 outlets countrywide

Eco

6 outlets in Sofia, 4 more to be opened by the end of 2005. Investment of Euro 16 million is planned until 2010 to open countrywide 62 new outlets.