



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

**Date:** 12/1/2008

**GAIN Report Number:** BU8016

## Bulgaria

### Market Development Reports

### Beer Market Update

### 2008

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**Report Highlights:**

In 2007/2008, beer market continued its growth with increased diversity and higher sales. The market is estimated to enter a new stage of development which opens good opportunities for new types of local and/or imported beers of higher quality. This may require local brewers to use better local/imported raw material and may stimulate new investments and imports.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Sofia [BU1]  
[BU]

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## Summary

Over the last 5 years, beer market has enjoyed stable and constantly increasing sales as a result of several major factors:

- healthy competition among players, the major ones being well established European companies;
- active and target oriented management, distribution, marketing and industry policy;
- clear and transparent government regulations.

In 2007/2008, the beer market has continued its growth as market is getting into maturity stage. Diversity, product quality, and marketing strategies play increasingly important role. It is expected that the demand for higher quality raw materials will grow (malts, malting barley, hops). Trade, both exports and imports, is likely to be more active. Development of small breweries is expected to accelerate and bring more competition on the market.

## Brewing industry overview

Local industry has 125 years of history and has undergone major changes since 1990. Beer factories were privatized in 1994-1998. Industry investment between 1994 and 2006 was 200 million Euro, and over 105 million Euro in 2005-2007. Today, the industry provides 2,500 jobs and another 12,000 in related services. See Table #1.

As of today, there are 9 brewing plants owned by 7 companies, and 5 small breweries (in Pleven, Triavna, Sofia, Lom), of which 3 with own production of "live" beer (See Table 1). According to the Union of Brewers in Bulgaria (UBB) in Bulgaria, three leading world companies account for 81% of the local market (InBev-Kamenitza, Heineken –Zagorka, and Carlsberg Breweries). The industry also includes two small malts factories and one for hops extract. Current production includes 70 brands of light, dark and red beer and 9 brands produced under licensing agreements. Breweries consume 120,000 MT-150,000 MT of barley and 450 MT of hops. A major problem for the industry is the lack of good brewing quality barley, usually not locally grown.

According to experts, market structure is a typical oligopoly where competition is tough; prices are relatively stable; product differentiation and advertising is very important. The three major players have almost equal market shares and competition is focused on product quality and good marketing, less so on the price. In 2007, the market leader was Zagorka, 30% market share, followed by Kamenitza, 25%-28% and Carlsberg, 22% share. Smaller breweries do not have significant market share but register higher growth, for example, Lomsko Pivo had 24% increase in sales for the first 9 months of 2008. Carlsberg reported 10% growth in sales for the first 8 months of 2008 and 20% growth for its major brand Shumensko.

## Supply

Bulgarian brewing industry has successful 10 years of stable development since privatization in 1997/98. Each year the industry has registered some growth and higher sales. Over the last 5 years, the growth was supported by improving consumer income, development in tourism, retail and food service sectors. The growth in 2008 is likely to decline for the first time to about 1%-2%.

As a result of industry and general economic development, beer consumption has doubled for the last 10 years. As of 2008, beer market is estimated at 5.8 million hectoliters (hl) – see Table #2, 3. In 2007, local sales were 5.756 million hl; breweries-members of the UBB sold

11% more compared to 2006. This represented 74 liters/capita which included local (7.7 million) consumers and tourists (6 million). In 2006, sales had 13% growth compared to 2005, at 5.228 million hl. In 2005, the growth was minimal (4.78 million hl compared to 4.73 million hl in 2004), only 1% due to increased excise tax on beer and unfavorable weather.

The data for 2008 (January-March) showed a growth of 1.7% compared to 2007 (903,000 hl vs. 887,500 hl). The latest figures for July 07-July 08 also showed slower growth of 2% in volume on an annual basis. This lower growth is in contrast with data for previous years and many analyze the current situation as a flat market or rather a market development to a new stage. Slower growth in 2008 is due to economic and income stagnation and food price increases, as well as due to reduced tourists flows. Still, most industry experts forecast annual 2008 growth to sustain at 2%. Per capita consumption in 2009-2010 is projected to reach 80 liters.

### **Consumption and market segmentation**

Beer consumption has grown every year since 1997 (see Table #2). Although relatively small in size (in volume), the beer market is well developed and competitive. Its value is estimated at about 60 million Euro. Future growth is expected more in value than in volume.

#### Assortment

Most Bulgarian consumers prefer light beer. A market study shows a preference towards light beer among 49% of consumers; dark beer is preferred by 42-43%, and 9% like red beer. Other studies are even more radical: 95% of consumers prefer light beer compared to 5% who like dark beer regardless of their income, sex, age, place of living, or education. By age groups: age 25-50 years: prefers light (52%) vs. dark beer (48%); age 16-26 years: 79% prefer light beer; age over 50 year: the majority prefers cheaper light beer.

#### Seasonality

Beer consumption has a typical seasonal fluctuation with a drop in the winter months and significant increase in hot weather months (spring, summer, early fall). For example, in March 2008, sales (449,000 hl) jumped 73% compared to February (259,000 hl), mainly due to the warm weather; in cold November 2007, sales (260,000 hl) were 23% lower than in October. Weekly consumption per capita varies from 2.5 liters (January-February) to 3.4 liters (August) (2006 data). Despite seasonal differences, industry observers think that demand becomes less seasonal in recent time due to higher diversity, better quality and active advertising.

#### Consumption per age and per sex

Young generation drinks more beer and more regularly than older generation. Consumers of age 35-44 drink the most – 3.1 liters/week in January/February while those above 61 years of age drink the least – 1.8 liters/week. On average beer drinkers are mainly man, 52%, vs. women, 48%.

#### Packaging

On average, 51%-52% (2007) of beer (in volume) is sold in glass bottles, however, glass bottles bring about 70% of beer sales in value. About 40% (2007) are the sales in PET bottles (in volume) which bring 28%-30% of sales in value. Drought beer and cans account for 6% and 2%, respectively (2007). These proportions are dependent on the place of

consumption since glass bottles are bought mainly at food service outlets while PETs are preferred for household consumption.

Since 2004, the demand has shifted from 2.0-2.5 liters bottles to 0.5-1.0 liters PET bottles because usually bigger bottles mean some waste for consumers. For example, the share of 2.0 liter bottle (in all PET sales) shrunk from 74% to 44% (2004-2006). Smaller packages are easier, lighter for use and consumed at once. Companies also prefer to sell smaller bottles since bigger packaging result in high volume sales but lower profitability (2.5 liters were usually at sale for the price of 2.0 liters due to massive promotions). In 2007/2008, the share of PET bottles further narrowed due to good development of the premium sector.

Other packaging is cans (2% share) and it is constant over the last 3-4 years. The most common outlet for such packages is gas stations. About 6%-7% of beer is sold in kegs for drought sales.

#### Beer segments by place of consumption (hot and cold market)

According to the latest data, 32%-35% of beer is sold in the cold market (food service outlets), and 65%-68% as household consumption. This percentage is considered high for the EU standards but can be attributed to lower consumer income which stimulates family rather than individual consumption. These habits are also the reason for high share of PET packages (2.0-2.5 liters) since the consumer choice in this segment is based on price. About 80% of sales in the hot market come from traditional retail trade although this share has a tendency to decline on the expense of specialized retail alcohol outlets (12% of the hot market sales in 2006), mainly because this distribution channel is important for licensed brands.

#### Prices

Average price of beer on the local market is the lowest in the EU and in 2007 it was 0.32 Euro/0.5 l bottle, according to the local brewers. In 2008, average beer price is likely to have 7%-10% growth due to increased expenses for energy, hops, and labor cost. As a rule, beer prices follow local inflation index.

#### **Beer brands**

Local brands dominate on the market (80%) over imported and licensed brands (20%).

### Price segments of the beer market

International premium (imported)  
Heineken, Carlsberg, Grolsh, Leffe

International premium (locally produced – licensed beer)  
„?mstel“, „Kayser“, Stella Artois, Beck’s, Tuborg, Holsten, Kaltenberg

National premium  
„Zagorka“, Shumensko Spezialno

Mainstream segment  
„?riana“, Kamenitza Svetlo, Astika Svetlo, Burgasko, Pleven, Bolyarka, Pirinsko, Shumensko

Economy segment  
Slavena, Ledenika, MM, Varna, Habermann, Shopsko, Almus

(Source: magazine Regal)

The growth in recent years has been registered in all market segments. Experts think, however, that brands in the medium price segment are expanding the fastest (Kamenitza, Zagorka, Boliarka, Shumensko). Some growth is observed for less expensive brands (Slavena, Balkan, Pirinsko). This is due to their popularity, better distribution at the retail level, lower price, and better advertising in media. Overall, 70% of sales are generated from mass beers.

Premium beers (locally produced licensed beer and imported) target market niches, especially imported beer (Guinness, Murphy’s). Leading imported brands are Heineken, Starobrno, Leffe and Carlsberg.

Licensed brands are still 4 times less in volume (below 20%) than local brands but this segment is the most perspective, according to local brewers. In 2007, this segment had a growth of 15%. Excellent quality, increasing consumer income and good price positions promise very good future. Licensed brands are marketed mainly through the cold market, in tourist areas, and the price is not a critical factor for demand. The major advantage of these brands is that they are produced locally (lower production cost), have low transportation and logistics expenses, already well established image and global advertising budget.

Most industry representatives agree that local beer drinkers are not brand loyal. However, over the last year and a half, with strengthening of the premium segment and increased consumption in the cold market, the consumer loyalty has improved – a trend which is driven by premium brands consumers and urban population.

### Small breweries

In 2006-2008, small independent breweries began to emerge although as of today their number is limited to five. They operate only in the summer and rely on local area market, lower price, and unique quality fresh products. Usual customers are local residents and tourists. In the near future, this market segment is likely to have very good development prospects due to tourism, increasing income and demand for diversity and quality.

- Lomsko pivo – capacity 130-135,000 hl;
- Kmetzsko pivo - (Trimeks Srvce AD) - capacity 500 hl;
- Triavna (Bel Invest Triavna EEO) - capacity 1,300 hl;
- Pleven- "Didi Puh Co"- capacity 35,000 hl, plans for 120,000 hl-200,000 hl

Source: Industry data

In 2008, a special regulation was passed by the Parliament to stimulate small breweries development (see the regulations section below).

### Investment

Industry investment for the last 12 years reached 200 million Euro, in 2006 it was 27 million Euro; in 2007- 41 million Euro (Carlsberg-16 million Euro; Zagorka-10 million Euro; Kamentiza-9 million Euro, Boliarka-6 million Euro), and it continues in 2008 due to good market prospects. This year, most brewers emphasize on expanding their capacity and improving the product quality.

Carlsberg reports plans for 10 million Euro investment in 2008-2010 to include: 3-fold increase in production capacity of drought beer; increase in one of its plants monthly capacity by 40,000 hl; and new storage space. Zagorka plans to invest 15 million Euro annually in 2008 and in 2009 and to increase its capacity from 1.5 million hl to 2.0 million hl by 2012. Boliarka plans to invest 3-5 million Euro in order to increase its capacity from 800,000 hl to 1.0 million hl, to expand storage space, and to upgrade its malts facility.

### Trade

#### Exports

Bulgaria began to export beer only recently. Exports were not in the focus of local manufacturers (foreign investors) who were concentrated on local sales. Bulgarian players, however, such as Boliarka, Lomsko pivo, Ledenika and MM were more interested in diversification and exports.

The first exports were to Romania and Macedonia. Kamenitza started exports in 2003 to Macedonia (brands Kamenitza, Beck's and Staropramen) and three years later was ranking fourth in volumes of sales with 4% market share on the Macedonian market. In 2007, Bulgarian accession to the EU opened new opportunities for trade on the common market. Exports in 2007 were 9,294 MT; and in 2008 (January-September) were 7,563 MT (source: Bulgarian Customs). Boliarka was a leading exporter in 2007 (33,000 hl).

In 2008, local market started to slow growth (see the section above) and to get more matured. This stimulated producers to look for more diversity in their portfolio. In early 2008, Zagorka announced its plans to commence exports to Spain, Greece and UK. Lomsko Pivo also intended to export 30% of its annual production in 2008, mainly to Romania.

As of mid-2008, exports (January-June 2008) were 75,000 hl, mainly to Romania. Leaders were Boliarka (44,000 hl), followed by Kamenitza (20,000 hl) and Lomsko pivo (7,000 hl). This represents a significant increase compared to the same period in 2007. The trend was sustained later in the year.

Target markets for exporters are Romania, Greece, Ireland, Spain, Portugal and less Turkey and USA, or mainly countries with emigrant ethnic markets. Romania is an attractive market due to its higher prices (reportedly, 30% and above), bigger size and better consumer income.

In general, beer can be exported only in the region since long distances negatively affect the transportation cost and deteriorate the quality/taste. Bulgaria is unlikely to become a sizable beer exporter for several reasons: the country does not have the necessary "beer image"; major players on the local market are present at all foreign markets and upon exports they have to compete with own brands; and finally, local beer is not likely to be price competitive at foreign markets. Therefore, local beer manufacturers (Boliarka, Lomsko pivo, Ledenika and MM) have better chances compared to the foreign players. According to experts, the best prospects for exports exist for licensed beer brands.

### **Imports**

According to the UBB, imported beer has very small, 1.2%-3% market share. However, improving demand may stimulate more imported brands in the future, especially in the premium price segment. Imports in 2008 (January-September, Bulgarian Customs) were 8,760 MT at a value of \$6.6 million, mainly from Greece, Serbia, Holland, and Czech Republic.

### **Marketing**

2008 is a year of noticeable changes in marketing activities. This is related mainly to the fact that competition is getting tougher, market matures, consumer income deteriorates due to inflation and rising food prices, and the country faces economic difficulties.

### **Distribution**

Beer distribution has increasingly become nationwide. Some brands (Slavena, Shoumensko) which until recently were considered as primary local/regional, achieved better national coverage. Still brands such as Bourgas, Pleven, Varna, Almus, remained regional.

Traditional trade (retail) generates over 80% in 2007 (82% in 2006) of beer sales. However, the share of specialized alcohol shops is increasing (12% in 2006) as well as this of self-service outlets (6% in 2006).

Unlike its competitors, Boliarka, is trying to establish direct sales to consumers by building a nationwide chain of beer pubs under its brand name. The plan includes 30 such outlets, 5 of which are already in operation.

### **Packaging and labeling**

Most local manufacturers emphasize on product quality and its traditions/origin and genuine technology. Differentiation starting from bottles' design is getting increasingly important and introduction of new bottles usually starts before the strong summer season.

In 2007/2008, Zagorka introduced a new bottle for its major products in 0.5 liter bottle. Carlsberg also changed the design of its Shumensko 0.5 liter bottle, related to the 125<sup>th</sup> anniversary of the brand. Zagorka also introduced Heineken BeerTender, the first portable home system for draft beer on the market. At least 3 companies introduced new "ring roll" lids.

Boliarka changed its label introducing the new technology "clear label". New labels were introduced for Ariana and Heineken brands. Kamenitza modified its design to a vertical, not horizontal as before, writing of the brand name on the label. Some plastic (PET) bottles changed its design too (Hoslten 1.0 liter and Zagorka).

## Branding

In 2007, Boliarka introduced 4 new brands (Tzrasko Svetlo, Sweik, Boliarka Weiss, Peti okean), followed by Lomsko Pivo (2 new brands - Sofia and Mizia), Zagorka with Zagorka Gold; Kamenitza with Astika Fine Quality; and Carlsberg with Holstein. Brands with the highest growth in 2007 were Carlsberg owned: Shumesko - 21%; Tuborg – 22%; and Pirinsko – 17.4%.

New “summer” type products were released on the market in 2007/2008 (Carlsberg lemon, Zagorka Gold, Becks Green Lemon) which revealed the new trend towards more innovations and diversity. In July 2008, Kamenitza introduced the new brand Kamenitza Lev, from the premium segment. Kamenitza was a leading brand on the local market with 19% share for January-May 2008. Reportedly, brewers have plans for new “winter” products for 2008/2009 season which will be introduced in the fall. The first such beer was Ariana Dark 5.5% of Zagorka which was introduced to the market in October.

## Commercial communication

Since beer is everyday consumption product, companies are trying to maximize the frequency of commercial communication, especially through TV/media channels. Internet as a tool for such communication is underdeveloped. Overall, however, commercial communication channels expand and increase their coverage.

Breweries are one of the most active TV advertisers. Licensed brands use global commercials adapted for the local market while local brands use domestically produced commercials.

In 2006 (latest published data, source: Regal magazine), beer commercials accounted for 4% of all TV advertising expenses or 7 million Euro. This is 30% of the TV advertising expenses for all beverages. The company with the highest TV budget was Zagorka with 3.7 million Euro or over 50% of all beer TV advertising budget, followed by Kamenitza, 2.5 million Euro, 34%; Carlsberg, 9%; and Ledenika and MM, 4.3%. Similarly, the most TV advertised brands were Zagorka, Kamenitza, and Ariana.

Recently, PR activities, such as sponsorships of sports and music events, became an important part of commercial communication. Football competitions traditionally bring extra consumption and margins to sellers. Recently, funding of music events, rock and jazz concerts and festivals, rockers gatherings, folk festivals etc. also increased. Another traditional marketing tool is beer fests which became a tradition over the last 7-8 years in towns of Sofia, Plovdiv, Varna, Bourgas, Shoumen, etc.

In April 2008, the Union of Brewers introduced uniform standards for commercials, sponsorship and promotions for the industry. Thus, the industry became the first in Bulgaria to impose self regulations for commercial communication and to introduce ethical standards and norms endorsed by the Brewers of Europe. The goal is to introduce good practices in commercial video clips which have to encourage moderate beer consumption. Each TV clip includes the slogan “Consume in moderation”. Another project is to encourage responsible behavior on the road under a slogan - “Walk on foot when you drink”. Commercials in media for children under 18 were banned, as well as access of the same audience to companies’ official websites. Since early 2008, the UBB established an independent voluntary committee composed of experts in advertising, journalists and lawyers who make preliminary assessment of companies’ advertising to assure the application of the industry ethical rules.

## Regulations

The excise tax on beer was increased in 2005 by 50% to 1.50 leva/hl/degree plateau (0.75 Euro). As a result of higher beer consumer price, growth slowed down to only 1%. A year later, the excise on non-beer alcohol was increased. This boosted hard spirits prices and consumers preferred to switch back to beer. In 2007, the Ministry of Finance reported that higher excise duty on beer led to 7 million Euro more for the budget or total 36 million Euro. This made the contribution of the brewing industry to the budget almost equal to that of hard spirits where the sizable grey/black market (and smuggling) led to lower excise tax collection.

In September 2008, a regulation for the excise tax for small independent breweries to be reduced by 50% to 0.75 leva/liter/degree was passed on a first reading in the Parliament. The effect of this new regulation on the final price will be minimal, only 0.03-0.07 leva/bottle but the margins will be increased and thus development of this business will be supported. This new regulation is in line with the European practice and is expected to accelerate already emerging trend of small breweries development.

Regulations regarding trade, imports and exports, labeling and packaging are harmonized with the EU. The VAT is uniform at 20%.

**Note: Information used in this report is collected from public sources believed to be trustful such as specialized industry magazines, publications, and websites; media articles, trade interviews, and official statistics and trade data.**

Table 1. Structure of the Bulgarian brewing industry

Bulgarian company	Investor	Brands	Estimated investment in 2005-2007, Euro
Zagorka-AD (plant in Stara Zagora) <a href="http://www.zagorka.bg">http://www.zagorka.bg</a>	Brewinvest (Heineken) and Coca Cola (Holland)	Zagorka, Ariana, Stolichno, Amstel, Kaiser, Gold, Heineken, Murphy's and Starobrno (imported).	15 million
Kamenitza (plants in Plovdiv and Haskovo) <a href="http://kamenitzafanclub.com">http://kamenitzafanclub.com</a>	InBev	Kamenitza, Astika, Bourgasko pivo, Pleven, Slavena, Becks, Staropramen, Stella Artois	23 million
Carlsberg (plants in Shoumen and Blagoevgrad) <a href="http://www.pirinskopivo.bg">http://www.pirinskopivo.bg</a>	Carlsberg Breweries	Carlsberg, Holstein, Pirinsko pivo, Shumensko, Tuburg, Budweiser Budvar	41 million
Agrima AD (Blagoevgrad) <a href="http://www.agrima.bg/">http://www.agrima.bg/</a>	Pepsi Cola	Strumsko pivo,	Not available
Boliarka-BT (plant in Veliko Turnovo) <a href="http://www.boliarka.com/">http://www.boliarka.com/</a>	Mel Invest Holding	Boliarka, Balkan, Boliarka Weiss, King's, Kaltenberg. Schweik, Blakansko, Warsteiner (imported)	8 million
Lomsko Pivo AD (plant in Lom) <a href="http://www.lomskopivo.com">http://www.lomskopivo.com</a>	Enemona (Bulgaria)	Almus, Alma, Shopsko, Sofia, Ambrsius	2 million
Brewery Pleven&Co (in Pleven) <a href="http://www.storgozia.com/">http://www.storgozia.com/</a>		Storgozia, Ataman, Artika,	NA
EvroDrinks AD (plant in Mezdra) <a href="http://www.ledenika.com">http://www.ledenika.com</a>	Evo Drinks AD	Ledenika, MM, Varna, Habermann	NA
Kmetsko pivo <a href="http://www.prikmeta.com/">http://www.prikmeta.com/</a>	Trimeks Service AD	Kmetsko pivo	NA
Source: Union of Brewers in Bulgaria			

**Table 2. Beer consumption per capita 1989-2007, in liters**

	1989	1997	2005	2006	2007
Per capita consumption of beer, in liters	85	42	61	68	74

**Table 3. Beer market size 2005-2008**

	2008 (January-March)	2007	2006	2005
Total market sales (est.)	903,000 hl	5.756 million hl	5.228 million hl	4.780 million hl
Sales of UBB members	NA	5.306 million hl	4.778 million hl	4.224 million hl
Output of UBB members	NA	5.299 million hl	4.841 million hl	4.323 million hl
Market leaders (sales):				
Zagorka	296,000 hl	1.693 million hl	1.538 million hl	1.415 million hl
Kamenitza	241,000 hl	1.547 million hl	1.495 million hl	1.448 million hl
Carlsberg (in Bulgaria since 2003)	267,000 hl	1.383 million hl	1.138 million hl	887,063 hl
Boliarka	80,000 hl	556,505 hl	509,723 hl	378,223 hl
Lomsko Pivo	18,000 hl	119,704 hl	78,700 hl	75,010 hl
Source: Union of Brewers in Bulgaria (It represents about 94% of local brewing industry). Data about sales is the quantity manufactured/imported by the UBB members and delivered to distributors. Actual sales at the retail and food service markets are usually higher since they include also additional local producers (brands Ledenika and MM) and independent imports.				