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Bulgaria

Market Development Reports

Consumer Food Service Market

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Approved by:
Susan Reid
US Embassy

Prepared by:
Julia Vulkova

Report Highlights:
Prospects for the consumer foodservice industry in Bulgaria are bright and interesting. Although at slower rates, the market will continue to develop and high value sales will grow. Competition will be the main driving force with EU accession. The two categories likely to experience the fastest growth in 2007 are fast food, and food preparation for home delivery.

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Executive Summary

The consumer foodservice industry in Bulgaria continues to grow. To some extent, the development of the market has been restrained by record high oil prices and, ironically, countless government laws aiming to raise the level of the industry to EU standards.

Tourism will continue to play a key role in the expansion of the food service industry in Bulgaria. The vast majority of new food outlets are opening in the most popular tourist destinations.

Specialist coffee shops performed notably well in 2005 and 2006. The Onda Coffee Break chain represents almost the entire sub-sector. Starting from nothing in 2003 it developed a completely new idea for Bulgaria and turned it into a profitable business. Since foreign companies are slowing beginning to enter the market, Onda Coffee Break will face significant competition for the first time in 2007.

Pizza outlets keep growing. Pizza full-service restaurants and for home delivery in particular have performed well in the last few years. Independent outlets continue to grow in popularity.

Burger fast food outlets are in decline. McDonald's, which suffered a tough year 2005 around the world, reached its peak popularity in Bulgaria in 2002.

Other fast food outlets, both the chains and independents, showed little growth. The main factor in this trend is probably rising disposable incomes which are leading consumers to switch to full-service restaurants.

The future for the consumer foodservice industry is promising, although the market will develop at slower rates. New competition and EU regulations will drive changes in the industry over the next several years.

Key Trends and Developments

EU Accession Impact on The Consumer Food Service Industry

As of 1 January 2007 when Bulgaria will become a full member of EU, the consumer food service industry will be affected by the very strict international requirements for food safety and hygiene. Multinational companies and some domestic companies are already in compliance; however, some are having difficulties meeting EU standards. The main reason is the lack of sufficient financial resources for repairs and improvements, and for training.

A large number of outlets and food producers still do not apply the HACCP (Hazard Analyses and Critical Control Points) system used in Europe. Once Bulgaria joins the EU, all producers and traders in the food industry must comply with EU requirements. Bigger companies cannot afford to fall behind the requirements and many or most have already adopted the necessary standards, but medium and small businesses generally have yet to raise their quality levels.

The first few years after EU accession will be crucial because of the expected increase in competition from EU firms. The business environment is expected to become more diverse, transparent and well-regulated, giving clearer direction and a greater degree of certainty to existing and potential players. The harmonization of local legislation with EU laws will reduce bureaucratic procedures for opening big chain outlets and will make the Bulgarian market more attractive for multinational players.

EU membership will also engage the Bulgarian government in maintaining a stable political and economic climate – another reason for foreign firms to expand their investments in the country.

The majority of independent operators in Bulgaria run small single owner businesses, lacking significant capital for investment. They are not famous for hygiene and quality monitoring standards, but mostly rely on affordable prices for popular local dishes. Meeting EU requirements will raise their costs and will force them to raise prices. It is expected that some firms operating mainly full-service restaurants, self-service cafeterias and street kiosks will exit the market.

Tourism Industry’s Influence on Consumer Foodservice Sector

Tourism is one of the fastest growing Bulgarian industries. In 2005 more than 4.5 million tourists visited the country. Every resort witnessed mass construction of hotels and recreational facilities intended to accommodate not only local but also an increasing number of foreign tourists. The development of the tourism business has had a particularly strong effect on fast food outlets, street kiosks and restaurant expansion.

The vast majority of the newly opened outlets are situated in the most popular tourist destinations. Approximately 70 percent of foreign visitors eat at restaurants – a major factor in the development of full-service restaurants. Growth in the number of hotels has increased the number of restaurants since almost every hotel has a restaurant.

Tourism is expected to continue to expand. As an EU Member State, Bulgaria will become even more attractive for tourists from all countries. More foreign tour operators will include Bulgaria in their catalogues, as the country is considered a relatively inexpensive tourist destination suitable for "all inclusive" programs.

Banking System Facilitates Investment in Consumer Foodservice Business

Banks have increased their lending to small and medium enterprises. Many banks offer favorable credit terms for individuals or entrepreneurs who wish to improve or establish their own business.

The stability of the national currency has supported increases in the overall purchasing power of Bulgarians, and the macroeconomic climate has attracted investment from both foreign and domestic companies. The stability of the banking system has facilitated the construction of buildings, which has influenced the expansion of restaurants, fast food outlets, cafés and street kiosks.

Although many restaurant and café/bar businesses do not possess substantial assets due to the nature of their business, the competition between banks will make credits more accessible to businesses from the consumer foodservice industry.

Anti-smoking Regulations

Bulgaria is among the countries in Europe with the highest number of smokers. Steady increases in cigarette prices, health warning labels on packages, and prohibitions on advertising tobacco products are just some of the government's efforts to reduce smoking.

On 1 January 2005 the Bulgarian Health Ministry introduced legislation that restricts smoking in public places. Café and restaurant owners were required to divide their seating areas into zones for smokers and non-smokers. Outlets with fewer than 60 seats were exempted. By and large, restaurant and café patrons comply with smoking rules.

Market Situation Overview

The number of outlets managed by chain operators has risen steadily, but independent owners are still a significant majority. The advantages of chains are numerous – shared marketing strategy and nationwide advertising. Brand names benefit from consumer recognition and the ability to buy in large volume. However, building a whole chain requires significant investment and experienced management, which most independent companies cannot afford.

Chains are established in greater Sofia, the country's capital, with a population of more than 1.5 million, and in other big cities. Smaller cities have fewer chain operators, if any at all, since incomes are lower outside the capital. Smaller cities and towns tend to be served by independent outlets.

The presence of chain operators is expected to become stronger starting in 2007. Existing companies will continue to open new outlets, mostly in the big cities. The new shopping malls in Sofia, Varna, Bourgas, Plovdiv and Veliko Tarnovo have cafés and restaurants, including leading chains such as Happy Bar&Grill, McDonald's, Pizza Hut and Onda Coffee Break. The company opened three more outlets in 2005, all in strategic locations in the capital of Sofia. Despite the relatively high prices, Onda Coffee Break continues to attract people with its innovative coffee, tasty food, excellent service and modern interior. Its performance has been helped by the lack of competition in this market niche.

In 2005 pizza was the food type that had the highest growth compared to 2004.

Among the independent outlets, Ugo, Krivoto and Don Domat, opened new outlets in 2005 for the first time since 1998. Although none of them plans to expand the business outside Sofia, all of them battle for customers in the capital city. They all announced they would open more new outlets and very likely will evolve into chains. Post sees continued expansion of mall-based food chains.

New chain operators will also enter the market. According to the Bulgarian Industrial Association (BIA), starting in 2007, international chains will look to expand their franchise operations in Bulgaria. This is due to the relatively low operating and labor costs and to opportunities in the local market, which is not fully developed. Some gradual consolidation is expected, along with expansion in the size of existing stores of the most popular chains.

Bulgarian customers are brand-oriented. After building further brand reputation and growing financially, chain operators are likely to compete with each other for dominance of their brand. Independent owners will continue to count on their low prices and tasty specialties.

Home Delivery

On-line food ordering continues to grow significantly in popularity. Home delivery is well established in the big cities like Sofia, Plovdiv, Varna, Bourgas and Rousse. Websites such as www.amam.bg, www.netkelner.bg, and www.bgmenu.com provide visitors with the opportunity to browse menus of more than 10 restaurants and place an on-line order. Many restaurants themselves have their own websites containing their offerings, which furnish internet users with up-to-date electronic versions of menus.

Development of the on-line orders business is closely related to the rate of internet access and usage. According to the State Agency of Information Technologies and Communications, only 17% of Bulgarians have instant access to the internet. Therefore, although convenient and useful, growth in the on-line orders portion of the home-delivery business is expected to be relatively slow, while telephone orders for home and office delivery will continue to grow rapidly.

Market Indicators

Table 1 Consumer Expenditure on Food in Retail 2000-2005

USD bn

	2000	2001	2002	2003	2004	2005
Total	3.4	4.3	4.7	5.2	6.1	6.6

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Market Data

Table 2 Number of Outlets, Transactions and Value Sales in Consumer Foodservice: 2000-2005

	2000	2001	2002	2003	2004	2005
Number of outlets	29,753	32,733	32,843	34,722	36,234	36,875
Transactions (mn)	246.8	279.0	289.9	316.6	338.3	348.1
USD million current prices	655	890	957	1,146	1323	1370
USD million constant prices	655	938	843	987	1072	1070

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 3 Number of Outlets, Transactions and Value Sales in Consumer Foodservice: Percentage Growth 2000-2005

	2004/05	2000-05 CAGR	2000/05 TOTAL
Number of outlets	1.8	4.4	23.9
Transactions	2.9	7.1	41.1
Value current prices	3.3	9.4	56.4
Value constant prices	-0.3	4.1	22.3

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 4 Consumer Foodservice Independent versus Chained Outlets: Number of Outlets 2005

	Independent	Chained	Total
Cafés/bars	21,049	50	21,099
Full-service restaurants	9,387	90	9,477
Fast food	1,824	136	1,960
100% home delivery/takeaway	49	-	49
Self-service cafeterias	1,805	10	1,815
Street stalls/kiosks	2,475	-	2,475
Consumer foodservice	36,589	286	36,875

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 5 Food versus Drinks Share of Total Sales, 2005

Share of total sales, %

	Food	Drink	Total
Cafés/bars	19.3	80.7	100.0
Full-service restaurants	62.5	37.5	100.0
Fast food	78.0	22.0	100.0
100% home delivery/takeaway	95.9	4.1	100.0
Self-service cafeterias	79.0	21.0	100.0
Street stalls/kiosks	89.0	11.0	100.0
Consumer foodservice by type and chained/independent	58.0	42.0	100.0

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 6 Sales in Consumer Foodservice by Location 2000-2005

% of sales value

	2000	2005
Stand-alone	84.1	77.0
Retail	1.3	1.9
Travel	4.4	7.2
Leisure	1.2	1.4
Hotels	9.1	12.5
Total	100.0	100.0

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 7 Forecast Number of Outlets, Transactions and Value Sales in Consumer Foodservice: 2005-2010

	2005	2006	2007	2008	2009	2010
Number of Outlets	36,875	37,476	37,956	38,379	38,938	39,329
Transactions (mn)	348.1	357.9	366.2	376.0	385.9	400.9
USD million	1,367	1,412	1,472	1,524	1,574	1,628

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 8 Forecast Number of Transactions and Value Sales in Consumer Foodservice: % Growth 2005-2010

% growth	2005 - 2010 TOTAL
Number of Outlets	6.7
Transactions	15.2
Constant value	19.0

Source: Bulgarian National Official statistics, trade associations newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 9 Leading Chain Consumer Foodservice Brands by Number of Units 2005

Brand	Global Brand Owner	outlets
Shell Select	Koninklijke Shell Groep/ Royal Dutch Shell Group	84
OMV Viva	OMV Tankstellen AG	66
Happy Bar&Grill	Happy Ltd	20
McDonald's	McDonald's Corp	20
Jimmy's	Arieks Ltd	17
Lucano	Lucano Ltd	17
Nedelia	Nedelia Ltd	17
Atlantic	Atlantic Ltd	16
Trops House	Trops House Ltd	10
Dunkin' Donuts	Dunkin' Brands Inc	8
Pizza Hut	Yum! Brands Inc	4
Subway	Doctor's Associates Inc	3
KFC	Yum! Brands Inc	3
Goody's	Goody's SA	1
Dunkin' Donuts	Allied Domecq Plc	-
KFC	Tricon Global Restaurants Inc	-
Pizza Hut	Tricon Global Restaurants Inc	-
Others		0
Total		286

Source: Trade associations, newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 10 Chain Consumer Foodservice Company Shares 2001-2005

Share of total sales, %

Company	2001	2002	2003	2004	2005
Happy Ltd	33.6	34.1	28.0	26.2	26.8
OMV Tankstellen AG	6.3	7.5	15.1	20.0	21.8
McDonald's Corp	37.1	33.2	23.9	22.5	19.4
Yum! Brands Inc	-	6.4	6.3	6.2	6.3
Trops House Ltd	-	-	6.8	5.8	5.8
Nedelia Ltd	4.6	4.5	4.0	3.8	4.1
Koninklijke Shell Groep/ Royal Dutch Shell Group	3.8	3.7	3.3	3.1	3.4
Lucano Ltd	-	4.0	3.4	3.3	3.3
Atlantic Ltd	-	-	3.4	3.2	3.2
Arieks Ltd	4.5	4.0	3.1	3.1	3.1
Dunkin' Brands Inc	-	-	-	-	1.8
Goody's SA	0.9	0.8	0.6	0.6	0.6
Doctor's Associates Inc	-	0.2	0.4	0.5	0.5
Allied Domecq Plc	1.8	1.6	1.7	1.7	-
Tricon Global Restaurants Inc	7.4	-	-	-	-
Others	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Trade associations, newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Table 11 Chain Consumer Foodservice Brand Shares 2002-2005

% value

Brand	Global Brand Owner	2002	2003	2004	2005
Happy Bar&Grill	Happy Ltd	34.1	28.0	26.2	26.8
OMV Viva	OMV Tankstellen AG	7.5	15.1	20.0	21.8
McDonald's	McDonald's Corp	33.2	23.9	22.5	19.4
Trops House	Trops House Ltd	-	6.8	5.8	5.8
Pizza Hut	Yum! Brands Inc	3.9	4.4	4.5	4.6
Nedelia	Nedelia Ltd	4.5	4.0	3.8	4.1
Shell Select	Koninklijke Shell Groep/ Royal Dutch Shell Group	3.7	3.3	3.1	3.4
Lucano	Lucano Ltd	4.0	3.4	3.3	3.3
Atlantic	Atlantic Ltd	-	3.4	3.2	3.2
Jimmy's	Arieks Ltd	4.0	3.1	3.1	3.1
Dunkin' Donuts	Dunkin' Brands Inc	-	-	-	1.8
KFC	Yum! Brands Inc	2.5	1.9	1.7	1.7
Goody's	Goody's SA	0.8	0.6	0.6	0.6
Subway	Doctor's Associates Inc	0.2	0.4	0.5	0.5
Dunkin' Donuts	Allied Domecq Plc	1.6	1.7	1.7	-
KFC	Tricon Global Restaurants Inc	-	-	-	-
Pizza Hut	Tricon Global Restaurants Inc	-	-	-	-
Others		0.0	0.0	0.0	0.0
Total		100.0	100.0	100.0	100.0

Source: Trade associations, newspapers Pari and Capital , trade interviews, Euromonitor International estimates

Source: Euromonitor, "Hotel and Restaurants Magazine", daily newspaper "Dnevnik", "Your Business" magazine, Bulgarian National Statistics