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HRI Food Service Sector

Report

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Report Highlights:
The food service sector in Bulgaria has developed quickly over the last 3 years due to stable and gradually increasing consumer income and growth in the tourist industry. Total HRI sector sales in 2002 were estimated at close to $2.0 billion, and the growth in the number of food service outlets was 25 percent over 2001. Prospects for growth will be highly dependant on average consumer income and further development of the tourist industry. Exports of U.S. value added products are expected to grow in line with overall economic development.

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Market Summary

Since 1989, the food service sector (or hotels, restaurants, institutions/HRI) quickly expanded and with a constant growth over the past years.

- Number of outlets: The number of outlets increased 300 percent to 19,000 for the period 1989-1993; the growth for the period 1993-1996 was 21 percent and for the period 1996-1999, it was 25 percent. The highest growth was registered in 1999-2001, at 32 percent. This trend continued in 2002 with another 25 percent increase over 2001. As of late-2002, the number of total HRI outlets in Bulgaria reached 53,000. In 2001, about 91 percent of food service outlets (38,500) were restaurants, fast food outlets, cafeterias, café, and night bars. The remaining 9 percent or 3,700 outlets are institutional and food service catering outlets in hotels/resorts.

Table #1. Number of Food Service Outlets

Number of Food Service Outlets						
Year/Number	1993	1996	1999	2001	2002	2003
Number	19,117	23,095	28,750	38,495	48,913	52,961

Table#2. Share of Food Service Outlets by Type in 2001

Share of Food Service Outlets by Type in 2001	
Café	60%
Restaurants	11%
Fast Food Outlets	6%
Dessert café*	7%
Beer Pubs and Wine Pubs	4%
Hotels	4%
Institutional	5%

- Average size and visitors. The average size food service outlet differs by the type of business and location. For example, the average size cafeteria in large cities is 50 seats while in smaller towns, it varies from 10 to 30 seats. Restaurant average size nationwide is 60 seats; the average size of institutional outlets is 150 seats; of day bars and café it is 25 seats; and of pizza places it is 25 seats.

- The number of visitors depends on the type of food service outlet, location, and season. Those outlets which have gardens or open air seating usually attract a higher number of clients in the spring/summer season. Fast food outlets such as McDonalds, KFC and Dunkin Donuts, have an average daily number of visitors around 6,000 per a outlet. Pizza restaurants enjoy about 80 percent use of seats or about 600 visitors a day. Traditional restaurants have about 100 visitors a day, and dessert cafés have about 150 visitors a day.

- The more recent trend in HRI development is the establishment of new outlets, expanding of already existent outlets; modernization and upgrading; introduction of new styles and new menus. Each outlet is making efforts to find its unique style and atmosphere through internal design; quality of service; and menu variation. Some outlets are trying to combine various styles in an effort to attract a broader audience. McDonalds in Bulgaria was offering only American type hamburger and sweets. However, in the last 3 years they have expended to include new sandwiches and sweets typical of Bulgarian cuisine. Other companies in the HRI sector expand by opening new halls outlets which are completely different in style and theme. For example, the chain (cool-house) "Bibliotekata" includes venues as a night bar; Internet-café; karaoke-bar; and sushi-bar. Another recent trend in the HRI sector are new outlets with Balkan style cuisine - Macedonian and Serbian.

- Most food service outlets are trying to differentiate by providing more service such as catering, door-to-door delivery, home parties, etc. The U.S. fast food chains offer playgrounds, children birthday parties, etc.

- Catering services are provided both by specialized catering companies (Red Devil, Mati'D, BAT Catering, etc.) but also by some hotels (Hilton, Park Hotel Moskva), restaurants (Ugo) and pizza outlets (Miss Caprice). An increasing number of local food manufacturers and traders started to serve the HRI sector by providing special terms and pricing. Catering companies are the biggest consumers (and importers) of value added fancy foods and beverages (seafood, special cheeses, spices, wine and liquor).

Consumers' Profile

In the 1999-2001 period, "dining out" (or out-of-home meal consumption) became a part of every day life of the average Bulgarian. If in 1999 about 48 percent of all adults (above 14 years age) were "eating out " at least once a month, then in 2001, 60 percent of adults visit food service outlets at least twice per month.

The most frequently visited food service outlets are café and fast food outlets (typically serving Bulgarian snacks, sandwiches, and beverages at affordable prices), followed by pizza places.

The frequency of visits to the various food service outlets depends on: consumers age; location; consumer income; and consumer life style.

In cities and large towns, urban population frequently visits food service outlets. On average 73 percent of urban population make twice weekly such visits. In smaller towns and villages, roughly 56 percent of the population eats out twice per month, and the most frequently visited outlets are pubs and café.

Bulgarians with monthly income above $400 prefer to go to outlets such as hotels, restaurants, night bars, fast food service and pizza places. Consumers with lower income ($100-$400 per month) prefer café, pizza places, and rarely fast food outlets (such as KFC and McDonalds) and restaurants.

Pizza restaurants vary significantly from street kiosks and small self service outlets to high-end restaurants and remain the most preferred food service outlets for all the years after 1989 till nowadays. Th pizza market segment attracts the young urban population (up to 40 years age) with monthly income of $125 and above.

A typical client of a hotel restaurant or café is male, age 26-35 years, with personal income $400-$500 and above. A typical client for a café, dessert café, and day bars is a female 18-45 year old, with an average monthly income of $150-$200.

The share of household income spent for food consumed out-of-home has been growing over the last 10 years. In 1991, Bulgarians spent on average 24 percent of their household budget for "dining out". In 1999, this share reached 36 percent and in 2001, it grew further to 37 percent in 2002. The total amount of income spent for food and beverages out of home in 2001 was $1.15 billion which was a 15 percent increase over 1999.

Table #3. Spending for eating out in million USD, 1991-2001

Spending for eating out in million USD, 1991-2001				
Year	1991	1995	1999	2001
Amount	333.1	851.2	1,003.1	1,154.2

- Tourism and resorts: Over the last 5 - 6 years, the Bulgarian government has been trying to develop and support the tourist industry. In 2001, tourism accounted for 11.5 percent of GDP. Total revenue from tourists in 2001 was $1.2 billion, 12 percent higher than in 2000 ($1.07 billion) and 29 percent higher than in 1999 ($0.93 billion). Expectations for 2003 are for further growth of 9 percent compared to 2002.

Tourists from the EU-member states account for 29 percent from total tourists in 2002 (26 percent in 2001). The EU tourists flow increased in 2002 by 21 percent compared to 2001; and in 2001 by 64 percent compared to 2000. There is also a growth in the number of U.S. tourists. In 2001, their number grew by 25 percent over 2000; in 2002, the number of U.S. tourists declined, by 8 percent. Out of the total number of U.S. visitors in 2001, 60 percent were tourists.

Table #4. U.S. visitors to Bulgaria, 1999-2002

U.S. visitors to Bulgaria, 1999-2002					
Year	1990	1999	2000	2001	2002
Number	12,102	31,775	34,013	42,592	39,153

Total amount of HRI sales in 2001, both from local and foreign costumers, was $1.58 billion of which $0.34 billion was revenue from tourists only. This is a growth of 39 percent compared to 1999. The highest growth of sales in 2001, 41 percent, was registered in the sub-sector of hotels/resorts which was due to foreign tourists visits.

Table #5. Food Service Market Shares in 2001

Food Service Market Shares in 2001	
Restaurants	68%
Institutional	4%
Hotels/resorts	28%

The development of local consumer taste and preferences along with increased foreign visitors favor imports of food products The most typical example are semi-processed meat and meat products, fish and seafood, spices and beverages.

Table #6. Advantages and Challenges facing U.S. food products in Bulgaria

Advantages and Challenged facing U.S. food products in Bulgaria	
Advantages	**Challenges**
Popularity of American culture is transferred via the American food.	Sometimes high prices of U.S. food products make them affordable for a small number of consumers due to general low average consumer income
American origin food as well as American fast food chains are very popular.	U.S. fast food chains are located on large towns and along highways only.
Quality U.S. foods is finding increasingly better consumer acceptance with recent trends towards diet, better quality and environmentally friendly foods.	EU-origin investment in the tourist industry increases the number of the EU tourists who bring also their consumer preferences vs. U.S. tourists.
The increasing number of U.S. visitors and tourists as well as U.S. troops coming to Bulgaria from neighboring countries favor increasing imports of U.S. foods.	Recent improvement in quality and upgrading of local facilities lead to higher competitiveness for locally produced food products.
Despite improving quality of locally produced foods, it still remains low.	Lack of any trade preferences for U.S. foods vs EU-origin and CEFTA-origin foods make U.S. foods more expensive and limits their market penetration.
An increasing number of food service sector outlets are looking for imports of ready-to-eat and semi-prepared U.S. foods and beverages (cocktails) which are not produced either locally or in the EU.	

Road Map for Market Entry

Entry Strategy

There are only a few companies in Bulgaria which have independent nationwide distribution systems and sell assorted imported and locally produced foods and beverages. With the exception of the subsectors of alcohol and meat/meat products (Avendi, Interbrands, Best Foods), such companies do not yet exist in Bulgaria.

Larger Sofia-based restaurants, such as "Seasons" and "33 Chairs", usually import food directly (for their own needs) and buy directly from local producers. They also work extensively with catering companies which can be either distributors or importers. One exception is alcohol and soft drinks which are usually supplied by distributors. Smaller restaurants supply themselves directly from retail hypermarkets such as Metro. Mid-level restaurants buy from various sources combining hypermarkets, catering companies, distributors of specialty products and local manufacturers.

Market Structure and Company profile

A. Resorts and Hotels

The number of tourists in 2001 was 2.7 million which is a 27 percent growth over 2000. Tourists are coming mainly from neighboring countries (Macedonia, Yugoslavia, Greece, Romania), plus Germany and the United Kingdom. The GOB expectations are for 8 percent growth in the total number of tourists in 2003 and for 9 percent growth in revenue.

In general, Bulgaria has 3 larger winter mountain ski resorts (Borovetz, Pamporovo, Bansko) and 6 larger summer Black Sea resorts (Golden Sands, Sunny Beach, Albena, Djuni, Elenite, St. Konstantin and Elena). Over the last 10 years, the country developed a number of smaller winter and summer resorts. In addition, there are industry and government efforts to use more than 600 mineral water springs (hot and cold water) year round to develop mineral water and hydrotherapy tourism. This type of tourism is typical for small towns (Hisar, Velingrad, Devin). Other new types of tourism are eco-tourism, cultural, agro-tourism and hunting excursions.

Until 1999, the tourist industry efforts were focused on reconstruction and upgrading of old resorts and facilities (up to 2 or 3 star hotels). In the period 1999-2002, efforts were directed toward investment in 4-5 stars quality hotels. The total amount of direct foreign investment in the Bulgarian tourist industry was $1.5 billion in 2000 and $1.8 billion in 2001. Some investors include Neckerman, ITS, KSN Turistic (Germany, Hilton Int., Jovanda Int. and World Trade Co. (U.S.) and Auto Rikambi SRL (Italy). The largest hotel chains present in Bulgaria are Sheraton (South Korea ownership), Kempinski (German), Princess (Turkish), Radisson (U.S.) and Hilton (U.S.).

Unlike foreign hotel chains, the ownership and legal status of Bulgarian presence in hotel/resort subsector can not be easily identified. Currently, local investment in this sector is done by groups which lack professional experience and do not make efforts to develop their investment as a franchise or to introduce a brand name on the market. Despite increased hotel occupancy by Bulgarians, foreign tourists/business visitors are the backbone of the hotel industry and the major focus of hotel sales.

The hotel subsector is the leader in the area of food service accounting for 24 percent of total HRI sector sales in 2001. The share of food sales to foreigners is 76 percent vs. 24 percent for sales to Bulgarians in 2001.

Hotels are the largest importers of duck and turkey meat, rabbit meat, lamb, seafood, wine, beer, spirits sauces and spices. Typical imported products for this restaurant sector are various fresh salads and vegetables, specialty flours, meat, sauces, seafood, grits and spices.

B. Restaurants

About 91 percent or 38,495 of all food service outlets are restaurants. Their number increased 34 percent in 2002 compared to 1999.

In 2001, this subsector accounted for 68 percent of food sales in the food service sector or $1.1 billion. This constitutes 15 percent growth in restaurants' revenue compared to 1999. The share of Bulgarians regularly visiting restaurants in 2001 was 58 percent.

Since 1997, this subsector has experienced a dynamic and intensive growth. The sector quickly expanded from low-end to high-end restaurants.

- In 1999, Chinese restaurants started to expand quickly and currently can be found in almost every residential area across Bulgaria. In 2000-2001, many restaurants started to emphasize typical Balkan cuisine - Serbian and Macedonian gulled meat restaurants. A very recent trend is the development of Mexican cuisine restaurants. Larger towns usually have French, German, Spanish, and Hungarian restaurants. Still only a few restaurants are specialized in seafood with a high-end exception of emerging chain "Captain Cook" recently established.

Most local investors view restaurants as a profitable business but are not trying to develop a chain. The overall trend is to single outlet restaurant with high volume, high value traffic. The concept of franchising or branding is underdeveloped. Any start-up restaurants or café must compete with the so-called kiosk trade.

A typical example are three local financial groups ("FSO Company", "Miss Caprice", and "MIG group"). For example, MIG Group owns a pizza restaurant chain "Ugo", a sushi-bar, a disco ("Library"), night club ("Biad"), a luxury restaurant ("Camelot"), a café etc. The second group, "FSO Company", owns a Brazilian restaurant ("Rio"), Bulgarian style restaurant ("Chevermeto"), club "Playboy", night club ("Tabu"), beer pub ("Shveik"), café etc. The third group, "Miss Caprice" owns pizza restaurant chain under the same name and two luxury restaurants ("The house with the clock" and "With the Eagles") and at the same time is building a hotel in the capital. Similar is the situation with "Luchano" company which owns a chain of dessert café and ice cream parlors but the company also owns a restaurant and a beer pub.

It is difficult to properly identify local restaurant chains since some companies use their food service outlets as a "legal face" of their "gray business", i.e. the restaurants are not the major source of profit or a targeted business for development for these groups.

- Fast food chains are the most frequently visited food service outlets. Their number increased by 45 percent in the period 1999-2001 to 2,622 outlets. The two major segments in this subsector are: 1/fast food chains, mainly foreign investors; and 2/small mon-and-pap outlets, street kiosks/café which usually offer typical local sweets or snacks (burek, banitza), pizza in portions, sandwiches, cakes, cooked meals, salads, or a Chinese food for home/office consumption. The second type (at usually lower prices) is usually found in smaller towns and villages where consumer income is lower. They are also typical for office buildings, schools, and other public institutions since they provide fast breakfast/lunch options. These mini-snack stands are not well regulated or documented. However, thanks to the low prices, the kiosk trade captures the majority of roadside purchase of snacks and quick meals.

- Fast food chains usually have nationwide or regional coverage, offer fast service and specific menu. Some of these chains have special agreements with gas stations chains: for example, "McDonald's" pairs with "Shell"; "Happy" and "Shell"; "KFC" and "LukOil"; "Gudis" and "LukOil". Other gas stations prefer to establish their own food outlets on-site. For example "Viva" and "OMV", or "Smiles" and "EkoPetrolium".

- Local food chains are the major consumers of imported U.S. chicken meat, veal and beef. Until 2-3 years ago, these chains were the major importers of meat. However, in recent years, meat is coming mainly from local sources (local chicken for KFC) or from regional suppliers (McDonald burgers from Romania). Currently, these local chains import U.S. origin sweet corn, herbs, spices, breading mixtures, ready to cook potatoes, etc.

Pizza restaurants and dessert/ice cream parlors are the preferred outlets for families and for young people under 30 years age. Over the last 3-4 years, several smaller "chains" of pizza restaurants, not more than 3-4 outlets under the same name, have emerged on the market. Their hallmark is a similar atmosphere, style and identical menu. Most of them provide door-to-door delivery service. Larger pizza chains (Victoria-M, Miss Caprice and Pizza Hut) are major consumers of imported cheese, such as parmesan, sauces, and spices. These products are preferred to be of imported origin due to competitive prices and better quality compared to the local supply (if any).

Dessert parlors compete in assortment, recipes, and attractive appearance of sweets. They usually get their supply from distributors and importers. Major dessert café franchises, such as Dvete Fukli, Atlantik, Luchano, Nedelia and Jimmy's, are the major consumers of imported Swiss chocolate, butter, colorants, and flavors which are not locally available.

C. Institutional

In 1999, food sales of this subsector were $0.55 billion, and in 2001 it reached $0.62 billion. This subsector accounts for 4 percent only in total food service sector sales. The growth of 12 percent in 2001 over 1999 is due to increased frequency of visits since the number of Bulgarians visiting institutional food service outlets did not change. The expectations for the future are for growth due to building of a number of public and office buildings in larger towns.

Competition and Best Products Prospects

Lower-end food service outlets regardless of their type prefer to use locally produced foods as they are more price competitive although the quality is not always consistent as required. In many cases, imported products are limited to deli seafood, spices and sauces, and beverages.

However, all high-end food outlets, especially those in hotels and resorts, and foreign fast food chains, are using imported products. In this type of tourist outlets, the proportion of imported to local foods used is 50:50.

The most frequently used foods in the HRI sector are pork, beef, poultry, fish and seafood, and alcohol.

Pork and beef are offered in all food service outlets with the exception of dessert cafés or in 91 percent of total food service outlets. About 35 percent of total pork consumed in the country is used by the food service sector. The remaining 65 percent are sold via the retail chains, as a quarter of this quantity is sold by supermarket and hypermarket chains. The situation with beef consumption is similar. The HRI sector accounts for 37 percent of total beef consumption and the remaining 63 percent is sold via the retail sector (of which 22 percent inside retail chains).

Poultry meat has registered an increased consumption in the HRI sector in the last 2-3 years. Currently, 78 percent of all food service outlets offer such type of meat. The trend is to use more processed chicken products such as seasoned chicken steaks, sticks, breaded pieces, etc. In general, the HRI sector uses 35 of total domestic poultry consumption, about 5-10 percent is used on-farm and 60 percent is sold via the retail sector (of which 20 percent in the retail chains).

Alcohol is offered at 95 percent of all food outlets - including "drink" or non-meal bars and outlets which serve any type of food. The only exception are local "banitza" (type of snacks) outlets, the U.S. fast food chains (McDonalds, KFC and Dunkin Donuts) and some institutional outlets.

- The major U.S. competitors in the area of foods consumed in the HRI sector are:

-Ireland and the United Kingdom - fish and seafood;
-France, the United Kingdom, Denmark - alcohol;
-Germany - alcohol, milk and dairy, turkey and rabbit meat;
-Argentina - fish fillet, beef;
-Italy - specialty flour, grits, pasta;
-Switzerland - chocolate;
-Greece- fresh fruits and vegetables, cocoa, bakery products, vegetable and animal fats/oils;
-Poland - pasta and bakery products.

The major reasons supporting imported food purchased in the HRI sector are:

-higher and consistent quality. The higher quality of imported products such as specialty flours, grits, salads, celery, beef, chocolate, butter, colorants, flavorings, and sauces, makes them more favored than locally manufactured items. Taste and quality characteristics are a factor in determining the purchasing decisions of restaurants and hotels. For example, U.S. origin mashed potatoes is highly preferred due to better taste and better appearance. Imported celery has a bigger size; Bulgarian sweet corn is not so "milky" as imported U.S. origin; Bulgarian chocolate has a shorter shelf life.

-regular and secured supply. Usually importers have or rent well equipped and professionally managed warehouses which guarantee better quality, stable pricing and regular supply. Importers also can provide more reliable cold chain (transportation etc.) which brings the food product in good quality, safe and in the right time to the users. It is difficult for local manufacturers, especially, those of medium/small size to have access to such type infrastructure and negatively affects product quality, safety, delivery and price. This inefficiency makes their product not attractive for the majority of food service users.

-preference of foreign tourists - in terms of taste and quality. A variety of seafood, and especially fish products, are imported mainly due to the foreign tourists flows.

-better appearance and packaging;

-lack of local supply or local substitute for certain products.

The major reason preventing higher U.S. food imports for the HRI sector are perceptions that the U.S. meat has higher content of "artificial" substances such as "chemicals and "hormones" and fresh vegetables lack "good taste". This opinion is expressed not only by consumers but by restaurant managers and is based on public media myths rather than actual experience. It is notable that such perception is not expressed by chefs of high-end restaurants who usually have sufficient knowledge and experience with U.S. foods in the HRI sector. This demonstrates good potential for further education among the HRI managers as well as the potential for better market opportunities for U.S. foods.