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Hotel Restaurant and Institutional Food Service Bulgaria

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Report Highlights:

This report contains information about Bulgaria's Hospitality, Restaurant, and Institutional (HRI) food service industry. It provides an overview of market opportunities and key channels of distribution for U.S. food and beverage products destined for the food service market in Bulgaria.

General Information:

SECTION I. MARKET SUMMARY

Bulgarian National Bank's exchange rate of U.S. \$ = BGN 1.79 for 2015 was used in this report.

Macroeconomic Situation

The current center-right government has successfully held to an IMF-backed tight fiscal policy. The currency, the Bulgarian Lev (BGN), is pegged to the Euro at just under 2-to-1 by the Currency Board. The Government prides itself on its fiscal discipline, continued low taxes, and incremental successes at increasing revenue collection. Due to the current unstable political situation, economic recession, and frequent social protests, the Cabinet decided to borrow money on the international market and to use these new funds for more social support despite the risk of reaching critical budget deficit levels. Bulgaria's corporate and income taxes of 10% are the lowest in the EU. The value-added tax rate is 20%.

Table 1. Main Economic Indicators Bulgaria and Eastern European Countries, 2015

Main Economic Indicators Bulgaria and Eastern European Countries, 2015			
	GDP p.c. in PPP (US\$)	Population	GDP (current in million U.S.\$)
Bulgaria	17,512	7,178,000	48,953
Romania	21,403	19,832, 000	177,954
Serbia	13,482	7,098, 000	36,513
Croatia	21,881	4,224, 000	48,732
Hungary	25,582	9,845, 000	120,687
Greece	26,680	10,824, 000	195,212
USA	55,837	321,419,000	17,947,000

Source: World Bank

The International Monetary Fund (IMF) increased its economic growth forecast for Bulgaria for 2016 and 2017. According to IMF's [World Economic Outlook report](#), Bulgaria's GDP will grow by up to 3% in 2016 and 2.8% in 2017. The previous IMF forecasts were for a growth of 2.3% in both years. According to the same report, in 2015 real GDP growth in 2015 was 3% as compared to 1.5% in 2014. The grey economy has remained active, creating new challenges for the government and has become a serious issue for the HRI sector as well. Bulgaria is a leader among 31 European countries in terms of grey economy share, 30.6 % in 2015. Persistent Ministry of Finance policies aimed at improving VAT and excise tax collection, income declaration, and revenue collection has brought improvement and the scale of the grey economy is expected to shrink further in the future.

Demographic Trends

Bulgaria's population in December 2015 was 7.15 million, down 0.7% compared to 2014.

In 2015 the total employed population reached 3.09 million. Unemployment sharply decreased from 12.9% in 2013 to 9.1% in 2015, according to the Bulgarian National Statistical Institute (NSI). Labor costs in Bulgaria are relatively low and the country has a growing cadre of young professionals skilled in technology, customer service, and foreign languages.

The above changes predetermine several trends for the HRI sector for the future: the older population will likely have more frequent visits to cafes, full-service restaurants and cafeterias vs fewer visits to bars; they may tend to eat closer to home and at smaller outlets; and the orientation towards healthier foods will increase.

Tourism Industry

Bulgaria has very good tourist potential due to availability of both beaches (Black Sea) and mountain/ski resorts, as well as a high density and quality of mineral springs for Spa resorts, as well as a rich history and well preserved traditions in rural areas. According to the Bulgarian Ministry of Tourism's annual [report](#), in 2015 Bulgaria was visited by almost 7.1 million foreign tourists (excluding transit tourists) in 2015, which represents a slight decrease of 2.9% as compared to 2014. Almost 2.22 million tourists have passed transit through Bulgaria in 2015.

The highest number of tourists (including transit) come from the following countries: Romania (1.5 million), Turkey (1.24 million), Greece (1.02 million), Germany (0.83 million), Macedonia (0.51 million), Serbia (0.5 million), Russia (0.49 million), Poland (0.28 million), UK (0.25 million), etc.

In 2015 the number of tourists from Russia and Ukraine kept declining due to regional tensions and the Russian trade embargo. Ukrainian tourists were down by 10% and Russian by 35% in 2015. On the other hand, the number of Turkish and Macedonian tourists grew by 13% and 16% after a relaxation of rules for tourist visas.

The Minister of Tourism [announced](#) that it is forecast that 2016 will register a record high number of tourist visits. The forecast is based on statistical data showing that more than 7 million tourists have visited Bulgaria for the period January - September 2016, which is close to the total number of tourists in Bulgaria in all of 2015 (excluding transit visits). The authorities expect the increase in tourist flow to sustain the upward trend in 2017 and 2018.

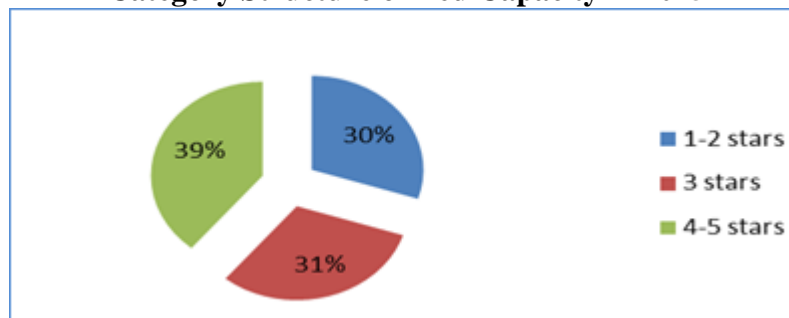
Currently many consumers from the EU consider Bulgaria as a cheap tourist destination with low/medium quality of food/service. The entire tourist industry suffers from this image. HRI professional organizations and sector players have made efforts to change this perception to boost the quality of tourists.

Hospitality Industry

In the hotel category in Bulgaria, those of middle and high class (3, 4, and 5 stars) dominate in terms of number of beds with about 70%, as compared to the lower level segment (1 and 2 stars). 1-2 star hotels still dominate in terms of number of establishments (about 53%).

Foreign business clients mostly trust international brands and choose hotels located in city centers with quality rooms and adequate services. The branding and brand related services are of great importance. Overall there is an oversupply of hotel beds and the difference of quality between hotels can vary.

Category Structure of Bed Capacity in 2015



According to the latest research, Sofia and Budapest are the cities with the lowest room rates in the European Union (EU). Bulgaria has the lowest minimum salary rates in the EU, the lowest construction costs, and considerably favorable energy costs. In spite of the many challenges, it is a fact that hotels can survive and even make a profit.

Infrastructure

Currently there are five operational civil airports in Bulgaria – Sofia, Varna, Bourgas, Plovdiv and

Gorna Oryahovitsa. The leading airport is Sofia's, surpassed 4 million passengers in 2015 (approximately 3.8 million in 2014), operating more than 44,400 flights, and handling more than 18,700 tons of cargo.

The total length of the country's road network is approximately 19,500 km. Railways cover 4,152 km. Bulgaria has well-developed and constantly improving infrastructure: 7 highways (610 km.), 230 railway stations, 4 international airports, 2 seaports on the Black Sea, and numerous ports on the Danube river. Priority road infrastructure projects in Bulgaria until 2020 include construction of 635 km and construction/rehabilitation of more than 900 km of speedways, two new bridges over the Danube river and the construction of the Shipka Tunnel. Five Pan-European corridors cross the country, linking Northern Europe with the Middle East and North Africa.

Both sea and river routes – the Black Sea and the Danube River – offer reliable shipping transportation to and from the country. The largest Bulgarian seaports are Burgas and Varna on the Black Sea coast. The Danube River is navigable during most of the year and supports inland water transport. With the Rhine-Main-Danube canal in use since 1992, Bulgaria has access to large European ports on the North Sea. The main Bulgarian ports on the Danube River are Ruse, Lom and Vidin.

Dining Culture

Bulgarians like dining out and on average it is something between a regular habit and a special occasion, depending on disposable income. The latest dining surveys show that about 70% of people go out to some HRI outlets twice a week and about 20% do this every day.

Lunch and dinner are the most preferred meals for dining out. Breakfast is usually eaten at home but many also buy local specialty bakery products from street kiosks and institutional cafeteria. Bakery products are the preferred breakfast for 75% of Bulgarians.

In the quick service sub-sector burger type sales bring the most value in sales. Customers like burgers and sandwiches due to their affordable price and quick availability. In 2015 Sofia saw an influx of the gourmet burger and street food cultures, with new outlets opening up and established ones diversifying their offerings.

Drive through service is not a popular option. Most people prefer either dining out or home deliveries. Food deliveries to offices and homes also have gained in popularity due to lack of time for eating out or cooking.

Home delivery/takeaway was the best performing in 2015 in terms of sales growth, followed by quick service. However, these services are popular in 5-6 bigger cities where delivery time is equal to meal cooking time, while home cooking still remains dominant in smaller towns.

Organic products are also firmly associated with more expensive, costly foods. People who often buy organic products (3-4 times a week or more) are only 8% of consumers; more than 50% of people do not buy any organic products at all. Although these results explain why organic products are not yet popular in the foodservice sector (with the exception of a few cafes in the bigger cities), the trend demonstrates the growing attitude to pay more attention to healthier but affordable foods.

Local consumers have high preference for coffee vs. tea although specialist coffee shops offer a selection of branded teas. For alcohol drinks, the most popular is beer but it is closely followed by wine and distilled spirits.

HRI Sector Overview

The Hospitality, Restaurant, and Institutional food (HRI) sector in Bulgaria is still a young industry with no long professional traditions, especially in the area of high value services. The sector developed

dynamically in the past several years with development of tourism and shopping malls being a main driver of the growth.

In 2012-2014 Bulgaria was hit by economic recession and increased unemployment. The economic slowdown led to more consumer income spent in retail vs. HRI, and there was less demand for within HRI full-service restaurants vs. quick service options. Consumers also switched to cheaper options when selecting meals/services at HRI outlets.

2015 was also challenging for the food service industry due to a combination of several factors: an unstable political situation; shaky regional developments (Russia/Ukraine conflict, Turkey problems, and refugee wave towards Europe) which affected tourism; the collapse of the 4th largest commercial bank in the country in 2014.

Although at the time of writing of this report there is no hard data about 2016 HRI sector performance, FAS/Sofia trade interviews and market reports indicate stabilization and the emergence of some revitalization in the sector. According to early data, holiday customer expenses increased by 12% or about 4.5 billion leva total (U.S. \$2.5 billion) when compared to an year earlier (source: National Revenue Agency).

Bulgaria has 35,330 consumer service outlets. The industry employs about 140,000 people with a turnover of close to 3.7 billion leva (U.S. \$2.07 billion) in 2015 (source: Euromonitor). Since 2000, the number of outlets grew by 20% starting from 29,700. The number of outlets is the highest in the South West part of the country, followed by the South East and South Central regions.

Table 3. Consumer Foodservice Outlets, Transactions and Value Sales in 2013-2015

	2013	2014	2015
Outlets	34,678.0	35,177.0	35,330.0
BGN million current prices	3,674.1	3,703.4	3,673.9

Table source: Euromonitor data

In 2013 household consumption contracted by 2.9% for the first time after 2009. Consumers reduced the visits to foodservice outlets on the expense of at-home consumption in parallel with higher spending at retail level in both years. In 2012 and 2013, the HRI sector faced two consecutive contractions due to political instability, economic stagnation, higher unemployment and the full indoor smoking ban. 2016 is likely to be the turning point and a return to stabilization and growth again as trade forecasts predict that the number of HRI outlets will be stable at about 35,400-35,550 in 2016 and 2017 while value sales are projected to remain flat at 3.7 billion leva (U.S. \$2.07 billion).

Table 4. Forecast Outlets, Transactions and Value Sales in Consumer Foodservice 2016-2020

	2016	2017	2018	2019	2020
Outlets	35,421.0	35,546.0	35,581.0	35,604.0	35,612.0
BGN million	3,675.6	3,675.8	3,652.5	3,608.3	3,561.0

Table source: Euromonitor data

The role of disposable income will be critical for the development of the industry in the medium term due to expectations of negative demographic trends. In addition, the inflow of tourists and related to this infrastructure will play an increasingly significant role for the HRI industry.

Foodservice vs Retail Food Sales

The foodservice channel accounts for a 15% average market share in sales of eight major food

categories (alcohol, confectionary/sweets, salty snacks, coffee, cacao drinks, soft drinks, bottled water). In the last couple of years, however, the foodservice share in total sales dropped by 1% in volume and 3% in value. One reason for that is the significant transformation of the retail landscape as a result of opening of multiple shopping centers. Retail locations became very attractive for consumer foodservice operators due to drop in rent levels. As a result, while overall consumer foodservice sales dropped by 1% in 2015, sales at retail locations increased by about 2%. At the same time, retail sales for home consumption of alcohol, beer and soft drinks moved more towards home consumption while that of coffee migrates from home to foodservice consumption. Falling rent prices have made shopping centers a very attractive location for consumer foodservice operators. As a result, fast food chains such as KFC, McDonald's, Burger King, and Subway have seized the opportunity, soon followed by specialist coffee shops like Starbucks and Costa Coffee, as well as local restaurant chain Happy Bar&Grill and a host of independent operators spanning across all foodservice categories.

According to Euromonitor the growth prospects for consumer foodservice outlets at retail locations remain strong. Sales, however, will be driven less by shopping centers and more by a mix of modern and traditional grocery retail locations like hypermarkets, supermarkets and open markets.

SUB-SECTORS PROFILES

Full-Service Restaurants (See Table. 8)

The fastest growing concept in 2015 was North American full-service restaurants. Sales increased by 21% in current terms to reach BGN 2 million (U.S. \$1.12 million) as total outlets reached six in 2015. North American restaurants form a small niche within full-service restaurants, partially driven by the expat community. Nevertheless, the concept illustrates a key trend – a consumer drive towards greater and greater variety. The same demand fuelled growth in the second fastest developing concept – Latin American full-service restaurants. In 2015, sales in this concept increased by 4% in current terms to BGN 12 million (U.S. \$6.7 million), as outlets reached 36. In 2015 full-service restaurants saw revenues drop by 2% to 1.5 billion leva (U.S. \$838 million) mainly due to the shrinking tourists flow and the full indoor smoking ban. The tourist industry in Bulgaria is a major growth engine for full-service restaurants. The 2.9% decline in tourist visits in 2015 as well as the stable decline of country's population and slow in inbound flow impacted negatively the channel. Smokers gradually have adjusted to the ban and although the full-service restaurants were the most affected, it's expected that the forecast record year in tourist visits in 2016 will revive the sector. Asian and European type restaurants performed better and their sales declined by only 0.9% and 2% respectively. European restaurants benefitted the most from restaurants serving traditional Bulgarian and Balkan cuisine. Higher-end outlets are a large part of the category.

In 2013 full-service restaurants introduced lunch menus, especially those which are near to business and administrative areas, often with lower pricing as compared to their standard menu items. Another trend was the introduction of delivery services, and as of today over 90% of home deliveries are carried by full-service restaurants.

Independent players still account for 92% of sales. The chains Happy Bar&Grill (5% market share in value sales) and OMV Viva (2.9%) are the leading brands. Among independent companies, pizza restaurants remain most visible brands (smaller chains Don Domat, DonVito, Verdis, Djikov, Mama Mia, Mr. Pizza, Lachoni). Some of these chains try to expand via franchising (Don Domat, Verdi, Mamma Mia).

Quick Service (See Table. 9)

Asian quick service is the fastest growing with 13% sales increase in 2015, followed by Middle Eastern fast food with 5% sales increase. McDonald's is the leader in chained fast food in terms of value with

26.6% brand share, followed by Fornetti (Aryzta AG) with 24.8%, OMV Viva with 12.4%, Aladin Foods with 10.3%, and Subway and KFC with 8.5% and 8%. (Source: Euromonitor)

Although in 2015 quick service restaurants' sales dropped by a fraction of a percent to BGN 475 million (U.S. \$265.4 million), the number of outlets increased by 2% to 2,569. Some of the reasons were the economic challenges (loss of jobs) for the target clients - young people in the 15-35 age group and that young people become more concerned about health and environment impact of fast food. The operators quickly responded to the new trends by focusing on improving the health aspect of their image, mainly by introducing and promoting healthier ingredients such as variety of salads and fruits, low calorie menus, and/or higher quality and new ingredients, traditional Bulgarian white cheese or wholegrain bread.

Quick service foods are prevailing in the shopping centers which have become increasingly popular. Burger quick service food remains the most popular format.

Similar to full-service restaurants, quick service food leaders also introduced home deliveries (KFC, Subway, Aladin Foods), mainly via platforms such as Gladen.bg, BGmenu.com, Amam.bg, Foodpanda.bg and Mandja.bg.

Café/Bars (See Table. 10)

Café/Bars has the highest number of outlets, accounting for one third of all HRI outlets. The category has the largest customer base of age 18 and above. Cafés are the most popular and their customers include younger people, and the retired. Specialist coffee shops attract the age group 18-45 and are very trendy. Eat-in is typical.

Café/bars revenues dropped slightly in 2015 to BGN 1.45 billion (U.S. \$810 million), while the number of outlets rose by 1%. The main drivers behind the decline were the indoor smoking ban, although the effect was smaller on bars than it was for the full service restaurants, weak purchasing power, and the decline of the population. The best performing subsector in terms of revenue and outlets was the bars/pubs with BGN 1.1 billion (U.S. \$615 million) value sales in 2015. The highest growth in terms of sales increase by 13% and number of outlets by 11% was seen with juice and smoothie bars although their market share is still tiny at about 1%, however, they attract young and educated people in bigger cities who are health conscious and more concerned about healthy eating and drinking as well as non-smoker customers. Beside the healthy drinks, such establishments attract the customers with various fruit and vegetable salads, soups, and sandwiches with emphasis on health. Many bars now include smoothies on their menus too. In general, less than 10% of sales in this category come from food (salads, sandwiches, appetizers, soups, deserts); about 20% of these outlets are estimated to serve drinks only. The leading brands in 2015 were Nedelia and Costa Coffee with 49% and 20% shares, followed by Starbucks with 11% McCafe with 7.7%. The highest value sales growth by 11% was achieved by Fresh Group 89 EOOD – a company which operates a chain of 10 smoothie bars under the brand name Fresh Bar.

Self-service cafeterias (See Table 11)

Sales in self-service cafeterias are expected to increase by 1-2% in 2016/2017. In a long run this category is expected to achieve stronger growth should an economic and labor market growth continue with the projected pace. It saw an almost unnoticeable decline in sales of 1% to BGN 83 million (U.S. \$46.4 million) in 2015. Usually, self-service cafeterias target working younger people working at industries/administration/support services with wages below or around the average for the country as well as decided to attract pensioners offering discounts after work hours.

The prices at self-service cafeterias slightly decreased in 2015. The clear leader in this category is the local BMS Bulgarska Kuhnia with sales increased by 4% in 2015 to reach BGN 6 million (U.S. \$3.35 million) and a market share of 7%, followed by Trops House, and House Market Bulgaria AD (aka

IKEA Restaurant) which was the best performer in 2015 in terms of sales increase by 11% to reach BGN 1 million (U.S. \$0.56 million). BMS has progressed well in 2014/2015 due to choosing prime retail/shopping locations at malls.

Street kiosks

This category is traditional, dominated by independent players (98% of sales). Street kiosks offer a wide variety of snacks, hot dogs, pizza, sandwiches, pancakes, coffee, steamed corn, popcorn, ice cream, cotton candy, candy apples, nuts, sunflower and pumpkin seeds, and dried fruits. The assortment of foods has changed from more traditional hot dogs and pizza to healthier alternatives such as nuts, corn, pumpkin and various seeds. Sales are seasonal and pick up in summer months and around holidays. Mobile kiosks dominate in the category.

There are several chain brands – Boopa’s Hot Dog/36 outlets and Hot Dog Ken/21 outlets. The chain Raffy Bar&Gelato/8 outlets sells Italian style ice cream at prime locations. In 2013/2014 a new franchise chain Lafka emerged and quickly penetrated the market with 992 outlets in more than 120 towns.

Catering Service

The Bulgarian catering sector has become increasingly competitive in the past few years with more than 100 companies operating on the market. Catering businesses range from small to large-scale operations and are organized into several categories: Institutional caterers who supply larger factories, government institutions, private companies, and hospitals, airline caterers, hotels, corporate and private parties and events, and local small events caterers. The bigger catering companies do not limit their operations to one category only, but cover a few categories by supplying hospitals, institutions, hotels, and big to medium-size events.

Some of the medium-sized catering businesses usually import through better known and established importers and distributors. The target groups of the larger catering companies in Bulgaria are primarily government organizations, military services, hospitals, and office buildings. The share of imported food such as beef, seafood, nuts, dried fruits, snacks, confectionery products, sauces and seasonings, whiskey, wine, and soft drinks is bigger in catering service menus offered to hotels, airlines, private companies’ events and parties, and private events like weddings, birthdays, etc.

The major players in the market are companies such as Deli, VIP Catering, Laura, Cult Gourmet, CD Catering, Arina, Euro Catering, Famous Food, I&G, Liberty Food Service, Matti-D, Red Devil, Party Service, Rene Gourmet, ISP Catering, Lux Catering, as well as companies mainly focused on airline catering such as Alfa Airport Services, Abela, and LCS.

Most of the high-end hotels and restaurants such as Hilton, Sheraton, Radisson BLU, Grand Hotel Sofia, Enoteka Uno, Moto, Tabiet, and others provide high level catering services inside and outside of their facilities. Their main advantage is the established well-known and respected brand, which guarantees the high quality of service, food, and beverages including imported.

100% Home Delivery and Third Party Operators (See Table.12)

This is the fastest developing category in the foodservice sector with sales growth of 10% in 2015 reaching BGN 42 million (U.S. \$23.5 million). It is in tough competition with full service restaurants and quick service which developed their delivery services over the last 2-3 years. The forecast is that the sales in the channel will keep growing by 6-7% and developing to fully realize its potential to effectively serve full range of consumer niches.

Third party home delivery operators are becoming more popular in Bulgaria since their appearance in 2009. Main driver of the category was the economic crisis and growing unemployment at that time,

which forced many consumers to limit their visits to foodservice outlets and order food at home. This development forced some restaurants to explore alternative ways to reach their clients. Several big name third-party online ordering/delivery services entered the market from 2013 to 2015. Significant amounts were invested to ensure rapid growth in delivery volumes. In addition, there is a growing number of independent companies which are expanding into a well-known niche: office catering. With ever larger business areas developing and concentrating the majority of office workers in Bulgaria's largest cities, this has considerably improved the opportunity for smaller players to meet demand for catering among office-based workers.

Chained pizza saw the highest growth in 2015. Domino's Pizza brand, which runs the franchise activities of U.S. – based Domino's Pizza Inc., is the only chained operator in the 100% home delivery/takeaway sub-sector in Bulgaria, accounting for 23% of total value sales in the category.

Due to limited resources for advertising, the players rely on the type of cuisine they offer (exotic, Asian, Mexican or health oriented etc.) to draw in customers. Promotion is done online via web portals, social networks, or via aggregating platforms by the five largest operators BG Menu, Amam, Gladen, Foodpanda, and Manja. According to Euromonitor, over the second half of 2015 these operators saw between 20-50% growth in their local Facebook fans.

HRI Sector Major Brands and Players in Number of Outlets and Market Share, 2014 and 2015

Brands	Global Brand Owner	Out-lets	Share as a percent of foodservice value, 2014	Share as a percent of foodservice value, 2015
Fornetti	Fonetti Kft	488	16.8	16.2
McDonald's	McDonald's Corp	39	17.1	17.4
Go Grill	Go Grill OOD	63	3.0	2.8
OMV Viva	OMV Tankstellen AG	87	7.9	8.1
Aladin Foods	Aladin Foods OOD	29	6.4	6.8
Happy Bar&Grill	Happy Ltd.	24	16.2	16.1
Subway	Doctor's Associates Inc.	38	5.8	5.5
KFC	Yum! Brands Inc.	22	5.0	5.2
Nedelia	Nedelia OOD	23	4.2	4.4
Victoria Restaurant	ART 2000 OOD	8	3.1	2.5
Dunkin Donuts	Dunkin' Brands Group	12	2.6	2.7
Costa Coffee	Whitbread Plc	16	1.8	1.7
Burger King	Restaurant Brands International Inc	8	1.2	1.4
Domino's Pizza	Domino's Pizza Inc.	8	1.8	2.2
BMS Bulgarska Kyuhnia	BMS Group OOD	16	1.2	1.3
Fresh Bar	Fresh Bar OOD	10	0.2	0.2
Nordsee	Nordsee GmbH	2	0.9	0.7

Trops House	Trops House Ltd.	5	0.6	0.4
Starbucks	Starbucks Corp.	5	0.9	0.9
Mimas	Green Foods EOOD	6	0.3	0.8
McCafe	McDonald's Corp	8	0.6	0.7
Onda	God Created Coffee Break Ltd.	6	0.3	0.3
Sladkarnictci Pchela	Pchela 97 OOD	9	0.4	0.4
IKEA Bistro	Inter Ikea Systems BV	1	0.1	0.1
IKEA Restaurant	Inter Ikea Systems BV	1	0.2	0.2
Hot Dog KEN	KEN AD	21	0.3	0.3
Boopa's Hot Dog	Citizens Group Partners OOD	36	0.2	0.2
Euromonitor, 2015 data				

SECTION II. Market Opportunities

Advantages and Challenges Facing U.S. Products in Bulgaria

Advantages	Challenges
The expected HRI sector growth trend.	Domestic and intra-EU products supply a high proportion of Bulgarian food and beverages needs.
Bulgaria has a stable currency fixed to the Euro which eases market entry and transshipping.	U.S. exporters must conform to often difficult European standards and regulations.
Food consumption levels in Bulgaria are below average for the EU and have great potential to increase.	Competition in the Bulgarian food market is fierce and many consumers still prefer traditional products. Consumers are price sensitive.
High proportion of the household budget spent on food purchases.	Reduced consumer budget due to price-conscious consumers.
Consumers are receptive to modern and innovative products, although less so than elsewhere in Europe.	Unemployment and economic recession have kept consumers price sensitive.
Bulgarians value good quality food, innovative, healthy and reasonably priced products.	Lower disposable income makes consumers more price sensitive and choosing cheaper alternatives. U.S. suppliers must adapt products and prices to consumers' tastes and expectations.
Growing demand for fast food mainly at lunch time; suppliers may find a niche (soups, fruit juices, sodas, etc.).	Rate of growth in fast food sector may be limited.
Bulgarians like beef but produce tiny quantities and import almost all beef for direct	Suppliers must comply with European regulations such as food safety (non-

consumption. Increased quota for non-hormone beef imports enlarges market opportunities.	hormone), logistical constraints, and labeling regulations.
U.S. fast food chains, theme restaurants, and the food processing industry are raising demand for food ingredients.	Certain food ingredients are banned or restricted from the market.
Popularity of health-oriented lifestyle increases the demand for value added foods and ingredients.	Consumer spending is limited and price sensitive which makes local customers to prefer cheaper local alternatives.

Food Shows

<p>Foodtech: international exhibition of foods, drinks, packaging, machines, and technologies. Since 1995 it's one of the most representative food industry forums in Bulgaria with the attendance of all food industry related professional associations. Major categories: food products; materials, raw materials, consumables for food industry; machinery and equipment for food industry; packaging industry.</p> <p>Vinaria: international exhibition of vine growing and wine producing. Since 1993 it presents the entire panorama of the vine-growing and wine-making industry. Ranked among the leading exhibitions in the sector in Southeastern Europe.</p> <p>HORECA: international exhibition of equipment for hotels, restaurants, cafeterias, and commercial facilities. The show provides excellent platform for showcasing manufacturers and suppliers of equipment in HORECA industry.</p> <p>Date: February 22-26, 2017 Venue: International Fair, Plovdiv</p>

<p>SIHRE – hotel and restaurant equipment</p> <p>Interfood & Drink - Food, beverage, packaging, machinery, and technology.</p> <p>Meatmania – meat and meat products.</p> <p>The World of Milk – milk and dairy products.</p> <p>Bulpec – bread, bakery, confectionary, raw materials, additives, machinery, equipment, packaging.</p> <p>Salon de Vin – wines, spirits, and accessories.</p> <p>Date: November 9 -12, 2016. Venue: Inter Expo Center, Sofia</p>

SECTION III. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Prevailing Business Models and Market Entry Strategies

In general, the HRI sector is highly fragmented and dominated by independent players rather than chains, whose share in terms of outlets is only 2.8% and 9.5% of total sector value sales. Chains are more typical for quick service and specialist coffee shops and most of them demonstrated better results than the independent players in 2014 - 2015.

Franchising is the most successful model in the HRI sector and strongly recommended for new market players. It is practiced both by the international brands and by local companies in various forms

although domestic businesses still lag international standards. Franchising is a safe and cheap option for foreign/multinational chains to enter, operate and expand on the local market. The model guarantees to brand owners a wider brand presence with minimal effort, and is more convenient for new entrants who are not familiar with local business and administrative practices or with local bureaucracy or red tape. At the same time business owners (usually individuals or small family companies) benefit from the advantages of a proven and working business model. Due to the rather small size of the local market, franchising is a better option when compared to opening a representative office.

Most franchisees of foreign brands operate a large number of outlets (one brand per one franchisee - Costa Coffee); in other cases, one franchisee operates outlets for multiple brands (Samex Ltd. is a franchisee of Nordsee, Dunkin Donuts and KFC); or one brand has two franchisee operators - KFC operates through Samex Ltd. and Polish Amrest); it is also possible for the local franchisee partner to run multiple outlets on its own and the others to be run by different individual franchisees (Subway). Subway is often referred to as the most successful franchising business. Between 2008 and 2015, the company expanded to 38 outlets. More outlets are planned to open in 2016 and 2017 to reach 42. Franchising is especially popular for quick service and specialist coffee shops and lately for street kiosks as well. Examples for specialist coffee shops are many (Starbucks/U.S., Costa Cofée/UK, Onda/Italy, McCafe, Flocafé/Greece, Yan Coffee Break, Modera Cafe) followed by local specialist chains - confectionary operators Nedelia Ltd and Muffin House Ltd.

Franchising has been increasingly practiced by local players for expansion in the local market or even to neighboring countries. Aladin Foods (Middle Eastern cuisine fast food), Lafka (street kiosks offering snacks and coffee), and Happy Bar&Grill (full service restaurants) are just a few examples that demonstrate the scope and diversity of the model.

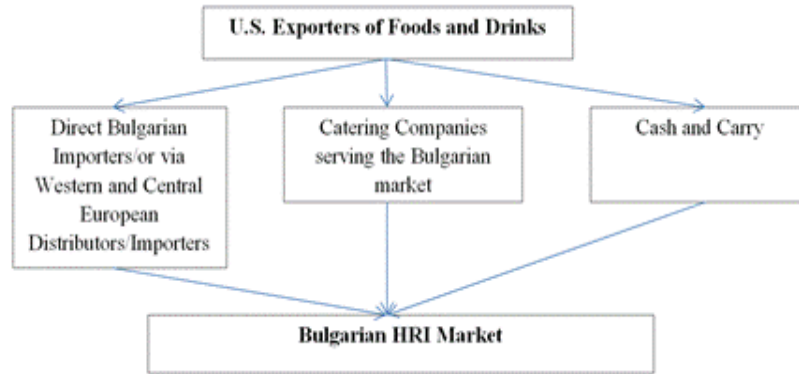
The model does not face any regulatory challenges now. The Association of Franchises in Bulgaria aims to promote this model and organizes various trainings and events to support franchising. It also facilitates contacts between foreign brand owners and potential partners in the country. Please visit <http://www.franchising.bg> for more details.

The two top leaders in quick service chains (McDonald and Viva OMV) entered the market by a different model - through local subsidiaries. After establishing a good network in the country, the operation and further expansion of the outlets is done by development licensees.

Multinational chains enjoy the confidence and loyalty of local consumers which in turn encourages new entrants. Expansion for these chains has been stimulated by the quick expansion of shopping malls over the last 5 years. Currently, the most popular chains are McDoland's, KFC, Subway, Burger King (since 2008), Dunkin Donuts, Nordsee, Starbucks (since 2008), Domino's pizza (since 2010), Fornetti, and Boopa's Hot Dog (since 2012). Most of these chains plan expansions in the number of outlets following their dynamic establishment and growth over the last 3-4 years. The expansion plans include not only new locations at newly opened shopping centers in bigger cities (Sofia, Plovidv, Varna) but also in smaller towns (Bourgas, Stara Sagora, Veliko Turnovo, Razgrad, Rousse).

A. MARKET STRUCTURE

The diagram below indicates product flow in the HRI sector for the U.S. exporters.



HRI Sector and Retail Locations Development

Bulgaria had practically no modern retail or HRI industry before 2007. There were only five shopping malls in the country in 2007. Since then, however, the retail sector was the first to experience quick growth which also benefited foodservice players. These benefits were especially evident in 2013 and 2014 when revenues of foodservice outlets at retail locations outperformed the average for the industry (5% vs 1%). For more information about the Bulgarian retail market please see FAS/Sofia’s latest GAIN [Retail Market](#) report.

The shopping malls expanded starting from just 85,000 sq.m. or gross leasable area (GLA) of 11 sq. m./1,000 inhabitants as compared to 200 sq. m average in the EU (2007). As of late 2016, there were 32 malls with more than 800 000 sq. m and GLA of 109 sq.m. compared to the EU average of 270. This index, however, was unevenly developed nationwide with Bourgas, Stara Sagora, Ruse and Gabrovo GLA above the EU average; Sofia is on par with the EU average; and Plovdiv, Varna and Pleven behind. New construction and better supply led to lower rents from USD \$45/sq. m (2007) to USD \$22/sq. m (2015) at shopping malls. This created new opportunities for prime locations for the foodservice players. Quick service chains such as McDonald’s, KFC, Subway, and Burger King were the first to benefit, along with specialist coffee shops and some full service restaurants (Happy Bar&Grill) and self-service cafeteria (BMS). Two new malls opened in Sliven in late 2015 and in Plovdiv in 2016 and brought another 30, 000 + sq. m. This is likely to lead to further decline in commercial rents at prime retail locations which will be an additional advantage for foodservice outlets compared to other alternatives.

HRI Performance 2015/2016 Overview and Prospects

Despite the slight decline in sales by about 1% in café/bars and self-service cafeterias it is expected that both categories will register increase in sales if economic and labor market growth continue with the projected pace.

Full-service restaurants are expected to grow at a moderate rate at about 1% annually until 2020. The category will likely to benefit from more frequent visits of non-smokers and from a gradual rise in consumer spending due to an improving economy. The threats are related to the economic recovery (jobs and income) as well as from a fall of tourist flow. Exotic cuisine restaurants (Japanese, Thai, Indian etc.) are likely to succeed due to greater interest in more exotic cuisine. Real growth is expected to continue in niche areas like North American and Latin American restaurants, but also in larger Middle Eastern and pizza restaurants. Growth here will be driven mainly by consumer desire for a variety of food and cuisine.

Quick service restaurants are also expected to grow at a moderate rate of 1% - 1.5% annually until 2020. They will benefit from the rise in consumer spending due to improving employment opportunities for younger people and middle- to low-income consumers; and will likely respond positively to the health

and environmental concerns by offering new menu items stressing on health benefits.

Although the forecast for café/bars is rather reserved, it's expected that various mix concepts of cafés and restaurants or cafés and quick service will help revive the category. It will promote healthier drinks such as fresh juices and smoothies to attract young and educated consumers who are health conscious and more concerned about healthy eating and drinking as well as non-smoker customers.

The prospects for self-service cafeterias are for moderate growth up to 2% until 2020. Independent operators will continue to dominate as they experiment with new concepts and respond faster to changes in consumer behavior. The growth of the category will depend strongly on the economic recovery, strengthening of the labor market, and income increase, which will directly impact the size of the customer base of self-service cafeterias.

Street kiosks are likely to have a promising growth in the medium term. In addition to being traditional outlets and so are very popular, they can quickly adapt to new trends (healthier snacks) at very low cost and compete with quick service; can expand fast due to low capital needs to enter this business; may benefit from further economic recovery; and finally, will benefit from the expected higher spending of families with children and tourists.

The category of 100% home delivery is expected to generate good growth in the near/medium term. The growth is expected to come from non-pizza deliveries of exotic and health-oriented cuisine. The category will have to struggle with the competition from full service restaurants and quick service which also developed their delivery services.

Competition

Product	Major Suppliers	Market Summary
Dried fruits and nuts	USA, Turkey, Israel, Iran	Lower prices from competitive countries. However, U.S. products dominate in almonds and pistachios due to quality.
Dry legumes (peas, lentils and beans)	Kyrgyzstan, Ethiopia, China, Canada, Turkey, Argentina, USA	Bulgaria imports almost all dry legumes (beans, lentils, and peas). Competitors offer lower prices but US advantage is quality and variety.
Beef	France, Argentina, Uruguay, Australia, USA	Argentina and France remain the major suppliers. U.S. beef steaks are less price competitive.
Fish and seafood	U.K., Norway, Spain, Denmark, Peru, Netherlands, USA	U.K. and Norway are price competitive and able to supply the fish and seafood varieties demanded by local consumers.
Sauces, salad dressings and seasonings	EU countries USA	Price competitive and no custom duties. The US is able to supply a variety of regional sauces.
Canned fruits and vegetables	West and Eastern Europe	Price competitive. No duties for EU imports.
Ready-to-eat meals	EU countries and China	Imports are at competitive prices.
Wine	Italy, Spain, France, Portugal and New World wines, USA.	Price competitive since no duties inside the EU. Quality creates opportunities for US wines.
Fruit juices	Greece, Brazil, Spain, Poland	Lower prices from the EU and Brazil. However, Florida juices have a good reputation.
Ethnic Foods	China, Japan, India,	Rising sales of Tex-Mex products.

		Opportunities exist for other U.S./regional cuisines, such as Cajun.
Rice	Vietnam, Thailand, China,	Thailand, China and India offer quality and low price products. Biotech testing is a constraint.
Fresh fruits (including grapefruits & exotic fruits)	Turkey, Macedonia, Spain, Italy, Syria, Morocco, Israel, South Africa	Preference is given to EU suppliers and neighborhood countries due to special tariff rates.

SECTION IV. BEST PRODUCTS PROSPECTS

- Best opportunities for U.S. frozen foods in the HRI sector are for dried fruits and tree nuts; fish and seafood (salmon, hake, herring, lobster), beef meat, pulses (dried beans and lentils); snacks (breakfast cereals and popcorn); and frozen desserts (such as cakes and ice cream);
- Other opportunities for U.S. suppliers include: fruit juices and soft drinks (including flavored spring waters), fresh fruits including grapefruits and exotic fruits, ethnic products, soups, ready-to-eat meals and ethnic/regional sides or meals;
- There is also a demand for salad dressings, tomato sauces, and spices; specialty beer; and chocolate;

SECTION V. POST CONTACT AND FURTHER INFORMATION

Internet home pages of potential interest to U.S. food and beverage exporters are listed below:

FAS/Washington www.fas.usda.gov
U.S. Mission to the European Union <http://useu.usmission.gov/agri/usda.html>
European Importers Directory www.american-foods.org

If you have any questions or comments regarding this report, or need assistance exporting to Bulgaria, please contact the U.S. Agricultural Affairs Office in Sofia at:

Foreign Agricultural Service
U.S. Department of Agriculture
Embassy of the United States of America
16 Kozyak Str.
1408 Sofia, Bulgaria
Tel: (+359-2) 939-5774
Fax:(+359-2) 939-5744
e-mail: agsofia@fas.usda.gov
Web: <http://bulgaria.usembassy.gov/fas.html>

List of Bulgarian HRI Sector Associations

Bulgarian HoReCa National Association

www.xopeka.com

Address: 8, Sveta Sofia St., fl.2, Sofia 1000

Tel: ++359 (02) 9805248; 0889 203471
Email: info@xopeka.com

Bulgarian Hotel and Restaurant Association

<http://www.bhra-bg.org/>

Address: 5 B Triaditza St., fl.1, Sofia 1000

Tel: ++359 2 987 65 86

Email: bhra_office@abv.bg

Bulgarian Tourist Chamber

<http://www.btch.bg/>

Address: 8, Sveta Sofia St. Sofia 1000

Tel: +359 2 986 5133

Bulgarian Association of Professional Chefs

<http://www.bapc.bg/>

Address: 20, Hristo Belchev St., Sofia 1000

President: Andre Tokev

andre.tokev@bapc-bg.com

Vice President Ivan Manchev

ivan.manchev@bapc-bg.com

HRC Culinary Academy

<http://www.hrcacademy.com>

Sofia branch: 9 Petar Beron St, Sofia 1000, Bulgaria

Dobrich branch: 3 Bulgaria St, Dobrich 9300, Bulgaria

Tel: +359 (2) 426 02 58 / +359 884 037 049 / +359 (58) 601 611

Email: info@hrcacademy.com

National Hospitality Management Club

www.hotelier.bg

Address: 2, "Acad.Boris Stefanov" Str., office 4, Sofia 1700

Tel: (+359 2) 421 40 40

Fax: (+359 2) 422 41 41

Bulgarian Sommeliers and Wine Connoisseurs Association

<http://bgsommelier.com/>

Address: 54, Lyuben karavelov St. , Varna 9000

Tel: +359 (887) 626080

Fax: +359 (52) 610 307

Email: office@bgsommelier.com

National Bartenders Training Center

<http://www.barmanager-bg.com/>

Address: 45, Strandja St, Varna

Tel: ++359 (0) 898 487 249

ANNEX

Table 5. Consumer Foodservice by Independent vs Chained: Units/Outlets 2015

outlets	Independent	Chained	Total
100% Home Delivery/Takeaway	67.0	8.0	75.0
Cafés/Bars	19,918.0	78.0	19,996.0
Full-Service Restaurants	8,703.0	32.0	8,735.0
Fast Food	1,833.0	736.0	2,569.0
Self-Service Cafeterias	203.0	22.0	225.0
Street Stalls/Kiosks	3,610.0	120.0	3,730.0
Pizza Consumer Foodservice	996.0	16.0	1,012.0
Consumer Foodservice	34,334.0	996.0	35,330.0

Source: Euromonitor

Table 6. Sales in Consumer Foodservice by Eat-in/Home Delivery/Takeaway/Drive-Through: % Foodservice Value 2015

% value analysis	Eat in	Home Delivery	Takeaway	Drive-Through	Total
100% Home Delivery/Takeaway	-	94.9	5.1	0.0	100.0
Cafés/Bars	90.8	-	9.2	-	100.0
Full-Service Restaurants	83.1	10.8	6.1	-	100.0
Fast Food	65.3	4.4	26.7	3.6	100.0
Self-Service Cafeterias	90.1	5.6	4.3	-	100.0
Street Stalls/Kiosks	-	-	100.0	-	100.0
Consumer Foodservice	80.7	6.2	12.6	0.5	100.0

Source: Euromonitor

Table 7. Sales in Consumer Foodservice by Food vs Drinks Split: % Foodservice Value 2015

% value analysis	Food	Drink	Total
100% Home Delivery/Takeaway	87.7	12.3	100.0
Cafés/Bars	6.4	93.6	100.0
Full-Service Restaurants	28.7	71.3	100.0
Fast Food	64.7	35.3	100.0
Self-Service Cafeterias	60.4	39.6	100.0
Street Stalls/Kiosks	52.4	47.6	100.0
Consumer Foodservice	26.6	73.4	100.0

Source: Euromonitor

Table 8. Full-Service Restaurants by Category: Units/Outlets 2013-2015

Outlets	2013	2014	2015
Asian Full-Service Restaurants	483.0	475.0	470.0
- Independent Asian Full-Service Restaurants	483.0	475.0	470.0
European Full-Service Restaurants	7,646.0	7,625.0	7,604.0

- Chained European Full-Service Restaurants	25.0	25.0	24.0
- Independent European Full-Service Restaurants	7,621.0	7,600.0	7,580.0
Latin American Full-Service Restaurants	33.0	35.0	36.0
- Independent Latin American Full-Service Restaurants	33.0	35.0	36.0
Middle Eastern Full-Service Restaurants	81.0	84.0	86.0
- Independent Middle Eastern Full-Service Restaurants	81.0	84.0	86.0
North American Full-Service Restaurants	5.0	5.0	6.0
- Independent North American Full-Service Restaurants	5.0	5.0	6.0
Pizza Full-Service Restaurants	530.0	527.0	521.0
- Chained Pizza Full-Service Restaurants	10.0	10.0	8.0
- Independent Pizza Full-Service Restaurants	520.0	517.0	513.0
Other Full-Service Restaurants	11.0	11.0	12.0
- Independent Other Full-Service Restaurants	11.0	11.0	12.0
Full-Service Restaurants	8,789.0	8,762.0	8,735.0

Source: Euromonitor

Table 9. Sales in Quick Service by Category: Foodservice Value 2013-2015

BGN million	2013	2014	2015
Asian Fast Food	0.6	0.9	1.1
Bakery Products Fast Food	129.9	128.1	123.6
- Chained Bakery Products Fast Food	115.1	113.4	108.8
- Independent Bakery Products Fast Food	14.8	14.7	14.8
Burger Fast Food	140.5	140.3	141.3
- Chained Burger Fast Food	81.0	82.6	83.7
- Independent Burger Fast Food	59.5	57.7	57.6
Chicken Fast Food	59.5	60.3	60.8
- Chained Chicken Fast Food	20.4	22.6	23.2
- Independent Chicken Fast Food	39.1	37.7	37.6
Convenience Stores Fast Food	37.8	35.6	36.0
- Chained Convenience Stores Fast Food	37.8	35.6	36.0
Fish Fast Food	4.3	4.2	3.2
Ice Cream Fast Food	10.8	10.7	10.7
- Chained Ice Cream Fast Food	1.3	1.4	1.4
- Independent Ice Cream Fast Food	9.4	9.3	9.3
Middle Eastern Fast Food	58.1	60.5	63.7
- Chained Middle Eastern Fast Food	26.9	30.3	33.6
- Independent Middle Eastern Fast Food	31.2	30.2	30.1
Pizza Fast Food	35.9	34.0	33.8
- Independent Pizza Fast Food	35.9	34.0	33.8
Other Fast Food	0.3	0.3	0.3
Fast Food	477.5	474.9	474.6

Source: Euromonitor

Table 10. Sales in Cafés/Bars by Category: Foodservice Value 2013-2015

BGN million	2013	2014	2015
Bars/Pubs	1,066.4	1,063.2	1,062.1
Cafés	357.2	360.0	358.2
Juice/Smoothie Bars	4.9	5.5	6.1
Specialist Coffee Shops	24.7	25.6	25.7
Chained Cafés/Bars	38.6	39.1	38.1
Independent Cafés/Bars	1,414.5	1,415.1	1,414.1
Cafés/Bars	1,453.1	1,454.2	1,452.2

Table source: Euromonitor data

Table 11. Brand Shares in Chained Self-Service Cafeterias: % Foodservice Value 2013-2015

% value	Global Brand Owner	2013	2014	2015
BMS Bulgarska Kuhnya	BMS Group OOD	48.0	57.2	63.3
Trops House	Trops House Ltd	40.8	30.0	21.5
Ikea Restaurant	Inter Ikea Systems BV	8.4	9.6	11.4
Others	Others	2.8	3.2	3.8
Total	Total	100.0	100.0	100.0

Source: Euromonitor

Table 12. Sales in 100% Home Delivery/Takeaway by Category: Foodservice Value 2013-2015

BGN million	2013	2014	2015
Pizza 100% Home Delivery/Takeaway	18.7	21.7	23.8
- Chained Pizza 100% Home Delivery/Takeaway	5.7	8.0	9.6
- Independent Pizza 100% Home Delivery/Takeaway	13.0	13.8	14.2
Other 100% Home Delivery/Takeaway	14.4	16.0	17.7
- Independent Other 100% Home Delivery/Takeaway	14.4	16.0	17.7
Chained 100% Home Delivery/Takeaway	5.7	8.0	9.6
Independent 100% Home Delivery/Takeaway	27.4	29.7	31.9
100% Home Delivery/Takeaway	33.1	37.7	41.5

Source: Euromonitor

End of Report