USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Voluntary - Public

Date: 12/18/2018

GAIN Report Number: BU1845

Bulgaria

Post: Sofia

Hotel Restaurant and Institutional (HRI) Food Service 2018

Report Categories:
Food Service - Hotel Restaurant Institutional

Approved By:
Jonn Slette, Agricultural Attaché

Prepared By:
Alexander Todorov, Marketing Specialist

Report Highlights:
The following report contains information about Bulgaria’s hospitality, restaurant, and institutional (HRI) food-service industries. It provides an overview of the advantages and challenges, market opportunities, and key channels of distribution for U.S. food and beverage products vis-à-vis these sectors in Bulgaria.

Market Fact Sheet: Bulgaria

Executive Summary

Bulgaria continues to transition into a market economy and government intervention into foreign investment and trade is decreasing. The Bulgarian economy continues to transition from command-and-control to full market-orientation. During the last three years, gross domestic product (GDP) grew annually by over three percent. Exports generate almost 50 percent of Bulgaria's GDP and are a pillar of the economy. Today, other EU members are Bulgaria's primary trading partners, although there are significant balance of trade variations among different Member States. In 2017, Bulgaria experienced a trade deficit of about €3.5 billion ($4.06 billion). Agriculture made up 4.3 percent of Bulgaria's GDP in 2017.

SWOT Analysis

Strengths	***Weaknesses***
Bulgarian market is accessible by sea and has efficient domestic distribution network. Growing food processing industry is looking for new imported ingredients. Low marketing cost.	U.S. products are disadvantaged because of duties versus products from EU Member States and countries with EU free trade agreements (FTA).
Opportunities	***Threats***
Growing incomes, increasing demand for high-value products, fast developing food retail network, consumption habits changing towards high-quality food and drinks	Bulgarian domestic producers are receiving European funding to upgrade production efficiency and product quality which decreases the demand for imports.

Imports of Consumer-Oriented Products

Goods imported into the EU must meet EU sanitary and phytosanitary requirements. For more information, please refer to FAS Sofia's latest Food and Agricultural Import Regulations and Standards (FAIRS) report (see link below). In 2017, Bulgaria imported consumer-oriented agricultural products for 1.99 billion (an increase of almost 12 percent over 2016). Over 85 percent of these originated from other EU members.

Food Processing Industry

The food processing Industry is developing rapidly and accounts for about 20 percent of total industrial production. About 6,000 food processing facilities employ nearly 100,000 people. Leading food-industry sectors include bakery and confectionery, dairy production and processing, meat products, poultry and eggs, confectionary products, horticultural processing, and wine.

Food Retail Industry

Bulgarian food retail sales reached $6.6 billion in 2017. Modern-retail sales accounted for $3.5 billion (53 percent), with about $3.1 billion of sales in traditional channel. The total number of outlets is 41,872. Food retail grew in 2017 due to improved consumer confidence. A 10-percent minimum wage increase was introduced in early 2017 and was another growth factor. Kaufland was the largest retailer and accounted for about 18 percent of sales. Ecommerce is developing slowly. Demand for high-quality and healthful food is emerging, particularly among urban consumers.

Quick Facts CY 2017

Imports of Consumer-Oriented Products *(USD billion)* 1.99

List of Top 10 Growth Products in Host Country

1) Coffee Substitutes
2) Peas (fresh or chilled)
3) Tea
4) Spices
5) Dried Vegetables
6) Citrus Fruits
7) Sheep Meat
8) Nuts
9) Coconuts
10) Dairy Spreads

Food Industry by Channels (USD billion) 2017

Food Industry Output - Turnover	4.9
Food Exports – Agricultural Total (2016)	4.7
Food Imports – Agricultural Total (2016)	3.3
Retail	6.6
Food Service	3.4

Food Industry Gross Sales (USD Billion) 2017

Food Industry Revenues

- Food (Domestic market) 4.9

Top 10 Host Country Retailers

1) **Kaufland**
2) **Metro Cash&Carry**
3) **Lidl**
4) **Billa**
5) **Fantastico**
6) **Tabak Market (Lafka)**
7) **Maxima (T-Market)**
8) **CBA**
9) **Lagardere Travel Retail**
10) **Avanti 777**

GDP/Population

Population *(millions)*: 7.05
GDP *(billion USD)*: 60.5
GDP per capita *(USD)*: 8,520

Data and Information Sources: Euromonitor, GTA, Local sources

SECTION I. MARKET SUMMARY

Bulgarian National Bank's 2017 average exchange rate of $1.00=BGN 1.63 was used in this report.

Macroeconomic Situation

The current center-right government continues to successfully maintain a tight, IMF-backed fiscal policy. The Bulgarian lev (BGN) is pegged to the Euro at just under two-to-one by the Currency Board. Bulgaria's corporate and income tax rates of 10 percent are the lowest in the EU. The value-added tax (VAT) rate is 20 percent. The Government of Bulgaria (GOB) prides itself on its fiscal discipline, low tax rates, and incrementally increasing revenue collection.

Tourism Industry

Bulgaria's tourism sector is developing quickly. While the centers of Bulgarian tourism remain the Black Sea beaches and mountain resorts, spa and historical tourism are also becoming increasingly important. According to the Ministry of Tourism, 8.9 million tourists, a record number (the population of Bulgaria is 7.05 million), visited Bulgaria in 2017. Bulgaria has established itself as a low-budget destination for European travelers. However, hospitality and culinary organizations seek to raise awareness and change perceptions about Bulgarian tourism to attract more high-income travelers.

Hospitality Industry

Bulgarian middle- and high-end hotels (three, four, and five stars) dominate with about 70 percent of available rooms. Although they offer few rooms, there are many more lower-end hotels in Bulgaria and this segment still makes up the highest number of businesses (about 51 percent). International business travelers generally stay in recognized international hotels with international-standard quality rooms and services located in central business districts.

Infrastructure

Currently there are four civil international airports in Bulgaria, including Sofia, Varna, Burgas, and Plovdiv. The largest airport is in Sofia, which serviced nearly 6.5 million passengers in 2017 (approximately five million in 2016).

Bulgaria's infrastructure is relatively well-developed and continues to improve. In addition to the abovementioned airports, there are also seven major highways, 230 railway stations, two seaports on the Black Sea, and numerous river ports along the Danube River. Bulgaria is a major trade hub for linking Northern Europe with the Middle East and North Africa.

Dining Culture

Bulgarians generally like to dine out, with lunch and dinner being the most common meals for dining out. Breakfast is usually eaten at home, although bakery products and foods from street kiosks are commonly consumed during breakfast. Worksites with canteens or cafeterias also often service breakfast.

In the quick-service sector, burgers and sandwiches tend to be the most popular due to affordability and quick availability. Over the last four years, Post has observed a flourishing tend in gourmet burger and street food, with new outlets opening and established ones diversifying their menus. Food delivery to offices and homes has also gained in popularity. Local consumers tend to prefer coffee over tea, although most coffee shops offer both. Beer is the most popular alcoholic beverage, followed by wine and distilled spirits.

HRI Sector Overview
The HRI sectors in Bulgaria are still young industries without long-term professional traditions, especially in the high-end segment. HRI has developed dynamically in recent years, with economic and demographic changes, tourism, shopping malls, and upscale urban restaurants driving growth. In 2017, the food service industry recorded a five-year high.

Consumer Food Service Outlets and Value Sales in 2015-2017

	2015	2016	2017
Outlets	39,321	39,282	39,622
BGN million current prices	4,845.4	5,161.2	5,504.8

Table source: Euromonitor data

2017 marked a turning point and a return to stabilization and growth as trade forecasts predict that the number of HRI outlets will be stable at about 40,300 in 2019 and 2020. Sales are projected to grow at BGN 6.05 billion ($3.71 billion).

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.
High proportion of the household budget is spent on food purchases. Consumers are receptive to modern, innovative, and healthy products, although less so than elsewhere in Europe.	Lower disposable income makes consumers more price sensitive and choosing cheaper alternatives.
Bulgarians like beef but produce tiny quantities and import almost all beef for direct consumption. Increased quota for non-hormone beef imports enlarges market opportunities.	Suppliers must comply with European regulations such as food safety (non-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.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

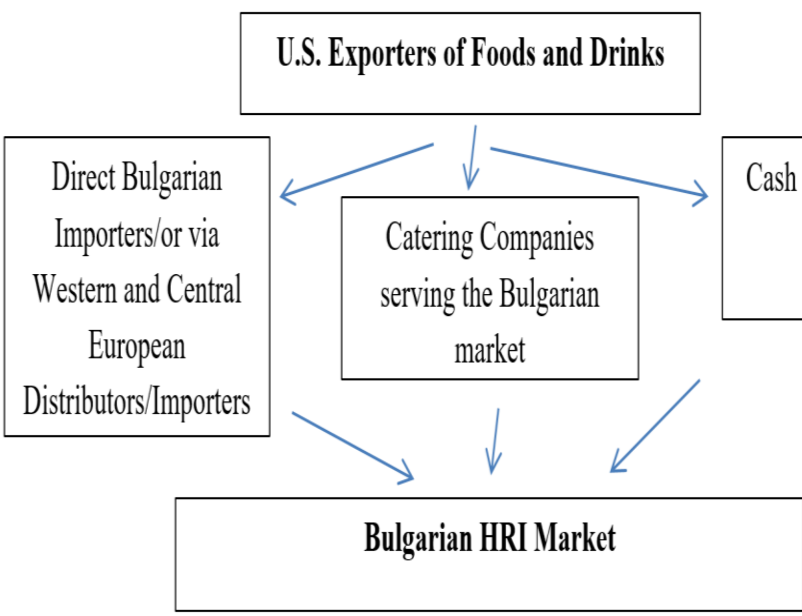
Prevailing Business Models and Market Entry Strategies
In general, the food-service sector is highly fragmented and dominated by independent players (90 percent) rather than chains. The leading chains in 2017 were Happy Bar & Grill, McDonald's, and Fornetti. The fastest developing independent category was full-service restaurants, followed by cafés/bars, 100-percent home delivery/takeaway, fast food, street kiosks and self-service cafeterias.

The top leaders in the quick service segment are McDonald's and Viva OMV. Franchising remains a successful model that is less-risky way for new market entrants. Franchising is practiced by the international brands and by local companies in various forms, although domestic businesses still lag in terms of standards. It offers brand recognition and is more convenient for new entrants who are not familiar with local business and/or legal practices. Franchising does not currently face any regulatory hurdles and is supported by the Association of Franchises in Bulgaria. This organization facilitates training activities and linkages between foreign brand owners and potential local partners.

The best method to reach Bulgarian prospective business partners is to contact them directly via e-mail or to reach out to the FAS Sofia office for additional assistance and guidance. A visit to Bulgaria is strongly recommended to establish meaningful relationships with Bulgarian buyers. When visiting Bulgaria, Post advises to bring product catalogues, samples, and price lists to show to potential buyers, as many of them rely heavily on subjective factors when deciding on new products to represent. Companies should consider contacting Post for guidance when arranging a trade-related visit to Bulgaria**.**

B. MARKET STRUCTURE AND DISTRIBUTION

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



C. SUB-SECTOR PROFILES

Full-Service Restaurants: Full-service restaurants were the fastest growing category in 2017 with an eight-percent sales increase. The fastest growing model is 'casual dining' full-service restaurants. Tourism and rising incomes are the major growth engines in this segment.

Quick-Service Restaurants: The quick-service category grew by four percent in 2017 over 2016. Quick-service growth is driven mainly by burger-focused establishments. Increasing incomes, lower unemployment, and tourism support sales growth in this category. McDonald's, OMV Viva, and KFC are the leaders in this segment (*Source: Euromonitor*).

Cafés and Bars: Cafés and Bars have the highest number of outlets and account for over half of all HRI outlets. Cafés are the most popular and their customer base tends to be younger and retired people. Coffee shops are popular and attract people in the 18-45 age group. This segment registered seven-percent growth in 2017 with sales over BGN 2.2 billion ($1.35 billion). Top market leaders are Nedelia, Costa Coffee, and Starbucks (*Source: Euromonitor*).

Self-service cafeterias: Self-service cafeteria sales increased by two percent in 2017. This category is expected to achieve strong long-term growth, particularly if current demographic and macroeconomic trends continue. Self-service cafeterias target younger white-collar and middle-income consumers, as well as pensioners through discounts. Market leaders are BMS Bulgarska Kuhnya, Trops House, and IKEA Restaurants (*Source: Euromonitor*).

Street Kiosks: Sales in the kiosk category grew by four percent to BGN 295 million ($181 million). Street kiosks offer snacks, hot dogs, pizza, sandwiches, pancakes, coffee, steamed corn, popcorn, ice cream, cotton candy, candy apples, nuts, sunflower and pumpkin seeds, and dried fruits. Menus have 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 during summer months and around holidays due to favorable weather and tourists inflow. Mobile kiosks dominate in the category. The market leaders are Fornetti and Go Grill.

Catering Services: The Bulgarian catering sector is increasingly attractive and more than 100 companies are now operating on the market. Catering businesses range from small to large-scale operations and are organized into several categories. Institutional caterers supply larger factories, government agencies, private companies, hospitals, airline caterers, hotels, corporate and private parties and events, and local small events caterers. Bigger catering companies do not usually limit operations to one category, but cover a few categories by supplying hospitals, institutions, hotels, and big to medium-size events.

100 Percent Home Delivery and Third Party Operators: This is also a fast-developing category in the food service sector with sales growth of 22 percent in 2017 reaching BGN 72 million ($44 million) *Source: Euromonitor*. This segment also competes with full-service and quick-service restaurants, which have developed their delivery services over the last four to five years. Pizza delivery is the main driver with Domino's Pizza being the undisputed leader. Other players on the market are Amam, Gladen, BGMenu, and Foodpanda. The sector is currently expanding beyond Sofia, where it was concentrated in the recent years, to second-tier cities like Plovdiv, Varna, and Burgas.

10 Largest Food Service Chain By Value (2015-2017)

Percent value	2015	2016	2017
Happy Ltd	19.8	21.6	21.4
McDonald's Corp	14.6	13.7	13.0
Aryzta AG	16.3	13.2	12.9
OMV Tankstellen AG	6.7	6.1	6.1
Yum! Brands Inc	5.7	6.0	6.0
Domino's Pizza Inc	2.8	4.4	5.8
Aladin Foods OOD	5.7	5.8	5.8
Nedelia OOD	3.7	4.0	4.2
Hellenic Petroleum SA	3.8	3.8	3.8
ART 2000 OOD	2.8	3.0	3.0

Source: Euromonitor

SECTION III. COMPETITION

Product	Major Suppliers	Market Summary
Dried fruits and nuts	USA, Turkey, Vietnam, India	Lower prices from competitors, but U.S. products dominate in almonds and pistachios due to quality.
Dry legumes (peas, lentils and beans)	Egypt, Kyrgyzstan, Turkey, Canada, Greece, Ethiopia, Argentina, United States	Bulgaria imports almost all dry beans and pulses. Competitors offer lower prices. The U.S. advantage is quality and variety. Challenges are new EU tariffs on dried beans and the CETA FTA.
Beef	Ireland, Argentina, Uruguay, Australia, USA	Argentina and Uruguay are major suppliers, as most U.S. beef tends to be more expensive.
Fish and seafood	Greece, Denmark, Spain, Netherlands, Canada, United States	EU suppliers are price competitive and able to supply faster and cheaper the fish and seafood varieties demanded by local consumers. U.S. disadvantage is the recently imposed tariffs and CETA FTA.
Sauces, salad dressing and seasonings	EU countries, United States	Price competitive and no custom duties. The U.S. 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	Imports are at competitive prices.
Wine	France, Italy, Spain, Germany, Chile, Austalia, United States, New Zealand	Price competitive since no duties inside the EU. Quality creates opportunities for U.S. wines. Strong domestic production and competition from New Zealand, South Africa, and Chile.

Fruit juices	Romania, Poland, Austria, France, Ireland, Germany	Lower prices from the EU. However, Florida juices have a good reputation.
Ethnic Foods	China, Japan, India,	Interest in Tex-Mex products and other regional U.S. cuisines, e.g. Cajun.
Rice	Greece, Spain, Cambodia, Italy, Myanmar, Portugal	Cambodia and Myanmar offer quality and low price products. Biotech testing is a constraint.
Fresh fruits	Greece, Turkey, Ecuador, Netherlands, Germany, Italy, Spain, Poland, Macedonia	Preference is given to EU suppliers and neighborhood countries due to tariffs and EU phytosanitary barriers.

Source: World Trade Atlas and FAS Sofia's research

SECTION IV. BEST PRODUCTS PROSPECTS

- Best U.S.-origin opportunities in HRI sector are for distilled spirits, dried fruits and tree nuts, fish and seafood (squid, mackerel, hake, lobster, salmon, herring, pollock), beef, pulses, snacks, breakfast cereals, and popcorn, frozen cakes, and ice cream).

- Other opportunities exist for U.S. fruit juices and soft drinks (including flavored waters), ethnic products, soups, ready-to-eat meals, grapefruit, salad dressing, tomato sauce, spices, craft beer, and chocolate.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Websites of potential interest to U.S. food and beverage exporters are listed below:
FAS Washington www.fas.usda.gov
FAS Europe http://fas-europe.org/

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

Office of Agricultural Affairs
16 Kozyak Str.
1408 Sofia, Bulgaria
Tel: (+359-2) 939-5774; 939-5720
E-mail: agsofia@fas.usda.gov
Web: https://bg.usembassy.gov/embassy/sofia/sections-offices/foreign-agricultural-service/

List of Bulgarian Government Institutions and HRI Sector Associations

Bulgarian Ministry of Tourism
http://www.tourism.government.bg/en
Address: 1 Saborna Str., Sofia 1000
Tel: +359-2-9046-809
Fax: +359-2-4470-899
Email: edoc@tourism.government.bg

Bulgarian HoReCa National Association
http://www.xopeka.com/english/
Address: 8 Sveta Sofia St., fl.2, Sofia 1000
Tel: +359-2-980-5248; +359-889-203-471
Email: info@xopeka.com

Bulgarian Hotel and Restaurant Association
http://www.bhra-bg.org
Address: 18 Han Asparuh St., Sofia 1000
Tel: +359-2-986-42-25
Email: bhra_office@abv.bg

Bulgarian Tourist Chamber
http://www.btch.bg/
Address: 8 Sveta Sofia St., fl.4, Sofia 1000
Tel: +359-2-986-5133
e-mail: btch@abv.bg

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
59 Tsar Boris Blvd. Sofia 1612
Tel: +359-2-426-02-58
Email: info@hrcacademy.com

Bulgarian Sommeliers and Wine Connoisseurs Association
http://bgsommelier.com/
Address: 54 Lyuben Karavelov St., Varna 9000
Tel: +359-887-626-080
Fax: +359-52-610-307
Email: office@bgsommelier.com

National Bartenders Training Center
http://www.barmanager-bg.com/
Address: 45 Strandja St, Varna
Tel: +359-898-487-249