

Analysis of the Meat and Meat Products Market in Bulgaria

January 2013

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Issued with the support of „America for Bulgaria Foudnation”

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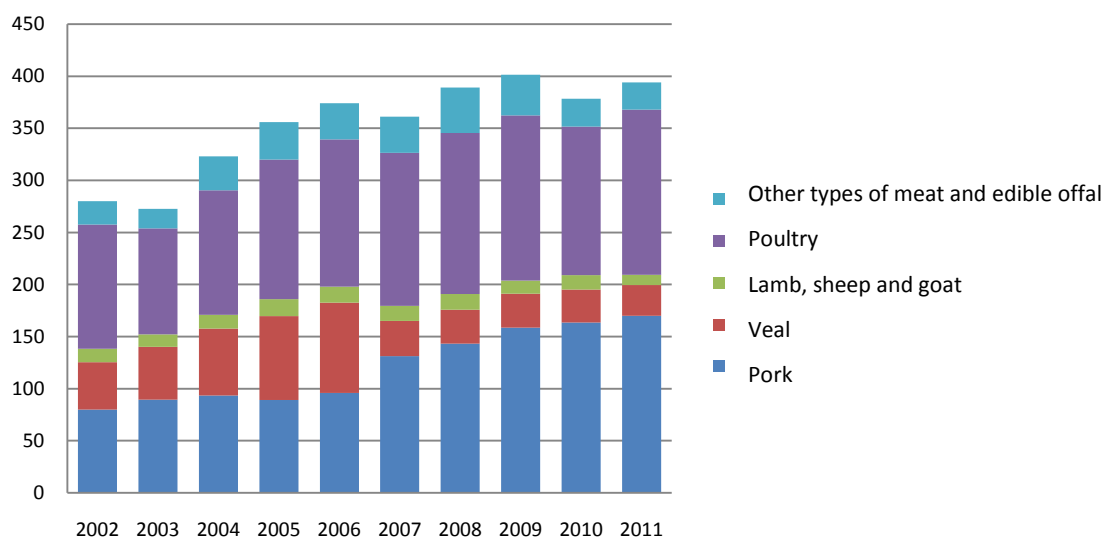
Main observations

- After the major growth of about 40% during the 2002-2009 period, the meat market in Bulgaria has undergone a major correction. The high levels from 2009 are not likely to be reached again until 2015; after that a new growth of the market is expected due to the overall growth of the economy;
- Forecasts show that the consumption of meat per household is to grow up to 38 kilograms per year from the current level of 32 kilograms, provided that a 3% yearly growth of GDP is achieved during the 2015-2020 period;
- Meat consumption is going to shrink more in 2013 because of the increased retail prices, which will put pressure on the supply chain;
- Despite the economic crisis a certain market reorientation towards meat instead of meat products has been witnessed;
- Chicken and pork meat are the most perspective meats for the internal market, and chicken and lamb – for export
- Veal and lamb meat consumption on the internal market will continue to decline in 2013 and will keep its relatively steady low levels in the next few years;
- In order that Bulgaria achieves self-sufficiency in meat production additional investment reallocation from other sectors of the economy or finding of foreign investment will be needed. Meat production industry doesn't have the capacity for expansion by itself;
- The high prices of raw materials will lead to additional consolidation in the meat production and meat processing industries.

Meat market volume, 2002-2011 г. and forecasts up to 2020 г.

Demand of meat and meat products has risen by about 40% for the 2002-2011 period. An increased demand is witnessed in all customer groups – households, the service sector and the processing industry, albeit at different rates. The biggest increase is in the service sector – about 50%, followed by the households at about 40% and the industry at 25%. Certain corrections of demand can be seen in 2003, linked to the expansion of the H2N1 virus (so-called “bird flu”), as well as in 2007 with Bulgaria entering the EU (meat imports from outside the EU drops due to the higher customs taxes) and in 2010 when the market experiences the peak of the economic crisis in the country. In 2011 the market is growing again but it has not reached the 2009 level yet.

Graph 1: Market volume by type of meat (thousands of tons), 2002-2011.



*Market volume is computed as the data on meat production (industrial and household) in the country combined with the import of meat and sub products; exports are subtracted from this sum.

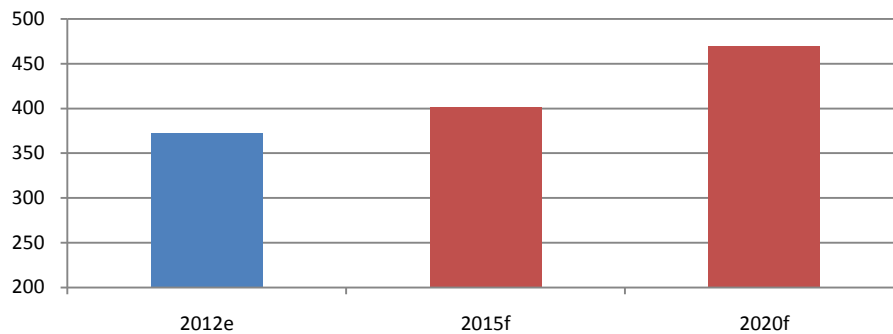
Source: IME based on data from MAF's "Agrostatistics" and NSI

There are significant changes in demand for the different types of meat during the period:

- Poultry meat demand shows a steady increase of 33%
- Pork meat demand rises rapidly after 2007 and doubles;
- A drastic drop in demand for veal and beef (a drop over a third) due to increased import tariffs on non-EU imports after 2007;
- A drop in demand for small farm animals meat (primarily lamb as well as ewe, goat and kid meat) – a drop of 23%

A slight increase in demand for meat and meat products is to be expected, and the 2009 level will be reached in 2015 due to the slow rate of recovery of the country's economy (as prognosis show). Demand is likely to increase more rapidly between 2015 and 2020, reaching about 470 thousand tons in the end of the period.

Graph 2: Forecast for meat and meat products market value in Bulgaria (thousands of tons)



e – estimate; f – prognosis

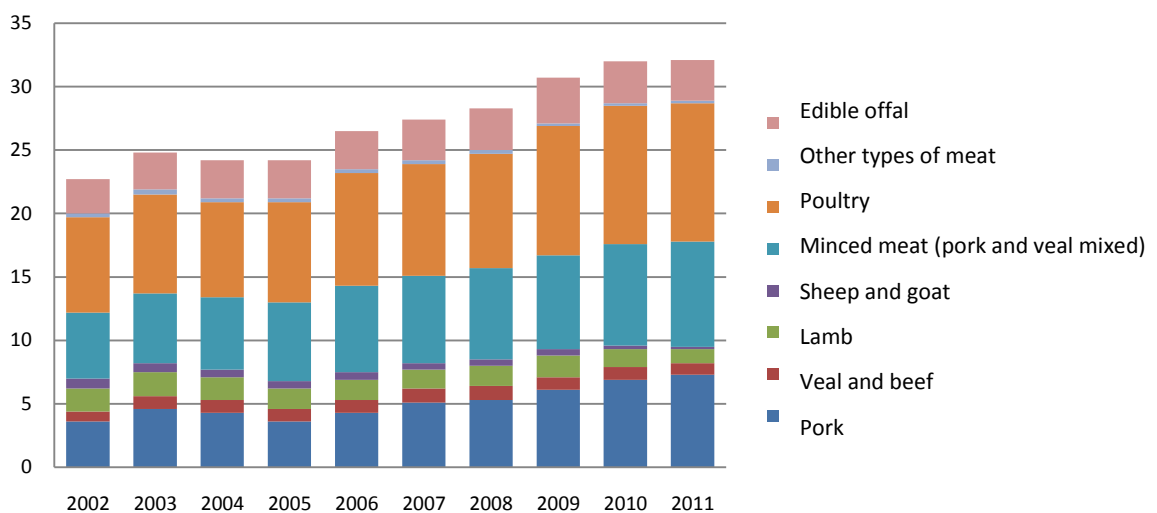
Source: IME

Meat demand

Households

Meat demand of the households has been increasing steadily for the entire 2002-2011 period. The average amount of meat per person in a household has reached 32 kilograms in 2011 – 53% more in comparison with 2002. Household consumption is influenced directly by the increase of wealth of the population (and the tendency of eating outside) as well as the capabilities of family farms.

Graph 3: Meat consumption per person in a household (kg) and type of meat, 2002-2011

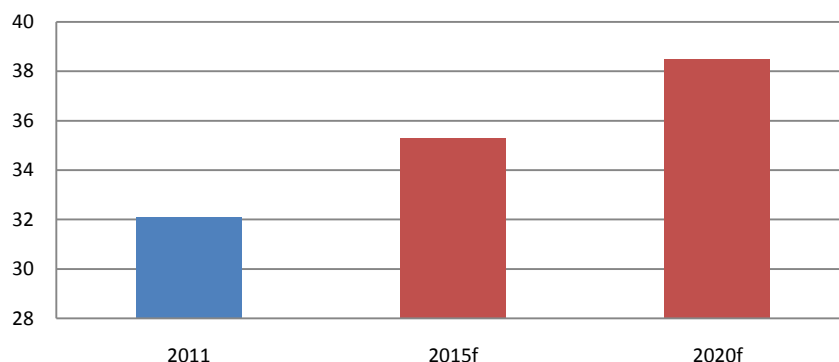


Source: NSI

Household demand is highest for poultry meat, followed by minced meat and pork. These are the categories that show the greatest growth for the 2002-2011 period – pork by 86%, minced meat by 54% and poultry meat by 45%. Consumption of sheep, kid, mutton and other meats is dropping. Veal/beef consumption is relatively stable, but at very low levels. A big part of veal and beef consumption is concentrated in family farms and their inhabitants.

Consumption per person in a household will continue to increase during the whole period up to 2020, and is expected to reach a level between 38 and 40 kilograms, an increase of 24-28% in comparison with 2011. The share of family farms is expected to keep declining due to the decrease and aging of the population as well as to the increasing expenditures related to the rearing of livestock

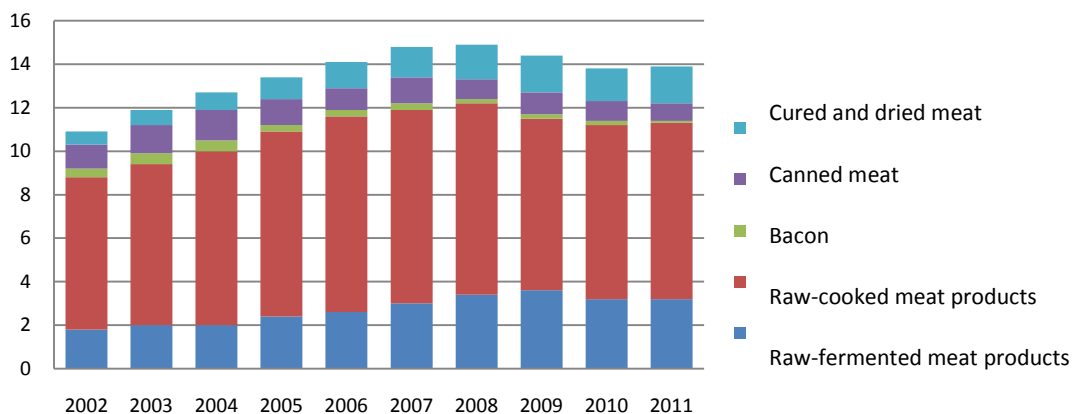
Graph 4: Meat consumption per person in a household (kg) in 2011 and forecast up to 2020



Source: IME

When it comes to the market of meat products, after the decline in 2009 and 2010 stabilization and even a slight increase are visible in 2011. The most stable and perspective part of this sector is raw-fermented sausages, cured meat cuts and raw-cooked products.

Graph 5: Meat products consumption per person in a household (kg), 2002-2011



Source: NSI

Meat products demand is expected to recover slower than meat demand. Price hikes are only one of the reasons. In this segment the market does not follow the dynamics of the meat market, which may be caused by the declining confidence in the quality of Bulgarian-manufactured meat products. The even deeper decline in this segment in 2010 coincides with the affair concerning meat product companies standardized under the “Stara Planina” standard. Moreover, attempts to hold the prices of meat products in conditions of increasing costs brought further doubts regarding the quality of the raw materials used.

Service sector

The service sector forms a significant part of the overall meat demand (between 20 and 25% according to various estimates), but it is also one of the most unstable. A certain decline is present in

2009, when the food and beverages expenditures of “Hotels and restaurants” sector drop by almost 8%. The volumes decline worsens in 2010 due to the sharp peak of unemployment in the country (from 6.9% to 10.3%) and the following decline of outdoor food consumption.

Forecasts for this sector show that demand is going to keep to its pre-2008 levels and a potential increase in the next two or three years can be caused only by an increase in the number of tourists. In 2014-2015 it is possible for the population to increase its out-of-home consumption if the expectations for growth in the economy and consumption prove right.

Processing companies

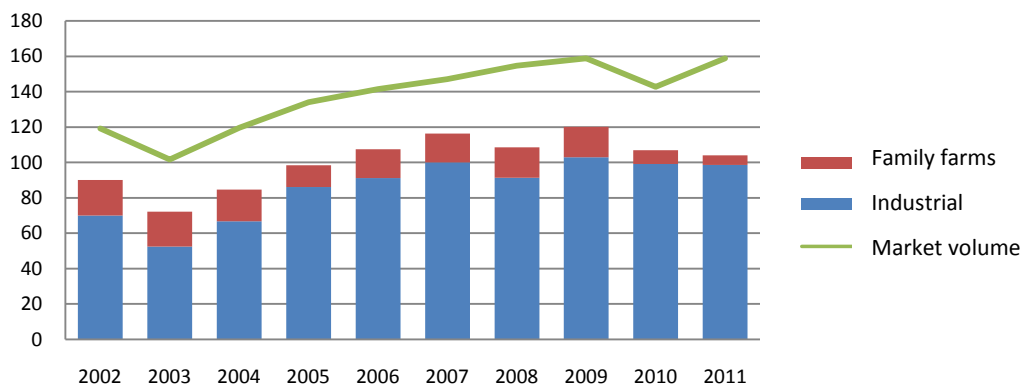
The share of food industry in meat demand has shown a minor increase in the past four years, and it amounts to about 20-21% of the market. Demand in industry is mainly for pork and poultry and less for veal/beef. Some of the big processing companies have closed their production cycles and use their own raw material. A big part of the market however depends solely on frozen meat imports. A steady decline in the import of frozen beef (its volume has dropped almost twice for the past five years) has to be noted. This means that veal/beef is used less by the meat processing industry in comparison with other types of meat or substitutes.

Meat supply

Poultry

Poultry breeding is one of the relatively stable sectors in livestock breeding. While family farms production is continuously losing its importance, industrial production of meat is increasing and maintains a level above 100 thousand tons during the past five years except the 2008 branch crisis (when chicken flu doubts were of certain importance). In 2011 poultry production manages to meet about 66% of the internal consumption and half of the entire meat consumption in the country.

Graph 6: Poultry production (thousands of tons), 2002-2011



Source: IME based on data from MAF's "Agrostatistics" and NSI

About 100 farms in the country produce industrial poultry, a few of the farms are held by smaller group of owners. On the territory of the country there are 25 active slaughterhouses in 2011, 54.6 million chickens have been slaughtered for meat. The broiler company register kept by the Bulgarian food safety agency (BFSA) shows a shared capacity of 14.37 mil. birds as of the end of 2012.

The biggest poultry producers (Ameta Holding, Gradus-1 LLC, Djiev AD etc.) have a closed production cycle – production of fodder, hatcheries, slaughter and processing.

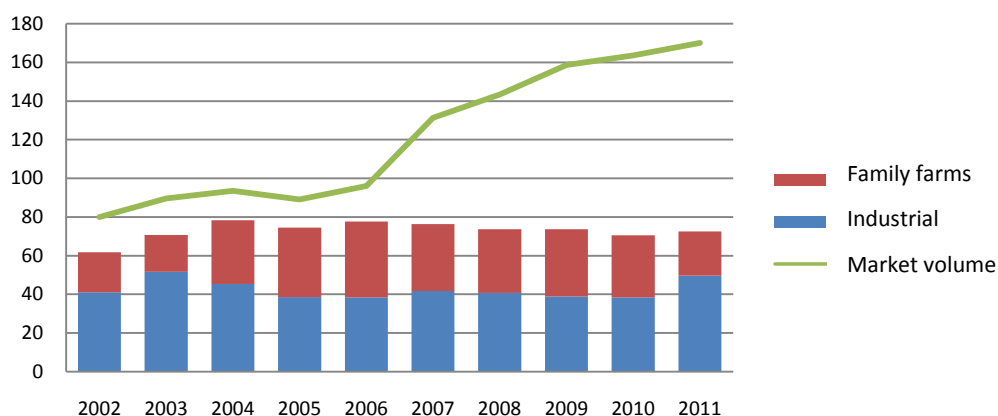
Despite the fact that the production of poultry – and especially chicken meat appears to be perspective in view of the internal market as well as for export, the sector has undergone a certain

consolidation. Reasons for this can be found in the expanding regulatory requirements, which require certain investments. Well-known companies like Poultry slaughterhouse Dobritch ("Dobrodzansko pile") and Aves-94 have gone bankrupt and several smaller companies have pledged their property for bank loans. It is hard to say how the sector will be affected by the higher prices of raw material in the economic 2012/13. Fodder expenses have been increasing because of the relatively bad harvest and the increase in corn prices on a global level, raw material and fodder expenditures in the sector have reached about 56% of all expenditures. Chicken prices have increased by 30% in 2012 and have reached BGN 4.21 per kg for frozen and BGN 4.97 per kg for chilled (wholesale prices) on a country average in the third week of December. Smaller producers who do not rely on their own fodder are supposed to face additional losses in the beginning of 2013, and the sector as a whole – further consolidation.

Pork

Farms who have over 1000 animals in 2011 are 59; those concentrate around 75% of the pigs in the country, according to MAF data. Large-scale production is concentrated in 5-6 producers who have more than 20 000 animals ("Boni Holding", "Agrotime", "Swine complex Golyamo Vranovo", "Swine complex Brashlen", "Swine complex Nikolovo", "Swine complex Yudelnik") and several smaller ("Bratya Tomovi" AD, "Favorit-97", "Bilyana" LLC and others) who have between 7 and 10 thousand animals. These companies encompass about three quarters of the market. Pork meat supply does not meet the demand of the internal market – industrial production accounts for less than 30% of the internal market, 13-14% comes from family farms, while the remaining 56-57% is imported.

Graph 7: Pork production (thousands of tons), 2002-2011



Source: IME based on data from MAF's "Agrostatistics" and NSI

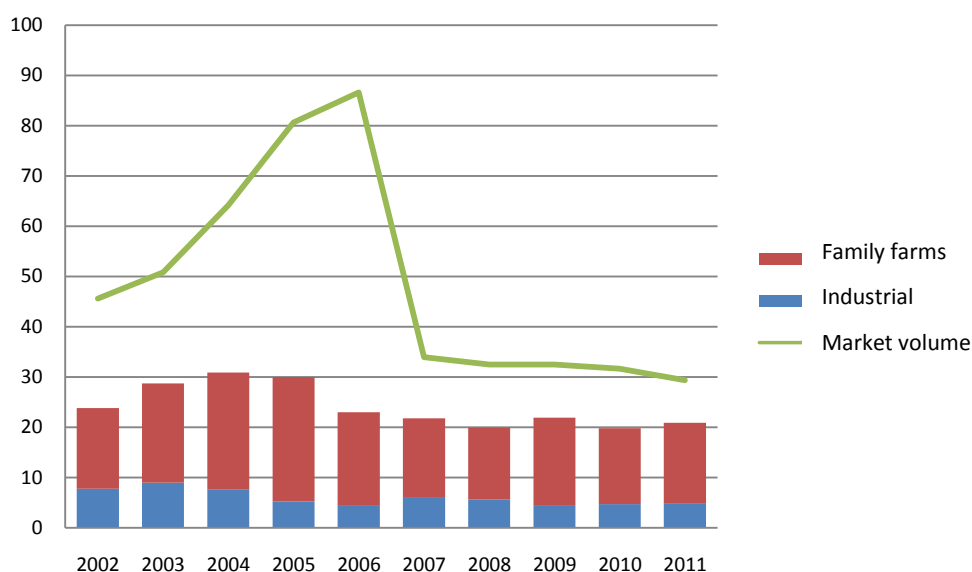
Pork production is extremely perspective because of the rise of demand since 2007. The sector has undergone serious consolidation due to the rise of raw material prices as well as increasing regulatory requirements. Reliance on imports is also an important factor since internal production prices cannot differ dramatically from that of imported pork. Increase in fodder prices is likely to be the reason for the rapid decline of small farms with less than 10 pigs per year – a decline of about 38% in the 2010-2011 period. Small- and medium sized producers who have to buy fodder will continue to face hard conditions until the new harvest and a big number of these are likely to leave the market.

Big pig farms that have closed their production cycles however seem rather stable. Anyhow, in order production to be able to satisfy internal demand big investments are necessary. Attracting foreign investments or reallocation of investments from other branches of production to pork production appears to be necessary in order to achieve any significant growth in the sector.

Veal/Beef

Industrial production of veal and beef is pretty small in comparison with the domestic market demand – it meets only 16.6% of the demand. Half of the meat production in Bulgaria comes from cows, most of which dairy cows that drop from milk production. As a whole industrial cattle breeding is more like a hobby and its part of the sector is insignificant. Out of 4.9 thousand tons of meat produced in slaughterhouses, veal (meat of calves not exceeding 8 months of age) is about 1% of the meat produced, beef (meat of cattle between 8 and 12 months of age) – 14.4%, the rest comes from cows, bulls, bullocks and heifers.

Graph 8: Beef & veal meat production (thousands of tons) 2002-2011



Source: IME based on data from MAF's "Agrostatistics" and NSI

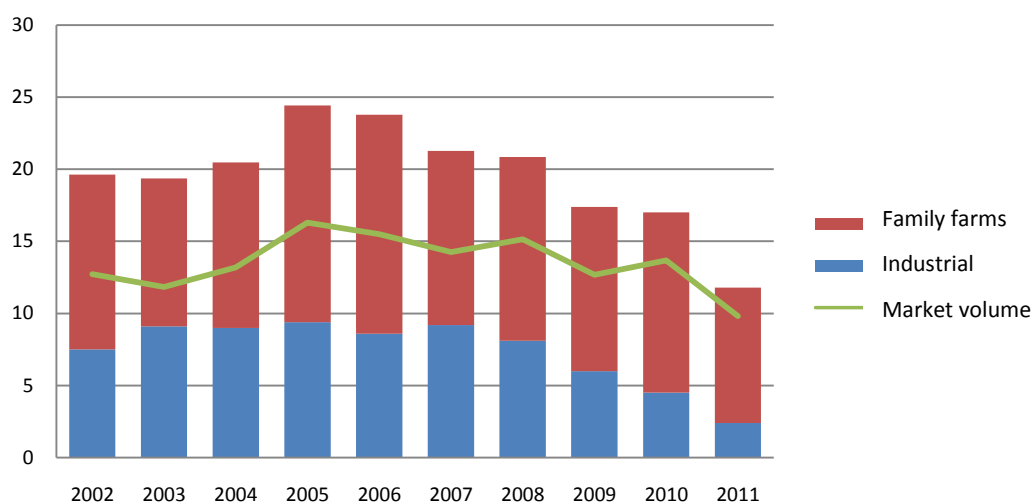
Beef and veal production is likely to have a significant increase in 2013 because of the expiration of the grace period for restructuring of 2nd and 3rd category dairy farms into 1st category farms on December 31st 2013. The requirements will force many small farms to close their production which will lead to an increase in meat supply and a drop of the overall number of cattle in 2014.

Lamb

Lamb production is the only one which has a positive balance – enough to cover domestic consumption and offer certain amounts for export. In spite of that fact, there is a steady decline in the sector since 2005, mainly in industrial production, which has decreased about three times. The reason for this can be found in the lower consumption of lamb and the significant export of live lambs (which increased by 175% in 2011 in comparison with 2010). There also is a significant increase of live lamb imports meant for re-export, which shows a significant development potential of the lamb breeding industry.

There is also a certain consolidation of the sector – the number of farms has decreased by 29% in a single year, while the number of animals has increased by 6% in 2011 in comparison with 2010. The decline is most pronounced in farms with less than 50 animals.

Graph 9: Lamb meat production (thousands of tons) 2002-2011



Source: IME based on data from MAF's "Agrostatistics" and NSI

Meat products

The meat products market is comprised by a large number of Bulgarian and foreign brands covering all product and price categories. Most well-known producers are Bulgarian investments from the beginning of the 1990's. There are almost no foreign investments in the sector.

The market shows deep fragmentation – there are many companies, a small number of which cover the whole country, and the rest occupy only local markets. Despite the decline of profits in almost all of the top 10 companies in the sector, who share their data, processing companies have much better financial standings than meat producers.

Table 1: Top 10 processing companies by net sales revenue and profit (mil BGN)

	income		profit	
	2011	2010	2011	2010
1 Bella Bulgaria*	243.0	227.2	No data	20.9
2 Bony Holding*	138.5	122.4	2.6	3.3
3 Gradus- 1	66.4	61.9	0.3	1.5
4 Ken	59.4	49.5	1.9	2
5 Tandem – B	No data	29.8	No data	2.3
6 Delikates- 2	32.1	22.3	1.4	2.3
7 ChechYosifNovosad	27.1	15.9	1.8	0.6
8 Sami-M	26.4	27	0.1	0.3
9 BratyaKartevi	21.6	18.6	0.2	0.17
10 Eco-Mes	16.5	14.4	0.5	1.4

*data from company consolidated reports; Source: Companies' Register

About 50 companies with turnover between BGN 1 and BGN 15 mil. remain outside Top 10, which fight for share of a shrinking market. Pressure to hold the prices due to the demand is likely to lead to consolidation of the sector.

Trade

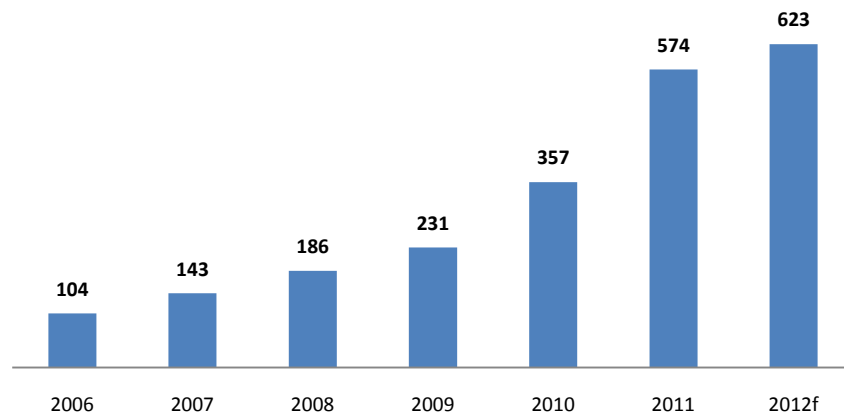
Meat and meat product trade is conducted via four separate channels:

- Modern retail chains
- Small convenient stores
- Specialized meat shops (butcheries)
- Unofficial trade from personal production (unofficial market)

Modern trade

Modern trade is comprised by six nation-wide chains (covering the regional capitals and most cities with population above 20 thousand people), three regional chains (in big cities with population over 100 thousand people) and ten local chains, together amounting to over 600 super- and hypermarkets with a market share of about 32-33% of food, beverages and tobacco product sales in 2011. Their share in the sale of meat products, however, is much bigger.

Graph 10: Number of modern retail stores held by the top 15 chains by sales revenue, 2006-2011



Source: IME

These chains offer a wide variety of fresh, frozen and cooked meat, mainly chicken, pork and veal/beef as well as meat products. Horse, hare, turkey and other types of meat are rare or appear seasonally. Not taking chicken into account, the chains sell primarily imported meat (fresh as well as frozen meat). The meat products offered are comprised by an extremely wide variety of Bulgarian and imported goods.

We can safely assume that the share of modern trade in the overall trade of meat and meat products does not increase during the 2010-2012 period. There are a few reasons for this phenomenon – the ongoing conflict between producers and the big chains regarding the access and sales in the chains, the cases of discovery of expired meat in a few of the big chains in 2012, the growth of newly-founded specialized butchers during the period, the possible reorientation to fresh meat from meat products because of the customer's doubts in the quality of these products (the cases of soy discovered in "Stara Planina" certified sausages, for instance). Moreover, a certain restructuring of the modern trade sector started in 2010. After their rapid expansion during the 2010-2011 period, which coincided with the increase of unemployment and decrease of consumption, some of the big

chains started changing their trade concepts and also started closing losing stores (“Picadili”, “Billa”, “Roda” etc.). Indications show that these processes will continue in the 2013-2014 period. The market rather quickly filled with commercial centers and relatively new chains like “Kaufland”, “Lidl” and “Carrefour” quickly achieved significant market shares at the expense of old chains. It is reasonable to expect a very modest increase of the share of modern trade in the fast-moving consumer goods market.

Convenient stores

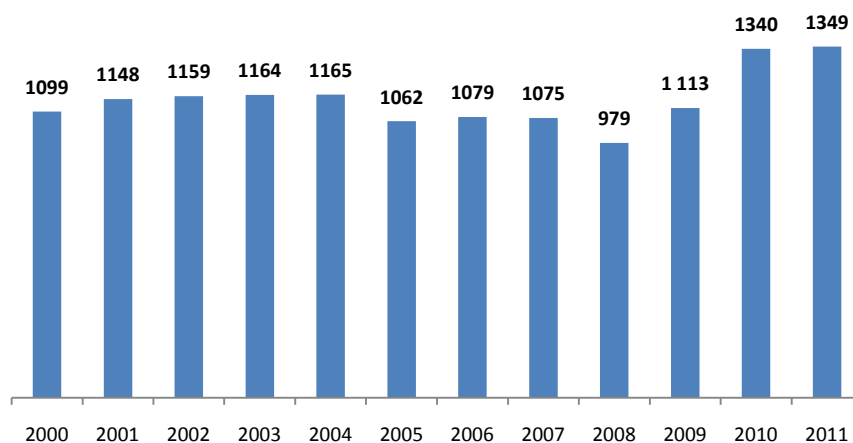
The share of convenient stores in the sale of meat and meat products has been in a constant decline in the past ten years, when the expansion of the large chains started.

Small stores offer a limited variety of fresh meat and rely mainly on frozen (chicken) as well as meat products (sausages, frankfurters, meat cans). Rough estimates show that their market share is about 40%.

Butcheries

Specialized meat stores occupied a declining share of the meat and meat products market between 2005 and 2008, which can be attributed to the growth of modern retail and overall economic growth (larger employment leading to a necessity to save shopping time). The conflict between producers and the large chains, combined with media scandals revolving around the quality of meat products in some of the larger chains however have increased the interest of customers towards specialized meat stores. This can be seen in the increase of the number of butcheries since 2009.

Graph 11: Number of specialized meat stores



Source: NSI

The rapid increase of the number of butcheries proves their increased share of the fresh meat and meat product trade market as well as a steady solvent demand. Their turnover comprises between 8 and 10% of the total turnover in the sector.

Specialized meat shops are owned by producers (medium-sized farms and cooperatives) as well as distributors and merchants. Good examples of companies who have managed to close their production cycles – fodder production, breeding and fattening of animals, cutting and processing and sale in their own stores – are:

- “Doverie” cooperative, Lesidren – breeding about 7200 pigs and 720 calves yearly. It has 16 stores – five in Sofia, the rest in Central-northern Bulgaria. The cooperative supplies the stores owned by “COOP – targoviya I turizam” SA as well a number of consumer cooperatives. The products of the company are branded as “Quality from the Balkan”.
- “Bilyana” LLC, Balgarsko Slivovo, Svishtov – breeding 8000 pigs yearly, has its own slaughterhouse and a meat store chain in Northern Bulgaria.
- “Lotos” LLC, Dimitrovgrad – producing raw-dried sausages, ready meals as well as fresh and minced meat (pork and veal). The company has a franchise of four meat and meat product stores in Sofia

Unofficial market

The unofficial market encompasses the sales of small farm owners of slaughtered animals to private individuals for personal consumption. There is also an unofficial CMT animal breeding market, i.e. a private individual covers the expenses for the fattening of the animal and the expenses for the slaughtering plus a certain sum for the labor and takes the ready-to-go meat. The unofficial market is active around holydays such as Christmas, Gergiovdn, Easter etc. Lamb and pork is usually traded this way, and sometimes chicken.

This market also includes trade of meat products (different types of sausages) produced by private individuals; these are especially popular in the rural areas. It is hard to measure the share of this channel in the entire meat market, but it hardly exceeds 3-5% of the market.