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ALCOHOL DRINKS IN BULGARIA: KEY TRENDS AND FUTURE PERSPECTIVES

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ABSTRACT
This paper reviews the market for alcohol drinks in Bulgaria. It charts the key trends, as it utilizes latest data on volume and value by category of alcohol drinks, by transacted deals in terms of on-trade and off-trade splitting, and by company shares on the alcohol drinks market in relation to global brand ownership. The paper discusses the impact of several microeconomic and macroeconomic factors of this industry. Also, the present research delineates a three-year forecast of development of the alcohol drinks market. For the purposes of this paper, the market has been defined to include: beer, wine, spirits, cider/perry, and RTDs/high-strength premixes.

Key words: alcohol drinks market, beer, wine, spirits, cider/perry, and RTDs/high-strength premixes.

1. Key trends in the market development of alcoholic drinks in Bulgaria for the period of 2010-2012.

Changes in consumers attitude - „Transfusion"

The global crisis has successfully reversed the world tendency brought in Bulgaria towards premiumization of alcoholic drinks consumption defined as a move towards drinking less but drinking better. Following the economic recession in 2009, price-sensitive consumers (quite naturally) switched to the economic and standard price segment, i.e. there was a transfusion from higher price segments to lower price segments. The 2010 and 2012 record slight economic growth (GDP growth of 0.5% for 2012); respectively, increase in unemployment, decrease in revenues from all cash and in-kind payments. The resurgence of Bulgarian economy (albeit at a slow pace) marks the return of premiumization. For instance, premium varieties in 2010 proved to be the most dynamic developing and in fact the only Beer category with a rise of 137 million l (1).

Another trend of the market of alcoholic drinks identified by Bulgarian consulting companies is the 'transfusion' within the categories themselves — i.e. the shift to consuming low alcohol content drinks. A research conducted by OINORAMA wine consulting & business solutions show that young people (between 18 and 30 years old) with a marked preference to vodka drinking switch to «wine» and «beer» in 2011. (3).

Such observation can not be made on the basis alcoholic beverages sales statistics by volume for 2007 — 2012 (**Table 1**). However, it suggests that the market of some of the categories has not yet reached the stage of decreasing maturity (Beer, Wine) of its life cycle. There is an obvious upward trend in the overall consumption of alcoholic drinks (except for 2010). The top (in terms of sales by volume) for the entire six-years period has been occupied by Beer, followed by Wine, Spirits, RTDs/High-Strength Premixes and Cider/Perry.

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Table 1. *Sales of Alcohol Drinks by Category: Total Volume 2007-2012*

Million litres						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Beer	554.70	579.80	586.30	576.20	584.00	588.20
Cider/Perry	0.10	0.10	0.10	0.10	0.10	0.10
RTDs/High-Strength Premixes	0.50	0.50	0.40	0.30	0.30	0.30
Spirits	54.00	54.00	54.00	54.10	54.30	54.40
Wine	47.40	48.30	47.80	48.30	48.70	49.00
Alcohol Drinks	656.60	682.70	688.50	678.90	687.30	692.00

Source: Euromonitor International, official national statistics, trade press.

Compound annual growth rate (CAGR) in volume for 2007 — 2012 of alcoholic drinks in Bulgaria is 1.06%. Beer records 1.18% CAGR, i.e. the fastest developing category for the reviewed period. RTDs/High-Strength Premixes are at the bottom of the group and negative CAGR of — 40.00%.

Hypermarkets and supermarkets «seize» the functions of traditional stores.

For the period 2010 — 2012, nearly 30% of the sales of alcoholic drinks are made in the country's supermarkets and hypermarkets, what is more, the expectations of the analysts are that this percentage will continue to grow over the next years. Industry representatives confess that big retail chains have become key outlet participants who strive to achieve good understanding of the local market; they know how to gain the trust of consumers; they offer a full range products, variety of accompanying services (such as separating specialized areas and stands for alcoholic drinks, hiring consultants, promotional pricing, etc.). According to Planet Retail - analyzing organization, the number of the so-called modern trade representatives (hypermarkets, supermarkets, discount chains, drug stores, etc.) in 2012 is 1900.

In spite of the stagnation, big retail chains continue their expansion and open more and more retail units in the country. This is not surprising in view of the fact that over the last few years modern trade has gained an increasing share of the Bulgarian household expenses for fast-moving consumer goods.

Among the factors influencing the consumer choice of retail store are:

- Large format store and wide range of produce (14 % of the respondents).
- Efficiency of the store – quick check out, availability of the produce, loyalty programmes (14% of the respondents)
- Product quality (13% of the respondents).
- Competitive pricing, value for money (12% of the respondents).
- Convenient location (9% of the respondents).

Another participant in the structuring of alcoholic drinks outlets which is gaining pace in the last few years (2009 -2010) are the specialized liquor stores providing selected alcoholic drinks, tasting, promotional pricing, free delivery for HORECA. Yet, such stores are only regional, (based mainly in big cities) lack nationwide coverage, besides many of them are specialized in Wine offerings. Among the leading retailers with specialized stores are: Vino Distribucia OOD, MM Trade OOD, Kaliman Caribe OOD, Bai Gencho OOD, Tobi Nazdrave EOOD.

Home brewing – enemy number 1 for branded alcoholic drinks

In spite of the attempts of the former government to exercise an increased control over the sale of alcoholic drinks, the illegal market accounts for nearly 60% of total sales in the country even in 2012 (according to Desislava Nikolova – CEO at Vinprom Karnobat). Certainly, the measures undertaken by the state authorities to cast some light on the shadow sector should not be downplayed. Due to the changes in the Excise

Duties and Tax Warehouses Act, all sites recognized as tax warehouses (where excisable goods under excise duty suspension arrangement are produced, stored, received or dispatched)
are required to renew their license from the beginning of 2010. Subsequently, the most significant change was made with the introduction of the ordinance for measuring devices in tax warehouses and production facilities known as Ordinance No. 3. According this ordinance, the producers of alcohol and alcoholic drinks, tobacco products, energy products and electricity are required to install measuring devices at the incoming and outgoing points of their production capacities, as well as at other critical points which are connected to the informational system of Customs Agency. This allows real time data collection and continuous monitoring and control. The ordinance was enacted in the end of March 2010. Home brewing, on one hand snatch market share from the so-called branded alcoholic drinks, on the other it defrauds the revenue of the Treasury every year (according to the industry representatives by over 160 million BGN (8)). In addition, production, respectively sale of dubious liquids in plastic tubes disguised as “homemade brandy” or “homemade wine” harm the reputation of traditional Bulgarian alcoholic drinks.

All-inclusive packages reduce the effect of strong tourist season

One of the factors that have a positive effect on sales of alcoholic beverages in the country is tourism. Although none of our tourist regions is listed in the top 20 most visited destinations in the European Union (according to Eurostat analysis) the total international tourist flow in Bulgaria for the period January – December 2012 is 6 540 839 which accounts for a 3.4% increase in comparison to the same period of 2011. (9). Unfortunately, this has little, even insignificant effect on the sales of alcoholic drinks due to the availability of all-inclusive packages which make consumers reluctant to order additional drinks in other entertainment facilities, bars and restaurants. Moreover, the industry representatives share the conviction that such services “in the interest of the client” raise serious doubts on the origin of the served alcohol (according to Branimir Botev – Chairman of the Association of Producers, Importers and Traders of Spirit Drinks (8).

2. Bulgarian market of alcoholic drinks - prospects for development

- The alcoholic sector in Bulgaria is characterized by a high degree of concentration. Nearly 80% of the market of alcoholic drinks is held by the first, the third and the fourth top brewing companies in the world. About 50% of the sales of Spirits are distributed between two companies in Bulgaria. No significant structural changes in the sector are expected to take place in the next few years.
- Alcoholic drinks consumption has a marked seasonal nature. Categories like beer, gin, rum, ouzo peak during the summer season unlike brandy, cognac, whiskey and liquors consumed mainly around Christmas and New Year, i.e. the influence of the seasonal component varies in the different periods. The big challenge to the sector will be the transition from the marked seasonality of alcoholic drinks towards every day consumption.
- According to the forecast of Euromonitor International regarding the sales of alcoholic drinks (**Table 3**), the expectations are for annual growth of 3.6%.
- The difference in price levels of economic and standard varieties will still remain indistinct (due to the fierce competition in these sectors).
- Locally produced brands will continue to dominate the market, especially in the Beer and Spirits (brandy in particular) categories.
- The key drivers for the sector recovery will be ciders, Irish whiskey and locally produced premium beer varieties.
- Modern and traditional trade ratio will reach 50:50.
- On trade sales of alcoholic drinks will gradually increase in parallel with the economic recovery of Bulgaria.
- The popularity of PET Beer bottles will continue to rise. However, producers will increase the produce reducing the average product size (for example to 1 l and 0.5 l. containers), which may have a positive effect of the growth of off trade Beer sales.
- The increase in the price of white wines which are a source of the so-called wine distillate may have an effect on the prices of wine and brandy.

Table 2. *Sales of Alcohol Drinks by Category: % Total Volume Growth 2007-2012*

% total volume growth			
	2011/2012	**2007 - 12 CAGR**	**2007/12 TOTAL**
Beer	0.72	1.18	6.04
Cider/Perry	0.00	0.00	0.00
RTDs/High-Strength Premixes	0.00	-9.71	-40.00
Spirits	0.18	0.15	0.74
Wine	0.62	0.67	3.38
Alcohol Drinks	0.68	1.06	5.39

Table 3. *Forecast Sales of Alcoholic Drinks by Category: Total Volume 2013-2015*

Million litres			
	2013	**2014**	**2015**
Beer	605.60	627.70	655.70
Cider/Perry	0.00	0.10	0.10
RTDs/High-Strength Premixes	0.20	0.20	0.20
Spirits	54.80	54.00	54.90
Wine	50.60	51.50	52.60
Alcohol Drinks	711.20	734.40	763.50

Source: Euromonitor International.

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