CBI MARKET SURVEY

THE DOMESTIC FURNITURE MARKET IN BULGARIA

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Introduction

This CBI market survey gives information on some main developments in the domestic furniture market in Bulgaria. The information is complementary to the information provided in the CBI market survey 'The domestic furniture market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1 Market description: consumption and production

Consumption

The Bulgarian market for domestic furniture was valued at € 344 million in terms of retail sales in 2008. In the same year, Bulgarians spent € 45 per capita, which was much lower than the EU average of € 161. Bulgaria was a small to medium-sized furniture market in the EU. It was well ahead of the next two largest markets of Slovakia and Slovenia, but much smaller than Hungary.

Table 1.1 Consumption of domestic furniture in Bulgaria, 2004-2008, € million

2004	2005	2006	2007	2008	Av. ann. % change	Population (million)	per capita in €	Occupants per household	Households (thousand)
264	289	302	331	344	6.8	7.7	45	3.0	2,360

Source: Euromonitor, Trade Estimates (2009)

The annual rate of increase of 6.8% was ahead of the EU average and the largest of all EU countries with the exception of Romania. However, there are signs that the market is reaching saturation point and future growth rates are likely to be lower. Despite this, growth will continue to be above the EU average.

Trends in consumption

A recent study by Alpha Research for the Bulgarian Chamber of Commerce concluded that price had been a decisive factor in driving furniture consumer preferences. However it also highlighted the fact that an emerging group of consumers buying new and expensive furniture now exists. These are predominantly young professionals with a high social and economic status who are residents of Sofia and other large cities.

Rising income levels are also changing consumption habits so affluent consumers are now prioritising high quality products. The increasing number of international retailers now located in Bulgaria that present new designs and ranges of furniture in attractive in-store environments has fuelled this trend.

A further market stimulus has been the rapid development of the property market and the construction of new homes. Housing prices finally started to decline in the 3rd quarter of 2008 as the impact of the global economic crisis began to be felt. The impact of this on sales of domestic furniture began to be felt immediately.

Average incomes continue to increase, according to Bulgarian Statistics, increasing by almost 10% between June 2008 and 2009. Although expenditure on furniture increased, it was below this average figure.

Consumption by product group

In terms of the respective product groups, it was estimated that dining and living room furniture was the largest group, accounting for 26% of sales; upholstered furniture 24%; kitchen furniture 18%; bedroom furniture 17% and other furniture 13%. Growth of fitted kitchens has produced strong growth in this segment, while sales of dining room furniture have decreased and upholstered seating has increased.

Market outlook

The market is still expected to show a small increase in value, although there is likely to be a switch to lower-priced locally produced furniture in 2009 as the global economic slowdown takes its toll on this market. Growth is also expected to continue in 2010. However this will be at much lower rates than those experienced in recent years.

Production

Bulgaria is a small EU furniture producer and mainly produces medium-range furniture. In 2008, its production was valued at € 256 million, a large part of which was exported to Italy as furniture parts. In 2006, there were 1,476 companies, employing over 20,000 people, but the industry is quite fragmented, with 75% of production accounted for by just 100 companies.

Production increased strongly up to 2007, but was affected in 2008 by the global economic downturn and lack of competitiveness in comparison to other Eastern European producers. Production has increased by an annual average of 7.6% since 2004, due to more demand in domestic and foreign markets. Despite falls in 2008, this was one of the highest growth rates in EU production. Bulgarian production values were similar to those of Estonia, but one of the smallest in the EU.

Table 1.2 Production of domestic furniture in Bulgaria, 2004-2008, € million

2004	2005	2006	2007	2008	Average ann. % change	Number of companies 2006	Number of employees 2006
191	206	225	265	256	7.6	1,476	22,426

Source: SFB Capital Markets, Eurostat (2009)

There is no shortage of raw material, with large supplies of beech, oak, walnut, maple, ash, cherry, chestnut and fir. However the industry still needs to invest in new technologies and processing facilities to reach internationally accepted levels of quality production. A further handicap is the slow rate of certification of forests, which currently stands at just 3%. The demand for furniture from sustainable sources continues to grow and the Bulgarian industry needs to be able to supply these types of products.

According to Eurostat, the value of Bulgarian production in 2008 was sub-divided into dining and living room 27%; non-upholstered furniture 18%; bedroom furniture 17%; furniture parts 17%; kitchen furniture 13% and other furniture 7%. There may also be some upholstered furniture production, but Eurostat does not record this information. The major decreases compared to 2007 have been in the production of dining and living room furniture, and furniture parts, which have fallen as exports have decreased.

Some interesting manufacturers include:

- Kanor - http://www.kanor.bg - produces a wide range of different types of furniture for the home, using a number of materials including oak, cherry and wengé.

- Avgusta Mebel - http://www.avgusta-mebel.com - located in Shumen, is the oldest furniture manufacturer in Bulgaria, specialising in solid wood, fibreboards and a wide selection of natural veneers. This company was established in 1919 and employs 160 people.
- Bimex - http://www.bimex.bg - located in Sofia, produces a wide range of wooden furniture. It makes classic and rustic furniture including cupboards, beds, tables and chairs. The entire production is exported.
- Regal - http://www.regalbg.com - produces and designs custom made furniture for kitchens, bedrooms, living rooms and children's rooms.

Trends in production

The main production trends are towards consolidation and specialisation. There are a number of regions where furniture-producing clusters have developed, particularly the areas of Troyan, Lovech and Teteven, as well as Pazardjik and Velingrad.

Many workers in the furniture industry are now threatened with redundancy. This is because they are not as competitive as the furniture industries in Poland, Romania and Russia. Companies have seen exports fall significantly in 2009, resulting in many now concentrating on the domestic market. Previously, the domestic market was not viewed as lucrative as export markets, but times have changed. It remains to be seen how the industry emerges from the global economic slowdown as to whether growth in the industry will resume.

Opportunities and threats

+ Opportunities exist to supply directly to the domestic market as Bulgarian consumers are showing interest in international design styles. Although there is demand at the bottom of the market for low cost mass-produced Chinese imports, other consumers, particularly the young middle class are receptive to more interesting designs from other countries.
+ Most opportunities are to be found in the medium to higher priced parts of the market. There is a growing market for higher quality and contemporary items. This provides opportunities for exporters if they can make items that are stylish and can comply with the latest trends in western EU or Italian style home interiors.
+ Bulgarian producers are struggling to maintain competitiveness and may be interested in partnerships with outside suppliers who can provide new styles and designs.

Many exporters will also be viewing the opportunities available on the Bulgarian market. Any of these trends can equally be an opportunity for one exporter but a threat to another. Buyers are not always loyal to specific suppliers, so you could lose out to a supplier from your own country or another developing country.

More information on opportunities and threats can be found in Chapter 7 of the CBI market survey 'The domestic furniture market in the EU'.

2 Trade channels for market entry

Despite the arrival of a number of large international retail chains, the market is still quite fragmented and small specialist retailers still dominate the market. However, the development of shopping malls has created a new retail environment for furniture. For exporters from developing countries, the wholesale sector that serves the furniture retailers in Bulgaria would be the most appropriate channel. Interesting wholesalers/importers for furniture in Bulgaria can be found via the portal http://www.mebeli.info/. Furniture agents are not common.

Other interesting wholesalers and importers include:

- Furnish BG - http://www.furnish.bg - supplies and installs furniture packages from Bulgarian and foreign suppliers.
- Décor Group - http://www.decorcenter.bg - located in Sofia, deals with designer furniture. This company specialises in the import and export of furniture.
- Ralica - http://www.ralica.bg - located in Varna, has imported and wholesaled exotic and contemporary furniture since 1994. It sells kitchen, bedroom and living room furniture.

- Rattan - http://www.ratan-bg.com - located in Bourgas, is an importer of rattan furniture.
- Zarima - http://www.comfort.bg/en/firms/profile/zarima-comfort.html - located in Sofia, imports upholstered furniture, modular furniture and kitchen furniture. The company offers tailored turnkey solutions for the home or office.

Retail trade

According to Euromonitor, there were approximately 3,500 outlets selling furniture and furnishings in 2008. Several foreign retailers have already established themselves in Bulgaria. These include BoConcept - http://bulgaria.boconcept.com/ - with 2 outlets, and Jysk - http://jysk.bg - who currently have 3 outlets, but are planning to open many more. IKEA intends to open its first store in 2009, with a further two planned. The economic slowdown may delay this.

The leading domestic retailers are Aron Bulgaria - http://www.mebeliaron.com - with 16 outlets, holding a 3% market share, followed by Nov Dov Simeonov - http://www.novdombg.com - with 13 outlets. Price differences between retailers are large. Those offering imported products are high due to transportation costs, whereas prices of locally produced furniture are much lower. The retail market is expected to polarise along these lines.

The non-specialist sector is relatively small, although some lower-priced furniture can be purchased from some hypermarkets.

Price structure

Throughout the furniture trade, different prices and margins apply. As the market is not yet as ordered as some of the other more mature EU markets, higher margins can still be earned in Bulgaria. Bulgarian consumers are very price conscious, but there is not a full appreciation of the purchase price. The margin figures quoted in Table 2.1 are calculated as a percentage of the price purchased from whom they buy in the chain, not as a percentage of the CIF price. The VAT rate in Bulgaria is 20%.

Table 2.1 Overview of margins in domestic furniture

	Low	High
Importers/wholesalers' margins	20%	35%
Agents' margins	10%	15%
Retailers' margins	80%	100%
Mark-up CIF price - Consumer price	**2.6**	**3.5**

More information can be found in Chapter 3.2 of the CBI market survey 'The domestic furniture market in the EU'.

More information on trade structure can be found at the Bulgarian Chamber of Commerce – http://www.bcci.bg - and Invest Bulgaria – http://www.investbulgaria.com. Some retailers and importers of domestic furniture can also be found at the business portal http://www.need.bg.

3 Trade: imports and exports

Imports

In 2008, Bulgaria's imports of domestic furniture were valued at € 139 million, or 65 thousand tonnes. Out of the 27 EU countries, Bulgaria was ranked seventh smallest in value and volume, and as such was regarded as a small-sized country for domestic furniture imports. This was similar in value to Lithuania, Cyprus and Luxembourg.

Between 2004 and 2008, Bulgarian imports increased by an average of 31% per annum in value (from € 48 million) and increased by 27% in volume (from 25 thousand tonnes). Import growth has been particularly strong since 2006. Poland, Italy and Germany were the leading suppliers of imports.

Exports exceeded imports by 8% in value, but volumes were similar in 2008. Imports were increasing more rapidly than exports. The same period has seen an increase in domestic furniture production and a high average annual increase in consumption. Imports were taking a growing share, but locally made products still accounted for a good proportion of the market.

By source, Around 28% of Bulgaria's imports, valued at € 40 million or 22 thousand tonnes, came from developing countries in 2008 (34% by volume). This proportion was 16% or € 8 million in 2004 (21% by volume or 5 thousand tonnes). China accounted for 47% of all developing country supplies by value in 2008, followed by Turkey (31%). Ukraine, Serbia, Indonesia and Malaysia were also important suppliers. While China's supplies increased by an annual average of 87% over the period, supplies from Turkey increased by 27%. Supplies from other leading suppliers all increased.

By product group, Bulgarian imports by value were sub-divided as follows:
- The leading two groups were dining and living room furniture with 23% of value and 25% of volume (€ 32 million and 16 thousand tonnes) and furniture parts (€ 26 million or 10 thousand tonnes) with 19% of value and 16% of volume.
- Bedroom furniture represented 12% of value and 17% of volume (€ 17 million or 11 thousand tonnes) and kitchen furniture accounted for 12% of value and 14% of volume (€ 16 million or 9 thousand tonnes).
- The remainder was taken up as follows: upholstered seating (€ 15 million), other furniture (€ 13 million), non-upholstered seating (€ 13 million) and rattan furniture (€ 7 million).

Exports
Domestic furniture exports from Bulgaria were valued at € 151 million in 2008, representing 63 thousand tonnes. € 49 million of this was furniture parts. Between 2004 and 2008, the average annual increase in exports was 4.6% by value but there was a 2.3% decrease by volume. There may be some re-exporting from the Bulgarian market, as exports represented a relatively high proportion of domestic production. Italy, France, USA, Greece and Germany were the leading export destinations.

Opportunities and threats
\+ Growth rates are high and opportunities can be found in most product groups. The main growth opportunities for developing country suppliers were in kitchen, bedroom furniture, upholstered and non-upholstered seating.
\+ Other notable opportunities are in items for dining/living room furniture and furniture parts.
\+ Other furniture has not grown along with the average growth of imports, although detailed figures are not available for this group.
\- The strong domestic industry is potentially a threat to DC exporters, but it may also provide new opportunities.

See Chapter 7 of the CBI market survey 'The domestic furniture market in the EU' for more information on opportunities and threats.

Useful sources
- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu/
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu;
- Understanding eurostat: Quick guide to easy comext ➔ http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf

4 Price developments

Consumer prices
Consumer prices of domestic furniture in Bulgaria were amongst the lowest in the EU. In terms of purchasing power, prices in Bulgaria were similar to prices in Latvia and Lithuania.

According to Eurostat, furniture retail prices increased by 11.8% between 2004 and 2008, but by 5.8% in 2008, indicating faster rising prices after a period of lower price movements. This compared to furniture retail price increases of 6.7% for the EU as a whole, but 2.6% for 2008. This also compares with the all-price index in Bulgaria, which was 35% higher in 2008 than in 2004. Hence furniture price increases in Bulgaria were above the EU average but well below the all-price index in Bulgaria. Prices are expected to rise more rapidly here, as Bulgaria integrates into the EU, but they are also expected to remain lower than the EU average.

Import prices
Although the industry does not make price agreements based on tonnage, it is useful to see how import prices compare. There is an upward trend in import prices, particularly developing country import prices. As Table 4.1 highlights, import prices were starting to increase. However, import prices to Bulgaria were lower than many EU countries, and developing country import prices were particularly low. Please note these trends should be interpreted with care, as changes in imports do not always reflect changes in demand.

Table 4.1 Development in Bulgarian average import values/prices, 2004 – 2008, €

	2004 ave price per '000 tonnes	**2006** ave price per '000 tonnes	**2008** ave price per '000 tonnes	**ave. Annual % change**
Total imports	1.93	1.92	2.15	2.7
Intra-EU	2.14	2.04	2.36	2.5
Developing countries	1.46	1.64	1.77	4.9

Source: Eurostat (2009)

The website of Bulgarian National Statistics - http://www.nsi.bg - publishes harmonised indices of consumer prices, which includes the furniture sector. Some prices can be found at the website of the retailer Domko - http://www.domko.com - and the retailer Nov Dom Simeonov - http://www.novdombg.com. Wholesale prices of furniture can be found via http://www.need.bg.

5 Market access requirements

As a manufacturer in a developing country preparing to access Bulgaria, you should be aware of the market access requirements of your trading partners and the Bulgarian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select domestic furniture and Bulgaria in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packit.htm. Information on tariffs and quota can be found at http://exporthelp.europa.eu/

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. For more information on doing business in Bulgaria, visit the following websites:

- The Branch Chamber of Woodworking and Furniture Industry - http://62.44.96.16/timberchamber. This is connected to the Bulgarian Industrial Association - http://www.bia-bg.com.
- World of Furniture - http://www.bulgarreklama.com - takes place in October in the Sofia Expo Centre. The International Furniture Exhibition - http://www.bcci.bg/fairs.html - takes place twice a year in March and September. Mebeltech – http://www.fair.bg - is the International Exhibition of Furniture, Machines & Technologies, which takes place each May.
- The Bulgarian Furniture portal - http://www.mebeli.info. Here you will find information on DMT magazine, which is the principle Bulgarian furniture trade publication, and Furnishing and Woodworking Industry, which is an annual directory of companies involved in the industry.
- Furniture and Interior Design magazine called MD - http://www.md-magazine.info.
- Good business news services are http://www.dnevnik.bg, http://www.novinite.com, http://www.monitor.bg and http://www.econ.bg.

This survey was compiled for CBI by ***Searce***