

# **Analysis of the Bulgarian market and export opportunities for confectionary products**

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# **Analysis of the Swedish market and export opportunities for processed fruit and vegetables**

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Проектот „ ИЗВОЗЕН АКЦЕЛЕРАТОР ЗА МАЛИ И СРЕДНИ ПРЕТПРИЈАТИЈА- SMEs Export Accelerator EuropeAid/138-495/ID/ACT/MK “ се спроведува од:



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ОРГАНИЗАЦИЈА НА РАБОТОДАВАЧИ НА МАКЕДОНИЈА  
ORGANISATION OF EMPLOYERS OF MACEDONIA



**ИНСТИТУТ ЗА ДИНАМИЧЕН РАЗВОЈ  
СФЕРА-НОВА**

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# Analysis of the Bulgarian market and export opportunities for confectionary products

## 1. Overview of the confectionery industry in North Macedonia

The confectionery industry represents a significant part of the food industry. Other than the fact that significant percentage of the workforce is employed in this industry, it also has a positive impact on the trade balance of the country. Namely, the value of the export of confectionery products represents 10% of the value of the total export of the food industry. Currently, the industry consists of over 50 registered commercial entities, out of which 85% are micro or small entities. There are also a significant number of entities that are treated as 'craftsman', that produce unique baked products and sweets for the domestic market. It has been estimated that this industry currently has at disposal capacities that could produce about 45.000 tons annually.

In recent years, significant competition for imports has been registered. This is due to the process of liberalization that the country has gone through and the implementation of the Free Trade Agreements. Consequently, the domestic producers' share in the domestic market has decreased.

<b>Export in tons</b>									
Product	2010	2011	2012	2013	2014	2015	2016	2017	2018
Crisp bread	0	0	0	0	0	0	0	0	0
Gingerbread	0	0	0	0	0	0	50	62	159
Sweet Biscuits	2,195	2,788	2,690	3,312	4,288	4,546	4,679	5,057	5,722
Waffles	1,987	2,508	3,159	3,645	4,906	5,590	5,837	6,485	7,151
Toasted Bread	498	365	279	230	274	235	237	230	169
Croissants	14,447	14,137	14,561	16,057	17,280	20,601	21,335	22,483	22,001
<b>Total</b>	<b>19,127</b>	<b>19,798</b>	<b>20,689</b>	<b>13,244</b>	<b>26,748</b>	<b>30,972</b>	<b>32,138</b>	<b>34,317</b>	<b>35,202</b>

\*Source: trademap.org

<b>Imports in tons</b>									
Product	2010	2011	2012	2013	2014	2015	2016	2017	2018
Crisp bread	199	21	1	1	1	1	1	3	1
Gingerbread	6	4	0	50	57	149	80	74	134
Sweet Biscuits	4,635	4,340	3,814	4,264	5,025	5,811	6,128	6,328	6,935
Waffles	2,298	1,777	1,341	1,353	1,485	1,560	1,220	1,342	1,490
Toasted Bread	222	405	424	525	530	625	601	628	752
Croissants	5,029	4,567	4,428	4,912	5,217	5,682	6,220	6,483	6,780
<b>Total</b>	<b>12,389</b>	<b>11,114</b>	<b>10,008</b>	<b>11,105</b>	<b>12,315</b>	<b>13,828</b>	<b>14,250</b>	<b>14,858</b>	<b>16,092</b>

\*Source: trademap.org

The production in 2015 has been 24.000 tons, reaching a 60% capacity usage. This also indicates a rise of 12% in production in the past 5 years. The most significant increases in

production have been registered in products such as: confectionery products containing cocoa (6.5 times), sweet biscuits (119%) and waffles (126%). From a financial point of view, the export of confectionery products has brought 75 million USD in 2017, which represents a 45% increase of the export value five years ago. In the meantime, the imports' value has reached 53.234 million USD in 2017, which represents an increase of 22% of the imported value five years ago. This shows that while both the imports and exports are increasing, the exports are increasing at a faster rate. This is an indicator that while domestic producers still have to overcome some important obstacles in terms of exports, they are improving significantly over the years and are competitive on the domestic market when faced with foreign competition. Most of the confectionery products are exported to countries in the region such as Serbia, Romania, Croatia, Bosnia and Herzegovina and Bulgaria. There are significant amounts also being exported to Israel, Germany and Slovenia.

The main producers, as well as exporters of confectionery products in North Macedonia are Vitaminka, Swisslion, Evropa and MakProgres. These companies have a share of the domestic market of over 75% and account for over 95% of the total exports of confectionery products. The remaining domestic producers of confectionery products, such as pastry shops and specialized stores, are regarded as craftsmen. They usually operate in adjacent production and sales facilities (pastry shops/ restaurants) or have started collaborating with mediators, such as retail chains, in order to sale their produce.

## **2. Overview of the Bulgarian Market - PESTLE Analysis**

Reviewing the macro environment of the Bulgarian market, the following aspects will be analyzed: political, economic, sociological, technological, legal and environmental. Although these factors cannot be affected on, the company should have a clear overview especially in the process of strategic decision making.

### **Political**

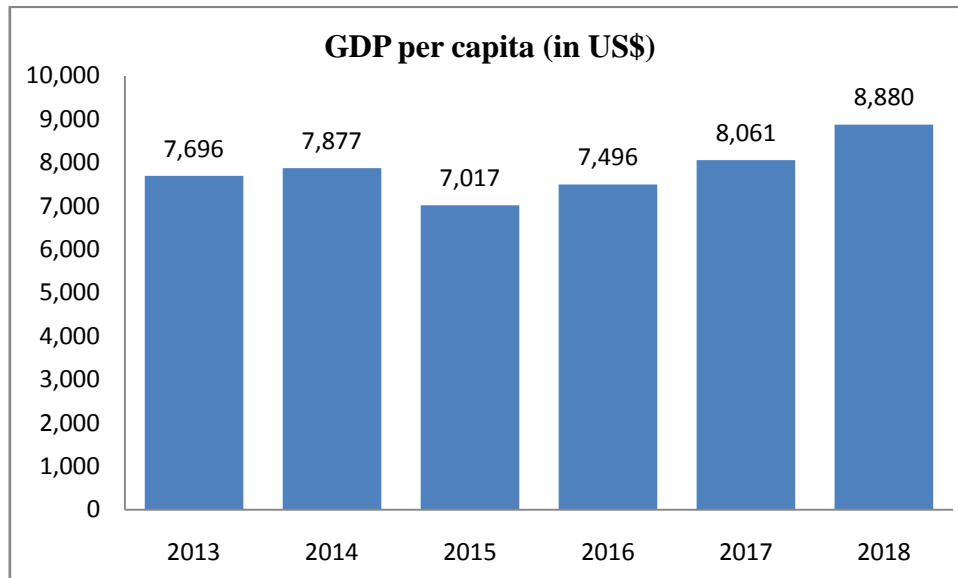
Bulgaria is a parliamentary country, where the Prime Minister is head of government. Since 2004 Bulgaria is a part of NATO and a state member of the European Union since 2007. The country has a multi-party system where the major political parties are: Citizens for European Development of Bulgaria (CEDB), Bulgarian Socialist Party (BSP), Movement for Rights and Freedoms (MRF), Attack Coalition (ATAKA).

The most pressing issue Bulgaria has been facing is the corruption and organized crime. In 2008 the European Commission even suspended EU aid funds due to Bulgaria's inability to deal with these issues effectively. Later, Bulgaria was also denied taking part of the Schengen passport-free zone.

### **Economic**

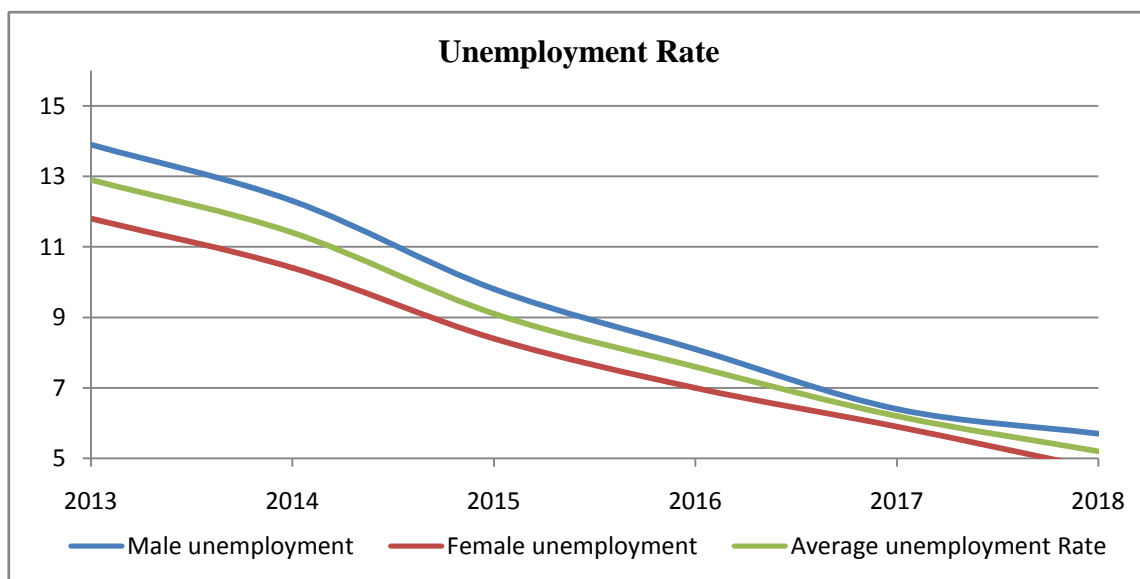
Since joining the EU, the foreign trade negatively affected the economic activity of the country. Nevertheless, the country's GDP shows continuous growth since 2014 and is expected to do so in the following years. The main driving force behind the expected future

growth is the strong private consumption while foreign trade is expected to contribute positively to the GDP only after 2019. The disbursement of EU funds is expected to boost growth in 2018, same as in 2017, while increases in wages should stimulate domestic demand. Namely, the GDP per capita at the end of 2018 was at 8,880 US\$, which represents a 10.2% increase since 2017. The evolution of the GDP per capita in the past 6 years is presented in figure 1.



\* Source: countryeconomy.com

The unemployment rate in Bulgaria shows continuous decline in the last 5 years. More recently, in 2018 it has decreased by 19.2% compared to 2017. While both female and male unemployment rates show a significant decline of 59.7% since 2013, the decline in the female unemployment rate is more drastic, at 60.2%. This declining trend is mostly due to the increased job creation as a result of the EU funding. The change in unemployment rates can be seen in the figure 2 below.



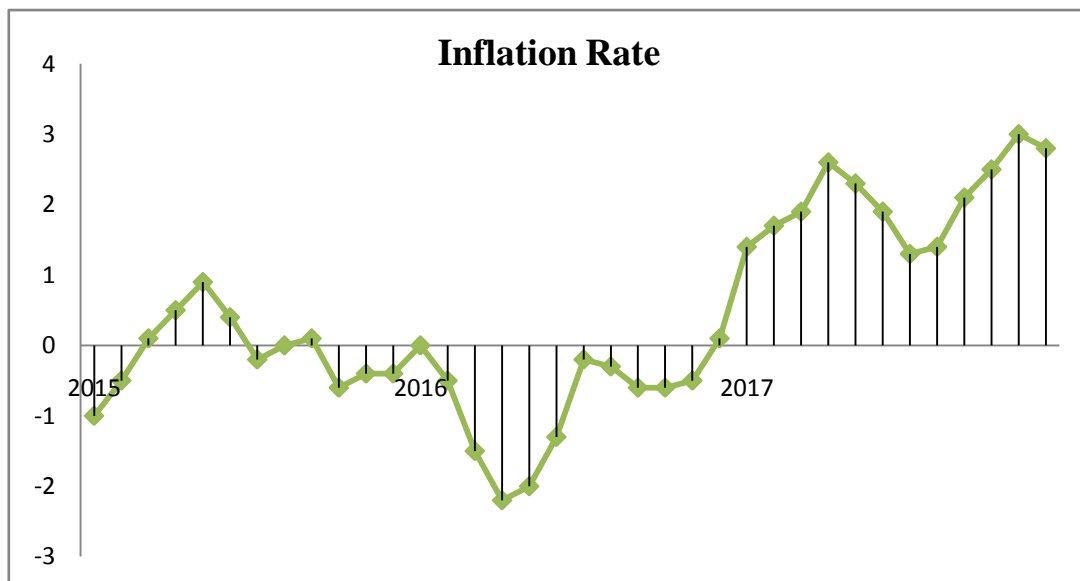
\*Source: National Statistical Institute, Republic of Bulgaria

Traditionally an agricultural country, Bulgaria is now considerably industrialized. The agricultural sector contributes around 4.7% to the GDP and employs 6.3% of the workforce, while the industrial sector represents 28.3% of the GDP and employs 29.3% of the workforce. Bulgaria’s industry continues to depend on heavy manufacturing sectors (metallurgical, chemical, machine building) which were developed during the socialist period. However, the most dynamic sectors are textile, pharmaceutical products, cosmetic products, the mobile telephone industry and the software industry. The service sector contributes 67% of the GDP and employs 64.5% of the workforce.

<b>Breakdown of Economic Activity By Sector</b>	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>
Employment By Sector ( <i>in % of Total Employment</i> )	6.3	29.3	64.5
Value Added ( <i>in % of GDP</i> )	4.7	28.3	67.0
Value Added ( <i>Annual % Change</i> )	5.3	4.0	3.1

\*Source: en.portal.santandertrade.com

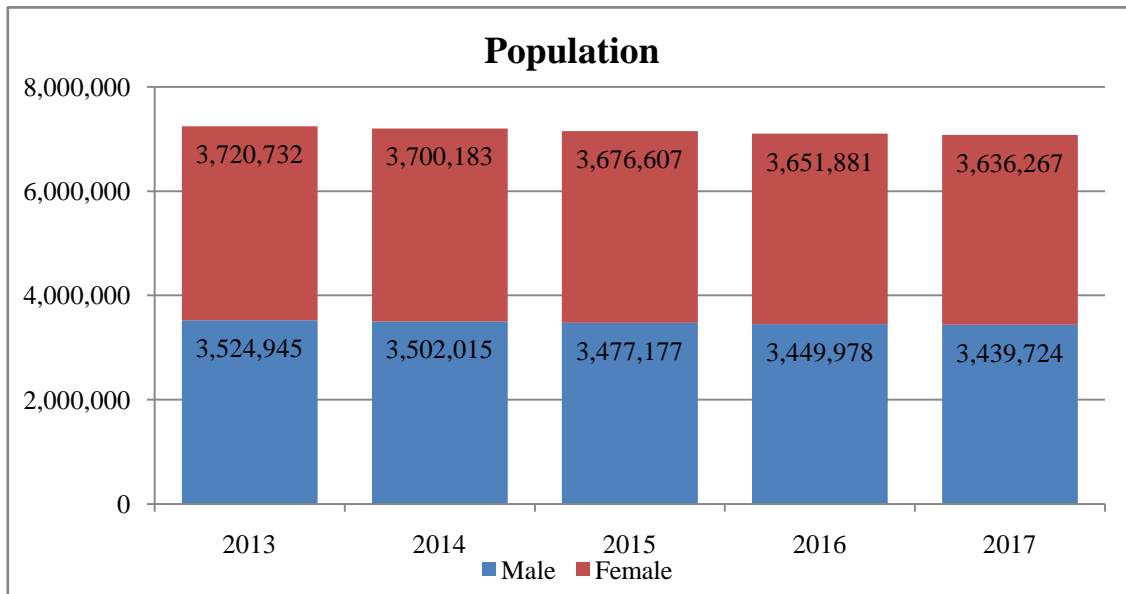
The currency in Bulgaria is Bulgarian lev. The average annual inflation, which has been negative between 2013 and 2016, rose to 2.1% in 2017. According to European Commission and IMF forecasts, the inflation should increase gradually, reflecting a rise in global oil prices and household disposable incomes. The changes in the inflation rates throughout the past 3 years can be seen in figure 3 below.



\*Source: ieconomics.com

## Social

Bulgaria ended 2017 with a population of 7,075,997 people, which represents a decrease of 51,825 people compared to 2016 or 195,643 people in the past five years. The female population is greater, with 3,636,267 women, representing 51.3% of the total, compared to 3,439,724 or 48.7% men. The population is comprised of approximately 85% of persons of Bulgarian origin, 9% of Turkish origin, 5% Romani and about 1% of other ethnic backgrounds (Russians, Armenians, Vlachs and Macedonians).



\*Source: countryeconomy.com

The consumers' usual behavior was analyzed through their consumption expenditure per product category. Based on the latest available data (2017), Bulgarians spend approximately 32.7% of their annual expenditure on food and non-alcoholic beverages, making this category of products the most consumed one (Table 1). According to a research of the costumers' decision making process when purchasing a product; while the price plays an important part of the decision, it is not one of the most important ones. This study differentiates users into three main groups: budget users, searchers of tenders and passive users. It was found that Bulgarian customers for the most part belong to the category of seekers of tenders. Meaning that in spite of the economic crisis, the Bulgarian customers have realized that the most important is the price-quality ration. Based on the conducted research, the most important factors when purchasing are: clear indication of prices, cleanliness of the store, availability and diversity of goods, etc. The quality of the products as well as their price was said to have about 65% of importance.

Table 1: Consumption expenditure per product category

Consumption Expenditure By Product Category as % of Total Expenditure	2017
Foods and non-alcoholic beverages	32.7%
Housing, water, electricity, gas and other fuels	16%
Transport	7.3%
Health	5.8%
Miscellaneous goods and services	4.9%
Recreation, culture and education	4.8%
Communication	4.6%
Alcoholic beverages, tobacco and narcotics	4.5%
Furnishing and maintenance of the house	4.5%
Clothing and footwear	3.8%

\*Source: National Statistical Institute. Republic of Bulgaria.

Trends in customer behavior



Despite growing health trends, the majority of Bulgarians like to indulge and chocolate confectionery is an affordable way to do so. The chocolate confectionery types are eaten all year around, both at home and at the office. Products in some categories, such as countlines (chocolate bars), are even positioned in terms of product appeal and pack size as being sufficient to constitute a meal. In 2015 a striking 40% of the Bulgarian population was overweight and 20% were obese. This suggests that the population likes to snack. Despite efforts from the government to raise awareness of this problem, the number of overweight people in 2015 increased by 1% compared with the beginning of the review period.

## **Technological**

The technological environment can be analyzed based on the following factors: outsourcing of ICT, technology research, use of internet and electronic commerce, new inventions and technologies, the level of technology transfer, governments spending, etc.

In 2015 Bulgaria was the best destination for outsourcing in Europe, especially the outsourcing of ICT. Expenditure on research and development is a common indicator of science and technology activity in the national economy. A downward trend of research and development expenditure is typical for all candidate countries for EU membership during the transition period to a market economy, though being different in its intensity and duration. Total research and development expenditure for the EU has steadily increased over the past ten years and consequently in Bulgaria.

Regarding the usage of internet and electronic commerce, in 2014 approximately 58% of households had broadband internet, which is one of the lowest rates in the EU. Out of the 25% of households that have internet access via mobile devices, only 8% use it for internet banking. In terms of e-commerce, the share of Bulgarians who have bought goods and services by internet is around 16%, most of which are clothing and sporting goods. The share of financial services is only 2%. The main reasons preventing e-commerce are: the desire to see the purchased goods, store loyalty, habit and lack of need for online purchases. This clearly indicates that the Bulgarians are familiar with the electronic payment system, which gives a good basis for further development.

## **Legal**

EU member states share a customs union, a single market in which goods can move freely, a common trade policy and a common agricultural and fisheries policy. As a part of the European Union since 2007, Bulgaria's legislation is fully in compliance with the one in the EU. Seen as not all food legislation is harmonized at the EU level, exporters must also meet the target member state specific requirements. In the EU, there is a dual approach in harmonizing food laws: "horizontal" legislation covering aspects common to all foodstuffs (such as additives, labeling, hygiene, etc.) and "vertical" legislation on specific products (e.g., wine, cocoa and chocolate products, sugars, honey, fruit juices, fruit jams, novel foods, etc.).

The trade of products in Bulgaria is controlled by the Customs Agency. They provide the general legislation on import procedures, which is fully harmonized with the one in EU. The Ministry of Agriculture and Food is responsible for issuing import licenses for agricultural products, food safety and marketing standards. When trading with processed products and Value Added Tax (VAT) of 20% is applicable.

The tax policies of the country are supervised by the National Revenue Agency. The Bulgarian tax system recognizes three main groups of taxes: direct taxes (corporate tax, income tax, both at a flat rate of 10%), indirect taxes (value-added tax at a standard 20% rate) and local taxes and fees (succession tax).

Bulgarian food standards and regulations are harmonized with those of the EU. Bulgarian food processors observe HACCP. Other than this, phytosanitary and veterinary controls may be applied when trading with products of plant and animal-origin. Companies should observe product-labeling requirements regarding health or nutritional claims, which require approval by the Bulgarian Food Safety Agency and Ministry of Agriculture and Food. Supplementary labels (i.e. stickers) should also be translated into Bulgarian and should include the type of product, product name, name(s) of the manufacturer and importer, full list of ingredients, and shelf life. Bulgaria also introduced country-specific labeling requirements for certain products.

Further information on labeling requirements, food regulations, and standards, including new requirements for organic food products, can be found at FAS Sofia's Food and Agricultural Import Regulations and Standards Report or at FAS Sofia. Additional information can also be found on the European Food Safety Agency and Bulgarian Food Safety Agency websites. Also, please check the U.S. Mission to the European Union webpage which will guide you on exporting into the EU.

## **Environmental**

Bulgaria is a Balkan nation with diverse terrain encompassing Black Sea coastline, a mountainous interior and rivers, including the Danube. The country borders with 5 countries: Romania, Serbia, Republic of North Macedonia, Greece and Turkey. Considering its relatively small area, Bulgaria has variable and complex climate. Although the continental climatic zone is predominant, there are small zones of Mediterranean climate.

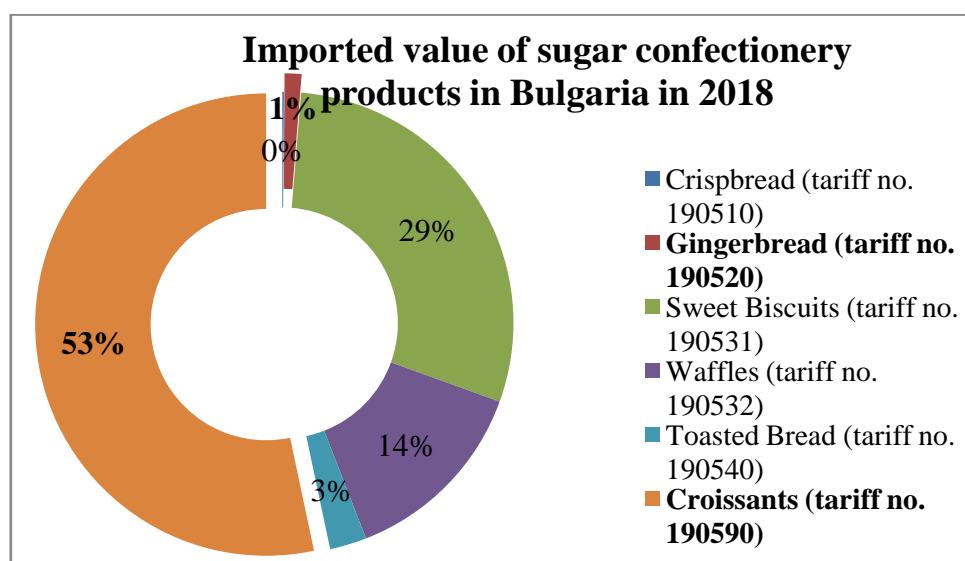
While the Bulgarian legislation reflects the EU's environmental requirements, implementation remains a challenge. Bulgaria has made significant improvements in its environmental performance since its accession in 2007. Main areas of concern are: air quality (especially in Sofia), construction in protected areas, lack of integration of nature, biodiversity policy and waste management.

In 2016 the country's electricity consumption from renewable sources stood at 18.8% and the target was set at 16%. In the past 12 years the consumption of electricity from renewables literally doubled in this country. 8% of the electricity in Bulgaria is produced from

solid waste and biofuels, whereas electricity produced from geothermal resources was only 0.2%.

### 3. Overview of the confectionary industry in Bulgaria

The main goal of a market analysis is to determinate the attractiveness of a market and to understand its evolving opportunities and threats as they relate to the strengths and weaknesses of the firm. This analysis will serve as basis for conducting a tailor made export marketing plan for the purposes of the company. This analysis will focus on the market of sugar confectionary products (more specifically products with tariff no. 190520 and 190590).



\*Source: trademap.org

In 2018 the sector of sugar and sugar confectionery was the 59<sup>th</sup> out of all the imported goods in Bulgaria, accounting for about 0.3% out of the total imports. The same year, Bulgaria was the World's 31<sup>th</sup> biggest importer of gingerbread (no. 190520) and the 40<sup>th</sup> biggest importer of croissants (no. 190590). The import of products like gingerbread had a 1.18% share of the total imported sugar confectionery, while the import of products like croissants had a 53.32% share.

Imports of 190520 from World						
Indicator	2013	2014	2015	2016	2017	2018
Value (in USD)	698,000	539,000	285,000	955,000	908,000	1,478,000
Quantity (tons)	210	184	129	436	405	679
Average price (USD/t)	3,323	2,929	2,209	2,190	2,241	2,177
Imports of 190520 from North Macedonia						
Value (in USD)	0	0	0	13,899	18,974	153,981
Quantity (tons)	0	0	0	7.71	10.45	87.6
Average price (USD/t)	0	0	0	1,803	1,816	1,758

\*Source: trademap.org

The table above shows data regarding the annual import of gingerbread (tariff no. 190520) in Bulgaria. The imports of gingerbread from the world have been fluctuating in the past 6 years.

The maximal import values and quantities were reached in 2018, there has been a increase of about 62.7% in value and 67.6% in quantities compared to 2017. This has not been the case regarding the average price of the imported product, where a decrease of -2.8% has been registered. The maximal price in the past 5 years was registered in 2013. It is evident that while this market is relatively new for the Macedonian companies, it is not for the companies worldwide. Namely, North Macedonia started exporting gingerbread in Bulgaria in 2016. The initial 2016 export has risen since then, both in value (+1007.8%) and quantity (+1036.2%). Contrary, the average price of these products has decreased by 2.5%. North Macedonia has a 6% share in Bulgaria's imports of gingerbread in 2018.

<b>Imports of 190590 from World</b>						
Indicator	2013	2014	2015	2016	2017	2018
Value (in USD)	50,350,000	53,332,000	48,295,000	51,156,000	57,316,000	66,725,000
Quantity (tons)	18,552	19,838	21,163	22,204	23,772	26,067
Average price (USD/t)	2,713	2,688	2,282	2,303	2,411	2,560
<b>Imports of 190590 from North Macedonia</b>						
Value (inUSD)	992,241	1,654,942	1,439,435	1,744,044	2,775,377	3,648,884
Quantity (tons)	459.97	843.37	834.07	956.84	1,393.76	1,887.34
Average price (USD/t)	2,157	1,962	1,726	1,823	1,991	1,933

\*Source: trademap.org

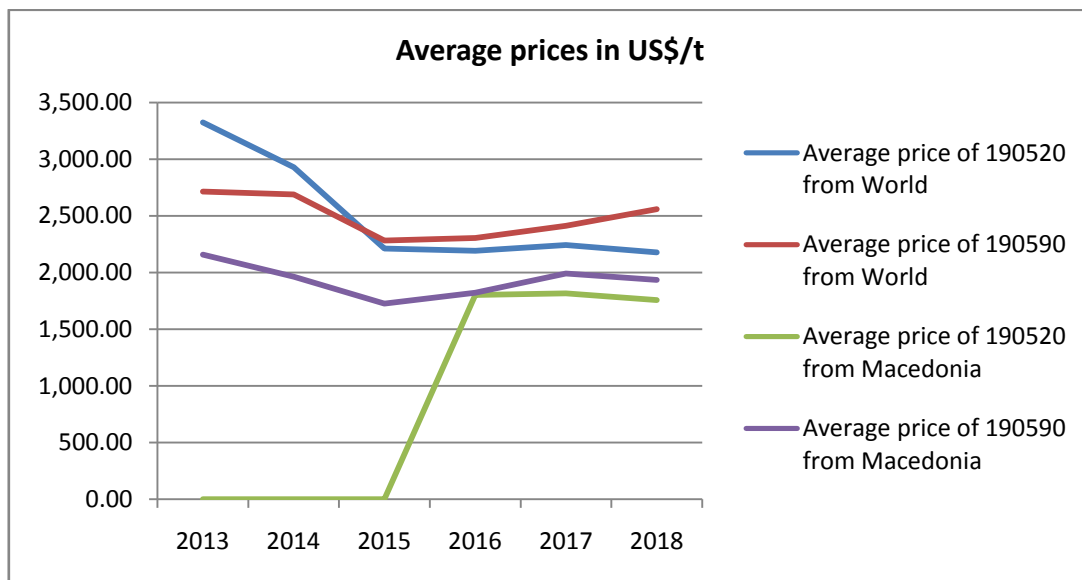
The table above shows data regarding the annual imports of croissants (tariff no. 190590) in Bulgaria. The import of this product has been rising in the past 4 years, both in value and in quantity. The imported value of croissants from the World has been rising about +11.5% annually on average; while the value of croissants imported from North Macedonia has been rising about +29.9% annually on average. It has only decreased in 2015, by -9.4% in World imports and by -13% in imports from North Macedonia. The imported quantities have also been rising; the ones from the World by +7.03% annually on average, while the ones from North Macedonia by about +27.2% annually on average. It is evident that this market is stable and of increasing interest especially for the Macedonian companies. North Macedonia has a 3% share in Bulgaria's imports of croissants in 2018.

### **3.1. Trends in pricing of confectionary products**

The differences in the imported values and quantities of gingerbread from the World and from North Macedonia, at least in the comparable past three years, are greatly notable. Contrary, this is not the case price wise. Namely, North Macedonia's imports comprise about 2% of the world ones, at least regarding imported value and quantities. On the other hand, the average price difference is not as significant. The average price of the products imported from the world is about 32.4% higher than the average price of the products imported from North Macedonia.

The average prices of the imported croissants have been relatively stable; both of the Macedonian products and on the ones imported from the world. The lowest price was noted in 2015, but since then the world average price has risen by +12.2% and the one of the

Macedonian products by about 11.9%. The average price of the croissants imported from North Macedonia has been fluctuating around 2,000 US\$ per ton, while the World one around 2,500 US\$ per ton.



\*Source: trademap.org

The 4% current value growth rate of chocolate confectionery in 2015 was similar to the CAGR of the review period. Sources pointed out that some prices were lower but, at the same time, more consumers purchased slightly more-expensive products (tablets, boxed assortments and seasonal chocolate), which sustained the average unit price growth rate.

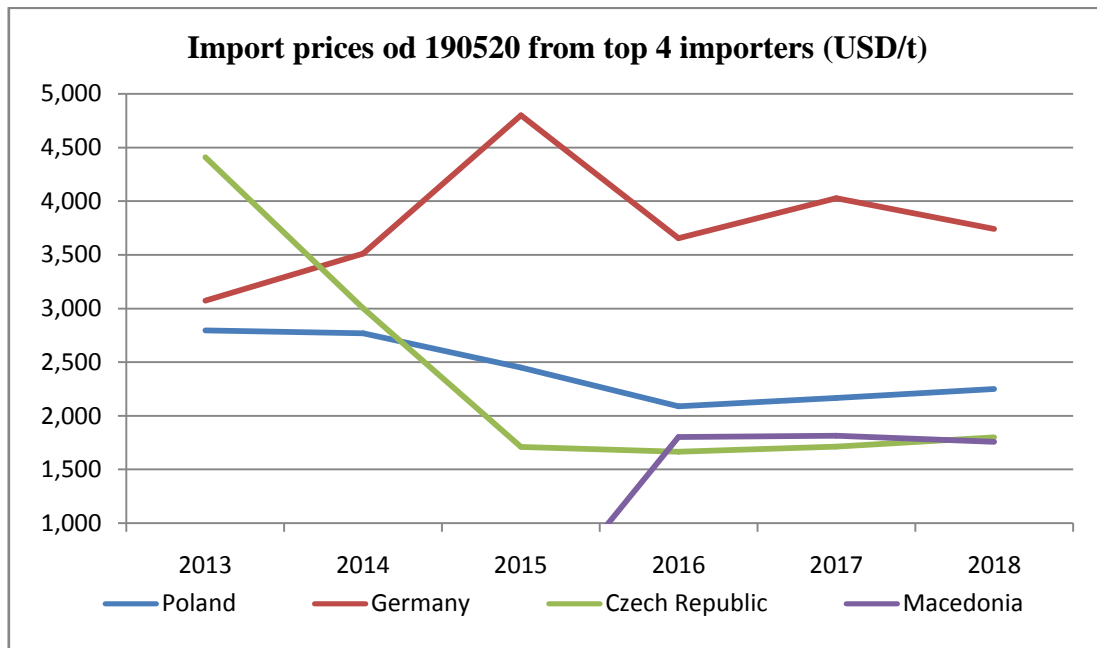
Both seasonal chocolate and tablets recorded the highest current value rates of 2015 with 6% sales rises. The reason for the excellent performance of seasonal chocolate was that the category is still novel and more consumers purchased chocolate as a gift for Christmas and Easter. Producers have adjusted to the novelty trend and even some modern grocery retailers have their own imported brands. Demand for tablets in 2015 was driven by the marketing efforts of the leader Mondelez Bulgaria AD to promote its main brand Milka. The positive results for Milka drove the category growth.

The average unit price declined insignificantly between 2014 and 2015, as a result of input-price fluctuations on international markets. This gave the opportunity for producers to engage in aggressive promotions locally and deliver affordable prices to consumers. On the other hand, while in the beginning of the review period input-price increases prompted brand owners to decrease their pack sizes, now many of them are seeking ways to reduce the cocoa content of products. This reflects new product development: tablets with filling; countlines that combine biscuit and wafer with filling and cocoa.

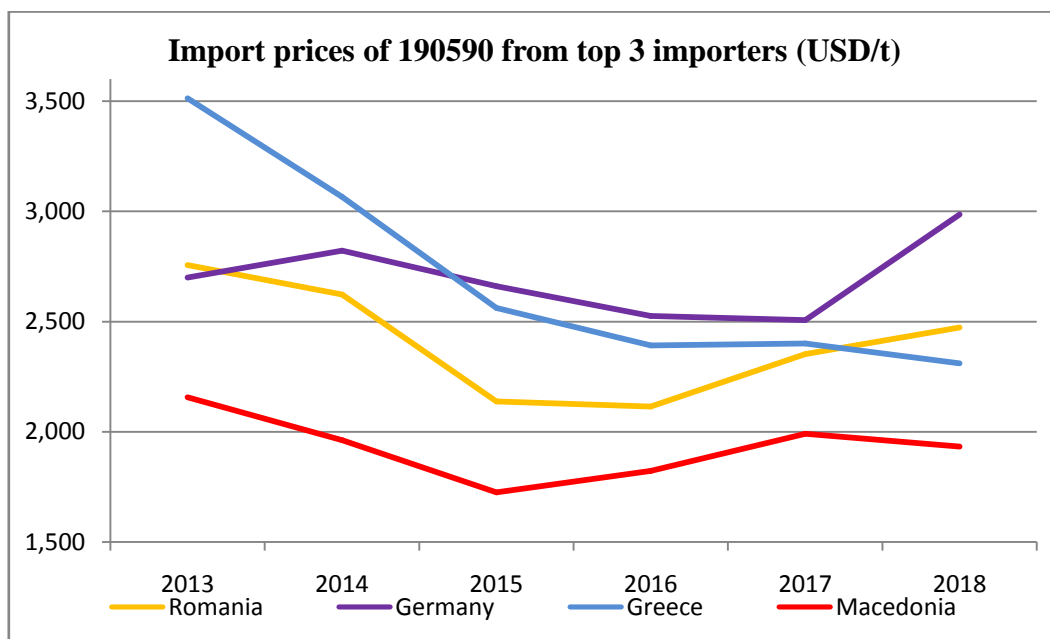
### 3.2. Trends in pricing of main importers

The graph below shows the average prices of gingerbread imported from the top 4 importers in Bulgaria. Most of the countries achieve an average price of about 2,000 to 2,500 US\$/ton. At the end of 2018 the maximum price of 3,741US\$/ton was achieved by Germany. North

Macedonia's products have reached the best price so far of about 1,816 UD\$/ton in 2017, the average import price has been relatively stable. North Macedonia is the 4<sup>th</sup> biggest exporter of gingerbread in Bulgaria.



\*Source: trademap.org



\*Source: trademap.org

The graph above shows the average prices of croissants imported from the top 3 importers and North Macedonia in Bulgaria. The average prices are relatively harmonized, especially in 2017. Most of the countries achieve an average price of about 2,000 to 2,600 UD\$/ton. The products imported from North Macedonia maintain stable average prices in the past 5 years of about 2,000 US\$/t with a small decrease in 2018. The maximum average price was noted in 2013. North Macedonia is the 7<sup>th</sup> biggest importer of croissants in Bulgaria.

## 4. The retail market in Bulgaria

In the past decades, but mostly since joining the European Union in 2007, the retail market in Bulgaria underwent significant changes. Starting with the process of consolidation, where the highly fragmented sector consisting of multiple independent shops turned into grocery stores; followed by the rapid entry of new large retail chains. More specifically, the most significant development in the food industry was the transition from a centrally planned system to a market-competitive agri-food sector. With the increase of the retail chains' market share, the bargaining power shifted and now big supermarkets can impose (un)favorable prices and conditions on suppliers. Currently, most of the largest companies in the Bulgarian food industry are branches of international companies.

The described changes in the food supply chain, but also the changes in the final consumers' needs, food safety and quality requirements, resulted in the development of the model 'modern trade'. Most of the shopping facilities can be divided in two major groups: 'modern trade' shops (meaning supermarkets, hypermarkets and discounters) and 'traditional marketing' (meaning neighborhood and specialized stores). The modern trade shops characterize with the size of commercial area they use, the diversity of products they offer at affordable prices and volume of supply.

Until a few years ago, modern retailers were expanding in the outskirts. However, due to the slow change in consumer shopping habits, they began opening smaller outlets that are closer to the consumers, downtown or in a highly populated area. These stores usually have longer working hours that are adjusted to the working hours of the consumers. These convenience type stores also bring benefits for traditional retailers, who instead of going out of business usually prefer to rebrand by becoming part of a more well-known franchise while enjoying the advantage of having loyal customers.

According to Euromonitor, the total number of retail outlets, both modern and traditional, in Bulgaria in 2017 was 41,872 and the total value of sales was more than 10.7 billion USD. Even though the number of outlets has shown decreasing tendencies in the last 3 years (-0.3% in 2016 and -0.2% in 2017), the value of sales has been increasing (by +2% in 2016 and +3% in 2017). These changes came as a result of the exit of Penny Market and the unsuccessful merge of Carrefour and Piccadilly. Even though the modern grocery retailers account for only 8.7% of the total number of outlets, the value of sales exceeded 3.3 billion USD, accounting for 54% of market share.

Outlet - Units	2015	2016	2017
Modern Grocery Retailers	3,870	3,725	3,683
Traditional Grocery Retailers	38,189	38,219	38,189
<b>Total Grocery Retailers</b>	<b>42,059</b>	<b>41,944</b>	<b>41,872</b>

\* Source: Euromonitor International

Outlet – Value of Sales (mil. USD)	2015	2016	2017
Modern Grocery Retailers	3,246.8	3,308.4	3,399.8
Traditional Grocery Retailers	2,784.5	2,843.1	2,930.3

<b>Total Grocery Retailers</b>	<b>6,031.3</b>	<b>6,151.6</b>	<b>6.229.1</b>
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\* Source: Euromonitor International

Forcasts	2018	2019	2020	2021
Value of Sales (mil. USD)	6,461.8	6,558.7	6,646.2	6,706.6
Outlets (units)	41,862	41,837	41,822	41,832

\* Source: Euromonitor International

According to the forecasts of the value of sales, they are expected to increase in the next 4 years (+2% in 2018, +1.5% in 2019, +1.3% in 2020). On the other hand the number of outlets is expected to decrease (-0.02% in 2018, -0.05% in 2019 and -0.03% in 2020).

These forecasts have been made based on factors such as declining population, migration, shrinking of the working-age population, on one hand, and on the increases in wages, increases in number of tourists and decreasing unemployment, on the other hand.

<b>Retailer</b>	<b>Owner</b>	<b>Nationality</b>	<b>Opened</b>	<b>Outlets (2017)</b>	<b>Revenue in mil. USD (2016)</b>
Kaufland Bulgaria	Schwarz Group	Germany	2003	58	983.2
Metro Cash & Carry	Metro	Germany	1999	13	481.9
Lidl Bulgaria	Schwarz Froup	Germany	2010	86	441.8
Billa Bulgaria	REWE Group	Germany	1999	120	391.7
Fantastico	Valery Nikolov	Bulgaria	1991	41	255.3

\* Source: Euromonitor International

As seen in the table above, the Bulgarian retail sector is led by Kaufland. The only local retailer among the leading ones is Fantastico, currently operating with 41 outlets. In the next couple of years, Kaufland is expected to keep being the leader of the retail sector; the market share of the private labels is also expected to increase, as well as the convenience stores as another channel for grocery retailers.

#### 4.1. Main competitors

All of the leading retailers offer weakly discounts on selected products. The prices of different brands of croissants are presented on the following table. This data was obtained through own internet research, so it is important to note that some brands may be excluded. Prices for different brands of gingerbread were not included in the available catalogues. Even though this analysis can give us a better insight of the potential competition, further research is needed.

<b>Company</b>	<b>Origin</b>	<b>Brand</b>	<b>Weight</b>	<b>Retailer</b>	<b>Regular Price</b>	<b>Discount</b>	<b>Current Price</b>
K&G Food Industry	Bulgaria	Grusto	200 gr	Kaufland	1.15	26%	0.85
Tottis Quality	Greece	Serenata	70 gr	Kaufland	0.75	26%	0.55
			70 gr	Billa	0.75	Billa Card	0.59
Delifrance	France	Delifrance	350 gr	Metro	5.69	7%	5.29
Pain D'or	Bulgaria	Mon Croissant	85 gr	Metro	0.49	0%	0.49
			65 gr	Billa	0.49	Billa Card	0.39



Chipita	Greece	7 Days	60 gr	Metro	0.85	0%	0.85
			110 gr	Fantastico	1.09	27%	0.79
Patisserie		Gigant	85 gr	Billa	0.59	Billa Card	0.49
Elka	Albania	Belino	80 gr	Billa	0.69	21%	0.54
Kaufland	Bulgaria	Kaufland Bakery	100 gr	Kaufland	1.19	20%	0.95
Lidl	Bulgaria	Lidl Bakery	57 gr	Lidl	0.50	0%	0.50
Billa	Bulgaria	Billa Bakery	54 gr	Billa	0.79	Billa Card	0.65

\*Source: Own Research, 2018

As can be seen in the table above, the retailers in Bulgaria are missing high added value confectionery products. Most of the available brochures show discounted prices for this type of products and a limited assortment of the same. The prices fluctuate between 0.39 and 0.85 leva. The highest price on the table above of 5.29 leva is for a package of 6 small croissants (can be noticed by the weight of the product). Here it is important to be noted that most of the retailers offer freshly baked goods under their bakery shops that operate in the market. Final products labeled as 'handmade' with high quality raw materials are almost nonexistent. Most present of the confectionery products offered by the main retailers are: doughnut like products ('ekleri'), truffles, cookies, croissants, etc. It is important to be mentioned that most of these retailers label the domestically produced products.

Regarding similar products that could potentially serve as substitutes of croissants or gingerbread, the seasonal chocolate and tablets both recorded current value sales growth of 6% in 2015, which makes them the two best-performing categories. Their average unit price decreased marginally in 2015. The leading four companies account for 75% of category value sales in 2015, only one of them being a local competitor. In the forecast period, chocolate confectionery is expected to develop similarly to 2015, as a value CAGR of 4% at constant 2015 prices is projected, to reach sales of about 290 million USD in 2020.

Most chocolate confectionery products in Bulgaria are of the standard type. Premium products are available in categories such as standard boxed assortments, seasonal chocolate and tablets, but their share is very small. Premium products are defined in the following way: a unit of standard boxed assortments with a retail price of above 10 leva (5.83 USD); a tablet costing more than 3.5 leva (2.04 USD); and seasonal chocolate with a unit price of above 5 leva (2.9 USD).

Plain milk chocolate accounted for 51% of value sales within tablets in 2015. It is the most common type of chocolate in Bulgaria. The second-most-popular type is filled chocolate, which accounted for a 36% value share in 2015. New product development and the popularity of filled chocolate are mainly driven by Milka, which has filled chocolate in its regular and limited edition lines. In 2015 the line was extended as the company introduced tablets with pretzels, following the new product launch of Milka with Tuc in 2014. The second-placed company in 2015, Nestlé Bulgaria AD, has a more traditional tablets portfolio and encompasses plain chocolate with hazelnuts and types of dark chocolate. Plain dark chocolate is the third-most-popular type and accounted for a 10% value share in 2015. Although Bulgarians like to indulge, a big number of them are health-conscious and are

choosing products with health benefits. Plain white chocolate did not manage to improve its popularity in the review period and accounted for only a 3% value share in 2015. There has not been much new product development and novelties within plain white chocolate and its value share gradually decreased over the review period.

Nuts and caramel are the most popular additions to chocolate confectionery. Bulgarian consumers have traditional tastes and although products with less-usual flavors exist (eg pear, chilly and salted caramel) they are of limited importance to the category. Moreover, products with such flavors normally command higher prices and are not affordable to many.

Despite positive sales growth for seasonal chocolate, it still accounted for just 2% of total value sales of chocolate confectionery in 2015. The habit of buying chocolate for a seasonal holiday is still new to Bulgaria, but an increasing number of people are choosing to present children and other close family and friends with chocolate for Easter and Christmas.

The main competitive threat to chocolate confectionery comes from packaged cakes and pastries, as they compete directly against countlines. Both categories are bigger in size than countlines: in 2015 packaged pastries reached 20,000 tones and packaged cakes 22,000 tones, while countlines achieved 11,000 tones. Both have price advantages against countlines and are also preferred for their bigger pack sizes as some consumers eat them as a whole meal (eg as morning or afternoon breakfast), while countlines are eaten as a snack between meals. Some countlines producers have addressed this issue by launching large pack sizes (eg Moreni, Mura, Hyper, Borovets, Bounty and Twix) or positioning their brands as sufficient to relieve substantial hunger (eg Snickers).

## **5. Distribution channels**

The distribution of food products, especially in Sofia, is mostly done through:

- Direct collaboration with the retailers - mainly large international/domestic producers offering their famous brands or production of products that would be sold under the private labels owned by the retailer;
- Through mediators - importers/distributors that have developed their own distribution network and that supply the retailers or local markets with a large number of products.

Price wise, it is important to be noted that the retailers margins go somewhere around 25-40% of the market price of the products, while when the process includes the involvement of a distributor, their margin should be included as well. In cases when the producer collaborates only with the distributor, the advantage is in the usage of their developed distribution network and that the export price is arranged with the distributor, he then is responsible for development and placement of the products' sales.

List of distributors in Bulgaria

<b>Company</b>	<b>Hermes Foods</b>
Company Profile	<p>The company was established in 1990 and is an importer of more than 700 different food products from countries like Hungary, Netherlands, Italy, Czech Republic, Poland, Greece, Indonesia, Thailand, Philippines, etc.</p> <p>The company is the official importer and distributor of the following companies: Heinz, Friesland, Koch's, Kluth, Losos Ltd., Dutch Lady, Rafaelo Salgado, Suessina, Animex. The supply most of the main international markets in Bulgaria such as: Metro Cash &amp; Carry, Billa, CBA, Ramstore, HIT, Kaufland and domestic stores.</p> <p>The company has a well developed distribution network throughout the country, with their own offices and storages in all the main cities in Bulgaria. Other than distribution, the company owns the following brands: KRAMI, De Lora and Variant.</p>
Contact	<p>247 Botevgradsko Shose Bul  Phone/ Fax: +359 2 942 47 80 (81)  Mobile: +359 884 73 01 66  E-mail: r.kirova@abv.bg  E-mail: marketing_1@hermesr.com</p>
<b>Company</b>	<b>Stama</b>
Company Profile	<p>The company was established in 2004 and is one of the main distributors of world-known brands of food, sweets, personal care and hygiene and chemicals. Other than world-known brand of food products they also sell products of the biggest domestic producers of sweets and beverages. The headquarters and main distribution center are in Sofia. Famous confectionery products that the company distributes are: Milka, Nestle, Bounty, Kit Kat, Kinder, 7 Days and others.</p>
Contact	<p>Address: 98, Suhodolska str., 1373 Sofia, Bulgaria  Tel/Fax: +359 2 829 79 36  Email: sales@stama.co</p>
<b>Company</b>	<b>Gracia</b>
Company Profile	<p>The company was established in 1992 as a family business. With 20 years of history and experience it is one of the first companies for distribution and logistics of confectionary products in Bulgaria. The company is a distributor of more than 350 confectionary products of brands such as Bifa, Soray, Nestle, Vipa, Chipita, Zaharni zavodi, which are distributed in more than 1.200 stores in the country.</p>
Contact	<p>84 Polet Str. Plovdiv, Bulgaria  Tel.: +359 (32) 96 44 38  E-mail: office@gracia-bg.com</p>
<b>Company</b>	<b>Demakra</b>
Company Profile	<p>The company works with import, export, marketing and distribution of products for wider consumption. They trade with more than 5.000 companies from different market sectors, including modern, traditional, HOREKA wholesale and retail sales. Companies that they collaborate with are: Kaufland, Billa, Piccadilli, Tempo, Metro Cash and Carry, Carrefour and others.</p> <p>They are importers and distributors of chocolate products and sweets from Belgium, Germany, Poland, Romania and Turkey. Some of the famous brands that they distribute are: Duc d'O from Belgium, Wiebold from Germany, the Polish producer Mieszko, the Romanian Kandia Dulce with its' variation</p>

	Primola, Anidor and Novatini, products Croco, the Turkish producer of sweets Aras and others.
Contact	12-14 Iliyantsi bulevard, Sofia Email: office@damakra.com
<b>Company</b>	<b>Saranda Distribution</b>
Company Profile	The company is involved in distribution of a number of famous brands of food products. They have a well developed distribution network throughout the country, with their own offices and storage places in Sofia, Plovdiv, Varna and Burgas.
Contact	97 Kliment Ohriski Blvd., Sofia Tel: +359 2 9625755
<b>Company</b>	<b>Slavka Milanova Group</b>
Company Profile	Basic temperature regime. They distribute throughout Sofia; main retail chains, HOREKA, small local shops. They are the main distributor for SF of Bulgarian and foreign brands. Independently, they are involved in imports.
Contact	<a href="http://www.smgroup.bg">http://www.smgroup.bg</a>
<b>Company</b>	<b>Mariva Food Service</b>
Company Profile	They have one storage place in Sofia and three additional ones. They work with chilled and frozen products (regime of -18 and 0-5°C). They are involved in import.
Contact	<a href="http://mariva.bg/">http://mariva.bg/</a>
<b>Company</b>	<b>Amperel</b>
Company Profile	They work with products that don't need special regimes and products frozen to -20°C. The main office is in Sofia, but they also have regional offices in almost all of the bigger cities: Plovdiv, Varna, Burgas, Pleven, Stara Zagora, Haskovo and others.
Contact	Czar Boris III №126,v7, Sofia Phone: +359 2 81 82 665 <a href="http://amperel.net/">http://amperel.net/</a>
<b>Company</b>	<b>Fresh and Food Logistic</b>
Company Profile	Storage and distribution of food products with or without specific temperature regimes.
Contact	Bld. "Илиянци" 12-14, Sofia Phone: +359 0888 444 979

## 6. Overview of North Macedonia's Transport Opportunities for Bulgaria

Although neighboring countries, North Macedonia and Bulgaria in the past period have failed to make enough in the traffic connection.

1. First, as the most prevalent media in recent years, the fact that the two neighboring countries are not directly linked is evident in the area of rail transport. In order to deliver the goods between the two countries by rail, the movement of goods is bypassed by Serbia, which continues the transport route, involves the transport of one more national railway and automatically receives non-competitive transport. This disables many of the delivery options.

2. The air distance of 170 km to Skopje and Sofia indicates irrationality in the area of air traffic. One of the major advantages of air travel is speed, which cannot be expressed at such a small distance. That is why even the passenger airline proved to be irrational, which was unsuccessfully introduced several times.

3. Shipping is also impossible due to the geographical location and configuration of both countries.

4. As the only rational transport in foreign trade with Bulgaria remains truck transport. All modes offered by this transport can be used here in view of the difference in the capacity of the vehicle. In spite of the frequent use of truck transport in the trade exchange between the two countries, it should be noted that they are not linked to the highway, nor have there been any projects directly launched to achieve this goal. The fare for the whole Skopje-Sofia truck is 450 euros, and the price for a half truck is 300 euros. Due to the location of Sofia, relatively close to the Macedonian border, for a better orientation on the height of the truck we will also consider a further destination in the tourist region of Bulgaria. The fare for the whole truck Skopje-Varna is 850 euros, and the price for half a truck is 500 euros. Both Macedonian and Bulgarian carriers can respond appropriately to the requirements of Macedonian exporters in the confectionery industry for the realization of their trade transactions. Due to the voluminous nature of some of the confectionery products in truck transport, so-called jumbo semi-trailers with increased load capacity (more than 100 m<sup>3</sup>) can also be used.

**Conclusion:** Bearing in mind the possibilities of transport, the most appropriate transport for Bulgaria is nevertheless the truck. All prices quoted are market within a given time period in 2019. The fluctuation of prices in transport varies depending on a number of factors and it is always necessary to provide a current quote before carrying out a particular trading activity.

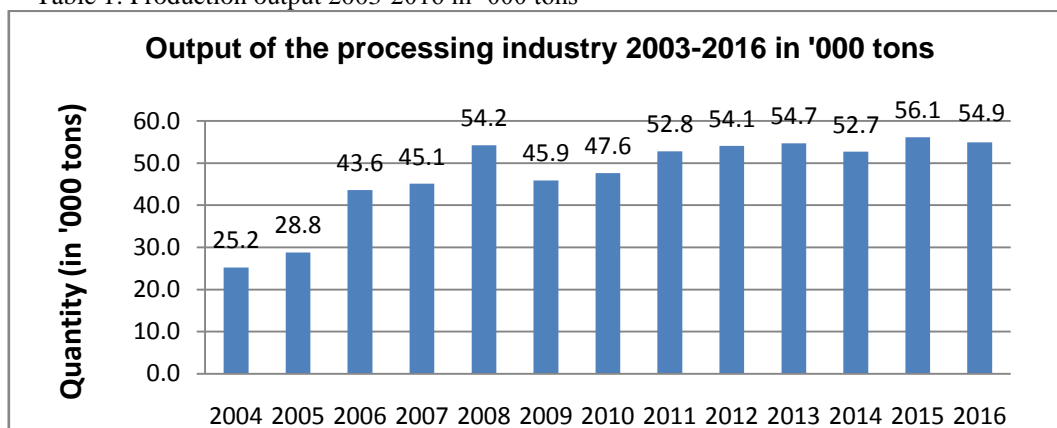
# **Analysis of the Swedish market and export opportunities for processed fruit and vegetables**

## **1. Overview of the processing industry in North Macedonia**

Fruit and vegetable processing industry plays a very important role within the Macedonian agribusiness sector. The industry is very export oriented, continuously improves its performance in terms of increase in production and export value over the last decade and is very labor demanding. Majority of the domestic processing companies are purely vegetable processing facilities or process both fruits and vegetables. According to a recently conducted survey, 44% of the companies process only vegetables, 12% are involved in fruit processing solely, while 44% of the companies process both groups of agricultural products. In relation to the type of processing, the largest portion of the processors are involved in canning - 30, small number of them are drying – 2 and freezing capacities - 8, while the rest of them have combined production lines – 3.

The industry purchased nearly 72 thousand tons of raw materials in 2016 or -2.2% compared to 2015. This was a result of certain raw materials shortages, particularly fruits. Red pepper is the most important raw material for the processing industry. According to the same survey, the quantities of red pepper purchased by the processing capacities in 2016 represented nearly 48% (34.3 thousand tons) of the overall raw material volume. Sour cherry is also most important fruit for processing industry. The quantities of sour cherry purchased by the industry in 2016 represented 7.1% (5.1 thousand tons) of the overall raw material volume. Overall, the industry purchased 0.5 thousand tons less vegetables for processing purposes in 2016 compared to the previous year or 58.6 thousand tons in total (82%) and 1.1 thousand tons less fruits for processing purposes in 2016 compared to 2015 or 12.9 thousand tons in total (18%).

Table 1: Production output 2003-2016 in '000 tons



\* Source: Own Research, 2017

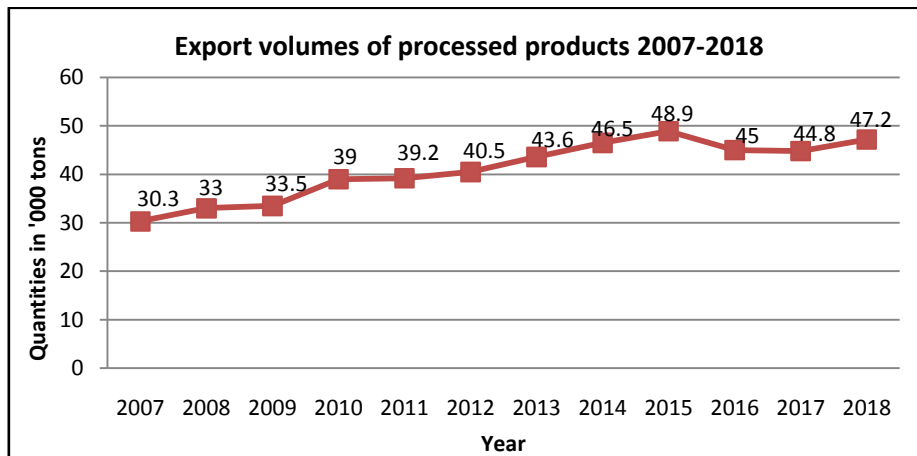
Until 2008 the industry continuously increased its production, mainly due to the increased demand for the Macedonian processed goods by the foreign buyers, and domestic market growth resulting from strong penetration of the retail chains and changes in the lifestyle of the population (buying processed products rather than preparing homemade preserves). However, in 2009 the output was reduced due to the effects of the global economic and financial crisis while in 2010 industry again showed an increase in production. This trend continued during the period 2011 – 2015 (except in 2014), mainly as a result of improved marketing and sales practices of the producers, increased demand by international markets and additional governmental support to the farmers that cooperate with the industry. The output of finished goods in 2015 reached the volume of 56.1 thousand tons while total production in 2016 was 54.9 thousand tons or -2.2% compared to 2015.

The general characteristic about the F&V processing industry is low level of utilization of installed production capacity. The average utilization in 2005 amounted to approximately 27%, 38% in 2009, 45% in 2012 and 2014, 47% in 2015 and 46% in 2016. The overall installed capacity for processing of F&V is around 120,000 t. of final output. Small increase in capacity utilization over the last two years result from the recovery of the industry and markets from effects of the economic crisis, but on the other hand, the industry has been challenged by the Eurozone crisis which has considerable implication on the overall performances of the domestic processing capacities.

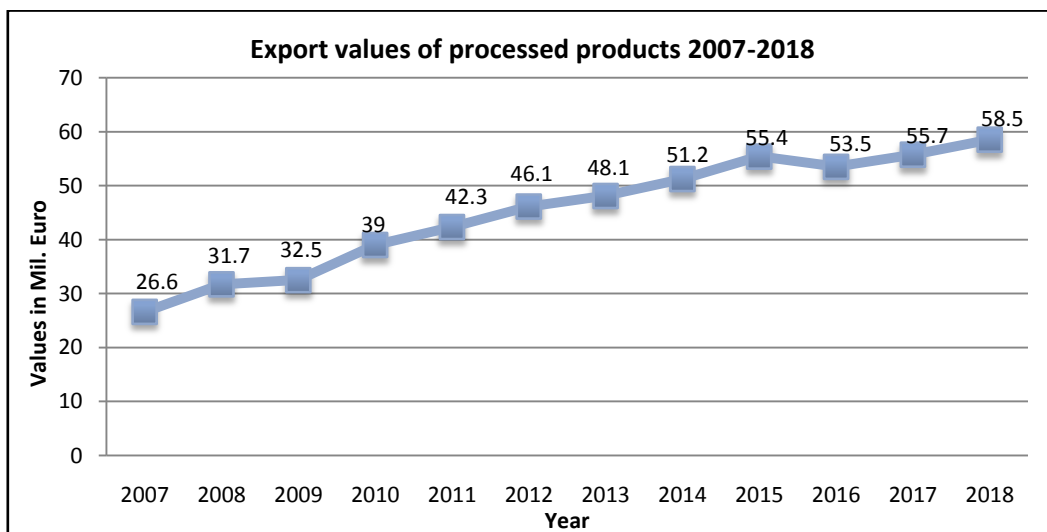
The processing industry of the RM has strong export orientation. Macedonian processed products currently enjoy positive reputation among the food importers from the region and EU, as well. As a result, there is a positive trend for increase of exported quantities. Very favorable trading regime between North Macedonia and the EU, and further liberalization especially as a result of CEFTA agreement should even more enhance the competitive position of the processed fruit and vegetable products. Interestingly, domestic sale of processed products is also increasing, contributing to the overall performance of the industry. For example, a domestic sale in 2005 was 13% above 2004 while in 2010 it reached the volume of 8.2 thousand tons. In 2014, the domestic sale was around 12.1 thousand tons, while according to the estimations; the volume was nearly 13 thousand tons in 2015 and 2016. The key reasons for having an increased domestic demand for processed products are:

- Strong penetration of the supermarkets (retail chains) and changes in the purchasing patterns of the domestic consumers;
- Replacement of the traditional home-style individual production of processed goods (preserves) and shift towards buying products produced by the industry; and,
- Increased awareness about food safety and food quality issues.

In 2017 processed vegetables contributed with 83% in volume and 84% in value of the overall exports of processed products.



\* Source: State Statistical Office, Own research 2018



\* Source: State Statistical Office, Own research 2018

## 2. Overview of the Swedish Market - PESTLE Analysis

Reviewing the macro environment of the Swedish market, the following aspects will be analyzed: political, economic, sociological, technological, legal and environmental. Although these factors cannot be affected on, the company should have a clear overview especially in the process of strategic decision making.

### Political

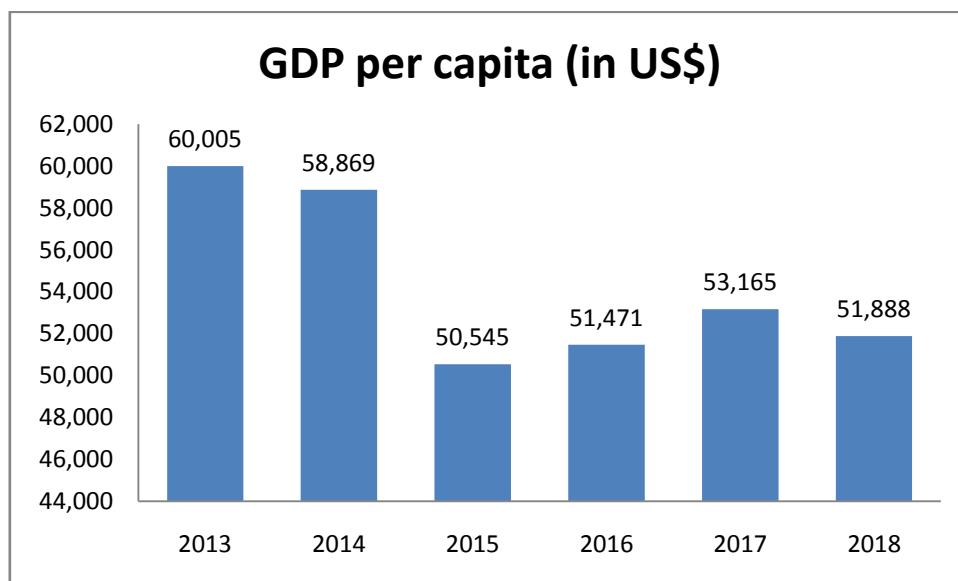


The Kingdom of Sweden is a constitutional monarchy based on a parliamentary democracy. The King is Head of State but he exercises no political power and functions in an entirely ceremonial capacity. Instead, the Prime Minister is the head of the government and holds executive power.

In 1995 Sweden joined the European Union and a year later became a member of the Schengen area. Although Sweden is not a part of the North Atlantic Treaty Organization (NATO), the country is an active member of organizations such as OECD (Organization for Economic Cooperation and Development) and IMF (International Monetary Fund).

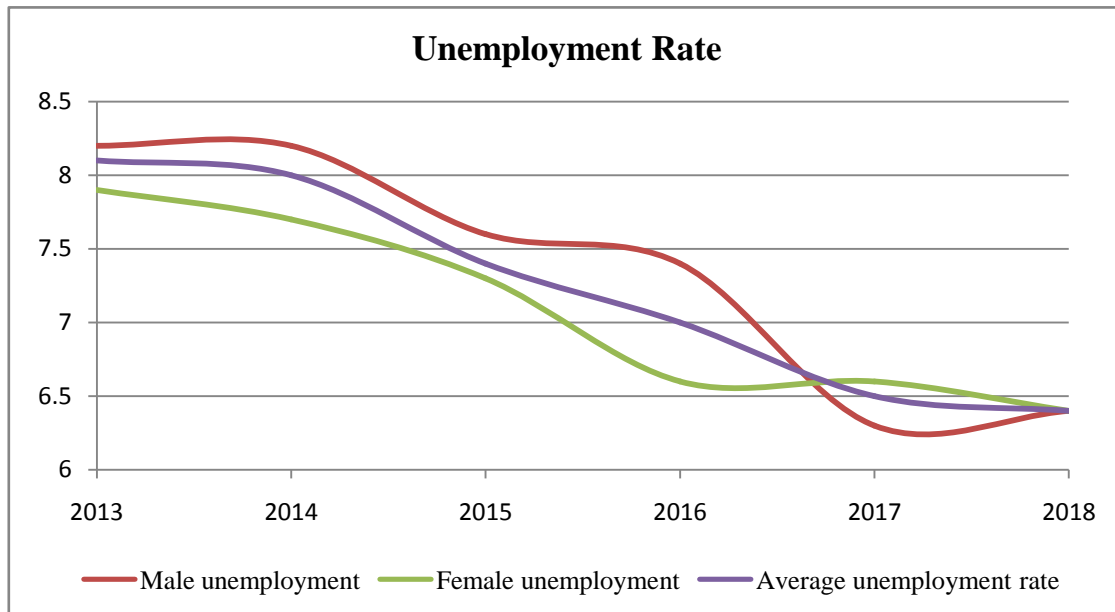
### **Economic**

The Swedish economy has rebounded since the global financial and Euro zone crisis, showing an economic growth, sustained by growing public spending, domestic demand and exports. In 2018 Sweden's GDP per capita was 51,888 US\$. It showed a small decrease of -2.4% compared to 2017 (Statistics Sweden) which was expected to slow down slightly in the upcoming years owing to capacity constraints. The evolution of the GDP per capita in the past 6 years is presented in figure 1.



\* Source: [countryeconomy.com](http://countryeconomy.com)

The unemployment rate in Sweden showed a continuous decline up until 2017 when it stabilized at 6.4% on average. While the female unemployment rate has decreased by 3% compared to 2017, the male unemployment rate shows an increase of 1.6%. This resulted in equal unemployment rate of 6.4% for man and women in 2018. The continuous declining trend that has been present in the past 6 years is in part due to the increased job creation which was particularly significant in 2017 (+2%). The change in unemployment rates can be seen in the figure 2 below.



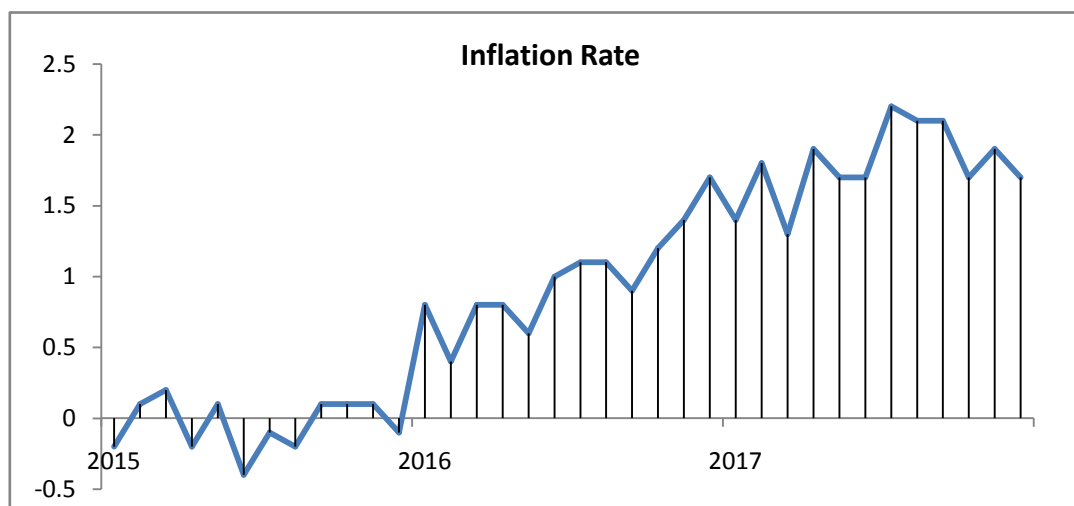
\*Source: OECD Data

Agriculture represents 1.3% of the GDP and employs 1.9% of the workforce. The main agricultural products are cereals, dairy products, meat, wood and potatoes. The industrial sector contributes to 24.5% of the GDP and employs nearly one-fifth of the workforce. The new sectors of technologies and biotechnologies play a significant part in the economy (74.2% of the GDP and 80% of total employment).

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector ( <i>in % of Total Employment</i> )	1.9	18.1	80.0
Value Added ( <i>in % of GDP</i> )	1.3	24.5	74.2
Value Added ( <i>Annual % Change</i> )	1.2	2.9	3.1

\*Source: en.portal.santandertrade.com

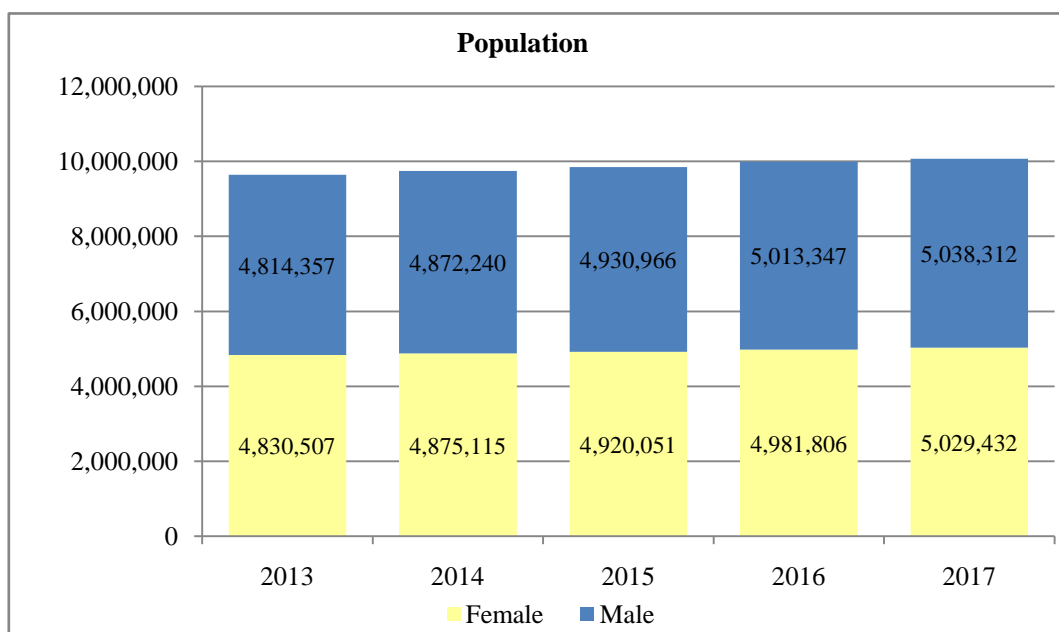
The currency in Sweden is Swedish krona. The Swedish Governmental Bank, which is in charge of the monetary policy, aims to price stability and normalized inflation rates. The changes in the inflation rates throughout the past three years can be seen in figure 3 below.



\*Source: ieconomics.com

## Social

Sweden ended 2017 with a population of 10,120,242 people, which represents an increase of 125,089 people compared to 2016. The male population is greater, with 5,038,312 men, representing 50.06% of the total, compared to 5,029,432 or 50.04% women. The population is comprised of approximately 90% of persons of Swedish origin, 3% of Finnish origin, and about 7% of other ethnic backgrounds (Danes, Norwegians, Greeks and Turks).



\*Source: countryeconomy.com

The consumers' usual behavior was analyzed through their consumption expenditure per product category. Based on the latest available data (2011), Swedes spend approximately 12.3% of their annual expenditure on food and non-alcoholic beverages, making this category of products third most consumed one (Table 1). According to a research of the costumers' decision making process when purchasing a product, while the price is their preliminary determining factor, quality and product durability are second main factors. Research prior to purchasing is very important for the Swedish costumer. A large proportion of the population is web-connected and the Internet is frequently used to obtain information as well as to make purchases. 53% of Swedish consumers do research online before buying in-store while 13% of consumers do research in-store before buying online. It was also found that about 67% of the total population shopped online in 2017.

Table 2: Consumption expenditure per product category

Consumption Expenditure By Product Category as % of Total Expenditure	2011
Housing, water, electricity, gas and other fuels	27.1%
Transport	13.4%

Food and non-alcoholic beverages	12.3%
Recreation and culture	11.2%
Restaurants and hotels	5.7%
Furnishings, household equipment and routine maintenance of the house	5.1%
Clothing and footwear	4.9%
Alcoholic beverages, tobacco and narcotics	3.6%
Communication	3.3%
Health	3.3%
Education	0.3%

\*Source: UN Data. Latest available data.

There has been a shift in recent years with Swedish consumer increasingly adopting a lifestyle of eating out. A restaurant visit is no longer reserved for social occasions or business meetings. Breakfast, lunch and dinner - eating out has become a way to take care of everyday meals. In fact, Swedish consumers now spend about as much on cafés and restaurants as they do on groceries.

## **Technological**

The technological environment can be analyzed based on the following factors: outsourcing of ICT, technology research, use of internet and electronic commerce, new inventions and technologies, the level of technology transfer, governments spending, etc.

Sweden is known by its' technological advances. One of the many inventions they are known by is Skype. Expenditure on research and development is a common indicator of science and technology activity in the national economy and Sweden spends about 3.2% of GDP on research and development, which is more than any European country. The government support policy makes the sector even more favorable.

In 2017 Sweden was ranked second in the Global Innovation Index; Switzerland was first. The index measures the degree of the countries' infrastructure that enhances a creative environment and allows for innovation, as well as actual output.

The strong growth in e-commerce of goods continues with an increase of 17 percent per years. Online sales amount to 7 percent of total retail sales and about two thirds of the Swedish population makes at least one purchase online every month. Consumer electronics, clothes and groceries top the list. Traditional store retailers are increasingly complementing their store sales with online sales.

## **Legal**

As a part of the European Union since 1995, Sweden's legislation is in compliance with the one in the EU. Although there are several laws related to working in Sweden, there is none about minimum wage. This is covered by collective agreements and it varies from one business to another.

The tax policies in the country are supervised by the Swedish Tax Agency. While in Sweden there is a progressive income tax, the value added tax (VAT) rate is 25%, with exceptions for food (12%) and other goods. Most industrial products imported in Sweden are subject to customs duty varying from 0% to 20%. Duty rates for foodstuffs can be higher as they are based on the weight of the commodity. However, there is tax exemption in the following cases:

- An employer doesn't have an office or workplace in Sweden and the stay in Sweden is only for a short time;
- And employee is working for a maximum of 183 days in one year. In this case the foreign employer is not allowed to have a fixed operating base in Sweden.

Although Sweden has an open economy, the barriers to trade and invest in Sweden are moderate. Namely, according to the OECD's 2017 Index of Regulatory Restrictions to trade the Swedish score (0.06) was close to the OECD average (0.7). This index is composed of four elements: tariffs, barriers to trade facilitation, barriers to foreign direct investment and differential treatment of foreign suppliers.

As an EU member state and part of the customs union, all external tariffs on industrial and agricultural products are set by the European Union. Agricultural tariffs are higher than industrial ones. The barriers to trade facilitation are relatively high, reflecting the high use of barriers such as standards, certification procedures and Mutual Recognition Agreements to limit trade.

## **Environmental**

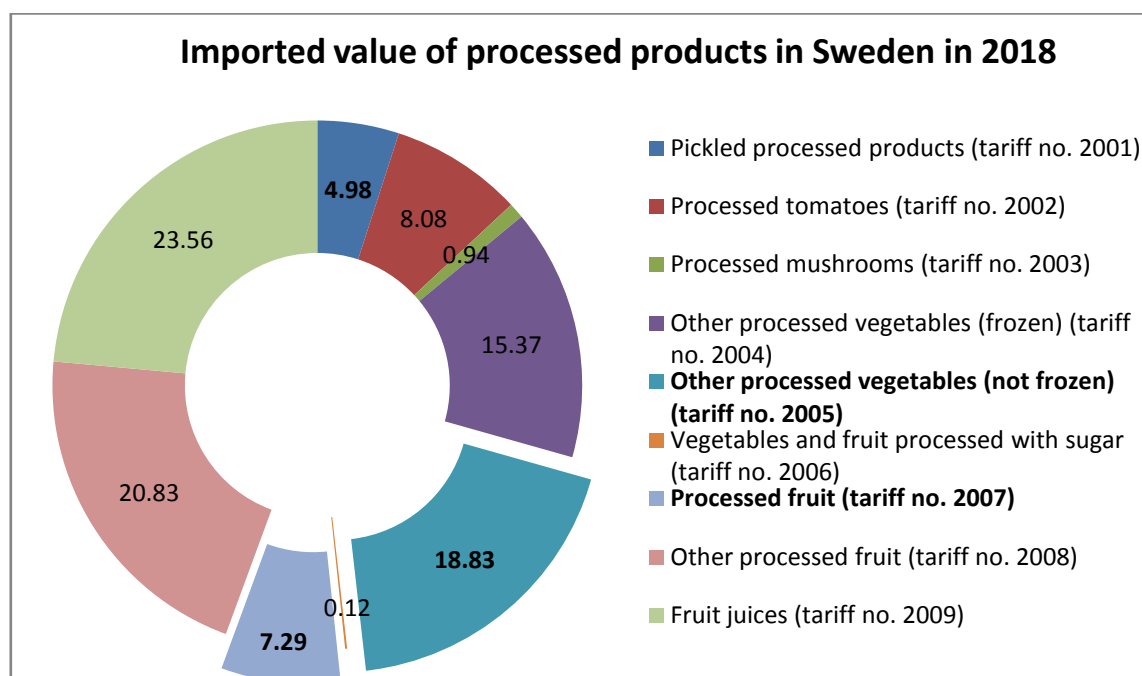
Sweden is located in Scandinavia and borders with Norway and Finland. The country takes environmental issues very seriously and has been involved in national and international work in the field. According to conservation groups, one of the biggest environmental issues in Sweden is the consequences of the logging industry. The World Wildlife Fund has reported 2000 forest-dwelling species are threatened in Sweden. Another major environmental issue facing Sweden is the pollution of the Baltic Sea caused by pollutants from agriculture sources and waste treatment facilities.

Despite environmental issues tied to Sweden, the country is aggressively taking steps toward a clean future. Among the world leaders in clean tech, Sweden is also exporting their clean mentality across the world. Sweden has one of the highest percentages of renewable energy in the EU. Renewable sources account for 52% of the Swedish energy production, of this almost 95% comes from hydropower.

## **3. Overview of the processing industry in Sweden**

The main goal of a market analysis is to determinate the attractiveness of a market and to understand its evolving opportunities and threats as they relate to the strengths and weaknesses of the firm. This analysis will serve as basis for conducting a tailor made export marketing plan for the purposes of the company.

In 2018 the sector of processed foods was the 35<sup>th</sup> out of all the imported goods in Sweden, accounting for about 1.3% out of the total imports. The same year, Sweden was the World's 14<sup>th</sup> biggest importer of processed vegetables (no. 2005) and the 12<sup>th</sup> biggest importer of processed fruit (no. 2007). The import of processed vegetables has a 18.83% share of the total imported processed foods, while the import of processed fruit has a 7.29% share.



\*Source: trademap.org

This analysis will focus on the market of processed fruit and vegetables (no. 2007 and 2005, respectively). Data showing the imported value and volume of processed fruit and vegetables throughout recent years is presented in the following table.

Imports of 2005 from World						
Indicator	2013	2014	2015	2016	2017	2018
Value (in USD)	154,116,000	169,768,000	151,210,000	152,135,000	155,215,000	153,961,000
Quantity (tons)	77,896	83,800	86,101	90,795	87,940	87,036
Average price (USD/t)	1,978	2,026	1,756	1,675	1,765	1,769
Imports of 2005 from North Macedonia						
Value (inUSD)	650.897	1,037,218	1,240,830	1,516,515	1,668,924	1,508,565
Quantity (tons)	195.23	287.42	424.57	461.03	492.63	440.74
Average price (USD/t)	3,334	3,609	2,923	3,289	3,388	3,422

\*Source: trademap.org

The table above shows data regarding the annual import of processed vegetables (tariff no. 2005) in Sweden. The imports of processed vegetables from the world have been relatively stable in the past 6 years. The maximum value of imported processed vegetables from the world was noted in 2014, since then it has declined significantly in 2015 for it to achieve a once again stable value in 2017. In 2016 Sweden imported the maximum quantity of

processed vegetables from the world; despite this increase, the imported quantities have also been stable throughout the past 6 years at about 87,000 tons annually.

North Macedonia's export of processed vegetables has been increasing annually, both in value and quantity. This increase of import value was most significant in 2013 (+59%), and of imported quantities in 2015 (+47.7%). The value of imports has been increasing about +28% annually on average; while the increase of quantities was much more significant from 2013 to 2016 (+50% annually on average) than in the past two years (+7% annually on average). North Macedonia has a 0.5% share in Sweden's imports of processed vegetables in 2018.

<b>Imports of 2007 from World</b>						
Indicator	2013	2014	2015	2016	2017	2018
Value (in USD)	54,518,000	63,077,000	56,313,000	55,922,000	56,333,000	59,601,000
Quantity (tons)	16,094	17,725	19,059	19,518	19,422	19,911
Average price (USD/t)	3,387	3,558	2,954	2,865	2,900	2,993.37
<b>Imports of 2007 from North Macedonia</b>						
Value (inUSD)	4,470	4,202	1,092	2,310	3,384	0
Quantity (tons)	0.95	0.90	0.20	0.54	1.37	0
Average price (USD/t)	4,690	4,638	5,301	4,278	2,468	0

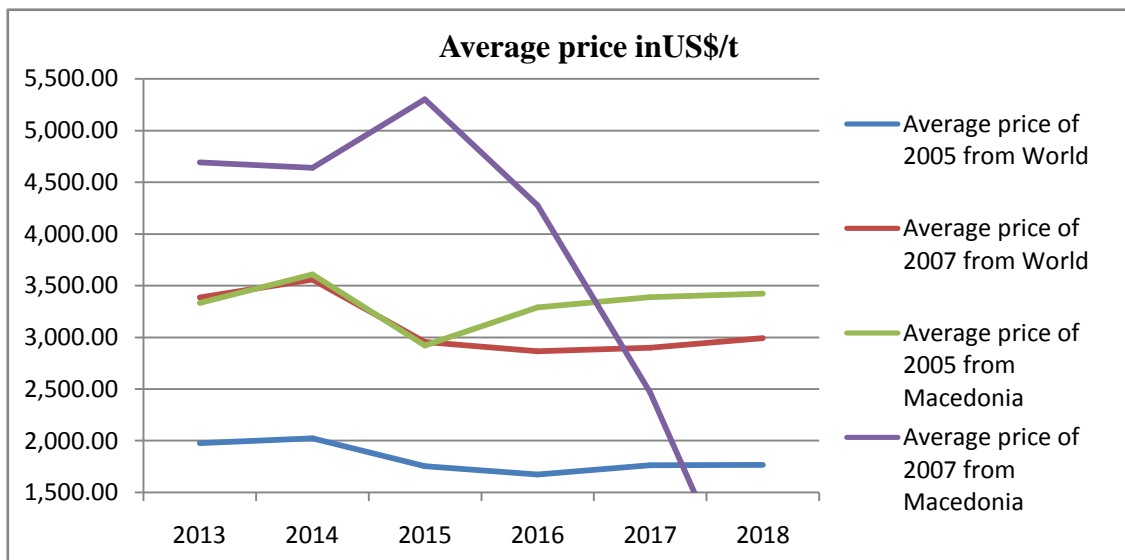
\*Source: trademap.org

The table above shows data regarding the annual import of processed fruit (tariff no. 2007) in Sweden. The imports of processed fruit from the world have been relatively stable in the past 6 years, mostly fluctuating around 56,000,000 US\$ imported value, and around 19,000 tons imported quantity. The maximum value of imported products was registered in 2014 and has since then stabilized around 56,000,000 US\$. In 2018, an increase of +5.8% compared to 2017 has been registered. The imported quantities have been rising about +5% on average annually, with the highest quantity imported in 2018. North Macedonia's exports of processed vegetables in Sweden have been rising in 2013 and 2014 until the significant decline in 2015 of about -74% in value and - 77% in exported quantities. In 2018, North Macedonia had no exports of processed fruit in Swede.

### 3.1. Trends in pricing of processed products

The graph below shows the average prices of processed vegetables and fruit in Sweden. It is evident that the products imported from North Macedonia maintain a higher price throughout the years than the products imported from the world. Namely, the processed vegetables imported from the world have a relatively stable price throughout the past 6 years, around 1,900 US\$/t. On the other hand, the prices of the same products imported from North Macedonia fluctuate from the maximum price achieved in 2014 of 3,600 US\$/t to the minimal one registered in 2015 of 2,900 US\$/t. In the past three years the average price has been relatively stable.

The average price of processed fruit imported from the world has also been relatively stable especially throughout the past 4 years, fluctuating around 3,000 US\$/t. Contrary, the price of the imports of processed fruit from North Macedonia have been fluctuating significantly. Since achieving a maximum price in 2015 of 5,300 US\$/t, there has been a continuous decrease that resulted in North Macedonia's withdrawal from this market in 2018.

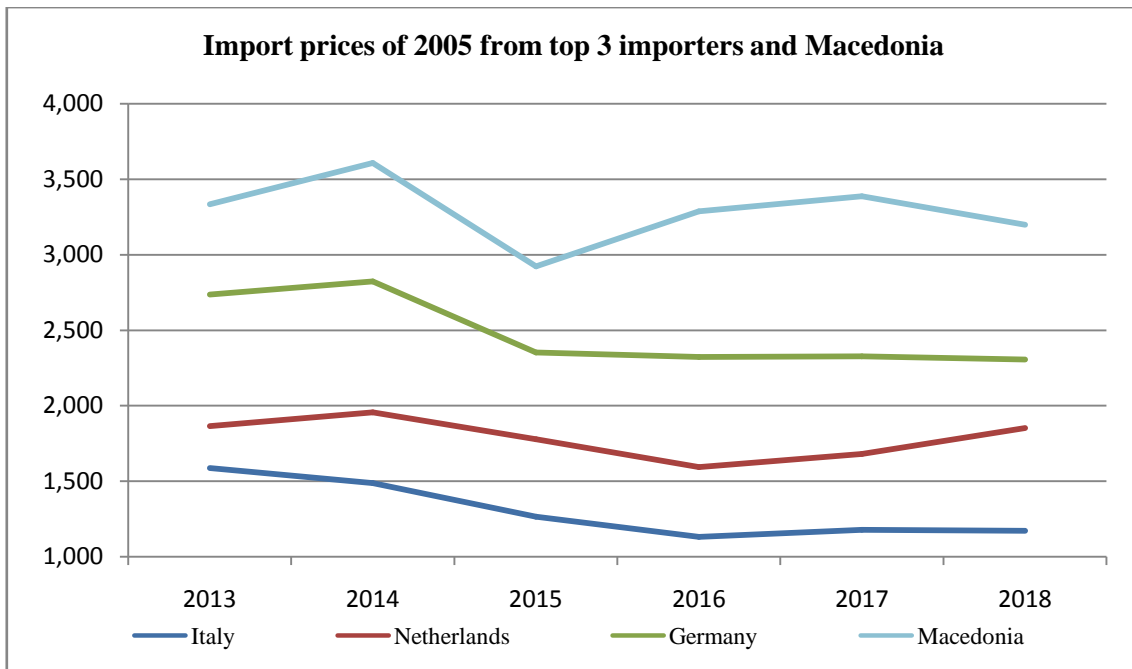


\*Source: trademap.org

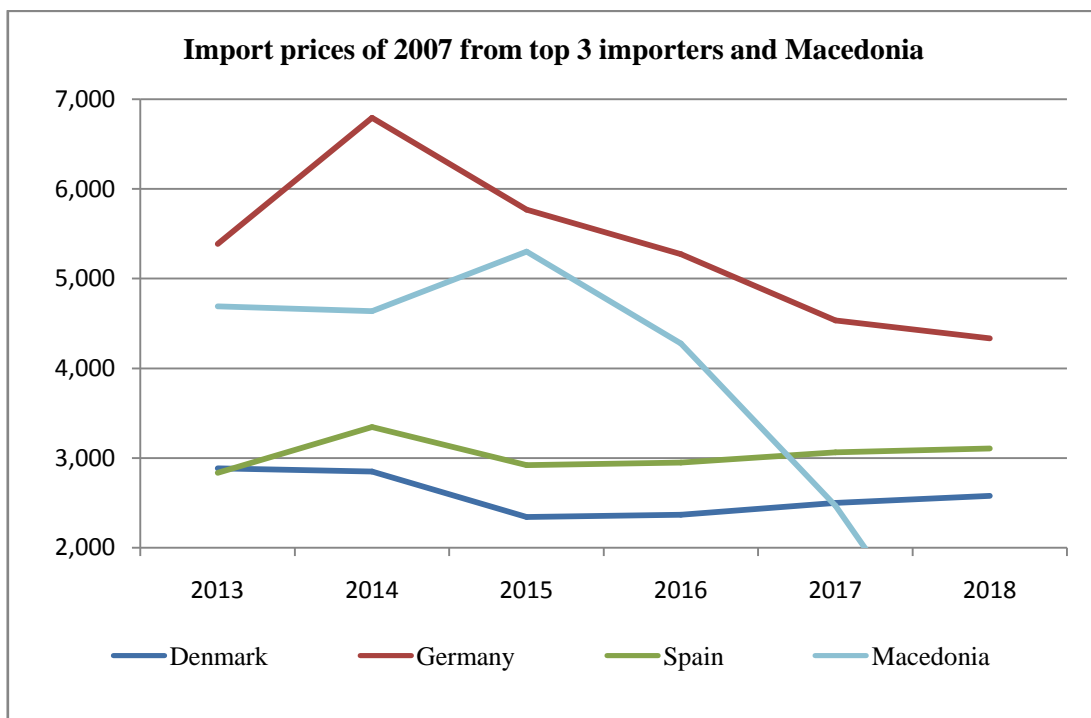
### 3.2. Trends in pricing of main importers

On the graph below are presented the average import prices of processed vegetables from the top three importers and North Macedonia. These top three importers take up about 36.5% of Sweden's imports of processed vegetables. Most of the countries have relatively stable and similar prices in 2018 ranging between 1,500 and 2,500 US\$/t. The highest average prices are achieved of the imports from North Macedonia and Germany. Most of the countries have increased their prices in 2014 but were then drastically decreased in 2015.





\*Source: trademap.org



\*Source: trademap.org

These top three importers take up about 70.2% of Sweden’s imports of processed fruit, with Denmark having a significantly higher share of 44%. From the data presented in the graph above it is evident that the processed fruit imported from Germany achieves the highest average price throughout the past six years. Denmark and Spain have maintained a stable price in the past six years. North Macedonia also had a competitive price ranging from 4,800 to 5,200 US\$/t, up until the decrease in 2016 and 2017.

#### 4. The retail market in Sweden

Growth in both private consumption and retail sales is stronger in Sweden than in almost any other European country. Swedish consumers have increased their retail spending for more than two decades and retail sales account for about 33% of total household expenditures. The average percentage of retail sales per segment in 2016 is shown in the table below.

Retail sales per segment	2016
Daily Goods (food and beverage)	43%
Construction and building material	5%
Electronics	6%
Clothing	8%
Home furniture	5%
Sport and leisure	4%
Other	29%

\*Source: HUI, 2017

The Swedish retail market is for the most part dominated by supermarkets (full service supermarkets, discounters and convenience stores). The leaders of the retail market are presented in the table below. The three leading retailers ICA, Axfood and Coop together have a market share of about 75%. There are hardly any independent grocers or large hypermarkets in Sweden. Most of the Swedish population lives in a few of the bigger metropolitan areas, this is why supermarkets are present everywhere in these cities within walking distance and have longer working hours. Most of the supermarkets also have their own private labels, often a high end brand and low budget brand.

Retailer	Nationality	Opened	Outlets (2017)	Market Share	Revenue in bil. € (2017)
ICA	Swedish	1917	1,300	36%	7.3
Axfood	Swedish	2000	274	20%	4.6
Coop	Swedish	2002	50	19%	3.0
Bergendahls	Swedish	1922	40	7%	1.0
Lidl Sweden	German	2003	170	3.6%	NA

ICA was established in 1917, and today is the biggest retailer in Scandinavia. It has (under franchise agreements) 1,334 stores in Sweden and 550 in Norway. In 2008 the company started with expansion of its core business in Baltic countries and by the end of 2012 it had 82 stores in Estonia, 111 in Latvia and 46 in Lithuania (as a result of joint ventures with private domestic investors). Almost 40% of the market share in Sweden is owned by ICA. According to company policy, ICA does not buy A brands individually but cooperates with importers and distributors. Direct cooperation with ICA is possible only for private label (PL) products. ICA has 3 groups of private labels: ICA basic, Scone (competing with A brands) and ICA premium. PL cooperation with potential suppliers is organized in a form of bidding launched once a year. The share of PL sales from the overall sales in ICA stores rose to 24% in 2016. ICA is active member of Global Food Safety Initiatives (GFSI) and Global Social Compliance Program (GSCP).

COOP is currently the third largest retailer in Sweden. The company is involved in grocery retail, media and real estate business and had a turnover of 3 billion Euros in 2017. Ten years ago, while trying to increase its delivery efficiency to the stores they set up the largest distribution center in northern Europe. The system that is in place allows even small orders or joint pallets to be distributed to their stores within 24 hours. In 2013 the company achieved 350 fewer transports per week handling the same quantities as a result of improved logistic practices. COOP also embraced sound Corporate and Social Responsibility Program for reduction of CO<sub>2</sub> emission by 30% until 2020.

Canned/preserved food is generally promoted through in-store activities and advertisements in food magazines. Nationwide campaigns are unusual but can occur if one of the category biggest players is launching a new product. Overall, advertisement spending in canned/preserved food is low compared to many other food categories, partly due to there being few new product launches. Consumers generally do not have a favorite brand in canned/preserved food, and retailers offer a wide range of products at competitive prices. Private label products are particularly strong in categories with a limited presence of strong brands.

Sweden also has one of the highest consumption rates of organic products in the world. These trends, as well as the expected growth of the annual sales of organic products, are mostly due to the growing health awareness among the Swedish population. Organic products are easy to find in any supermarket in Sweden. There are no special organic sections; they are rather placed within a product category next to conventional products.

#### **4.1. Main competitors**

The majority of products in canned/preserved food face competition from frozen and fresh alternatives. Although canned/preserved products are less expensive than fresh and frozen alternatives, the latter are often regarded as fresher. New product developments are most frequent in frozen processed food, although many new ethnic products in canned/preserved food have been launched in recent years. A large number of immigrants arrived in Sweden during the recent period, which has contributed to the emergence of many new canned/preserved products. In terms of non-frozen processed vegetables (tariff no. 2005), the categories 'homogenized vegetables (sold as infant food)' and 'canned/preserved beans' were the fastest growing categories in 2017, recording current value growth of 39% and 13% (respectively). In terms of processed fruit (tariff no. 2007), the fastest growing category was the 'fruit jams/marmalades' one, with a recorded annual growth in value of 7%.

### **5. Overview of the transport possibilities from North Macedonia to Sweden**

Considering the transport possibilities from North Macedonia to Sweden it should be noted that there are possibilities for using all four types of traffic (road, rail, boat and air). Depending on the type of goods, packaging, geographical location of the pick-up location and

destination, development of the transport and logistics network, dynamics, delivery deadlines, objectives, shipping cost, available transport facilities, etc., the determination is made. This means determining the most appropriate transport route, the most appropriate means of transport and the orientation time for delivery.

1. Trucking has loads and dimensions restrictions. A standard 13.6 m long semi-trailer gathers 33 standard Europallets 120x80 cm. The load on a semi-trailer is about 25 to 26 tonnes. The price of one truck from North Macedonia to Stockholm is 3,000 euros and half a truck 2,000 euros. This indicates that by reducing the quantity less than a full truck (half truck or several pallets) the cost of transport increases. It is good to know that the major transport logistics have a widespread cargo delivery network from North Macedonia. Combining different types of canned food also makes ordering more flexible.

2. Rail transport offers the possibility of transporting larger quantities at the same time. One has to keep in mind the fact that it is slower. When it comes to individual carriages or a group of carriages, the delays of the railways in North Macedonia and Serbia are very likely. The 50 tonne tariff for Stockholm is 110 euros per tonne. Compared to a truck, this carries a lower cost, but the flexibility and flexibility of the network for this type of car should also be taken into account.

3. Shipping seems at first glance inappropriate due to the length of shipping and transit time of about 20 days. But if we take into account that Sweden has well-organized ports, that the west coast of Sweden is closer (Gothenburg) and that the fare is affordable, then this type of transport stands as an alternative. Thessaloniki is the natural port for North Macedonia, although it is not the cheapest port for North Macedonia. Prices for transport Skopje - Thessaloniki - Gothenburg for 20 "container is 1,850 euros and for 40" container 2,150 euros. Prices for transport Skopje - Thessaloniki - Stockholm for 20 "container is 2,250 euros and for 40" container 2,700 euros.

4. Air freight for canned products is most commonly required if urgent samples are required to justify the cost of a smaller quantity of delivery. The high price of this freight makes it inappropriate to transport larger quantities of these goods. Transport prices Skopje - Stockholm for deliveries over 100 kg. 2.1 Euros per kg + 28 Euros, for deliveries over 300 kg 1.6 Euros per kg + 57 Euros, for deliveries over 500 kg 1.5 Euros per kg + 83 Euros.

**Conclusion:** Taking into account all the features of the transport, the most appropriate transport is still the truck. All prices quoted are market within a given time period in 2019. The fluctuation of prices in transport varies depending on a number of factors and always before the realization of a particular trade activity it is necessary to provide the latest offers. It is advisable for Macedonian exporters to use Macedonian truck transporters that will certainly offer more acceptable prices than foreign ones. Since North Macedonia is an import dependent country and the number of imported cargoes is higher. This is why Macedonian carriers often offer bargain prices for export deals, and reimburse the necessary earnings on imports.