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# How Have Agribusiness Firms Fared Transitioning from a Planned Economy to a Market-Based Economy in Bulgaria? A Case Study Analysis

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One of the conditions for an economically efficient system is that a market-based economy must exist. A market-based economy exists when consumers, with limited government involvement, provide answers to the questions of what to produce, how to produce, when to produce, who should produce, and for whom should goods be produced (Seperich et al. 1994). Consumers make these decisions by purchasing the goods and services they want and need. In a planned economy the answers to the aforementioned five questions usually are decided by the government with very little, if any, direct participation by consumers (Seperich, Woolverton, and Beirlein 1994). In that system there usually is a surplus of unwanted goods and services and a shortage of wanted goods and services. The process of transitioning from a planned economy to a market-based economy can be difficult, especially in countries of the former Soviet Union. This paper seeks answers to questions that arose regarding the economic impact of changes, positive or negative, that occurred in the Bulgarian agribusiness sector following the breakup of the Soviet Union. Agribusiness firms that have experienced the changes first-hand offer a unique and personal perspective. Thus we wanted to look at how a set of agribusiness firms fared during the transition from a planned economy to market-based economy in Bulgaria.

## Objectives, Data, and Methodology

This project obtained information on the economic changes that have occurred between 1996 and 2009 and evaluates how these changes have impacted a select set of agribusiness firms in Bulgaria. Primary

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and secondary data were used to accomplish this. Primary data were obtained through an informal questionnaire and the personal observations of the authors. Secondary data sources included government statistical reports, company brochures, company websites, and United Nations FAO statistics (2009). The case study research method (Soy 1997) was used to obtain information and data from ten agribusiness firms between May 23, and June 3, 2009 in the Stara Zagora oblast in Bulgaria.

## Results

This section of the analysis provides information on the ten agribusiness firms that the authors visited and interviewed. Due to page limitations, only brief discussions of the ten firms are presented below. Individuals who want more detailed information should refer to Forrest, Murray, and Allen (2010).

### *Case Study 1: Tunja73—Fish Farm*

This firm produces common carp, bighead carp, silver carp, pikeperch, European catfish, and sturgeon. The firm exports fish to Romania, Serbia, and Greece. Bulgaria's entry into the EU is opening new markets for the firm. The farm has a contract to supply fish to Metro stores in Bulgaria. The fish farm has reduced farm labor from 12 workers to six.

### *Case Study 2: A.P.P. Zoohraninvest Ltd.—Feed Factory in Stara Zagora*

This firm produces pellets and supplements for its customers. The company delivers feed ingredients to farm customers with its own trucks. The firm has 13 large trucks and four small trucks; seven retail shops throughout south Bulgaria; and 50 feed distributors throughout Bulgaria. The firm exports wheat, barley, sunflower, and wheat bran. Turkey and Greece are its major export markets. Entry of Bulgaria into the EU has made trade easier for the

firm. The firm's income is generated in the following manner: 30 percent from import of feed additives, 50 percent from production and sale of feed, and 20 percent trading and storing grain. The firm has 150 employees.

#### *Case Study 3: Nomicom—Fish Farm*

This fish farm, established in 1990 (NOMICOM 2009a), offers fresh and chilled fish for consumption with excellent qualities through out the year. It produces carp, grass carp, European catfish, American catfish, zander, crucian carp, bream, and bleak (NOMICOM 2009b). The manager indicates that most farms in Bulgaria are privately owned and operated and are set up as sole (single) proprietorships. The farm has had a relatively stable financial position from 1996 to 2009, with the best financial position in 2006. The farm has increased the number of employees from six in 1995 to 32 in 2009.

#### *Case Study 4: Ivan Sagov—Grain Farm*

This farm is headquartered in Stara Zagora and produces grain and fish products. The farmer produces wheat that is sold to mills to produce bread and corn is produced sold to an oil production facility. The farmer also produces barley and sells it to a barley processing facility for beer production. The farmer indicates that the EU subsidizes grain production based on hectares rather than on yields. The farmer reveals that this subsidy is lower than that for the rest of the European Union members, but payment will increase to parity with other EU members in 2016 because the Bulgarian government negotiated a five percent annual increase until that point is reached. The farmer produces 78 metric tons of fish per year: 60–70 percent carp, with the remaining fish including bighead carp and European catfish. The farmer has a one-year contract with Metro retail grocery stores allowing him to sell all of his carp. The farmer has seven full time employees and five to seven part-time employees.

#### *Case Study 5: Ivan Genchev—Grain Farm*

This grain farm was established in 1997 as a grain production entity with only a small amount of land owned by the farmer. The farmer has 1700 hectares of farmland available for crop production in four

different locations in the region and has to deal with 50–200 land owners for each of the four locations. The farmer feels that the EU is really going to help the production agriculture sector in Bulgaria. The farmer acknowledged that the European Union subsidized new equipment purchases at the rate of 50 percent from 2007–2009, with the ratio declining to 40 percent in 2010. With the EU subsidy, this farmer has been able to get better equipment to improve his production efficiency. The farmer has 12 employees.

#### *Case Study 6: Malka Akadia (Little Arkadia)—Guest House*

This guest house is located in the Village of Kipilovo, Municipality Kotel. The Renaissance-style house has four guest rooms, a relaxation hall, satellite services, sound, Jacuzzi, a small tavern with a fireplace, and facilities for those wishing to have barbecued foods (Little Arkadia 2009). The guest house is suitable for family tourism and is also a starting point for those on hunting trips. The owners of the guest house produce about 70 hectares of medicinal herbs for several European markets and want to export herbs to the United States. The owners believe that with access to the United States market, profits would be greatly enhanced. The owners employ about 20 people at the facility.

#### *Case Study 7: Pokap—Hog Production and Meat Processing Facility*

This facility is a four-partner meat processing plant located in Stara Zagora with a capacity of 8.5 metric tons per eight hour day. Employment grew from 25 in 1995 to 90 in 2009. The plant produces traditional Bulgarian sausages, salamis, and processed meats. The company uses its 18 refrigerated vans to deliver mainly to Billa and the 25 largest wholesale distributors located in Bulgaria. The firm also makes deliveries to over 500 small shops in the Stara Zagora region by using four smaller buses. The company sells 25 percent of the daily production to its largest customer, a French and German firm located in Burgas. The company relies solely on the domestic market, as it is not licensed to ship abroad; only 50 plants in Bulgaria are licensed to export. With this strategy, the firm has an eight percent profit margin and a history of steady growth.

*Case Studies 8 and 9: E.T. Michaela and Firm Dimes 2000—Hog Production and Meat Processing Facilities*

These firms consist of two partners involved in grain production, hog production, and meat processing. The firms were started in 1995. Employment consists of 14 people in the processing plant and 36 in the farming operation. The processing facility produces fresh meat, sausages, salami, and meatballs. The facility is operating at 50 percent of its slaughter capacity at present. The company sells about 50 percent of its production to wholesale distributors who then transport it to 300 local shops, while the remaining production is sold directly to local shops. The owners revealed that 400 slaughter facilities in the country are operating at about 25 percent of total capacity. The owners also revealed that high grain prices during 2007–2008 forced 30 percent of Bulgaria's hog farms out of business. The owners described their financial condition as good given the current weak economy. The owners pointed to EU subsidies and a stable currency as the most important factors in their success.

*Case Study 10: Nova Zagora Cattle Farm—Dairy, Beef, and Grain Farm*

This farmer started a large grain and hog operation near Nova Zagora in the mid-1990s. He closed the hog operation in 2004 due to poor profitability. The farmer continued to produce grain, but was not utilizing all of the barns and other facilities on the farm. The owner started cattle production in 2005 to better utilize his facilities and to improve the profitability of grain production on the land he farms. The dairy operation was started about six months ago. The farmer produces wheat, corn, and barley for grain and native grass and alfalfa for hay and silage. The farmer has a milking herd of 150 cows, with 90 cows in production at any one time, producing about 2000 liters of milk per day. The farmer sells the milk under contract to a local processor in Sliven at a current price of €0.25 per liter. The farmer divided his operation into two distinct legal entities in order for his son to receive an EU subsidy for young farmers.

## Summary and Conclusions

The ten agribusiness firms have done quite well since 1996. For example, several of the agribusiness firms have increased the number of employees and profitability. Some of the most important observations and conclusions made about the study period are: EU subsidies, standards, and regulations have changed agriculture in Bulgaria and will continue to do so in the future; a stable currency has probably done as much to improve the economic situation in Bulgaria as any other single factor; business entities are primarily individual ownership or partnerships; and entry of Bulgaria into the EU has made it easier for firms to access markets and increase productivity and economic efficiency.

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