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Israel

Retail Food Sector

An Economic Crisis in the Local Grocery Stores & Mini-markets

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Report Highlights:

The retail food market in Israel is valued at \$8.2 billion for the year 2003. However, today nearly 45 percent of all grocery stores and mini-markets are on the verge of economic failure.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Tel Aviv [IS1]
[IS]

Local Grocery Stores Section in Economic Crisis

The total value of the retail food market in 2003 is estimated at \$8.2 billion, of which 49 percent (\$4.02 billion) belongs to the three major retail food marketing chains. The market share for private supermarkets (the "fourth chain") stands at 13 percent, while the market share for grocery stores and mini-markets is 23 percent (\$1.89 billion). Traditional open-air markets capture only 9 percent (\$738 million) of the food market.

Approximately 5,500 grocery stores and 1,700 minimarkets exist in Israel. Due to the intensive competition in the Israeli food sector, grocery stores and mini-markets are operating at a very small profit margin. According to D&B analysis, close to half (44.5 percent) of all grocery stores and mini-markets are at high risk of economic failure.

Several factors are the cause of the crisis. Market-entry costs are relatively low for the grocery sector. This has led over-saturation. Also, average household expenditure on food is on the decline. Between 1992 and 2002, the monthly household expenditure on food decreased by 9 percent in real terms, from \$426 to \$388. The continuing economic recession in Israel is partly to blame for this, as well as higher prices for groceries. Moreover, there is added competition from 24-hour convenience stores. More than 100 of such stores were opened in recent years and have become main competitors to local grocery stores.

Consumers prefer to buy the following products from grocery stores: milk and products, eggs, soft drinks, bread, and cereals. From open-air markets, they prefer to buy fresh fruit, vegetables and fish (see table 1).

Table 1: Food- Household Purchase by Outlet Type - % of Total Expenditure (Excl. Meals Away From Home)

	Grocery Stores	Super Markets	Open Markets	Fruit & Vegetable Stores	Butcher Shops	Other Stores
Food - Total	23.0	49.0	9.0	4.9	7.6	6.5
Bread, Cereals and Pastry Products	27.9	51.7	2.9	0.2	0.2	17.1
Vegetable Oils and Products	27.4	55.5	4.8	0.6	0.2	11.5
Meat and Poultry	8.8	39.2	6.7	0.2	38.3	6.8
Fish	12.2	43.9	14.0	0.4	10.3	19.2
Milk, Milk Products and Eggs	35.8	57.5	2.4	0.3	0.1	3.9
Sugar and Products	27.3	54.9	3.9	0.4	0.1	13.4
Soft Drinks	37.9	53.0	2.7	0.3	0.0	6.1
Alcoholic Beverages	25.2	57.2	3.8	0.4	0.5	12.9
Miscellaneous Food products	26.8	56.7	2.7	0.3	0.3	13.2

	Grocery Stores	Super Markets	Open Markets	Fruit & Vegetable Stores	Butcher Shops	Other Stores
Fresh Vegetables & Fruits	8.7	32.7	28.1	28.2	0.1	2.2
Frozen & Pickled Vegetables	21.9	67.6	4.2	1.2	0.9	4.2
Dried Fruit	22.8	40.0	13.6	1.4	0.0	22.2

Source: Household Expenditure Survey, CBI.