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Turkey

HRI Food Service Sector

Report

2002

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Report Highlights:
The Turkish HRI market continues to grow despite a major decline last year as a result of the domestic economic crisis. Turkish HRI food service sector is estimated to be about US$6.86 billion in 2001. The fast food subsector was hit hard by the economic contraction last year but the institutional food sector continues to show growth. The overall local HRI market is expected to continue to grow due to urbanization, an increase in women working outside the home, increasing incomes and sizeable growth in tourism. Hotels and resorts are most receptive to American products.

Includes PSD changes: No
Includes Trade Matrix: No
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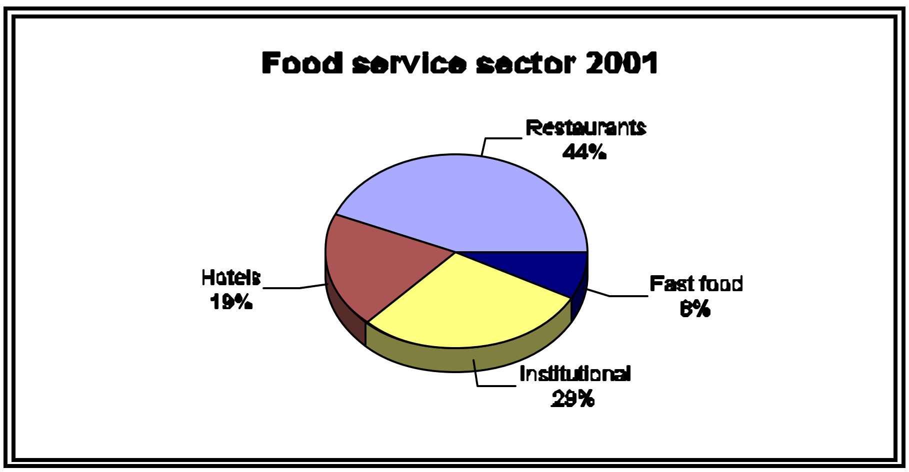
I. EXECUTIVE SUMMARY

Major changes in the lifestyles, incomes, and consumption patterns of Turks in the last decade means they are increasingly prone to eat meals and socialize over food outside of the home. The growing number of fast food chains and restaurants in newly established shopping centers and hypermarket complexes are evidence of this newly emerging demand. A new and faster pace of life has also led people to find quicker meal solutions for their shortened lunch hours.



This has led to the rapid development of two niche sectors - fast food and institutional food service. Four factors in particular have helped to drive this development:

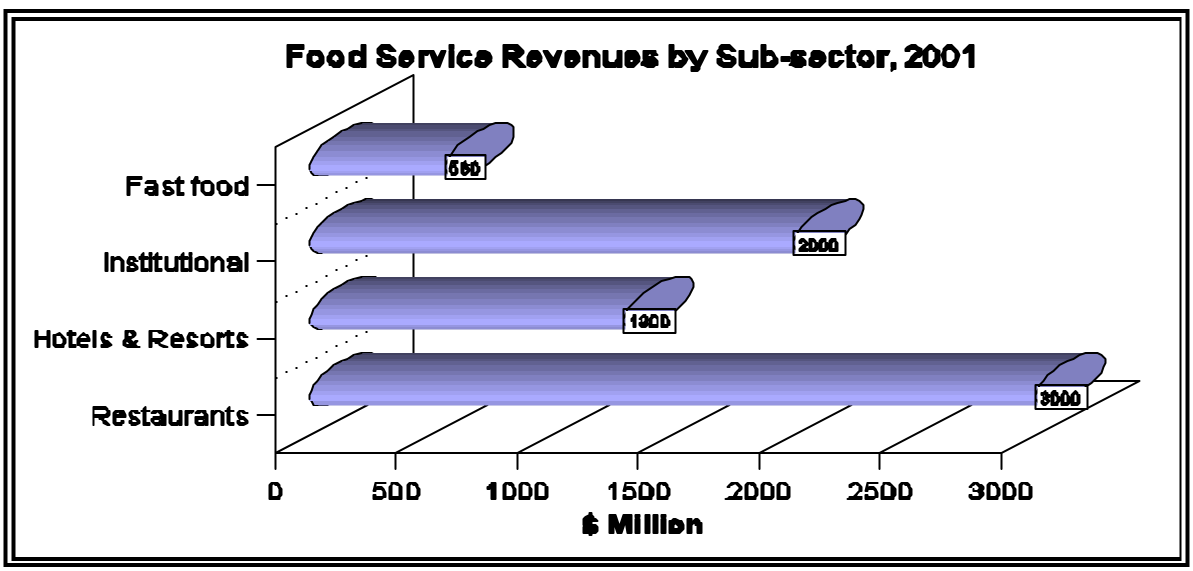
Increased income levels **-** The per capita income level in Turkey doubled during the last two decades, reaching US$2,941 by the end of CY2000. Per capita income was about $3,224 by the end of 1998 but a major earthquake in 1999 and an economic crisis starting in late 2000 and continuing in 2001 caused a 20 percent decline in per capita income. According to purchasing power parity, however, per capita income is actually much higher – approximately $6,000. Despite the recent crisis Turkey is still one of the world's 20 largest economies.

Urbanization and smaller household size **-** The share of urban population increased from 44 to 65 percent, and there was a sharp decrease in household size from 5.5 to 4.4 individuals per household between 1978 and 1998. The decrease in household size and the increase in urbanisation indicate an environment in which expenditures in the HRI sector will increase.

Growing number of working women **-** The share of working women has increased from 15 to 28 percent of the total workforce during the last two decades. This has also led to an increase in recreational and social dining. People are beginning to prefer to meet friends and eat out rather than at home, which directly increases food service expenditures.

Growth in tourism **-** Turkey has a strong tourism industry. Over 10 million foreign (mostly European) tourists visit Turkey annually. The sector is expected to reach $15 to $20 billion in revenue per year within five years. Continued growth in the tourism sector should lead to increasing numbers of foreign cuisine restaurants, both inside and outside hotels.

Food service expenditures are estimated to have reached $102 per head in 2001. This figure includes



all outside-the-home food and beverages consumption, but excludes alcohol. 2001 total food service revenue is estimated to be about $6.86 billion, breaking down as:

The major trend in HRI food service is that the growth is shifting away from the traditional type of restaurants towards catered meals and fast food. The institutional catering sector has shown rapid growth in recent years and reached 2 billion dollars in 2001 from 485 million in 1998. The fast food sector also experienced high growth up until 2001 but the total sector shrank about 25 percent in that year due to sudden and very high devaluation of the Turkish lira.

Though there is promising growth in the HRI sector as a whole, opportunities for US food imports in large quantities remain limited, since it is possible to supply most food ingredients through domestic production and import costs are exaggerated by high duties and complicated procedures. Meat imports are banned to protect local producers and poultry meat faces daunting requirements which thwart imports. Therefore imported food and food ingredient consumption remains low - from about 10 percent for hotels and restaurants that feature foreign cuisine, decreasing down to 3 percent in local HRI food service. Imported items include rice, corn, pulses, chickpeas, vegetable oil (corn oil, soy oil) and beans, and other items used for creating a variety of selection such as specialty imported cheeses, hams, sauces, pastries, seafood, and alcoholic beverages.

The following is a summary of the advantages and challenges facing US food products in Turkey:

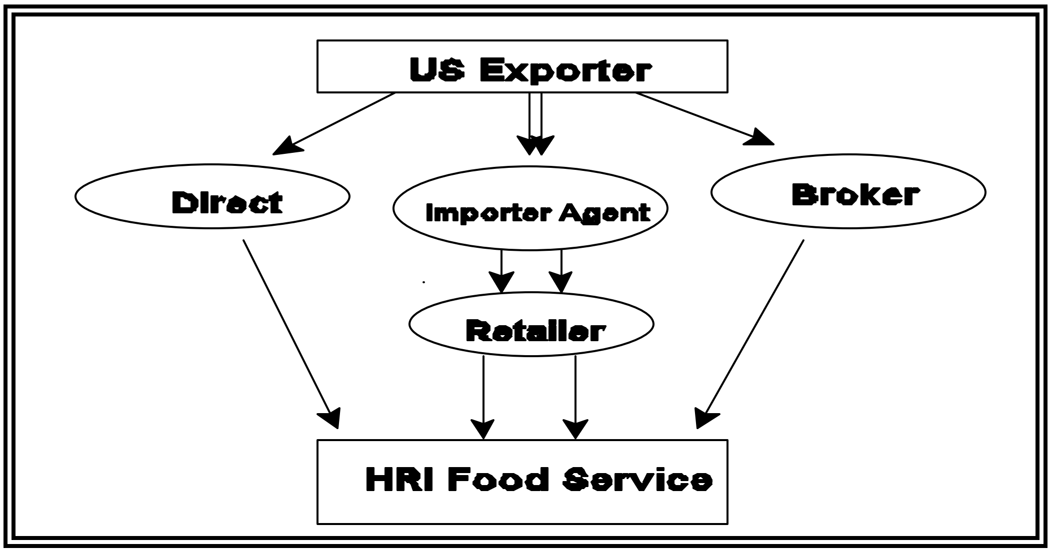
Advantages	**Challenges**
The number of US fast food outlets is continuing to increase.	Customs Union with the EU created a privileged position for EU country imports to Turkey.
Some US products are more competitively priced than local products.	Transportation costs are less for products from neighbouring countries.
Branded foreign products do well in the Turkish market due to changing consumption patterns and western influence.	Some high import tariff rates exist. (Between 6% to 140% in processed food products and 12% to 240% in agricultural commodity products).
Turkish society is receptive to new products & readily adopts western tastes.	There is a well-developed local food-processing sector providing most needed items.

Advantages	**Challenges**
The number of foreign cuisine restaurants (including Tex-Mex) and international hotel chains are increasing.	European (French & Italian) and Far East cuisines are still dominant in restaurants and hotels.
Hotels, restaurants and resorts are interested in U.S. products.	Processed food product imports require a health certificate, or certificate of free sale from an appropriate state or federal agency. In the U.S., such certificates are not consistently issued.

II. MARKET STRUCTURE AND SUBSECTOR PROFILES

A. Distribution Channels and New-to-Market Exporter information

The distribution system in Turkey is beginning to shift from the wholesaler model to large-scale networks backed by large distribution companies. There are also a significant number of food manufacturers with their own distribution companies. The following chart illustrates how the distribution network operates for HRI food service purchasers. The most common pattern is: exporter to import agent, impor t agent to retaile r.



Since import procedures are complex and volume low in this sector, very few companies handle the direct importation of HRI food service products. Most domestic distribution companies, with the exception of some of the larger concerns, do not deal with imports. Imported food products are generally handled by specialist import distribution companies. The best approach for new-to-market exporters is to first contact importer/distributors - lists are available from the FAS offices in Turkey. U.S. exporters may also want to visit or exhibit in Turkish retail food or hotel/restaurant trade shows in Turkey. Please refer to a quarterly report on *Promotion Opportunities* put out by the FAS office in Turkey - it can be found in the reports section of the FAS Webpage. Also, getting in touch with specialized Turkish institutions such as TUGIDER (Association of Food Importers) and DEIK (Foreign Economic Relations Board) who are involved in trade facilitation can help. There are about 100 specialist food import companies, of which 73 are members of TUGIDER. This organization can be contacted at telephone number (90) (212) 212-0919, at fax number (90) (212) 212-0920 or at ***www.tugider.org.tr***. DEIK assists Turkish businesses who are interested in moving into international commerce. DEIK can be contacted at telephone number (90) (212) 243-4180, fax (90) (212) 243-4184, or at ***www.deik.org.tr*** .

B. Sub-sector Profiles

Hotels and Resorts

The hotel sector has a 19 percent market share of total food service sales. 25 to 30 percent of sector revenues estimated to come from food & beverages, with 73 and 27 percent shares respectively. There were 9,955 hotels in Turkey by the end of 2001 of which 356 were five and four star hotels, accounting for 20 percent of the total number of beds.

It is expected that between 2001-2005 the growth in hotel and resorts food service will increase by 15 to 20 percent per year, parallelling the growth in the tourism sector from $9.5 billon in 2001 to $15-20 billon in 2005.

Four and five star hotels and holiday resorts with foreign cuisine restaurants, catering not only to foreign but also domestic tourists, business meetings and conferences, form the major target group for imported food & beverage items.

Hotels contact importers and distributors for their imported food & beverages needs. It is rare for hotels and restaurants to purchase imported items from cash & carry outlets or hypermarkets since these businesses work on cash payment and do not offer delivery service.

Hotel & Resort Company Profiles				
Name of Hotel Resort	**Food Sales CY 1998 $ Million**	**Locations**	**# of Hotels**	**Purchasing Agent**
Hilton	64	Istanbul (2), Izmir, Ankara, Mersin	5	Importer, Distributor
Dedeman	51	Istanbul, Ankara, Antalya (2), Rize, Mugla (2), Diyarbakir, Nevsehir, Erciyes, Palandoken	12	Importer
Vista	45	Antalya (6), Mugla (4)	10	Importer, Distributor
Princess	24	Istanbul (4), Izmir	5	Importer, Distributor
Taksim International	21	Antalya (3), Bolu, Izmir, Mugla, Sakarya	7	Distributor
Ceylan Inter-continental	21	Istanbul, Antalya	2	Importer
Sheraton	19	Ankara, Antalya	2	Importer, Distributor
Merit	16	Istanbul(2), Ankara, Mersin, Antalya(2), Mugla(3), Nevsehir	10	Importer, Distributor
Hyatt Regency	15	Istanbul	1	Importer, Distributor
The Marmara	14	Istanbul, Antalya, Mugla	3	Importer, Distributor
Ciragan	13	Istanbul	1	Importer, Distributor
Divan	13	Istanbul, Antalya, Mugla	3	Distributor
Marti	8	Antalya	3	Distributor
Swissotel	8	Istanbul	1	Importer, Distributor
Four Seasons	3	Istanbul	1	Importer, Distributor

Restaurants

The total number of restaurants in Turkey as of 2001 was about 50,000. Restaurants comprise the leading market segment in the food service sector, accounting in 2001 for 44 percent of total food service sales - 85 percent in food and 15 percent in beverages. It is a large category covering all kinds of outlets from traditional kebab & pide (similar to pizza) houses to luxurious restaurants offering a wide variety of international menus. Traditional restaurants have a 26 percent share of total restaurant sales. Their use of imported food & beverages is negligibly small, as the high import tariffs are a major deterrent. Also, these restaurants specialize in traditional cuisine and all of the food inputs are available locally. An average 10 percent growth rate is expected in restaurant food service for the next five years.

Luxury restaurants comprise the main market for imported food & beverages, but only 5 to 10 percent of the total restaurant market. After retailing and catering, the high-end restaurant business has also become very popular as a new investment area for large conglomerates. It offers profitability and strong cash flow, pluses for companies considering the benefits of Turkey's high real interest rates.

Along with a great many restaurants specializing in Turkish cuisine, there are a considerable number which specialize in foreign food. The number of foreign cuisine restaurants has now reached 300. Turkish people are open to new tastes. Italian, French and Far Eastern cuisines are particularly popular. Mexican food is a new favorite among trendy Turkish restaurant-goers.

Foreign cuisine restaurants procure their imported items either through importers or wholesalers. In the case of urgent or specialty needs, hypermarkets are used. Few international chains, like TGI Fridays, import directly. The main import items are wine, beer, fish products, specialty cheeses, sauces and pastries, and staple items like corn, rice, etc. when domestic supplies are not appropriate. Many restaurant owners have expressed interest in imported meat products, if the government lifts the current ban on such items. Food purchasing managers complain about cumbersome import procedures choking supply. Many restaurants do not have the staff expertise to negotiate the way through the import process. Restaurant chains in general have not become popular yet in Turkey - most are single entity businesses. An exception to this is fast food chains, discussed next.

Below is a list of the major foreign cuisine restaurants.

Foreign Cuisine Restaurants Profiles		
Restaurant Name	**Location**	**Type of Cuisine**
Ivy's Californian Brasserie	Ankara	American
TGI Fridays	Istanbul, Ankara	American & Mexican
Panchos	Bodrum/Mugla	Argentine
Atlas	Bodrum/Mugla	Canadian
Dragon	Hilton Hotel, Istanbul	Chinese
Dynasty	Istanbul	Chinese
Great Hong Kong	Istanbul	Chinese
Royal China	Polat Renaissance Hotel, Istanbul	Chinese
Ku Kong	Swiss Hotel, Istanbul	Chinese
Citronelle	Ceylan Intercontinental Hotel, Istanbul	French
Le Cigare	Istanbul	French
La Corne D'or	Swiss Hotel, Istanbul	French
Panorama	The Marmara Hotel, Istanbul	French
Turkuaz	Dedeman Hotel, Istanbul	French & Turkish
Divan	Divan Hotel, Istanbul	French & Turkish
Tandoori	Istanbul	Indian
La Select	Istanbul	Italian
Bellini	Ciragan Palace Hotel, Istanbul	Italian
Royal Garden	Falez Hotel, Antalya	Italian
Spasso	Hyatt Regency, Istanbul	Italian
Bice	Istanbul	Italian
Paper Moon	Istanbul	Italian
Mezza Luna	Istanbul, Ankara	Italian
Santini	Sheraton, Ankara	Italian
Mikado	Ankara	Japanese
Takarabune Japanese	Hyatt Regency, Istanbul	Japanese
Miyako	Swissotel, Istanbul	Japanese
El Torito	Istanbul	Mexican
Picante	Bodrum/Mugla	Mexican
Meksikana	Istanbul	Mexican

Foreign Cuisine Restaurants Profiles		
Downtown	Istanbul	French
Machka	Istanbul	Russian

Fast Food Restaurants

Fast food chains are a relatively new concept in Turkey, with only a 15 year history. With the entrance of foreign chains like McDonald's and Burger King, Turkey's fast food market reached about $750 million in 2000 but is estimated to have decreased about 25 percent in 2001 due to the economic crisis. The sector is expected to continue to grow again beginning in 2002 but at a slower pace. The 2002 growth rate is expected to be about 10 percent.

Currently there are about 20 fast food chains with a total of 650 outlets. The great majority (about75 percent) of them are located in big cities like Istanbul, Ankara, and Izmir. All the chains had to close some outlets to minimize losses during the past year.

Top Fast Food Restaurant Company Profiles

Company / Restaurant Name	Sales CY 2001 $ Million	Current Number of Restaurants (2001)	Future Expansion plans	Nationality	Purchasing Agent
McDonald’s	100 (2000)	98	250 by 2005	US	Direct
Burger King	100	111	700 by 2010	UK	Direct
Mudurnu Fried Chicken	20	33	200 by 2005	Turkish	Wholesaler
Pizza Hut	6	19	45 by 2003	US	Broker
Little Caesars	3	9	50 by 2005	US	Broker
KFC	10	17	50 by 2005	US	Broker
Pizza Pizza	5	42	100 by 2005	Turkish	Wholesaler
Arby’s	8	13	25 by 2005	US	Broker
Domino’s	2	24	50 by 2005	US	Broker

Though Turkey's fast food consumption is climbing fast, it lags far behind European levels. In 2001 per capita fast food consumption is estimated to be about US$8 (down from US$11 in 2000) compared to $40 in Germany, $48 in France and $160 in the UK. Fast food consumption in Turkey is expected to reach $35 per head by 2005. An average meal price is about $3.00-3.50 for a sandwich, french fries, and soft drink.

As seen above, US fast food franchises are dominant in Turkey, estimated to have about 50 percent of the domestic market. Turkish chains have about one third of the market the rest belongs to a European chain namely Burger King. Traditional Turkish restaurants that are specializing in fast food service continue to emerge. These restaurants serve traditional chicken, beef and lamb donner kebabs and other Turkish dishes, but the style of service is becoming more western, i.e., fast. Companies use local products due to difficulties in imports and price differences. Burger King primarily sources food items locally, only importing paper products directly from the US. McDonald's also prefers to work with local food manufacturers. Some of the types of these companies who could this subsector are: Pinar (meat & condiment products), Mis (dairy products), McCormick-Kutas (JV) (condiments), and Dogus-Lambweston (JV) (frozen potatoes).

Institutional Food Service

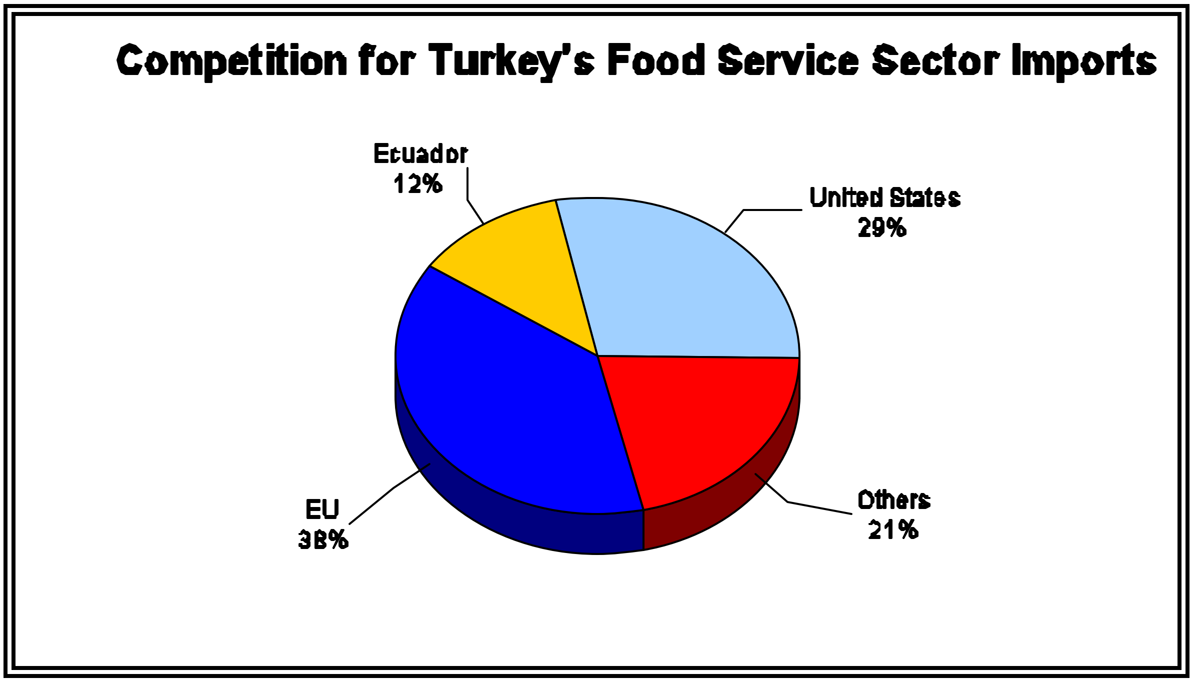
In the 1980s, institutional food service providers began emerging in Turkey to provide food service to factories, schools, hospitals, private companies, and public sector organizations. The institutional food service sector developed rapidly, sometimes with the help of foreign joint venture investments, becoming a $2 billion business in 2001 and (accounting for 29 percent of the overall HRI sector). The size of the institutional food service market will continue to enlarge as the military is expected to contract out increasing number of catering services at its premises in coming years. There are about 5,000 instituational food service enterprises in Turkey of which 2,700 are located in Istanbul. The sector is mainly composed of small-to-medium sized privately-held enterprises, often with mostly local customers.

Currently there are 6 million people taking advantage of institutional food service in Turkey. 2.5 million - 42 percent of the overall number - are in Istanbul. As in the case of the retail sector with the larger super- and hyper-markets, institutional food service has spread from Istanbul to other industrialized cities such as Ankara, Izmir, Adana, Bursa, Sakarya, Kocaeli, Bolu and Eskisehir. The main food inputs of the sector are meat (30 percent), and fruits & vegetables (20 percent). Use of imported food items is mostly limited to bulk commodity agricultural products, such as rice, pulses, corn, and vegetable oils. There is less demand for catered food service from public sector organizations than from companies in the private sector. Many public sector organizations provide cafeteria services on their premises, or offer a meal voucher good at nearby restaurants.

Institutional Food Service Company Profiles				
Company Name	**Sales CY 2001 $ Million**	**Portion Capacity Per Day**	**Nationality**	**Purchasing Agent**
Usas	40	30,000	Turkish & Swiss	manufacturer, distributor
Sofra (Eurest)	60	140,000	French & British	manufacturer, distributor
Sodexho	32	72,000	French	manufacturer, distributor
Sardunya	45	100,000	Turkish	manufacturer, distributor
Obasan	15	30,000	Turkish	manufacturers, distributor
Savas	12	30,000	Turkish	manufacturer, wholesaler
Doruk	5	80,000	French	manufacturer, wholesaler
Pamuk	20	50,000	Turkish	manufacturers, wholesaler
Teyvas	10	20,000	Turkish	manufacturer, wholesaler
Emin	5	10,000	Turkish	manufacturer, wholesaler

One of the leading companies, Usas, specializes in providing airline-catering services to forty-seven airlines and operates terminal restaurants in Turkey's eight largest airports.

III. COMPETITION



1. *In 2000 the United States was the leader in food exports to Turkey in the food service sector, with a 29 percent market share, selling mainly vegetable oil (corn, soy), pulses, rice, and processed fruits and vegetables. Next came Ecuador with a 13 percent share based solely on bananas. Third largest supplier of high-value products was Germany with chocolate, malt, breakfast cereal, peanut butter and cakes.*

2. *Local products have dominance in the HRI market due to customer preferences for familiar foods and high duties on imported products. Higher-value imported products are mainly branded products (spirits, dairy products, sauces) and particular products that are either not available in Turkey or that has a higher cost of domestic production (sea food, exotic and tropical fruits, etc.).*

3. *Almost 38 percent of Turkey's imports in the food service sector are from European countries, due to their proximity, the Customs Union with the EU (which provides for*

quota-free access and lower duties), and the dominant position of European (French, Italian) cuisines among foreign cuisines in Turkey. Other leading suppliers are Brazil for fruit juice, Egypt for rice and Argentina for soy oil.

IV. BEST PRODUCT PROSPECTS

Prospects for imported food items in the HRI sector are mainly to be found in the needs of hotels and restaurants serving foreign cuisines. Elsewhere there is a relatively limited use of imported (mainly bulk commodities) products. For hotels and restaurants specializing in foreign cuisine, wine & beer, seafood, cheeses, sauces, pastries, and fresh and processed fruits – especially exotic tropical fruits – are the most popular imported food items.

Products now present in the market:

Alcoholic Beverages: Beside the wines of the famous French growers, wines from Italy, Chile, Australia, and the United States are popular in Turkey. Turkey applies a 70 percent import duty on non-EU wines and a 50 percent duty on EU wines. TEKEL, the Turkish state alcoholic beverage and tobacco monopoly, is the only entity currently allowed to import alcoholic beverages other than whiskey and champagne. (This policy is anticipated to be changing soon.) Whiskey imports, however, make up 70 percent of total imported beverages, and non-state importers have access to this market.

Seafood: Turkey is a promising market for various seafood products. In addition to the local fresh fish, frozen, preserved and ready to eat seafood products are welcomed by Turkish consumers. Argentina, India, Norway and European countries (eg. Spain, the UK, Bulgaria and Greece) are the leading suppliers of seafood products such as mussels, octopus, shrimp and squid.

Dairy products: Speciality cheeses, ice-cream and butter have good market potential for US suppliers. Currently EU countries are dominant in the market.

Sauces: Various brands of sauces for salads, meat and international cuisines are popular in Turkey and form an important part of the HRI sector. The sauces mostly come from Germany, the UK, France, the Netherlands, the United States, and Far East countries.

Products not present in the Market:

Processed Meat: Though there is high potential demand for imported meat, a protectionist ban is currently in place. A small quantity of processed meat, in the form of pork products, is always imported largely from Italy, Belgium and the Netherlands but it accounts for just a fraction of total food imports. Since most of the population is Muslim, halal slaughter procedures will be an important factor, if imports are permitted.

Products unsuccessful in the Market:

Due to the conservative nature of many of this sector's clients, and the small average size of the existing HRI providers, many foreign products have not been tested in this market. Most distributors tend to focus on the tried and true tastes for the HRI market and do not look to introduce imported items to their customers. Innovation and new foods are coming as larger companies become involved in providing HRI meals and as tastes become more sophisticated. Interested exporters should be prepared to assist their importing partners in developing the market.

V. POST CONTACT INFORMATION

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http://www.fas.usda.gov