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Turkey

HRI Food Service Sector

1999

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Report Highlights:

Turkey has a fast-growing $5.6 billion HRI food service sector, due to increased incomes, urbanization, more women working outside the home, and huge growth in tourism. Hotels and resorts are most receptive to American products and are the best sub-sector to seek new customers when first targeting this market. Funding for this research was provided through the Emerging Markets Program.

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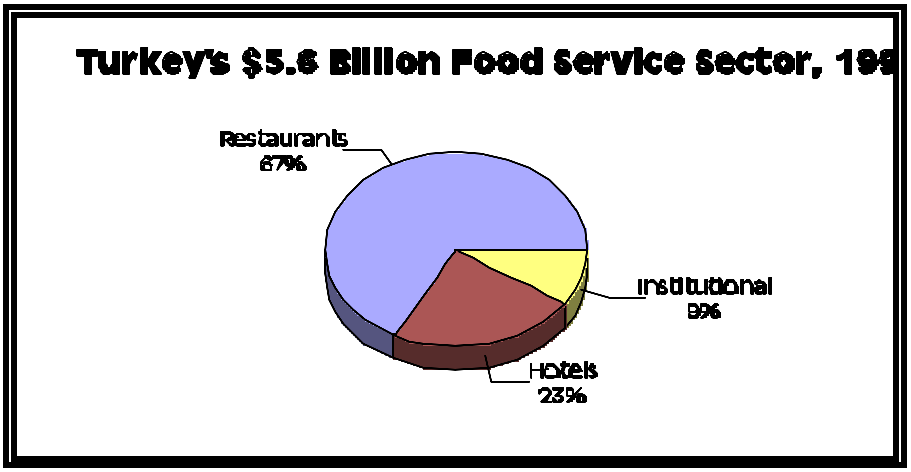
I. EXECUTIVE SUMMARY

Major changes in the life styles, 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 seen the rapid development of two niche sectors - fast food and institutional food service. Four factors in particular have helped to drive this development:

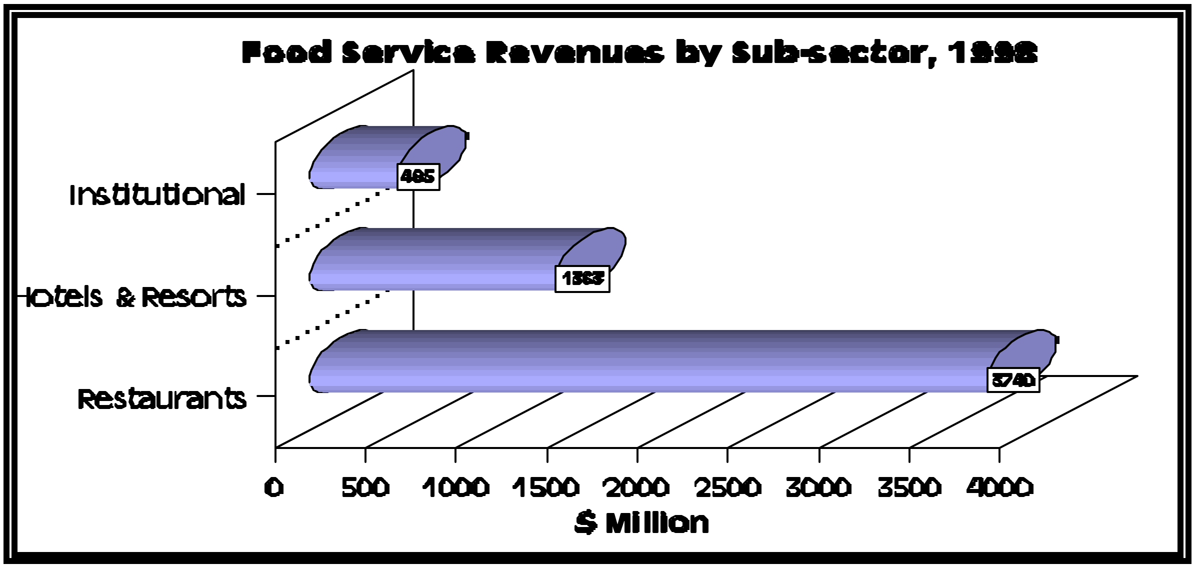
Increased income levels - The per capita income level in Turkey doubled during the last two decades, reaching $3,224 by the end of 1998. According to purchasing power parity, the per capita income was actually much higher, approximately $6,000. In addition, Turkey was one of the world's 20 biggest economies in 1999;

Urbanization and smaller household size - The share of urban population increased from 44% to 65%, and there was a sharp decrease in household size from 5.5 to 4.4 individuals per household between 1978-98. 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% 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 25 million foreign (mostly European) tourists have visited during the last three years. The sector is expected to reach $15 to $20 billion in revenues 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.

Foodservice expenditures are estimated to have reached $140 per head in 1998. This figure includes all outside-the-home food and beverages consumption, but excludes alcohol. 1998 total food service revenues were $5.6 billion, breaking down as:



Besides 20% growth in hotels & resorts, 13% growth in restaurants, and 25% growth in institutional services between 1997-98, the major trend in HRI food service growth is shifting away from the traditional type of restaurants towards fast food and catered meals. This is changing market shares and altering the breakdown of sub-sectors.

Market Size of HRI Food Service Sector in Turkey, 1994 -1998						**($ million)**
Year	**Hotels**	**% Increase**	**Restaurants**	**% Increase**	**Institutional Food Service**	**% Increase**
1994	730	----	2,500	----	298	----
1995	769	5 %	2,700	8 %	308	4 %
1996	947	23 %	2,958	10 %	323	5 %
1997	1,136	20 %	3,320	12 %	388	20 %
1998	1,363	20 %	3,740	13 %	485	25 %

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. 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% for hotels and restaurants that feature foreign cuisine, decreasing down to 3% in local HRI food service. Imported items include rice, corn, pulses, chickpeas and beans, and other items used for creating a variety selection such as specialty imported cheeses, hams, sauces, pastry, seafood, and alcoholic beverages.

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

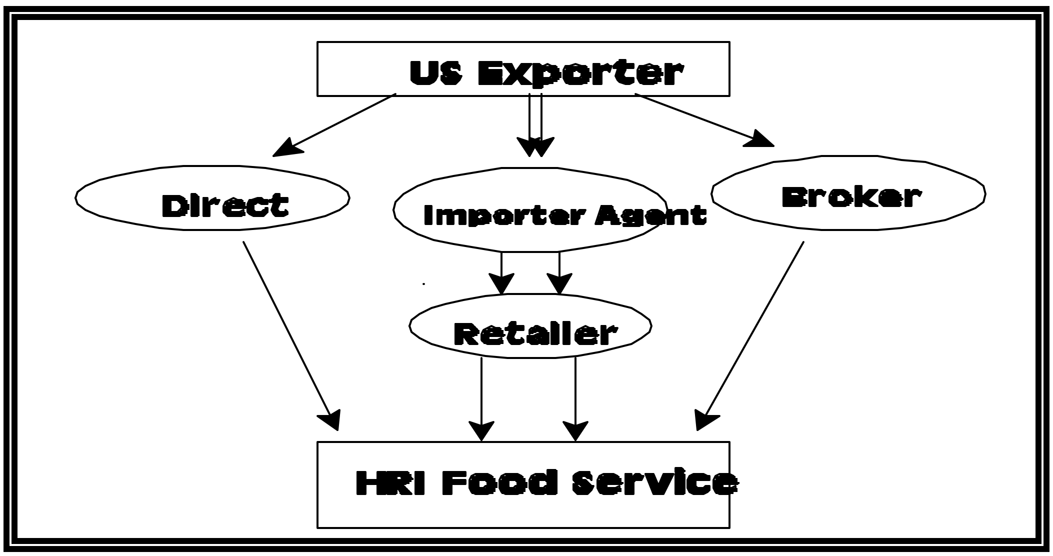
Advantages	**Challenges**
The number of US fast food outlets is increasing rapidly now.	Customs Union with the EU created a privileged position for EU country imports to Turkey.
Some US products are more competitively priced than local products.	Transportation costs are less for products from neighbouring 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 adopt Western tastes.	There is a well-developed local food-processing sector providing most needed items.
The number of foreign cuisine restaurants and international hotel chains are increasing.	European (French & Italian) and Far East cuisine are still dominant in restaurants and hotels.

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/dealership 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, import agent to retailer.



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 75 specialist food import companies, of which 40 are members of TUGIDER. This organization can be contacted at telephone number (90) (212) 275-2688, at fax number (90) (212) 276-5600 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 15% market share of total food service sales. 25-30% of sector revenue comes from food & beverages, with 73% and 27% shares respectively. There were 3,308 hotels in Turkey by the end of 1998, of which 460 were five and four star hotels, accounting for 34% of the total number of beds. It is expected that between 2000-2005 the growth in hotel and resorts food service will increase by 15-20% per year, parallelling the growth in the tourism sector from $7 billon in 1998 to $15-20 billon in 2005.

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 Intercontinental	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

Hotel & Resort Company Profiles				
Swissotel	6	Istanbul	1	Importer, Distributor
Four Seasons	3	Istanbul	1	Importer, Distributor

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.

Restaurants

The total number of restaurants in Turkey as of 1998 was about 45,000. Restaurants comprise the leading market segment in the food service sector, accounting in 1998 for 37% of total food service sales - 91% in food and 9% 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% share of total restaurant sales. Their use of imported food & beverages is negligibly small, as the high import tariffs are a major deterrent. An average 10% 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 5-10% 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 big 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 200-250. Turkish people are open to new tastes. Italian, French and Far Eastern cuisines are particularly popular. Fashion plays its part - Mexican food is a new favourite 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 pastry, 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 importing 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	C?ragan 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	Ankara	Mexican
Picante	Bodrum/Mugla	Mexican

Foreign Cuisine Restaurants Profiles		
Meksikana	Istanbul	Mexican
Machka	Istanbul	Russian

Fast Food Restaurants

Fast food chains are a relatively new concept in Turkey, with only a 13 year history. With the entrance of foreign chains like McDonald's and Burger King, Turkey's fast food market reached about $480 million in 1998. Currently there are 17 fast food chains with a total of 350 outlets. 75% of them are located in big cities like Istanbul, Ankara, and Izmir. The estimated growth rate for fast food restaurants is 23% for the next five years.

Top Fast Food Restaurant Company Profiles

Company / Restaurant Name	Sales CY 1998 $ Million	Current Number of Restaurants	Future ExpansionPlans	Nationality	Purchasing Agent
McDonald’s	85	126	202 by 2001	US	Direct
Burger King	78	82	300 by 2005	UK	Direct
Mudurnu Fried Chicken	35	44	300 by 2005	Turkish	Wholesaler
Pizza Hut	20	19	---	US	Broker
Little Caesars	10	11	---	US	Broker
KFC	10	10	---	US	Broker
Arbys	8	8	---	US	Broker

Though Turkey's fast food consumption is climbing fast, it lags far behind European levels. 1998 fast food consumption was $8 per head in Turkey, 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, with a fast food market share of about 47%. (The UK increased its share to 18% when Burger King became a UK company in 1997.) The remaining 35% of the fast food market is made up of Turkish companies. 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 supply this subsector are: Pinar (meat & condiment products), Mis (dairy products), McCormick-Kutas (JV) (condiments), and Dogus-Lambweston (JV) (frozen potatoes).

McDonald’s Case Study

Years	# of Restaurants	Sales ($ million)	Change in Sales (%)
1994	29	21.5	-
1995	44	37.9	76.2

McDonald's Case Study			
1996	61	48.0	26.7
1997	84	63.7	32.7
1998	116	85.0	33.4

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 $500 million business in 1998 and accounting for 6% of the overall HRI sector. The estimated growth in this sub-sector is about 23%. There are about 3,000 food service enterprises, 65% of whom are working informally without registration with the Ministry of Industry or the tax authorities. The sector is mainly composed of small-to-medium sized privately-held enterprises, often with mostly neighborhood customers.

Currently there are 4.5 million people taking advantage of institutional food service in Turkey. 2 million - 45% 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%), and fruits & vegetables (20%). 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. The military provides catering services in-house and prefers local products, using a minimum of imported food materials, again being mostly bulk commodities.

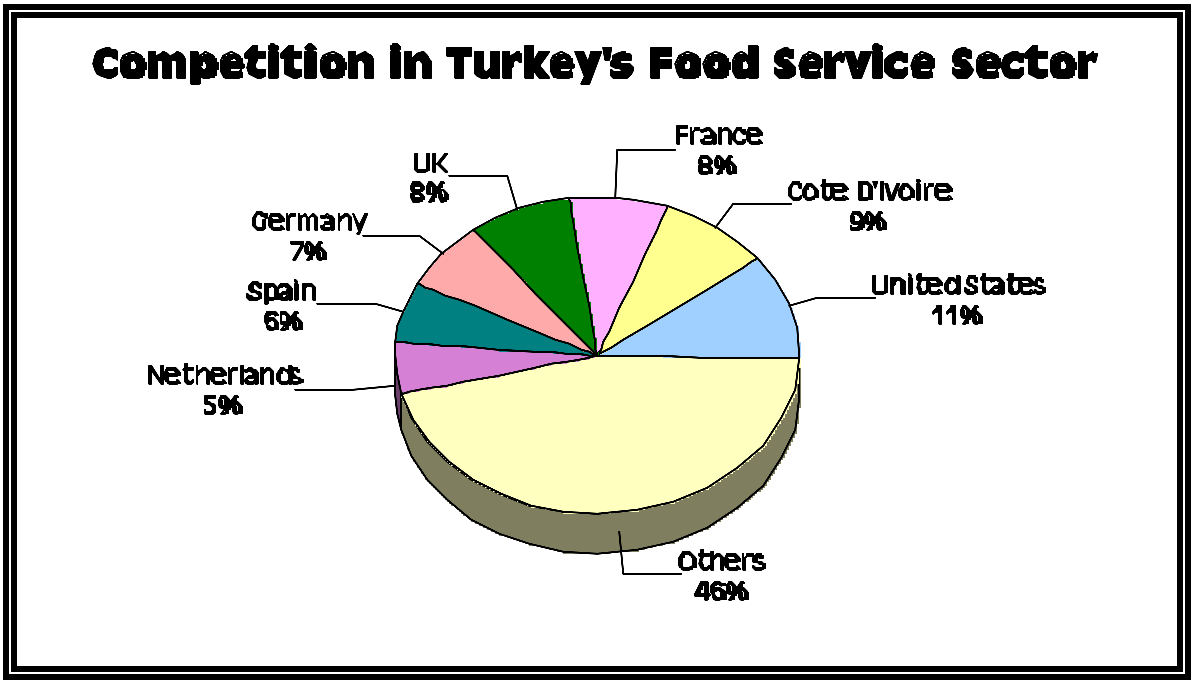
Institutional Food Service Company Profiles

Company Name	Sales CY 1998 $ Million	Portion Capacity Per Day	Nationality	Purchasing Agent
Usas	87	100,000	Turkish & Swiss	manufacturer, distributor
Sofra	30	90,000	Turkish & British	manufacturer, distributor
Sodexho	22	72,000	French	manufacturer, distributor
Sardunya	15	50,000	Turkish	manufacturer, distributor
Abela	14	40,000	Turkish & Lebanese	manufacturer, wholesaler

Institutional Food Service Company Profiles				
Eurest	13	30,000	French	manufacturer, distributor
Obasa	12	30,000	Turkish	manufacturer, wholesaler
Savas	12	30,000	Turkish	manufacturer, wholesaler
Parilti	11	28,000	Turkish	manufacturer, wholesaler

The leading company, Usas, specializes in providing airline-catering services and operating terminal restaurants in Turkey's six largest airports.

III. COMPETITION



‘ *In 1998 the United States was the leader in food exports to Turkey in the food service sector, with an 11% market share, selling mainly vegetable oil, dairy products, and beverages - whisky and beer. Next came Cote D'Ivoire with a 9% share based solely on cocoa. Third biggest supplier was France - dairy products of milk, cream, and cheeses; seafood; and beverages - cognac and wines.*

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

‘ *Almost 50% 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.*

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, pastry, 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% import duty on non-EU wines and a 50% 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 whisky and champagne. (This policy is anticipated to be changing soon.) Whisky imports, however, make up 70% of total imported beverages, and non-state importers have access to this market;

Seafood: Turkey provides a good and 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, 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 pastry 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 demand for imported meat, a protectionist ban is currently in place. A small quantity of processed meat, in the form of pork products, was imported largely from Italy, Belgium and the Netherlands in 1998 - at a value of $450,000, accounting for just 0.005% 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 in 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 .

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