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Turkey

Retail Food Sector

Report

2001

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Report Highlights:
The size of Turkish retail food sector is estimated to shrink to US$21 billion in 2001 from US$23 billion in 2000 because of the recent economic down-turn. However, the sector is continuing to modernize rapidly. While hypermarkets are arriving in the larger cities, neighborhood grocer and weekly open markets throughout the country remain centered on daily shopping. Modern retailing via supermarkets, larger-sized stores and hard discount stores is now targeted for medium-sized cities.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Ankara [TU1], TU

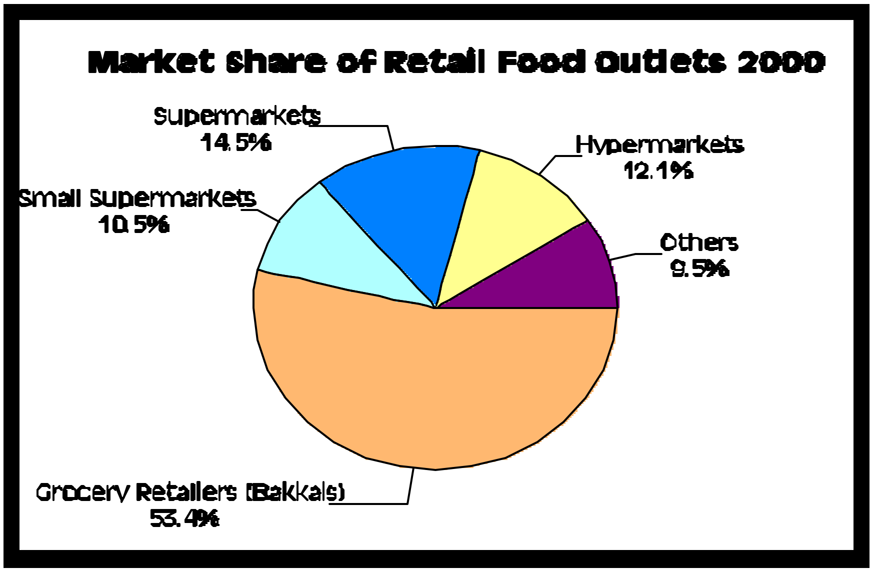
I. EXECUTIVE SUMMARY

The retailing sector in Turkey has developed rapidly since the 1980s with significant changes both in economic and social structures. Two decades of liberalization of the Turkish economy, stimulated by its Customs Union with the European Union (1996), have freed Turkish entrepreneurial dynamism. Rising income levels, a high urbanization rate, an increase in the number of working women, the influence of Western life style - all these have caused a radical change in attitudes and consumption patterns supporting the development of the retail sector.

The total number of retail outlets in Turkey were reduced to 145,430 in 2000 compared to 152,974 in 1999. The change is due to modern supermarkets and discount stores replacing traditional stores. These include grocery retailers, called bakkals, where the shop worker finds and hands over to customers the items requested - including food items, household cleaning products and personal care items - to the less common but rapidly growing hypermarkets selling food, household items, and durable goods. Food retailing is shifting towards modern retail formats. This transformation has mainly occurred in large cities, but recent investments have targeted medium-sized cities where the population is more than 600,000 and shopping habits are changing. The share of hypermarkets in the overall retail market is still low but rapidly increasing, estimated at around 12.1 percent in 2000 up from 3.6 percent in 1996 and expected to reach 17 percent by the end of 2004.

The classification of food retail outlets in this study is based on outlet size:

Hypermarkets are over 2,500 square metres (m2),
Large Supermarkets between 1000 and 2,500 m2
Supermarkets 400 to 1000 m2
Small Supermarkets less than 400 m2
Markets 100 to 50 m2
Bakkals 50 or less m2.



In 2000, Turkey had an estimated $66 billion retail market, of which $23 billion (35 percent) were food sales. Total retail food sales broke down as 53.4 percent in bakkals and markets, 10.5 percent in small supermarkets, 14.5 percent in supermarkets, 12.1 percent in hypermarkets and the remaining 9.5 percent in specialist food retailers and convenience stores and open air bazaars.

RETAIL FOOD SECTOR TRENDS, 1994-2001 (in $ billion)							
	1994	**1996**	**1998**	**1999**	**2000**	**2004**	**1994-2000 Growth Rate (%)**
Bakkals & Markets	12.9	12.9	13	12.6	12.3	10.5	-5
Hypermarkets & Supermarkets	0.9	1.5	2.9	4	4.6	6.6	511
Supermarkets & Small Supermarkets	2.6	2.7	3	3.4	3.9	5.4	50
Others	0.7	1.8	1.9	2	2.2	2.5	314
Total	**17**	**19**	**21**	**22**	**23**	**25**	**35**

Following a rapid growth era -- 35 percent between 1994 and 2000 -- the Turkish food retailing market is estimated to shrink about 10 percent in 2001 due to the recent economic crisis that the country is facing. Despite the slower pace growth in 2001, hypermarkets and supermarkets continue to be the most dynamic sub-sector. Hard discount stores also grew rapidly during 2001 benefiting from changes in consumer preferences towards lower price goods due to the loss of purchasing power. Meanwhile, due to the crisis, consumers reportedly increased their number of visits to supermarkets while the value of their purchases in each visit decreased.

Trends in services provided by the major chains include phone and Internet purchase and delivery, and increased use of membership cards. Since bakkals have traditionally provided delivery service, and the minimum purchase level is relatively low, supermarkets hope this service will increase their customer base. In order to increase their sales, large supermarkets started various promotion programs and increased their advertising spending. Modern stores became the number one media space buyers (mostly in the newspapers) to attract shoppers.

At the end of 2000, there were 3,640 hypermarkets and supermarkets in Turkey, of which 149 were hypermarkets. The number of hypermarkets increased more than three folds between 1995 and 2000 and expected to reach 202 units at the end 2004. The share of hypermarkets and supermarkets is expected to increase from their current 37.1 percent to more than 50 percent of the retail market by 2005. Although the share of bakkals and markets decreased from 76 percent to 53 percent between 1994 and 2000, this segment still boasts more than $12 billion in sales. But the growth in larger outlets is having an impact on the bakkals, with increasing numbers of them closing. Over the coming five years it is expected that the market share of bakkals will fall below 35 percent. In the future the sector will be dominated by major hypermarket and supermarket and hard discount chains like Carrefour SA, Gima, Migros, BIM, Tansas, Afra, Yimpas etc.

Number of Retail Food Outlets						
	1995	**1997**	**1999**	**2000**	**2002**	**2004**
Hyper Markets	41	91	129	149	170	202
Large Supermarkets	91	210	306	357	417	510
Supermarkets	289	464	726	835	970	1,150
Small Supermarkets	895	1,370	1,818	2,299	2,850	3,330
Markets	10,755	12,192	13,232	13,210	12,700	12,200
Bakkals	164,366	155,420	136,763	128,580	115,000	100,000
Total	**176,437**	**169,747**	**152,974**	**145,430**	**132,107**	**117,392**

Prior to the crisis, consumer-oriented agricultural imports to Turkey were increasing at a modest rate. While imports only account for only about 2 percent of retail food sales, an increasing variety of products are finding their way onto the shelves.

Consumer-Oriented Agricultural Imports From All Sources, Based on UN Trade Statistics					
	1996	**1997**	**1998**	**1999**	**2000**
(million $US)	**353.7**	**366.1**	**393.2**	**402.5**	**415.6**

According to UN Data, US retail food product exports had a 4 percent share of total consumer oriented food imports to Turkey in 2000. Dairy products, breakfast cereals, chocolate and confectionary goods, sauces and beverages (wine, beer) were the major US export items. Additionally there has been a significant amount of US rice, corn, nuts, cereals, vegetable oil and pulses exported to Turkey.

The following is a summary of the advantages and challenges facing US exporters examining the retail food sector in Turkey:

Advantages	**Challenges**
Change in retailing structure has opened new areas for branded import items.	Customs Union with the EU created a privileged position for EU imports to Turkey.
Some US products are better priced than local products.	Transportation costs are much lower for nearby countries.

Advantages	Challenges
US products have a good image in Turkey and US tastes are welcomed by Turkish consumers.	There are high import duties on particular products. (Between 12% to 240% on bulk agricultural commodity products and 6% to 140% on processed food products)
International retailers who market a wide range of imported products in the sector have great influence on purchasing patterns.	There is a well-developed local food-processing sector supplying most product segments in the marketplace.
There is a growing demand for specialized products such as diabetic and diet foods, ready-to-eat foods and frozen food, which are mostly imported.	US food products are weakly promoted in Turkey. Competition for shelf space has led to high costs for introducing new products.

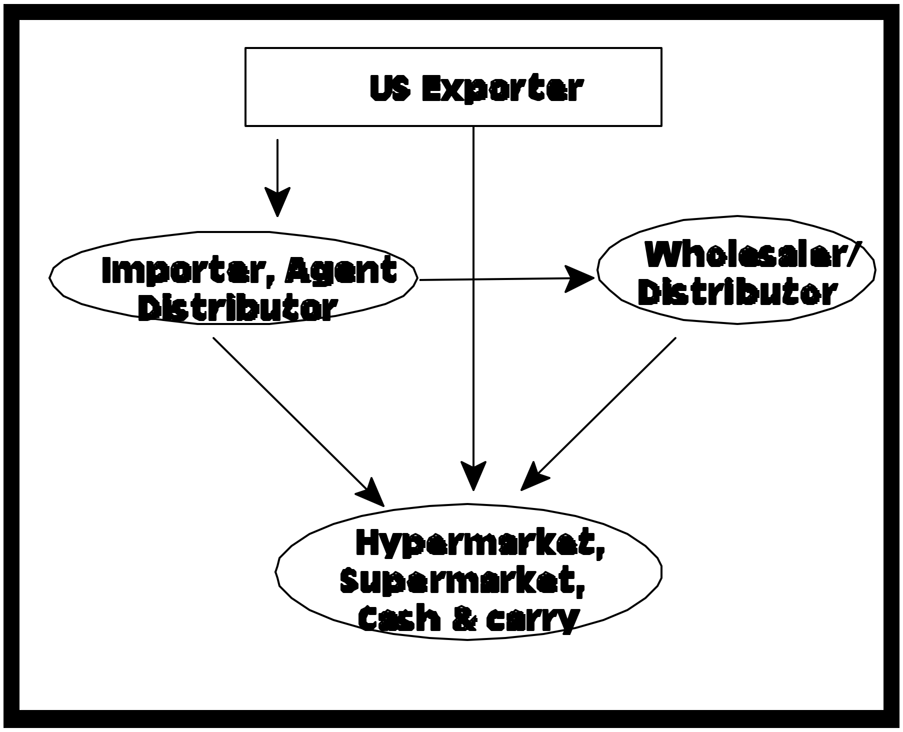
II. MARKET STRUCTURE AND SUBSECTOR PROFILES

Turkey's highly fragmented food-retailing structure is in a period of sharp transition, moving from individually-owned small outlets such as bakkals, to large outlets. As the industry changes, the supply chain adapts to the changes. Hypermarkets, major supermarket and hard discount chains import some of the items directly, whereas smaller outlets use intermediaries as importers, distributors, and agents. A new-to-market exporter can directly approach major supermarket chains' purchasing departments. It is also useful to get in contact with independent importers, especially those with nationwide distribution services. A list of major Turkish food importers can be obtained from TUGIDER (Association of Food Importers) or from FAS Ankara. There are about 120 specialist food import companies, of which 72 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***. Another organization which may be of use in arranging Turkish contacts is DEIK, the Foreign Economic Relations Board, who assist Turkish businesses that 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*** .

A. Supermarkets, Hyper Markets, Club and Warehouse Outlets

Hypermarkets have recently become fashionable investments within the retailing sector in Turkey. Sabanci, Koc and Dogus -- three major conglomerates in Turkey -- are heavily involved in this sector. There are about 50 different chains operating in the Turkish retail business. Foreign investors present in the Turkish retail market prefer to form joint-ventures with Turkish companies, as seen with Carrefour SA (France) and Sabanci JV, Bookers (UK) and Sezginler JV.

Large western-style retail outlets have started to flourish in Istanbul, Ankara and Izmir, and other large cities such as Adana, Gaziantep, Bursa, Kocaeli, Konya and Mersin. Here consumers are more aware of international trends, have higher disposable incomes, and have automobiles to reach large warehouse-sized stores. Middle and upper-middle income shoppers are drawn to these larger stores, especially if they provide imported and specialty items, previously only available at small specialty shops



or acquired when travelling abroad.

Distribution Channels

Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer - distribution company/department - large-scale wholesaler - wholesaler/distributor - retail unit.

- *Typically, products are imported by an importer or agent who may also be a wholesaler and/or distributor.*

- *Significant number of distributors offer nationwide service. Nearly 50 percent of total food and other consumer goods are distributed by national distributor companies.*

- *30 percent of major manufacturers have their own distribution company operating nationwide.*

- *Most hypermarkets import directly besides purchasing from other distribution channels.*

- *Increasing number of large and medium size markets(Migros, Tansas, Oypa, Yimpas, Gima, Bookers) have begun to use e-commerce for the supply of domestic and imported* *products.*

Major Supermarket Profile						
Company Name	**Type of Outlet**	**Ownership**	**Turn over CY 2000 $ Million**	**Number of Outlets (2001)**	**Location (# of)**	**Purchasing Agent**
Migros	hyper, super & discount stores (SOK), e-trade	Turkish	1,075 (CY2001)	450 Inc.SOK mrk	Nationwide & Intl'(20)	Direct Importers
Metro	cash & carry / club centres	German	400 (CY1998)	7	Istanbul (2), Izmir, Bursa, Ankara, Adana, Bodrum	Direct
BIM	hard discount stores	Turkish, US & Saudi Arabian	Appr. 1.5 billion (CY2001)	670	Nationwide	Importers
Tansas	hyper & supermarkets	Turkish	590(2000)	195	Nationwide	Importers, Distributors
Gima	supermarket & discount stores (Endi)	Turkish	270	61 (Gima) 73 (Endi)	Nationwide & Intl'(4)	Importers, Distributors
Carrefour SA Champion SA DiaSA	hypermarkets Supermarkets Discount stores	Turkish & French	120 (Carrefour Sales CY1998)	7 9 87	Nationwide	Direct, Importers
Oypa	hyper & supermarkets	Turkish	120(Sales CY1998)	24	Nationwide	Importers, Distributors

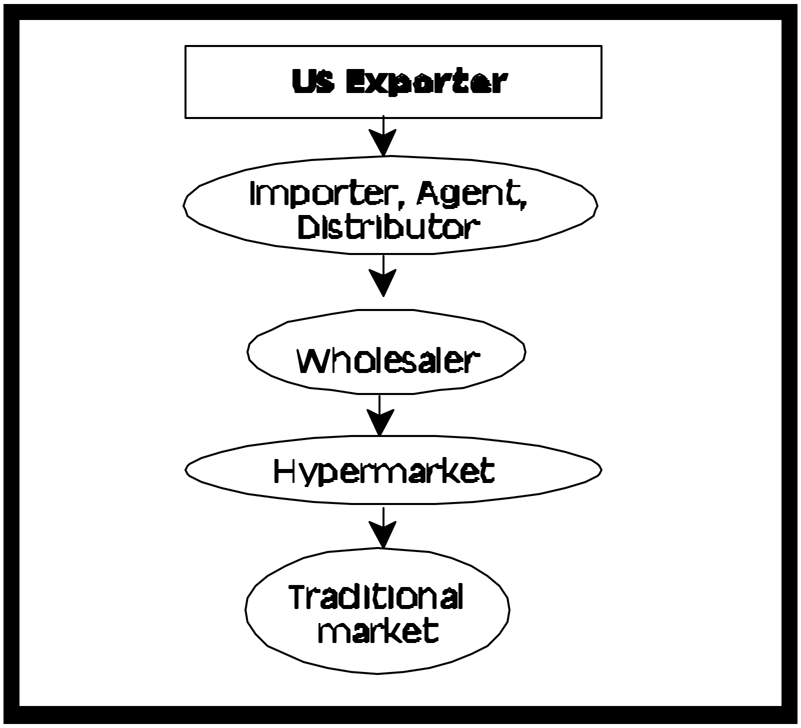
Major Supermarket Profile						
Begendik	hyper & supermarkets	Turkish	100(Sales CY1998)	12	Kayseri (5), Ankara(4), Izmir, Mersin, Gaziantep	Importers, Agents
¤smar	supermarkets	Turkish	100(Sales CY1998)	44	Istanbul (42), Zonguldak (2)	Importers, Agents
Pehlivanoglu	supermarkets	Turkish	Approx. 115 (CY2001)	62	Aegean region	Importers
Marketim	Small supermarkets	Turkish	60	78	Marmara Region	Importers, Agents
Makro	hyper & supermarkets	Turkish	50(Sales CY1998)	16	Istanbul (15), Mugla	Importers, Distributors
Kipa	hypermarkets	Turkish	150 (CY1999)	9	Izmir	Importers, Agents
Yimpas	hyper & supermarkets	Turkish	215	63	Nationwide&Intl'	Importers, Distributors
Contour	hypermarkets	Turkish	40	4	Istanbul (3), Ankara	Importers, Distributors
Maxi	hypermarkets	Turkish	150	2	Istanbul, Tekirdag	Importers, Distributors
Afra	hypermarkets	Turkish	150	22	Konya(3), Antalya(2)	Importers, Distributers
Real	hypermarkets	German	n.a.	6	Ankara, Gaziantep	Importers
Booker (JV)	cash & carry	Turkish & UK	n.a.	12	Istanbul, Izmir, Kocaeli	Direct

B. Convenience Stores, Gas Marts, Kiosks, Etc.

- *There are no organized convenience-type store chains in Turkey, other than Seven Eleven, which introduced the concept in 1995. The new Seven Eleven owner plans to increase the number of outlets from 10 to 75 by the end of 2005.*

- *Other convenience stores, gas marts and kiosks are generally single individual enterprises.*

- *Gas station mini-marts are also new in Turkey, with seven or eight major brands. Marketim, a market chain, has just made an agreement with Elf Gas Stations to open up 24 hour service gas station mini-marts. They are planning to open 25 outlets*



initially. Other gas stations and gas mini-marts do not operate as part of a chain marketing system (they self-stock), though this may change in the near future.

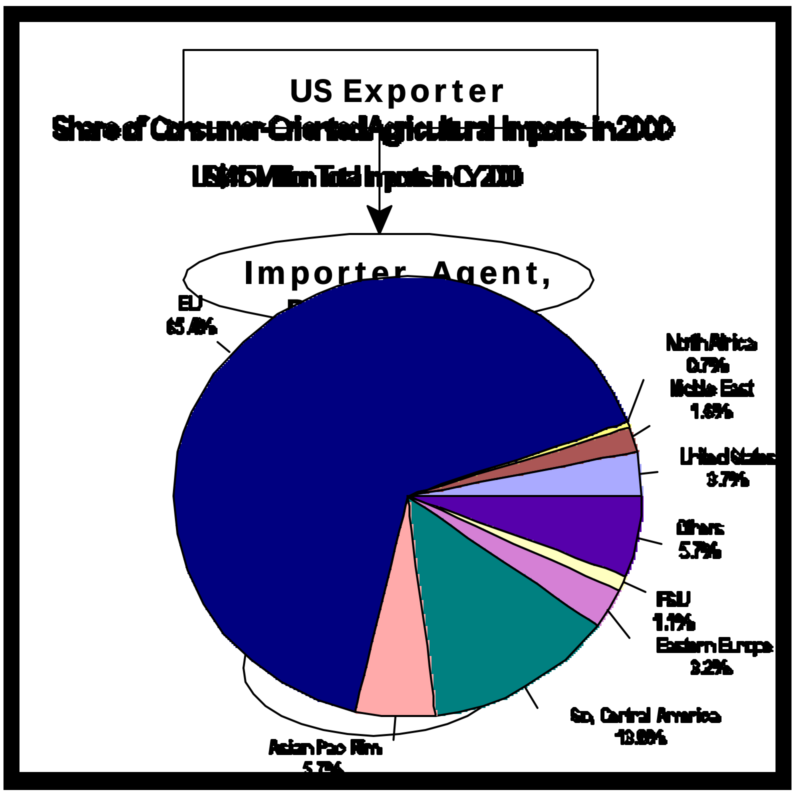
Distribution Channels

Since this category is currently fragmented with limited sales volume, outlets cannot purchase from first hand distribution units or import directly. They buy from wholesalers, hypermarkets, as well as importers, agents and/or distributors.

C. Traditional Markets

Bakkals and open air bazaars are forms of traditional outlets in Turkey. Bakkals are small outlets which sell anything from food to personal care products, and open air bazaars mainly concentrate on fresh vegetables and fruits. Both bakkals and open air bazaars are still preferred by the majority of Turkish consumers, constituting 53.4 percent and 9.5 percent respectively of Turkish retail market. Two main reasons for this preference are: bakkals are in convenient locations close to home, and corner bazaars offer a wide variety of products, fresh fruits and vegetables, clothing, over-the-counter products, and personal care products at low prices.

Distribution Channels



‘ *Bakkals are supplied from various channels including distributors, agents, wholesalers, small wholesalers, and hypermarkets. Open air bazaars obtain supplies from farmers, specialty wholesalers (vegetables and fruits) and small wholesalers typically deal with other products.*

- *The sale of imported food items is much lower in traditional markets than in supermarkets, due to a different customer base. There is little import of fruit into Turkey, other than tropicals such as bananas, kiwis, pineapples, mangos, and papayas. Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at big supermarkets and specialty retail outlets. Recently, Turkey has imported foreign apples as a luxury item.*

- *Imported pulses and rice are available both in bakkals and open air bazaars since domestic production does not meet domestic demand.*

III. COMPETITION

Local food products continue to dominate the Turkish retail market with 98 percent of market share. In 2000 imported products accounted for only $415 million of the $23 billion retail food market. Confectionery, chocolates, cheese and butter, coffee and cocoa, snacks, biscuits, canned food, ready-to-eat meals, soft drinks, energy drinks, mineral water, and alcoholic beverages represent the main retail products currently exported to the Turkish market. They mostly consisted of widely known international branded products.

In CY2000 Turkey imported about 15.5 million dollars worth of consumer-oriented agricultural products from the US of which processed fruits and vegetables, tree nuts, dairy products and snack foods were among the leading items. The main competition for US food products comes from European countries, which enjoy the advantage of the Customs Union Agreement. European countries have a 65.4 percent share of total Turkish retail food imports. Investments of major European hypermarket chains such as Carrefour SA of France, Metro and Real of Germany, and Booker of UK, have also played a significant role in the dominancy of European countries in Turkish imports of retail food products. Among them France, Germany, the Netherlands, the UK, Italy and Spain accounted for more than 47 percent of total Turkish imports. Major export items from Germany were chocolates, flour and flour-based products, canned food, milk and dairy products. The Netherlands was fourth in rank, exporting mainly dairy products, chocolates and confectionery goods. The UK, the fifth largest supplier to the Turkish retail market, mainly exported beverages, dairy goods, flour and flour-based products.

IV. BEST PRODUCT PROSPECTS

Products now present in the market

The best product prospects for the imported food market are internationally well-known branded products. Branded products in general accounted for 30 percent of overall imported food products. These include cocoa and instant coffee, chocolate and confectionary goods, cookies and crackers, breakfast cereal, various cheeses, soft drinks & alcoholic beverages, and sauces. Major imported items break down into the following categories:

Cocoa and instant coffee: Turkey is dependent on imports in this category, since there is no local production of cocoa and instant coffee. The dominancy of the Nestle and Jacobs' brands in the instant coffee market makes it difficult for new entrants to the Turkish market. Recently however, some discount chains and cash & carries, such as BIM and Booker, have commenced the direct importation of low priced products.

Chocolate and confectionary goods: Although there is a very developed local industry in Turkey, major international brands have the opportunity to sell small quantities of premium products in high-end outlets such as delicatessens, hypermarkets and supermarkets. It is very difficult for less known brands to be successful in Turkey.

Ice Cream: Two brands are dominant in Turkish ice cream sold through retail outlets, with many smaller newcomers. Sales are increasing dramatically (15-20 percent) due to tourism and increasing incomes and there is much room for super-premium brands who can adapt to the local taste preferences or get placement in tourist outlets. See another report, **TU9029 Market Brief - Ice Cream** for details.

Flour and flour-based products: Crackers and cookies, diet breads, crisp breads and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers, and may only be distributed via upper middle income retail outlets (specialty shops, supermarket and hypermarkets).

Breakfast Cereals: Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit and chocolate cereals are major breakfast items welcomed by Turkish consumers.

Petfood: This market is increasing about 20 percent yearly, with domestic production very limited. Demand is served by imports. See another report, **TU9038 Market Brief - Pet Food** for details.

Sauces and soups: Imports of these products continue to grow as tastes diversify. These products can also be found in smaller supermarkets and bakkals in the larger cities.

Products with strong sales potential not present substantially in the market:

Frozen food: Though there is a limited amount of imported frozen food and frozen seafood in the Turkish retail market, importers believe that there is good potential in this sub sector over the next five years;

Ready-to-eat & ready-to-cook meals: The ready-to-eat and ready-to-cook meals market has a high potential, linked to the increase in working women and the generally more hectic lifestyles. There are only a few local companies marketing such products. Foreign importers, therefore, especially those specializing in Far Eastern, French, and Mexican cuisines, have a good chance for successful market entry;

Health Foods, Gourmet/Foreign Foods: There is a growing interest in "healthy foods." Also, as

Turkish tastes become more sophisticated, the interest now shown in restaurants featuring novel foods such as "Mexican", "Chinese" and "Japanese" could spread to retail sales;

Energy Drinks & Foods: The young, increasingly wealthy city dwellers favour the "sporting" lifestyle and want the products that go with it. Turkey has no domestic production of "energy" drinks or foods, and few imports at the present time.

Products that are not successful in the market:
There are a few examples of failed products in the Turkish market, such as some international brands of chewing gums and chewing candies. It is not the intrinsic product types that have failed, but the specific brands imported or the inadequate marketing strategies or expenditures applied when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle. Internationally known brand names are very useful for this. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing support to assist their importing partners in a successful introduction.

V. POST CONTACT INFORMATION

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