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Tunisia

RETAIL FOOD SECTOR

RETAIL FOOD SECTOR 2009

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Report Highlights:

The Tunisian food retail sector has witnessed momentous change in the last several years thanks to a rapid emergence of hypermarkets and supermarkets. Although small shops were significantly affected by the growth of these modern outlets, they still dominate the retail market. In August 2009, the GOT issued a new law to organize the retail industry and ensure a balance between various stakeholders in the sector. U.S suppliers and exporters of consumer-ready products should take advantage of these changes to enter this growing market which has been dominated by European players.

Section I Market Summary

A. **Tunisian Retail Sector Overview**

The retail sector in Tunisia has seen significant changes in the last ten years fuelled by the expansion of modern distribution (supermarket and hypermarkets formats). Although traditional pattern of distribution, based on over 250,000 neighborhood grocery shops, continue to dominate the Tunisian market, modern distribution channels are growing rapidly. Since the opening of the first French hypermarket Carrefour in 2001, two new international brands were introduced into the market (Champion and Casino) while the main state supermarket chain (Magasin General) was fully privatized in 2007. Currently, there are roughly 220 modern food retail outlets: 2 Hypermarkets, 150 Supermarkets and 100 'Superettes' (self-service food outlets with a selling area less than 500 sq. m). Fresh fruit and vegetables as well as fishery products are also sold in souks, a type of out-door market.

Modern retailer sales in 2008 are estimated to be about $930 millions. The fast growth of supermarkets and hypermarkets in the last few years has caused concerns in the sector small retail chain. Small corner shops were seriously affected by hypermarkets expansion and regularly complained to the government. In order to improve the retail business climate and ensure a balance between various stakeholders, the GOT issued the first law that organizes the distribution sector in August 2009. This legal framework intends to help modernize the retail industry and meet the requirements of the retail sector development. The new law also regulates two important aspects of the food retail sector: franchising and central purchasing.

Modern outlets have also changed the purchasing habits of many consumers, though the bulk of food retailing is still undertaken by small neighborhood grocery shops. The market share controlled by modern retail is still relatively small, with super and hypermarket sector accounts for about 20 percent of total retail sales. However modern retail expansion is fast growing at an annual rate of around 15 percent, compared with 6 percent for the retail sector as a whole. In the medium run, more foreign retailers are expected to enter the market enticed by a sector poised to expand more aggressively over the next decade displacing traditional grocery shops and capturing an estimated 30 percent of the overall food retail market. Increased per capita income and growing urban middle class with more sophisticated consumption patterns and shopping habits are all factors underpinning this ongoing transformation of the Tunisian food retail landscape.

B. **Consumer trends**

Ten million Tunisian consumers enjoy an average per capita income of $4,184 with a purchasing power parity (PPP) of nearly $8,446 (2009, IMF estimate). This level of per-capita income is among the highest in North Africa and is projected to rise to $5,400 by 2014. Two-thirds of the population lives in urban cities and nearly one-fifth is living in the Greater Tunis metropolitan area. Roughly 80 percent of Tunisian consumers are considered middle class and thus have significant purchasing power. As in most developing countries, food expenditure represents a high percentage of total expenditure. According to the latest survey by the Tunisian National Statistics Institute's (INS), Tunisians spend on food nearly 6.3 billion TD a year (about $4,9 billion), mainly to purchase staples like bread, pasta, semolina, cooking oil and dairy products.

In recent years, the development of Tunisian food consumption structure showed an important change in the type of food products sold in the market. More manufactured and processed products are finding their way into the market compared non-manufactured products. Food expenditures shares have been modified due to changes in relative prices, incomes and variations in tastes and preferences. In the same time, items that used to be considered luxury goods, such as salty and sweet snacks, fruit juices or fresh fruits are increasingly popular. Tunisia's growing young population is also adding to this factor. In fact, youth population group represents a large part (55 percent of the total population is under the age of 30) and is more open to western-style food products. In addition, there are about 6 million tourists who visit Tunisia annually and offer opportunity of selling high processed food products.

Advantages	**Challenges**
A relatively high household disposable income	Price-conscious buyers coupled high customs duties levied on consumer-oriented food products make it difficult for US exporters to compete in this market.
Fast growth of modern distribution channels that translates in an increasing sophistication of the consumption patterns.	Lack of direct shipping lines from the US resulting in long transit times and higher export costs as compared to goods sourced from nearby Europe
Imported products are generally highly recognized among consumers and institutional services for quality and safety. US food products' quality is well perceived	Hypermarkets and some supermarkets tend to procure food products through their European franchisers.
A favorable U.S. dollar exchange rate against the Euro	Lack of awareness of the U.S. food products brand names compared to the European brands
Major European tourist destination requiring consistent high quality food supply.	Fewer business ties compared to those with the EU

Section II   Road Map For market Entry

II-1: Modern retail outlets: hypermarkets, supermarkets and superettes

Hypermarkets (over 5,000 sq meters), supermarkets (between 500 and 5,000 sq meters) and superettes (less than 500 sq meters) are referred to as modern distribution outlets in Tunisia. They get the majority of consumer's attention, as they represent in many cases international name brands. The country's retail distribution chains, however, continue to be dominated by more than 250,000 small shops. The modern distribution sector in Tunisia hinges on three main actors: Group UTIC (Carrefour hypermarket and Champion supermarket fascias licensed by the French retailer Carrefour), Group Mabrouk (Geant hypermarket and Monoprix supermarket fascias licensed by the French retailer Casino) and Magasin General group owned by Bayahi-Poulina Consortium who won in 2007 the privatization of the state-owned supermarket Magasin General. The stocking of shelves at the supermarkets and hypermarkets levels is done through two channels: either through importers or directly by the retailer using its own local and international procurement subsidiary, the so-called 'Centrale d'achats'. Small grocery stores source their goods from wholesalers for the large part of their assortment and from certain importers having their own distribution fleet to supply goods at the retail level.

The rapid arrival of hypermarket in Tunisia has caused concerns in the supply chain and the organization of the retail outlets, especially in the absence of a law organizing the sector. For example, it is common to observe small corner shop owners buying their supplies in hypermarket like Carrefour or Geant and reselling them at their shops. In addition, the location of where the hypermarkets can be established was a controversy issue. After several years of hesitations, the GOT developed a trade reform distribution published in August 12, 2009 (Law No. 2009-69) in order to improve the retail business climate, ensure the balance between various stakeholders and address current concerns. The new law also regulates two important aspects of the food retail sector: franchising and central purchasing. After a long opposition to franchising, the GOT is encouraging investment in this area to create new jobs and help technology transfer in the food processing sector. This may represent an opportunity for U.S exporters and suppliers enter this fast growing market.

Entry strategy

The best way to introduce new products to these outlets is to identify a suitable importer, i.e. an importer with proven experience in handling the targeted products and having direct relations with supermarkets. Such Importers are able to negotiate shelve space and promotional activities with the supermarket chain. In any case, U.S. exporters are encouraged to check the credentials of the importer. Joint ventures can offer certain advantages to penetrate the market. Tunisian businesses are mostly family-owned and controlled and they welcome foreign investment in distribution and marketing ventures, but U.S. companies should be rigorous in selecting their partner.

Recently, GOT adopted a new law to regulate domestic trade, which includes a new legislative framework for franchising – a concept that until now was only granted to businesses on a case-by-case basis. Many Tunisian business groups have already started looking for international franchisors and are confident that market potential exists for franchises in Tunisia. US retailers should take advantage of this positive development.

An alternative approach, especially for large exporters, is to contact retailers directly as some of them have subsidiaries dealing with local and international procurement. USDA/FAS office in Tunis is can help in the process of matching new-to-market exporters with appropriate potential business partners or to conduct specially tailored inquiries for U.S. companies seeking export opportunities in this emerging market.

Market access

Tunisia is a party to a variety of free trade agreements (FTA). Chief among them is the Tunisian European Association Agreement. As of January 1, 2008, the EU-Tunisia free trade agreement has been in full swing. The agricultural sector, currently running under a TRQ system, will be the subject of future negotiations aimed at dismantling import tariffs. However the existing TRQ system for EU agriculture products is diverting a significant portion of agricultural trade away from other trading partners including the U.S. In the absence of preferential access, US-origin processed food products face relatively high MFN tariff rates. Following is the current taxation system applying to a selection of grocery items:

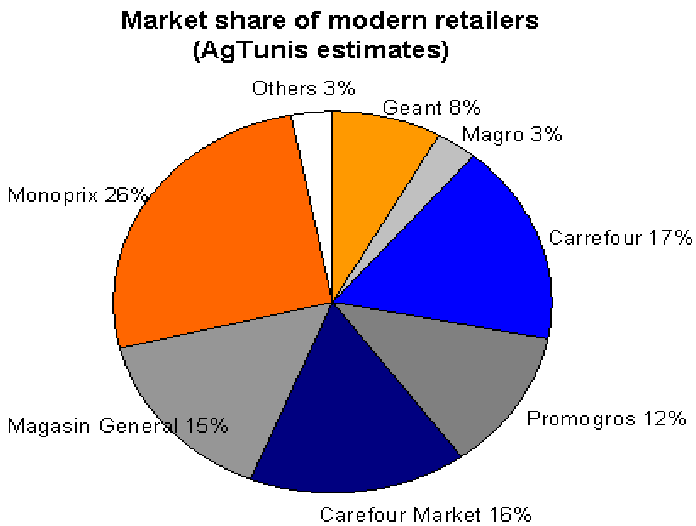
ITEM	Customs tariff %	VAT %
Ketchup	60	29

Canned Tomatoes	73	6
Whole Peeled Tomatoes	73	29
Tomato Sauce	60	29
Tomato Paste	100	6
Mayonnaise	60	29
Peanut Butter	150	18
Cereal	73	29
Hot Sauce	60	29
Canned Vegetables	73	29
Honey	150	18
Mustard	60	29
Vinegar	73	18
Canned Beans	73	29
Jam	73	18

Source: Tunisian Customs service

Market structure

The modern retail industry is dominated by 3 important groups. These groups are very important in the Tunisian economy and have diversified activity (real estate, car industry, tourism….). Two others small retailer's, cady and 2 Pas, also exist but have insignificant market share (less 4%). The following table presents the most important players :



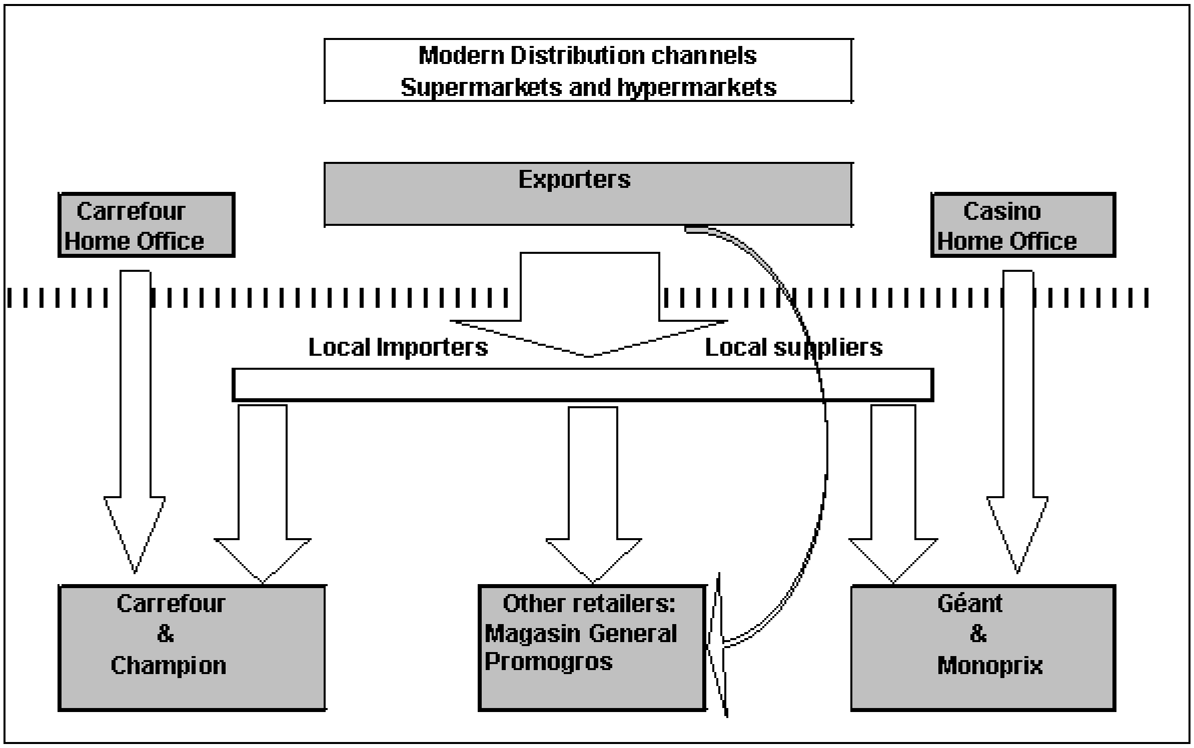
	Retailer name and Outlet Type	Ownership	Estimated Sales (2008).	Number of Outlets	Locations	Purchasing Agent Type

UTIC Group	Carrefour, Hypermarket	Group UTIC (80 %) and Carrefour France (20 %)	$ 204 million	1	Tunis	Imports directly and buys from local importers
	Champion, supermarket chain (renamed Carrefour Market)	Local (Groupe UTIC)	$ 196 million	42	Tunis, Sousse, Sfax	Relies on Carrefour for its procurement
Mabrouk Group	Géant, Hypermarket	Group Mabrouk under the license of French retailer CASINO	$ 100 million	1	Tunis	Imports directly and buys from local importers
	Monoprix, supermarket chain	Group Mabrouk under the license of French retailer CASINO	$ 312 million	80 (12 under construction)	All major cities	Imports directly and recently signed an agreement with mono prix….
Magasin General Group	Magasin General, supermarket chain	Group Bayahi and Poluina	S180 million	45	All major cities	Imports directly and buys from local importers
	Promogros	Group Bayahi and Poluina	$ 139 million	6	Tunis, Sousse, Gabès and Djerba	Imports directly and buys from local importers
	Magro	Group Bayahi and Poluina	$ 30 million	15	All major cities	Imports directly and buys from local importers

Source: AgTunis estimates partially based on news reports and retailers disclosed information

Distribution channel flow diagram

The following distribution channel flow diagram shows modern distribution channels particularly how imported food items are passed from exporters to the modern retail outlets.



Company profiles: The distribution sector in Tunisia hinges on three main actors:

The Mabrouk Group (Geant/Monoprix)

The Mabrouk group is the partner firm of the French retailer Casino (Geant for hypermarkets and Monoprix for supermarkets). In the late 90's, the group forged a partnership with Monoprix that allowed Mabrouk the use of the French brand name Monoprix at around 60 of its own supermarkets. Recently Mabrouk extended its partnership with Monoprix in order to access Monoprix's central buying service and to increase the number of outlets to 80 located in all big cities across the country. At the same time the group invested in the segment of hypermarket, again under license of French Casino retailer that opened in 2005 with a 12,000 sq meters hypermarket located on the highway to Bizerte (10 minutes north of Tunis) and part of a commercial center known as Tunis City. More information can be found on the following website www.geant.tn. With its internal and external expansion strategy, the Mabrouk group becomes the leader in the sector with an estimated global market share of 34%.

Ulysee Trading and Industrial Companies Group (Carrefour/Champion)

The group owned by Chaibi's family has 33 percent market share. It runs 42 store chain of small supermarket (superettes) under the Champion Brand (recently renamed Carrefour market) and was the first to introduce in 2001 the hypermarket segment in Tunisia with the French retailing group Carrefour. Carrefour revolutionized the retail industry in Tunisia by introducing a new format for hypermarket shopping and the idea of taking car to go shopping treating the event as an outing. The hypermarket is a cornerstone of a shopping center on the main highway between the capital Tunis and its northern suburb (La Marsa). It has a selling area of nearly 10,000 sq meters and carries a product assortment of nearly 36,000 items. One third of its assortment is made up of food items. It has an outstanding produce department, bakery, deli and food-to-go sections. This was the first such deal in the retail sector as foreign investment in this sector remains subject to the Government's prior approval. More information can be found on the following website: www.utic.com.tn

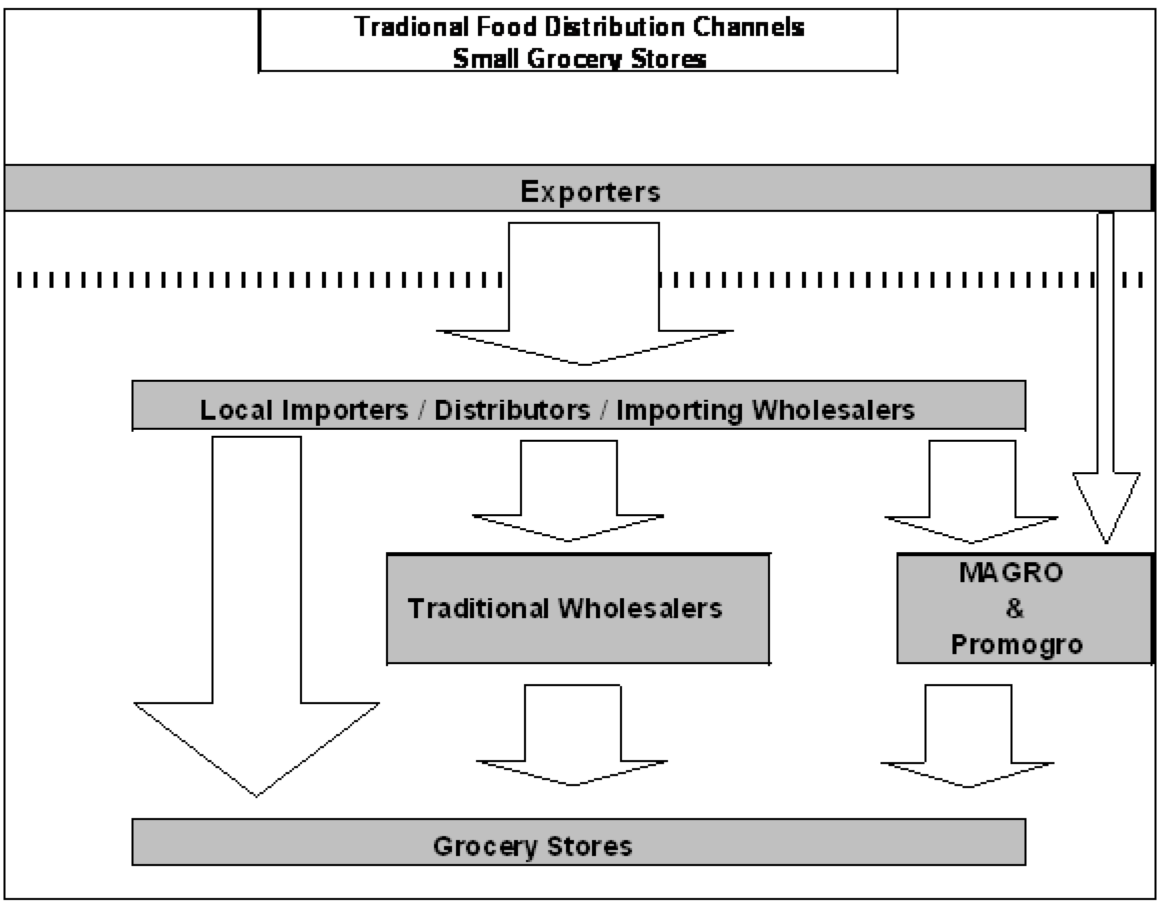
Magasin General Group (Magasin general/Promogros/Magros)

Magasin General is a former state-owned supermarket chain established in 1920. The supermarket chain was privatized in 2007 and bought by a consortium composed of two important groups Poulina and Bayahi who already owns the wholesalers Promogros and Magros. Today Magasin General is a group composed of 45 supermarket-type outlets present in all the country's 25 provinces and 10 others outlets under the brand Promogros and Magros present in Tunis, Sousse, Gabes and Djerba. These outlets have selling areas ranging from 2,000 to 5,000 sq meters. They are more of a hybrid format carrying an assortment similar to the one normally carried by a hypermarket but in a relatively limited space. They are catering to small grocers in the way cash & carry stores do while drawing household shoppers. In 2008, the group embarked on a remodeling program for all its stores and generated about $ 350 million of food and non-food sales ranking behind Mabrouk group and UTIC. The Magasin general is the group that has the most potential to imports consumers oriented products from the US as it is the only independent modern retailers in Tunisia. The other two groups are working under a French license. More information on this retailer is available on the website www.smg.com.tn.

II-2 Small grocery shops

Small groceries shops made up of a relatively dense network of more than 200,000 outlets are still dominating the Tunisian retailing structure. Despite the fast growing supermarket industry, those shops continue to retain more than 80 percent of food retail sales. A typical outlet has a selling area between 20 and 50 sq meters, carries a hundred or so food items, and draw shoppers from an estimated 500-meter radius. In general, the shop owner, referred to as 'Attar', knows very well his clientele and often accepts to sell goods on credit.

With the expected expansion of large supermarket, it is perceived that this type of retail will steadily diminish and lose market share in the coming years. Modern retail outlets, thanks to their business model, offer a wider product choice at low prices that attract more clients especially families. However, it will take time before supermarkets obtain a dominant position and the traditional retail expected to remain an important segment, as Tunisian shoppers tend to buy food items on a daily basis in nearby grocery stores and go to larger outlets once or twice a month. The following chart illustrates the path followed by imported goods from exporters to the grocery shop's shelves.



II-3 Souks (open markets)

In Tunisia all big and medium size cities have their weekly souk. A souk is a type of out-door market where rural and urban households alike can buy fresh produce, fish and seafood products as well as dry groceries. Souks and street venders are the main feature of food retailing in the rural areas. Cities in urban areas have retail venues called municipal markets, which open daily and offer fresh produce and fishery products.

Section III COMPETITION

Tunisia annual agricultural, fish and forestry imports amount to US$ 2.7 billion on average. The U.S. market share is hovering around 12 percent. Imports of consumer-oriented (COP) products from all countries amounted to $838 million in 2008. The US-origin COP exports account for less than one percent as they are facing strong competition from European products. Imported goods are generally perceived as of higher quality but, in the same time, more expensive and thus of limited affordability.

Tunisian demand for COP is experiencing an up-ward trend, which is likely to continue and strengthen due to structural changes related to the consumption and the distribution patterns. In the medium term, the U.S. suppliers would likely benefit from this trend especially due to favorable US$/Euro exchange rate.

Section IV BEST PRODUCT PROSPECTS

As mentioned earlier, owing to an expanding middle-class and the consequent change of both consumption patterns and distribution channels, the Tunisian market is evolving in a way creating real export opportunities for value-added consumer-oriented products (COP). The consumer-oriented products that have good prospects to perform best in the Tunisian market are:

- Tree nuts
- Dried fruits
- Cacao powder
- Cookies
- Sauces, condiments and mixed seasoning
- Potato chips
- Breakfast cereals
- Beverages (energy drink…etc)

The list is fairly short as Tunisia is importing mainly bulk and intermediate products from the U.S.

Section V POST CONTACT AND FURTHER INFORMATION

The Office of Agricultural Affairs (OAA) at the American Embassy is the USDA/FAS office in Tunisia. It provides trade servicing and market intelligence. Services offered by OAA include market briefings, lists of importers, setting up agendas and meetings.

US Embassy/ USDA-Foreign Agricultural Service Contacts

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Reports that might be useful to US exporters of consumer-oriented food products to Tunisia can be found at website: http:/www.fas.usda.gov)

Report		
Food and agricultural Import regulations and Standards	TS9010	7/23/2009
Exporter Guide	TS9013	9/17/2009

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Directorate General for Crop Protection and Quality of Agricultural Products (DGPCQPA)

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Directorate of Quality and Consumer Protection (DQPC)

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Other relevant websites

- www.cepex.nat.tn: The website of the Cepex (Export promotion agency) which has the full list of has le list of the domestic and international trade shows of interest for Tunisian businessmen
- www.Tunisie-commerce.com: A directory of trade Tunisian companies
- http://www.tunisianindustry.nat.tn: the website of the Industry promotion agency
- www.bct.gov.tn: The website of the Tunisian Central bank
- www.smg.com.tn: the website of the leading Tunisian retailer: Magasin General
- www.TunisiaOnline.com: a digital gateway to news and information resources on Tunisia, Tunisia's history, government, culture and environment.