

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 11/24/2014

GAIN Report Number: TR4049

Turkey

Retail Foods

Retail Foods Report

Approved By:

Kimberly Sawatzki, Ag Counselor

Prepared By:

Meliha Atalaysun, Ag Mktg Assistant

Report Highlights:

Fueled by increasing disposable income levels and a strong consumer demand, the Turkish retail sector grew 3.7% in 2013 and reached US\$ 311 billion. The share of food in the total retail sector is 60% and the food retail sector is expected to grow 8% annually from 2014-2018. Even though the growth rate of the food retail has slowed since the second half of 2013 due to increasing political instability, it managed to sustain a 4.9% annual growth rate compared to 2012. Having registered US\$ 165 billion in sales in 2013, the Turkish food sector imported US\$5.9 billion and exported US\$11.9 billion. The food sector attracted US\$ 342 million in foreign investment the same year, as 13 new international companies entered the Turkish market.

Discount chains continue to dominate the food retail sector. Private label products are increasing their share against branded products and the number of discount stores are still increasing at a fast pace. Meanwhile, as profit margins get smaller, some players are seeking growth via mergers and acquisitions, by increasing efficiency and cutting costs instead of opening new stores.

Executive Summary:

The history of shopping malls dates back almost 550 years in Turkey with the world famous Grand Bazaar, which was the first big covered bazaar in the world and is still a major shopping center in Istanbul. Having come a long way since then, the number of modern shopping malls in Turkey increased four times in the last decade and reached 333 in 2014, generating 60 billion TL in revenue. These modern shopping malls currently offer one million square meters of rental area, attracting 1.6 billion visitors and US\$ 45 billion in investment; US\$ 14 billion of which is foreign investment. Based on these figures, Turkey is the 7th largest retail market in Europe (larger than Greece, Czech Republic and Portugal markets combined).

The Turkish economy grew 4% in 2013. GDP (in current prices) increased 10.2% in 2013 and reached US\$ 827 billion, ranking Turkey as the 17th among all economies globally. GDP per capita income increased to US\$ 20,596 in 2013 and household consumption increased by 11.3% in 2012 to reach US\$ 800 billion. As a result of the strong increase in GDP, the share of the food and beverage industry decreased to 18.6% of total GDP with TL 290 billion.

Turkey's population exceeds 81 million and almost half of this is below the age 30 with a high consumption potential. This strong consumer demand combined with increasing disposable income levels make the retail sector to be one of the fastest growing sectors in the Turkish economy. The retail sector is projected to grow more than the country's general economic performance in the upcoming 5 years, and food retail is expected to register an average of 8% annual growth in the same period.

Turkey is undergoing rapid urbanization, and the rate of urbanization has reached 75%. The population in large cities such as Istanbul, Ankara, Izmir and Bursa is increasing 10% on average every year. Consequently one-third of the total retail sector is located in these cities.

Food retail holds the largest share in the total retail sector with 60%. Turkish food industry is enjoying continuous growth trends due to the young population of the country, high urbanization rates, and rising income levels. Commodities consumed the most in the sector are bread, pulses, sugar, dairy products, fruits and vegetables.

The share of organized retail in the food retail sector is increasing rapidly, and has reached 57% in 2013. Recent years mark the substantial increase in discount stores. Although it is the fastest growing segment, foreign companies are hesitant to enter the local discount retailing market due to its intense price competition, thus, leaving the entire arena to domestic players.

A study conducted by a major research company shows that the share of supermarkets in the total consumable goods market (excluding cigarettes) has increased to 57% in the last 10 years whereas the share of small retailers and traditional mom-and-pop stores called "*bakkal*" in Turkish (and will be referred to as such throughout this report) has decreased to 33%.

The retail sector is undergoing significant mergers and acquisitions. In 2013, 31 transactions were conducted with a cumulative value of US\$ 1.2 billion. The fragmented profile of the sector is a major factor in these transactions where the total market share of the top four retailers does not exceed 20%. The share of organized retail is currently 55% of the food retail sector and is expected to reach 60% in the upcoming 5 years, and this high potential also brings competition. Both national and regional retailers are continuing to grow and the intense competition creates a fragmented structure in the sector. As discount retailers follow an active growth strategy, the sector is bound for consolidation in general.

A. MARKET SUMMARY

I. The Retail Sector Profile

The retail sector can be classified into two major groups: organized and unorganized retailers. Organized retailers include multi-format retailers, local (regional) supermarkets, discount retailers and gas station stores. Unorganized retailers, also called the traditional market, constitute smaller, individual convenience stores called *bakkal* in Turkish and open-air bazaars. A description of food retail outlets referred to in this report is provided in the table below:

	Sales area (m²)	No. of cash registers	Offered features
Hypermarkets	2500 and above	8+	Food court, parking, ATM
Large Supermarkets	1000 - 2499	4+	Self service
Supermarkets	400-999	2+	Self service
Small Supermarkets	100-399	2	Self service
Markets	51-99	1	Main street
Bakkals	10-50	1	Side street
Gas station stores	10-50	1	Gas station

But a more important classification that helps to explain the Turkish food retail sector is local versus national & international supermarket chains. As of October 2014, there are 149 supermarket chains with 10 or more outlets in Turkey, with a total of 18,959 outlets. Even though the national chains seem to rule the market with the number of outlets they have, after you remove the top 3 national discount chains which account for more than half of the total number, the remaining figure shows the importance of local chain stores in penetrating the market. This also reflects the trend of switching to organized retail throughout Turkey.

Imported food products are generally not found in local supermarket chains or discount stores due to their relatively higher prices, except for the seasonal fruits and commodities like rice, walnuts and almonds. On the other hand, high value imported items are increasing in number and variety in national and international super and hypermarkets like Migros, Metro, Carrefour, etc.

Below is a SWOT analysis of the retail food sector in Turkey:

<u>STRENGTHS</u>	<u>WEAKNESSES</u>
<ul style="list-style-type: none">- With its young and growing population, Turkey promises growth in both production and consumption of retail food items- GDP is on the rise which effects consumer expenditure positively	<ul style="list-style-type: none">-Demand for alcoholic beverages is affected by religion and very high tax rates-High import duties are imposed on both agricultural and processed products

<ul style="list-style-type: none"> - Solid infrastructure in terms of distribution (logistics) and finance (banking) - Food is the most resistant sector against political and economic volatility because at times of crisis people may cut back on secondary needs like new clothes or entertainment, but don't change their food consumption 	<ul style="list-style-type: none"> - High shelf fees charged by large chain stores lead to high costs for introducing new products - Lack of official data and transparency affects business strategies - Traditional and cultural consumption habits affect consumers' preferences in their willingness to try new products or tastes.
<h2><u>OPPORTUNITIES</u></h2> <ul style="list-style-type: none"> - Highly interested young population is open for new brands and products - Growth in tourism sector also triggers the growth in food and beverage sector - The retail market has not yet matured nor been saturated which provides easier entrance opportunities for new products - The fact that organized retail still has 57% share of the market and is increasing its share every year presents the growth potential of the sector. - Due to its strategic location Turkey, acts as a hub for trade with its neighbouring countries 	<h2><u>THREATS</u></h2> <ul style="list-style-type: none"> - Complex and extensive import procedures bring up the cost of imported products - For confectionary items there is a risk of being copied by a large local producer and marketed under a different brand name - Competition from European countries that have proximity advantage as well as preferential tariff rates - Economic and political instabilities may lead to exchange rate fluctuations, making imported items even more expensive - Unregistered economy and counterfeiting may create unfair competition

II. Trends in the Market

It is no longer easy to open hyper markets in Turkey. Especially in large cities, it is difficult to find land that is large enough and the consumers also seem to be satiated with the hypermarket format. Therefore the main competition goes on in smaller formats such as supermarkets and discount stores.

As a result, it is no surprise that recent years mark the dominance of discount markets in the food retail sector. As of October 2014, there are 18,960 stores in Turkey and 66% of these are discount stores. This trend is expected to continue in the near future as well. However in the

upcoming years, growth strategies of supermarket chains will change. As the market reaches saturation, they will no longer try to grow by opening more stores but by improving efficiency and reducing costs. We have already started to observe this trend where even though the number of organized food retail stores are increasing, the rate of increase slowed down considerably (from 35% in 2010 to 9% in 2013).

In order to compete with this trend, major retailers are changing their strategies and going for diversified concepts such as fast shopping, gourmet or boutique stores. These are referred to as 'multi format retailers' throughout this report. The largest players in the multi-format segment are international chains such as Migros (6 formats), CarrefourSA (3 formats) and Tesco Kipa (5 formats).

Migros stands out as the largest multi-format retailer in Turkey. It converted the Jet-Cashier application that it had been using in its larger markets since 2009, into a store concept and created *M-Jet* stores which vary between 250-300 square meters. These M-Jet stores include the best-selling brands from the Migros stores, and customers make their own payments without a cashier. Having lost its market leadership to BIM in 2009, Migros is redefining its store expansion strategy by turning Tansas stores into Migros and by opening up M-Jet stores on side streets (and already reached 88 stores in Istanbul, Ankara, Izmir and Bursa). In 2014 Migros further made collaboration with Petrol Ofisi (PO) to open M-Jet stores in select gas stations replacing PO's own markets. This is first in the sector for a nation-wide supermarket chain opens up stores in a nation-wide gas station chain.

Carrefour on the other hand introduced a concept that it only had in Paris where brands have their own little stores within the 13 thousand square meter complex that also incorporates a lounge and library, a make-up atelier, and an art corner. The store also has a gourmet product variety that would be a competitor of Macro Center (of Migros group) and specialty cellars for wine, cheese, meat and delicatessen product groups.

Products and services offered to consumers by major national & international chains include private label food items, membership cards, and free home-delivery for purchases made from internet and mobile phone applications. Many supermarkets print periodical booklets and inserts where promotional items are displayed and distribute these to apartments in bundles. Some chains sell only produce that is grown with good agricultural practices to differentiate themselves from their competitors in a more 'green' attitude.

A recent introduction of BIM has been to offer its own virtual GSM cell phone service called 'BimCell'. Launched in March 2012 in cooperation with Avea, a national GSM service provider, this service provides cheap fixed-price packages (including speaking, texting and/or internet). Customers can purchase their new phone lines (or transfer their current line) and buy credit at the cash registers of BIM supermarket stores.

With the rise of discount stores, private label has also been on the rise. According to the studies conducted by AC Nielsen, Turkey is the world's most rapidly growing market in the private label sector, with a turnover reaching US \$2 billion. Private label products, which are priced 30% cheaper than well-known brands, account for 8% of the total sales in Turkey, and are most common in discount stores. In BIM for instance, private label constitutes more than 60% of the total sales.

The popularity of discount markets also resulted in a decline in the average size of stores. The size of these stores vary between 200-400 sqm and they provide around 700 product varieties whereas this figure ranges between 2000-2500 in local retailers. Hard-discount stores target the C segment where the average basket price varies between US \$5 – 15, and where a good percent of

the total revenue comes from private label products. Industry sources estimate that the discount sector is 50% saturated and that there is still a 50% growth potential.

Another recent trend is the uniting of independent local chains under the roof of a single company to make joint purchases in order to benefit from economies of scale in terms of large-volume purchasing discounts that their multinational rivals are getting from the suppliers. The most significant example of this movement is the company Fayda Inc. (which means "benefit" in Turkish) that incorporates 72 local chains to make mass purchases and sell their own private label products. There is another similar attempt in the city of Samsun with 6 local chains coming together for a Cash & Carry concept.

In the Cash & Carry segment Yildiz Holding, the largest Turkish confectionaries producer, is also trying a similar strategy with Bizim Wholesale Markets where they ask for a purchase commitment from their *bakkal* and other small business buyers, and then combine these with their own purchasing power to get even better prices from the suppliers. Currently there are 152 Bizim stores throughout Turkey.

E-commerce is also emerging as an important sales channel in food retailing. Currently the majority of such web sites are targeting consumers with higher income levels with organic and specialty food items. Migros have been utilizing this channel for over 15 years and provide free delivery service for a cart amount of over 100 TL.

III. Actors of the Organized Retail Sector

1. Supermarkets

As a consequence of the high degree of disorganization, the market is quite fragmented and the total market share of the four largest players does not exceed one fifth of the total revenues.

Local (regional) supermarkets are increasing in number and in turnover volume as a result of the high level of transformation from *bakkals* to organized chain stores. Operating in only a limited number of cities, the majority of regional supermarkets in Turkey do not have more than 100 stores. Small-scale mergers and asset purchases are among the most common expansion strategies in this segment.

The table below lists the top 10 supermarket chains that opened the most number of stores in the past year.

	October 31st 2013	October 31st 2014	Increase
BİM (National Discount)	3940	4452	512
A 101 (National Discount)	2807	3427	620
Şok (National Discount)	1656	2216	560
UCZ (National Discount)	1200	1430	231
Ekomini (National Discount)	767	1060	293

Migros (International)	742	871	129
Hakmar Express (İstanbul Discount)	264	292	28
Carrefoursa Exp. (International)	215	275	60
Tansaş (National)	197	212	15
Bizim (National Wholesale)	146	160	14

Source: www.ortakalan.com.tr

The last column shows how rapidly the discount stores are growing. The discount retail market in Turkey is composed of hard and soft discount retailers which are distinguished from each other with respect to the number of items they carry, the share of private label products in their total revenues and whether they have shelf layouts or not.

After Yildiz Holding bought Sok in 2012, they also bought DiaSA in 2013, and are now converting DiaSA stores to Sok, and the extraordinary increase in the number of Sok stores is the result of this conversion rather than new stores being opened up.

Discount segment's leader chain BIM increased its net sales by 20% and reached 11.8 billion TL in 2013, and is aiming to reach 4500 stores by the end of 2014. Private label sales account for 67% of BIM's total revenue, whereby its nearest competitor A101 remains at 35% and Turkey average is around 8%.

In 2013 two new discount brand stores called UCZ and Ekomini entered the market with an alternative style and grew tremendously and reached 2490 stores as of October 2014 in total. These stores are smaller than a discount market, but larger than a *bakkal* with about 100 square meters in size. They have 200 or 250 basic barcode products in their shelves and work with only one employee. These stores will speed up the elimination of the *bakkal* concept in Turkey.

2. International Supermarket Chains

Migros of Switzerland entered the Turkish market in 1954 as the first foreign supermarket chain in cooperation with the Istanbul Municipality. In 1975, the majority of Migros's shares were transferred to the Koc Group. After selling their discount store chain 'Sok' to Yildiz Holding in 2011, Migros is now trying to fill that void with its new concept stores called M-Jet and Mini Tansas. Despite their small size, these stores are not discount stores and maintain a supermarket concept with nearly 3200 product types. Migros registered TL 7.1 billion revenues in 2013 with 10060 stores: 766 Migros, 206 Tansas, 26 Macro Center, 22 5M Malls in Turkey and 40 Ramstores abroad.

Metro Group of Germany has been active in Turkey since 1990 with Metro Cash & Carry and Real Hypermarkets. Metro is the first cash & carry store that opened in Turkey that targets professional commercial customers such as hotel, restaurant and kiosk operators, caterers and small food retailers unlike the common supermarket retailers that target private households. Metro Group's 2013 sales exceeded € 2 billion from a total of 29 Metro Cash & Carry Stores, 12 Real Hypermarkets and 37 Media Markt stores. The group also exports € 600 million in products from Turkey annually, and employs 8,000 full time-staff.

The French chain Carrefour entered the Turkish market in 1993. Three years later, in 1996 Carrefour partnered with Sabanci Group, a leading conglomerate in Turkey, by selling 40% of its shares and keeping 60% under its ownership. Together, the Carrefour – Sabanci merger became CarrefourSA. In 2013, Sabanci group purchased an additional 14% shares from Carrefour for TL

141 million and increased its share to 50.8%. Then Sabanci Group sold its DiaSA brand where it had partnership with the Spanish soft discount chain (60% Dia - 40% Sabanci) to Yildiz Holding for TL 320 million in May 2013. Currently, CarrefourSa has 28 hypermarkets and 216 supermarkets under the name CarrefourSa Express as well as an online store. Having registered TL 2.6 billion in revenues in 2013, CarrefourSa is investing TL 110 million in 2014 to open 100 new stores, and is targeting to reach 750 stores and TL 5 billion revenues by 2016.

After Sabanci group took over the management from their French partner, CarrefourSA announced TL 1.4 billion revenues in the first half of 2014, which is a 22.5% increase compared to the same period of 2013. The group also announced a profit in their semi-annual report for the first time in years, and stated their gross operational profit as TL 358 million.

Tesco, a UK origin company, acquired the local Turkish chain Kipa in November 2003 and they introduced the Kipa Express concept in 2006. With an investment of TL 224 million since then, Tesco reached a total of 189 stores in 24 cities, employing over 10,000 staff. However, Tesco is to battle on alone after talks with potential partners for its ailing Kipa chain collapsed. Facing a struggle against the heavy discounter BIM, Tesco said it would now accelerate plans to "focus the business on its heartlands" at its profitable stores around Izmir and the Aegean Region, suggesting it is likely to pull out of the east of the country where the brand has not taken off. Analysts expect selective store closures as the company said it wanted to minimize capital spending and improve profitability.

3. Gas Station Markets

According to Turkish Petroleum Corporative (TPAO) data, there are 13,000 gas stations in Turkey most of which have a market. These markets mostly provide convenience products that one could need on the road and their share in the total retail sector is negligible.

Below is a list of the most popular gas station markets and their stores in Turkey.

1. There are 680 British Petrol gas stations in Turkey, and they all have markets called 'BP Shops'. Some stations located on busy inter-city routes also have fast food chains such as Burger King, McDonald's and Pizza Hut.
2. Shell Co. operating in Turkey for 90 years, merged with Turcas (Turkpetrol) in 2006, and now has 1000 gas stations which all have markets in them.
3. Petrol Ofisi, purchased by the Austrian OMV in 2012, has 2200 stations, which all have markets, some of which also have Würth, DiaSA, Aslı Börek and Simit Sarayı restaurants. In 2014 Migros further made collaboration with Petrol Ofisi (PO) to open M-Jet stores in select gas stations replacing PO's own markets. .
4. Opet has a total of 1345 stations including its Sunpet brand, where they all have markets, including 7-Eleven, which Opet is the licensee of since 2001 in Turkey.
5. Russian Lukoil purchased Akpet in 2008 that had 700 stations and started converting them to Lukoil giving them a corporate identity. These stations also have markets and over 300 restaurants.

IV. Actors in Unorganized

(Traditional) Markets

Bakkals, open-air bazaars and small convenience stores that sell only alcoholic & non-alcoholic beverages, cigarettes, packaged confectionaries and unpackaged dried nuts are the most common forms of traditional outlets in Turkey.

Bakkals are small mom-and-pop outlets which are usually around 50m² or less, located on the side streets of most neighborhoods all over the country. The majority of daily household and personal care consumption products can be found in *bakkals*, yet with fewer brand alternatives. As it becomes more difficult for them to survive in the absence of economies of scale, nationwide discount retailers capture their revenues by entering even the most remote points across the country. Under pressure from the fast growing retail chains, the number of *bakkals* in Turkey decreased from 165,000 to less than 90,000. This is also a reflection of the shift towards organized retail in the Turkish market. However, due to the highly fragmented nature of the food retailing market, convenience stores still hold a significant market share.

In every city, each town has an open-air bazaar at least one day of the week in Turkey. Open-air bazaars mainly sell fresh vegetables and fruits. *Bakkals*, open-air bazaars and small convenience stores are still preferred by Turkish consumers because of their convenient locations and because open bazaars particularly offer not only fresh fruits and vegetables, but also a wide variety of products including clothing, kitchenware, over-the-counter products and personal care products at low prices.

Bakkals and convenience stores make their procurements from various channels including distributors, agents, wholesalers, and cash & carry hypermarkets. Open-air bazaars obtain produce mostly from food wholesale markets in big cities, but in small places farmers come and sell their own fruits and vegetables as well.

B. ROAD MAP FOR MARKET ENTRY

I. Market Structure

The Turkish retail market is highly competitive and rapidly changing with major acquisitions and consolidations. Even though the exact market share of each chain is not crystal clear, the table below gives an idea of the market share of each type of store in the organized retail sector.

Imported packaged food items are sold mostly in large supermarkets that target A&B customer profiles. In traditional markets, local supermarkets and discount stores that target the C profile consumer, imported items are rarely found.

In terms of imported products, only bulk commodity products such as pulses and rice can be found in *bakkals* and open-air bazaars, since these traditional retailers sell basic food items rather than processed goods.

The table below provides the size of major players in the market.

Major Supermarket Chains in Turkey						
Company Name	Type of Outlet	Ownership	Turn-over (2013)	Number of Outlets (as of August 1 st 2014)	Location	Purchasing Agent
BİM A.S.	Hard Discount stores	Turkish	TL 11.8 billion	4374	Nationwide	Importers
Migros A.S.	- Hyper (5M & 3M Migros) - Super (2M & M Migros, M-Jet, Tansaş) - E-trade (www.kangurum.com.tr) - Niche (Macrocenter)	Turkish	TL 7.1 billion	827	Nationwide & International	Direct & Importers
Carrefour -SA	Hyper (CarrefourSA) Super (CarrefourSA Express)	French 46.2% Turkish 50.8%	TL 2.5 billion	258	Nationwide & International	Direct, Importers
Tesco-Kipa	Hyper, super and Express stores	U.K. 93% Turkish 7%	TL 2.2 billion	189	Nationwide	Importers
Metro Group	Wholesale (Metro) Supermarket(Real)	German	Euro 1.9 billion	29 Metro 12 Real	Nationwide	Direct, Importers
Yıldız Holding	- Soft Discount (DiaSA, Şok, Onurex) - Wholesale(Bizim)	Turkish	TL 2.2 billion	2542	Nationwide & International	Importers/Wholesalers
A101	Hard Discount	Turkish	TL 3.2 billion	2694	Nationwide	Importers/Wholesalers

Source: Websites of the retailers, press releases
* Foreign Exchange Rate at the time of this report: 1US\$ = 2.2 TL

* Foreign Exchange Rate at the time of this report: 1US\$ = 2.2 TL

II. Mergers and Acquisitions

While foreigners are reluctant to enter the Turkish market due to its intense competition, local players are constantly seeking growth opportunities either through capturing market share with aggressive store openings or acquisitions. Having started with Yıldız Holding's acquisition of DiaSA and Sabancı Holding's acquisition of more CarrefourSA shares, 2013 was no exception to this trend.

There have been many mergers and acquisitions among local chains but the national ones are summarized below:

The acquisitions started with CarrefourSA acquiring Gima & Endi from the Ankara Municipality on May 3, 2005 for US \$135 million. Not long after that, the second important merger in the sector was in November 2005 when the number one chain Migros purchased Tansaş, the number four chain at the time. Migros acquired 71% of Tansaş shares for US \$387 million and kept the Tansaş brand name on the stores.

Then in 2008, Migros was sold by Koc Group to the British BC Partners Private Equity Fund for US \$3.2 billion. Although this was the largest acquisition in the sector, it was not noticeable to consumers because BC Partners kept the same management personnel and made no changes to the brand or the concept.

In 2011, Migros sold its discount store line "Şok" (established in 1995 and having 1,230 stores and TL 1.2 billion in turnover) to Yıldız Holding for US\$ 380 million. This acquisition made Yıldız Holding the largest competitor of BIM which has over 4,000 stores in the discount segment.

Yıldız Holding also acquired the Belgian chocolate producer Godiva in December 2007, and currently has 53 production facilities in and outside of Turkey. Almost identified with their confectionary brand Ülker, the group increased its sales revenues 16% in the first 6 months of 2013 and reached 1.3 billion TL compared to 1.1 billion TL in the same period of 2012. In the last two years, they also bought DiaSA (1217 stores for 320 million TL) and Onurex (119 stores for 33 million TL) soft discount chains, reaching a total store count of 2,582 as of July 2013. They also introduced a Turkish version of cash & carry stores with Bizim supermarket chains. The food retail sector was not used to a major supplier (having 10% share of the products displayed on their shelves) becoming their competitor. Meanwhile, the fact that a local retail chain is purchased by a large local producer is a sign that local investors can also utilize economies of scale as well as global companies.

After Carrefour sold Dia and Migros sold Sok to Yıldız Holding, there is no foreign investment left in the discount segment (apart from a minor 3.5% share of BIM). The major reason behind this is the decrease in profit margins as a result of heavy competition from the local players.

III. Distribution Channels

Due to the global financial crisis, efforts to minimize costs have led to a trend to eliminate as many intermediaries as possible between the producer and the customer. Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer => wholesaler/distributor => retail unit. For

imported products, the importer or agent is typically also the wholesaler and/or distributor. A significant number of distributors offer nationwide service, and national distributors distribute the majority of food and other consumer goods.

Most hypermarkets import only a fraction of their total imported products directly; they generally purchase through importers and wholesalers. Imported goods constitute around 4% of the total turnover of the food products retail sector.

Nearly all major suppliers today have their assigned chain-store departments which are intra-specialized as national and local chains. So, supermarkets mostly purchase directly from the suppliers themselves instead of agents or distributors.

Economies of scale can be observed in every aspect of the retail sector. These trends lead to a consolidation of distribution channels as well. Major distributors are currently preparing to establish regional hubs where products from various suppliers will be gathered and distributed to the markets in that region.

IV. Laws and Regulations

As part of the European Union accession process, the 12th Phase which relates to food regulations, began on June 30, 2010. As part of this process, Turkish laws and regulations are being reformed, and European standards are being applied in the food sector. For instance the first food reference laboratory accredited by the EU opened, after an investment of 6.4 million Euros (US\$ 7.9 million).

In 2013 a new labelling regulation stirred up the sector. The government proposed the implementation of a Product Verification & Monitoring System (PVMS) in order to combat fraud, adulteration and imitation in foods and to establish a tracking system. The system involves the use of a 19-digit code in seven food categories: alcoholic beverages; food supplements; honey; energy drinks; black tea; vegetable oil; baby food and infant formula and supplements. It will be applied to both imported and domestic products in these categories. The consumers will be able to verify the products through SMS, web-site (www.udts.com.tr), and telephone by using this code. The industry did not welcome this regulation claiming that it will increase their costs while adding little benefit to the consumer. On May 2, 2014, alcoholic beverages were removed from the list of categories after the Turkish Wine Producers Association's challenge of the PVMS implementation resulted in a court ruling that the PVMS duplicates the existing monitoring system for alcoholic beverages. The labeling requirement was originally scheduled to be implemented on December 31, 2013, but it has been delayed twice, and is currently scheduled to go into effect March 1, 2015. The increase of organized retail in the total food retail sector is significant in terms of diminishing the unregistered economy. On the other hand, the substantial increase in the size of organized retailers has led the industry to ask for a regulation to protect small merchants and craftsmen from the giants who belong predominantly to foreign and local large capital groups. There have been a couple of attempts by the government to slow down the closure of *bakkals* by limiting new hypermarkets in the downtown areas but none of those attempts have been successful.

A draft law has been prepared by the Ministry of Industry and Commerce (MIC) to regulate the establishment, commercial activities and monitoring of large supermarkets, defined as stores constituting an area of 400 m² or more. The draft law defines terms such as shopping mall, supermarket, chain market, private label, franchise and branch, and simplifies retail store opening procedures.

It also proposes for the allocation of a certain amount of space in shopping malls for small businesses and craftsmen. Another important feature of the draft law is that it brings the

maximum payment term of supermarkets to suppliers down to 60 days instead of 90 days. In recent years, supermarkets' bargaining power against suppliers have increased immensely as a result of consolidations and increased sales. Supermarkets tend to take advantage of this situation by deferring payments and imposing high shelf fees to the suppliers whenever possible.

The draft law proposes standards such as minimum space for parking area as well as the limitation of working hours for the supermarkets (like closing them earlier in the evenings and during national holidays). According to the draft, total turnover of private label products shall not exceed 40% of the total sales. Discount sales and promotion campaigns will also be regulated in terms of their period and duration.

The draft did not pass from the parliament in the first half of 2014, as it was disrupted by several elections and objections from the major players in the organized retail sector.

V. US Retail Food Product Exports

Since 2001, consumer-oriented agricultural imports to Turkey have increased at a modest rate. While imports account for only about 4% of retail food sales, an increasing variety of products are finding their way onto the shelves in recent years.

Other than commodities like rice and walnuts, tropical fruits such as bananas, pineapples, mangos, and papayas are also imported to Turkey. Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at large supermarkets and specialty retail outlets. Turkey's imports of niche items like golden berries and cranberries spike once in a while following a popular event but such trends usually do not last for more than one year.

The major U.S. food exports to Turkey are rice, oilseeds and products, soy, tree nuts, cereals, and pulses followed by wine, cheese, snack foods, chocolate, confectionary goods and sauces.

Advantages and challenges facing U.S. exporters in the Turkish market are summarized in the below table:

Advantages	Challenges
A significant increase in purchasing power and urbanization rate combined with the good reputation of U.S. food products lead to a fairly constant increase in U.S. agricultural sales to Turkey.	Turkey's Customs Union with the EU with lower import duties and regulatory advantage with harmonization of regulations to member countries creates price advantages for Europeans. EU and neighbouring countries also enjoy lower freight costs and shipping time advantages.
Some U.S. products are better priced than local products, such as pulses, and in general are of better quality than the competition.	High value of the dollar against the Turkish Lira in recent months and the volatile exchange rate made some U.S. products more expensive.
Increased preference for organized retail stores leads consumers to discover new products, and to become more aware of imported brands.	High import duties are imposed on agricultural products (up to 135 % on bulk agricultural commodities and up to 170% on processed food products)
An increasing young population is eager to buy and try imported products, and consumers have a	Local food processing sector is well developed and high quality goods are sold at competitive prices. Rich diversity in agricultural production provides

positive perception of U.S. products in terms of quality, and are willing to pay more for it.	ingredients for most sub-sectors.
There is a growing demand for specialized products such as Tex-Mex, diabetic and diet foods, sauces, ready-to-eat foods and frozen food products, which are imported, as well as locally produced.	High shelf fees charged by the large supermarket chains lead to higher costs for introducing new products into the market.
International retailers who market a wide range of imported products in the sector have a strong influence on purchasing patterns.	For confectionaries, there is a risk of products being copied by a local producer and being introduced into the market under a different name.

In September 2012, the Food Retailers Association was formed where the board of directors is composed of representatives of the top 10 retail chains (such as Bim, CarrefourSA, Migros, Tesco Kipa, Metro, Kiler, Uyum, etc.)

Organized retailers are able to strengthen their position against the suppliers as a result of consolidation. Large supermarket chains ask for high "shelf fees" to sell a product in their stores. In other words they ask the supplier to pay them a certain amount of money to put the product in their stores. This price is negotiable and varies according to the type or brand of product and according to the supplier in the sense that products with a higher profit margin are charged higher shelf prices which may go up to US \$30,000. On the other hand, large suppliers that provide well-known brands and highly demanded products pay less or no shelf price.

It is therefore very useful to get in contact with importers, especially those with nationwide distribution services when trying to enter the Turkish retail market, since their personal relationships with the retailers could create price advantages. Moreover, in order to make sure that the products are placed visibly on the shelves, sales representatives of companies pay regular visits to supermarkets, and they try to establish good relations with related floor workers. A local partner is therefore crucial in order to organize regular visits to the stores like local competitors do and to sustain and/or improve product visibility.

A list of major Turkish food importers can be obtained from TUGIDER (Association of Food Importers) or from FAS Ankara. TUGIDER has 155 members and represents a majority of Turkish food importers. This organization can be contacted at (90) (212) 347-2560, via fax (90) (212) 347-2570, or at www.tugider.org.tr.

U.S. exporters are highly recommended to participate in food shows in Turkey. The upcoming major food shows in Turkey in 2015 are listed below with their specific dates and venues.

Date	2015 Major Food Trade Shows in Turkey	City (venue)
25-28 Feb	Anfas Food Product : 22nd International food trade exhibition http://www.anfasfoodproduct.com/index.php/en	Antalya
14-16 May	ANUFOOD Eurasia (powered by ANUGA) : 7 th International food and beverage products, refrigeration technologies, shop equipment, services and catering trade show http://www.anufoodeurasia.com/	Istanbul (Tuyap)
16-19	Ekoloji Izmir : Organic foods tradeshow, co-held with Oliv-Tech http://ekolojiizmir.izfas.com.tr/en/anasayfa/	Izmir (Izfas)

Apr		
13-15 May	Fi Istanbul: Food Ingredients http://www.figlobal.com/istanbul/home	Istanbul (ICC)
03-06 Sep	Worldfood: 23 rd International food & beverage, food ingredients and food processing exhibition. Co-held with IPACK Turkey http://www.ite-turkey.com/ver3/fairs/gida_en/	Istanbul (CNR)

While it is recommended to go through importers for high value items, support can also be sought from US associations who have a presence in Turkey for commodities, such as USA Rice Federation, US Dry Bean Council, etc.

C. COMPETITION

The major competition facing U.S. exporters is from the European Union. EU countries enjoy advantages of a preferential agreement within the Customs Union agreement such as lower import duties. The EU also benefits from lower freight charges and shorter delivery times due to their proximity compared to the United States. Investments of major European hypermarket chains such as Carrefour of France, Metro and Real of Germany, and Tesco of UK have also played a role in the dominance of European countries in Turkish imports of retail food products. The majority of imported items from Europe are dairy products, snack foods, cheese, processed fruits and vegetables.

Turkey's processed food sector is modern and developed, and is capable of manufacturing high quality items in large quantities and in various sub-sectors. Turkish food producers are flexible and innovative and tend to produce products similar to imported ones when they see a good opportunity to increase sales, which creates a strong competition for imported food items.

According to U.S. Census Trade Data, Turkey imported US \$443.7 million worth of consumer-oriented agricultural products from the United States in year 2013 which is a 27.6% increase compared to year 2012. Among the long list composing this figure, some of the most significant ones are tree nuts with US \$281 million, followed by poultry and meat products with US \$66 million, prepared food with US \$32 million, processed vegetables with US \$18 million, dairy products with US \$29 million, and snack foods (excluding nuts) with US \$2.9 million. In the first seven months of 2014 (Jan-July) Turkey's imports from the U.S. of consumer-oriented products reached US\$ 191 million which is a 15% increase compared to the same period of 2013.

D. BEST PRODUCT PROSPECTS

I. Products Now Present in the Market

Best product prospects for the imported food market are well-known-brand products in the following categories: sauces, soft drinks & alcoholic beverages, cocoa and instant coffee, chocolate

and confectionary goods, cookies and crackers, breakfast cereals and cheese varieties. Major imported items are summarized below:

Cocoa and chocolate: Turkey is import-dependent in this category, since there is no local production of cocoa. Meanwhile, the Turkish chocolate sector has been growing approximately 10% annually for the past ten years compared to the 5% growth in the global chocolate sector. Chocolate consumption is in direct proportion to income level, and 40% of total chocolate consumption is realized in the Marmara Region. The market is currently dominated by local production, but consumers are open to new tastes and brands.

Coffee: Despite the dominance of Nestle and Jacobs brands in the instant and filter coffee markets (respectively), a niche market for flavoured gourmet coffee in the upscale cafes and restaurants emerged after the arrival of Starbucks and Gloria Jean's. The German coffee shop Tchibo also entered the Turkish market in December 2006 and has opened 52 stores in 11 cities. High quality coffee varieties can find a market in the high-end supermarkets such as Macro-Centers or other international supermarkets.

Dry nuts and confectionary items: Turkish people consume walnuts, almonds and sunflower seeds as confectionary items, and US is the largest supplier of walnuts and almonds to Turkey. Turkey imported US\$ 61.3 million worth of walnuts in 2013. Turkey imported US \$280 million of total tree nuts in 2013 from the United States. There is always a market for US nuts in Turkey provided that they are price competitive.

Wine: Turkey is the world's 5th largest grape producer with 3.7 million tons and is the 4th in terms of the area planted with 567 thousand hectares, but only 2% of this grape production goes into wine making. Even though annual wine consumption is still around 1 liter per person, it is a growing market with an increasing number of local brands. Turkish consumers are thus being introduced to different wine varieties, and imported wines are increasing in the market.

Beer: There is a shift in the beer choices of Turkish consumers after being limited to only a few lager varieties available in the market for decades. The new malt varieties introduced in recent years have shown an incredible increase in market shares, and as more brands come into the market, consumers are opening to new tastes and products. Beer consumption in Turkey is increasing due to the increase in young population and the number of foreign tourists. Beer has become the most consumed alcoholic beverage due to its price advantage, and reached 1 billion litres.

Flour and flour-based products: Imported crackers, 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 are found at upper-middle income retail outlets (specialty shops, supermarket and hypermarkets). Products with an 'edge' that the local competition doesn't have such as being sugar free, gluten free, or other similar features would secure a better place on the shelves by offering consumers a reason to pay a relatively higher price for an added value.

Breakfast Cereals: Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit and chocolate cereals are increasing in variety as they are welcomed by Turkish consumers as breakfast items. They are preferred mostly by the urban people, and can even be found at discount stores.

Sauces and syrups: Imports of these products continue to grow as consumer tastes diversify. These products are found mostly in upper-middle income retail outlets. In 2013 Turkey imported US\$ 1.4 million worth of condiments and sauces from the US. Soy sauce, hot sauces and barbeque sauces are the most popular imported sauce varieties in the market.

Functional foods: Consumption of functional food products has been growing rapidly in line with the consumer demand for healthy products. Currently diet products, probiotic yogurt varieties, and herbal teas are the major types of functional foods present in Turkey. Functional food additives, toddler foods and in general products that are 'enriched' in any way promise a high growth potential.

II. Products with Strong Sales Potential and Not Present Substantially in the Market

Organic processed products: In line with the healthy trend, organic products are gaining popularity in Turkey during the past few years. As the prices of organic products come down to more reasonable levels every year, the demand also increases in direct relation. Even though Turkey is a big grower of organic produce, organic products currently found on the shelves are limited to fresh produce, eggs and herbs. There are only a few processed goods like organic yogurt, tahini etc. available. Post forecasts that organic processed product varieties would have substantial sales potential in the Turkish market in the upcoming years.

Prepared food: As more women join the work force and life styles change, processed foods are increasing their popularity among urbanites who do not have the time to cook after coming home from work. The ready-to-eat and ready-to-cook meals market has a high potential in this respect. Turkey imported US\$ 32.4 million worth of prepared food from the US in 2013 which is a 36% increase compared to the previous year.

Gourmet/Foreign Ingredients: As Turkish consumers' taste become more sophisticated, there is a growing interest in restaurants featuring novel foods such as "Tex-Mex", "Chinese", "Thai" and "Japanese." This is bound to spread into retail sales as well. Recently there is a visible increase in sauce varieties of different cuisines for instance. Ingredients used in making these types of ethnic dishes promise a growing sales potential, not only by the end users but also by restaurants who serve these cuisines.

Healthy Snacks: Health bars and other healthy snacks are not substantially present in the market but consumers are aware of the products. In 2013 Turkey imported US\$ 2.9 million of snacks from the US. This is a good sales opportunity for suppliers who would like to benefit the rising 'healthy consumption' trend before the void is filled.

III. Products Not Present in the Market

Genetically engineered ingredients: No genetically engineered (GE) products are approved for human consumption in Turkey. Regulations in Turkey may be subject to drastic changes over short periods of time, so exporters should be aware of the latest regulations before making any plans. The biggest developments in terms of regulations in the past few years have been on the import ban of biotech products and import allowance of meat. For detailed information on these subjects please refer to the related FAS reports on:

<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

It is not recommended to export anything that has a shelf-life less than 6 months into the Turkish

market due to the shipment time from the U.S. and also because the extensive import procedures may take up to several weeks. Also, products like expensive wine varieties turn out to be even more costly when a few bottles have to be given up at the customs for import testing procedures.

It is always useful to take into consideration that taste preferences of Turkish consumers can be quite different from U.S. consumers. Even though globalization made urban consumers more open to try and accept new tastes, Turkish people in general can be quite resistant to try new tastes, so some products may need to be adopted according to the local taste.

Examples of failure of some products in the Turkish market in the past were mostly due to inadequate marketing and brand positioning strategies when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle, and internationally known brand names are useful in this respect. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing activities for a successful introduction.

E. POST CONTACT INFORMATION

For more information on high value food items and other agricultural sector reports for Turkey or other countries around the world, please refer to the FAS home page at the following URL address: <http://www.fas.usda.gov>.

FOREIGN AGRICULTURAL SERVICE offices in the below addresses help exporters get in touch with Turkish importers and vice versa.

EMBASSY of the UNITED STATES, 110 Ataturk Bulvari, Ankara, TURKEY
Tel: (90-312) 457-7393 Fax: (90-312) 467-0056
E-mail: agankara@usda.gov

U.S. CONSULATE GENERAL ISTANBUL, ISTINYE, ISTANBUL
Tel: (90-212) 335 9068 FAX: (90-212) 335 9077
E-mail: agistanbul@usda.gov
U.S. (APO) Address: Unit 5030 Box 0019 DPO, AE 09827-FAS