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Tunisia

Retail Foods

2011 Retail Foods

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Report Highlights:
The Tunisian retail distribution chain was strongly impacted by the turmoil and the disruption of economic activities that followed the deposing of the regime of President Ben Ali in early 2011. The main hypermarket and several supermarkets were mostly destroyed or damaged during the violent unrest and the state of emergency that brought the country to a standstill for several weeks. In the medium term, however, Tunisia remains among the most attractive countries for investment as modern retailers and more foreign companies are expected to enter the market.

SECTION I. MARKET SUMMARY

A. Tunisian Retail Sector Overview

The Tunisian retail distribution chain was strongly affected by the turmoil and the disruption of economic activities that followed the deposing of the regime of President Ben Ali in early 2011. The main hypermarket and several supermarkets were destroyed or damaged during the violent unrest and the state of emergency that brought the country to a standstill for several weeks. Many of the markets were shut down and hundreds of shops suffered huge financial loses. The business situation improved slightly later in the year with the arrival of about one million refugees from neighboring Libya who had lots of cash and a high consumption level.

Sales of food products at modern retailers and outlets in Tunisia were estimated at $915 million in 2011, compared to $1 billion in 2010. 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 230 modern food retail outlets: 2 hypermarkets, 150 supermarkets and 100 ‘superettes’ (self-service food outlets with a selling area less than 500 sq. m).

About 15 supermarkets are still closed following the aftermath of the revolution. The main hypermarket (Geant) is scheduled to reopen in January 2012. In the short term, a slowdown in new store openings is expected due to the lack of political and economic certainty. Tunisia lost seven places in the ranking of the Global Retail Development Index (Grdi) in 2011. In the medium run, however, Tunisia remains among the most attractive countries for investment as modern retailers and more foreign companies are expected to enter the market over the next decade.

Before the revolution, the Tunisian food retail sector witnessed a rapid expansion of modern distribution channels that was fuelled by an increased per capita income and a growing urban middle class with more sophisticated consumption patterns. Modern outlets have changed the purchasing habits of many consumers, though the bulk of food retailing is still controlled by small neighborhood grocery shops. Fresh fruit and vegetables, as well as fishery products are also sold in souks (out-door market.) The fast growth of supermarkets and hypermarkets in the last few years has caused concerns for small retail stores that represent the traditional distribution network, with more than 250,000 neighborhood grocery shops, accounting for 80 percent of the Tunisian retail food market. Small corner shops were affected by hypermarkets expansion and regularly complained to the government about their inability to compete. 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 (Law 69#2009). This legislation intended to help modernize the retail industry and meet the requirements of the retail sector development. In addition, the new law regulates two other important segments of the food retail sector: franchising and central purchasing.

B. Consumer trends

Tunisia's purchasing power parity (PPP) of $9,400 (2010, IMF estimate) is one of the highest in North Africa and is projected to rise to $10,933 by 2014. With ten million consumers growing at annual rate of 1.8 percent, the Tunisian market represents a good market for imported food products. Two-thirds of the population lives in urban cities and nearly one-fifth is living in the Greater Tunis Metropolitan area. 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 nearly 6.3 billion TD a year (about $4.9 billion) on food, mainly on staples like bread, pasta, semolina, cooking oil and dairy products. In 2011, growth expenditure is expected to slow down because of the economic situation.

During the past decade, Tunisia achieved strong macroeconomic indicators and rapid growth. However this development was accompanied by a continuing rise of unemployment, endemic corruption, and unequal repartition of the wealth. Employment was generated in the coastal regions, especially in tourism and industry; the central and western parts of the country where the social uprising started were economically marginalized with few investments, a higher level of poverty and lower level of consumption. Tunisian customers are price-conscious buyers, especially in the inner area of the country. The price increase of food items registered at the end of 2010 was among the factors that prompted the riots, especially in neglected regions, despite GOT efforts to maintain low prices through subsidizing prices of major food commodities. The official inflation rate in 2010 was 4.4 percent compared to 3.5 percent the year before. Prices of food items (which accounts for about 35 percent of overall household's expenditures) increased by 6.8 percent in 2010.

The development of Tunisia's food consumption structure especially in urban area showed an important change in the type of food products sold in the market in recent years. More manufactured and processed products are finding their way into the market compared to non-processed products. Food expenditure 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, the 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 opportunities of selling high processed food products.

Opportunities	Challenges
A relatively high household disposable income	Political instability may remain and may fuel disruption of trade, tourism activities
Fast growth of modern distribution channels that translates in an increasing sophistication of the consumption patterns.	Economy will be affected by widespread of workers strikes, sit-ins, by the slowdown of economic activities in partner-countries, particularly in Europe.
Imported products are generally highly recognized among consumers and institutional services for quality and safety. US food products' quality is well perceived	Price-conscious buyers with an expected drop in consumer spending growth due to deteriorated economic situation.
A favorable U.S. dollar exchange rate against the Euro	Customs duties levied on consumer-oriented food products make it difficult for US exporters to compete in this market
Major European tourist destination requiring consistent high quality food supply.	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
New legislations organizing the food retail sector and establishing franchises	Hypermarkets and some supermarkets tend to procure food products through their European franchisers.
	Lack of awareness of the U.S. food products brand names compared to the European brands
	Fewer business ties compared to those with the EU

SECTION II: ROAD MAP FOR MARKET ENTERY

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 licensed by the French retailer Carrefour), Group Mabrouk (Geant hypermarket and Monoprix supermarket 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 supermarket and hypermarket 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.

New legislations

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 hypermarkets like Carrefour or Geant and reselling them at their shops. In addition, the location of where the hypermarkets can be established was a controversial issue. After several years of hesitation, 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 main focus of the new law was the regulation of two important aspects of the food retail sector: franchising and central purchasing.

Franchising: Before the approval of the 2009-69 law, permissions to open and operate franchises were accorded on a case-by-case basis. In August 2010, the Tunisian government issued a ministerial decree outlining contract provisions and publishing a sectoral list in which franchises would need no prior authorization to operate in Tunisia. Franchises on this list will be able to operate like any other foreign business in Tunisia, while the franchises that are *not* on the sectoral list, such as the food franchises, must obtain an approval to operate. The U.S. franchises are currently under-represented in Tunisia. This may provide a good opportunity for U.S companies to enter and benefit from this fast growing market. During the second Tunisia Med Franchise show organized in December 2011, we noticed a strong interest of Tunisian investors for food franchises. U.S retailers and food companies should take advantage of this positive development.

Central purchasing

According to the new law, any person or legal entity can create a central purchasing company called ‘Centrale d’achat’ in order to buy products at preferential prices and resell them to other retailers that are members of this central purchasing. Larger retailers are also allowed to own their ‘Centrale d’achat’. This could probably encourage better organization of distribution channels and improve relations between importers, distributers and the retailers.

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.
An alternative approach, especially for large exporters, is to contact retailers directly as some of them have subsidiaries dealing with local and international procurement. The FAS office in Tunis can assist 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	HS CODE	Customs tariff %	VAT %
Ketchup	2103 20 2000	60	29
Canned Tomatoes	2002 10 0000	73	6
Whole Peeled Tomatoes	2002 10 0000	73	29
Tomato Sauce	2103 20 4000	60	29
Tomato Paste	2002 90 0060	100	6
Mayonnaise	2103 90 9020	60	29
Peanut Butter	2008 11 1000	150	18
Cereal	1904 10 0040	73	29
Hot Sauce	2103 20 4000	60	29
Canned Vegetables	2005 51 2040	73	29
Honey	0409 00 0055	150	18
Mustard	2103 30 0000	60	29
Vinegar	2209 00 0000	73	18
Canned Beans	2005 59 0000	73	29
Jam	2007 10 0000	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 2%). The following table presents the most important players. :

	Retailer name and Outlet Type	*Ownership*	*Estimated Sales(2010-2011)*	*Purchasing Agent Type*
UTIC Group	Hypermarket Carrefour (1) Carrefour Market and Carrefour city (42)	Group UTIC (80 %) and Carrefour France (20 %)	$ 320 million	-Imports directly and buys from local importers -Relies on Carrefour for its procurement
Mabrouk Group	-Géant, Hypermarket(1) -Monoprix, supermarket chain (71 of which 11 closed)	Group Mabrouk under the license of French retailer CASINO	$ 305 million	-Imports directly and buys from local importers -Imports directly and recently signed an agreement with monoprix France.
Magasin General Group	-Magasin General supermarket chain(47 of which 3 closed) -Promogros (6) -Magro (5)	Group Bayahi and Poluina	S280 million	-Imports directly and buys from local importers

Source: Estimates based on market reports and retailers disclosed information.

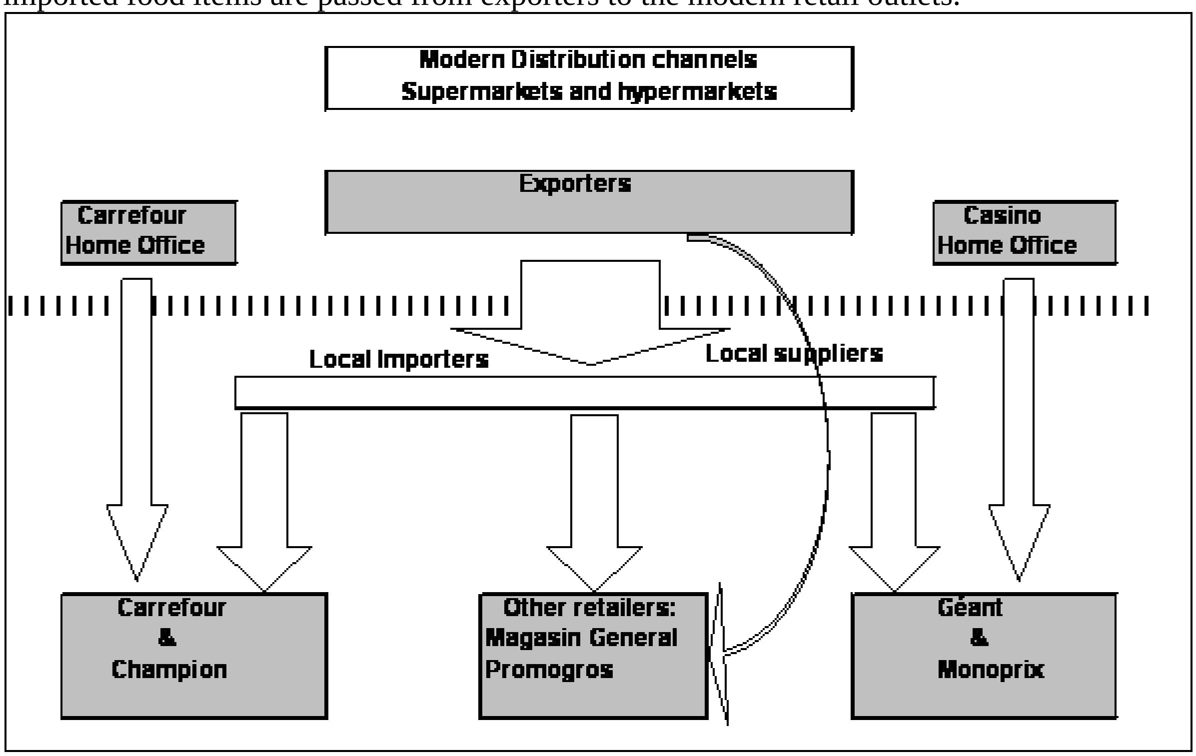
Market share of modern retailers (AgTunis estimates)

	Market share
UTIC Group	34.9%
Mabrouk Group	33.3%
Magasin Generale	30.6%
Others	1%

Source: 2010 AgTunis estimates

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 owned by the son-in-law of the ousted president Ben Ali and is the partner firm with the French retailer Casino (Geant for hypermarkets and Monoprix for supermarkets). In the late 1990's, the group formed a partnership with Monoprix that allowed Mabrouk to use the French brand name Monoprix at about 60 of its own supermarkets. In 2009, Mabrouk extended its partnership with Monoprix in order to access Monoprix's central buying service and set up a goal of having 80 supermarkets located in all big cities across the country. In 2010, Monoprix bought the 'Sahara Confort' retailer which will increase the number of its supermarkets to 70 stores and double its turnover in 5 years. 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. During the revolution, the hypermarket and many of the Mabrouk supermarkets were attacked as the owner was considered a part of the former regime. The hypermarket Géant recorded damage that reached $50 million, according to estimates. It will reopen in January 2012 after reconstruction work that cost around $20 million. More information can be found on the company's website www.geant.tn. With its internal and external expansion strategy, the Mabrouk group became the leader in the food retail sector in Tunisia, with an estimated global market share of 36 percent.

Ulysee Trading and Industrial Companies Group (Carrefour/Champion)

This group, owned by the Chaibi's family, has 35 percent market share and was relatively unaffected by violence during the revolution. It runs 42 store chain of small supermarket (superettes) under the Carrefour market Brand 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

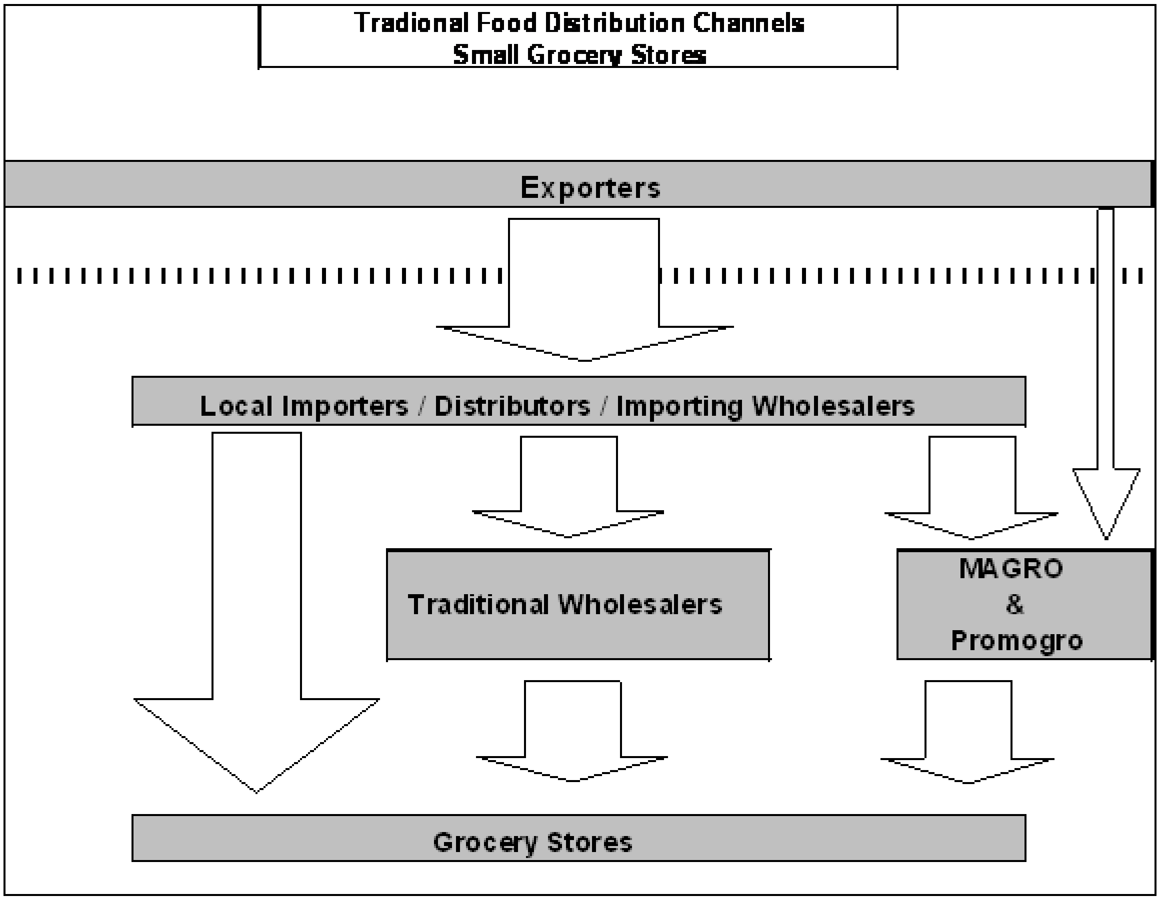
Magasin General Group (Magasin general/Promogros/Magros)

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 provinces and 11 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 2009, the group embarked on a remodeling program for all its stores and generated about $ 300 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 an outdoor 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 $894 million in 2009. The US-origin COP exports account for less than one percent as they are facing strong competition from European products. Imported goods are generally perceived as of higher quality but, in the same time, more expensive and thus of limited affordability. Tunisian demand for COP is experiencing an up-ward trend, which is likely to continue and strengthen due to structural changes related to the consumption and the distribution patterns. In the medium term, the U.S. suppliers would likely benefit from this trend especially due to favorable US$/Euro exchange rate.

SECTION IV: BEST PROSPECT PRODUCTS

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:

1. Tree nuts
2. Dried fruits
3. Cacao powder
4. Cookies
5. Sauces, condiments and mixed seasoning
6. Potato chips
7. Breakfast cereals
8. 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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Fax : 216 71 107 101
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Other 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)

Directorate General for Veterinary services (DGSV)
Ministry of Agriculture, Environment and Hydraulic Resources
30, rue Alain Savary, 1002, Tunis, Tunisia
Phone: 216 71 786 833
E-mail: mag@ministeres.tn

Directorate General for Agricultural Production (DGPA)
Ministry of Agriculture, Environment and Hydraulic Resources
30, rue Alain Savary, 1002, Tunis, Tunisia
Phone: 216 71 786 833
E-mail: mag@ministeres.tn

Directorate General for Crop Protection and Quality of Agricultural Products (DGPCQPA)
Ministry of Agriculture, Environment and Hydraulic Resources
30, rue Alain Savary, 1002, Tunis, Tunisia
Phone: 216 71 786 833
E-mail: mag@ministeres.tn

Directorate of Quality and Consumer Protection (DQPC)
Ministry of Commerce
Address:37,av.Keireddine Pacha, 1002 Tunis
Phone: (216) 71 890-070 / 890 337
e-mail: mcmr@ministeres.tn

National Agency of the Sanitary and Environmental Control of Products (ANCSEP)
Ministry of Public Health
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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.