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Turkey

Retail Foods

Turkey Food Retail Sector

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Report Highlights:

Despite the slowdown in the growth of the Turkish economy in general, the food retail sector is expected to grow 8 percent annually. The total retail sector in Turkey reached US\$214 billion in 2015 and is expected to reach US\$290 billion by 2018, fueled by increasing disposable income levels and strong consumer demand. The share of food in the total retail sector is roughly 62 percent, worth US\$137 billion.

Discount supermarket 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 by concentrating on sales rather than high profit shares, increasing efficiency and cutting costs, and via mergers and acquisitions.

Post:

Ankara

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 reached 360 in 2016 and is expected to reach 415 by the end of 2018, with Istanbul accounting for the largest share of this total. Turkey is among the top 10 markets in Europe in terms of consumption expenditure and among the top 5 in terms of food expenditure, according to a report (“Donusurken Buyuyen Turkiye”) prepared by the Shopping Malls and Retailers Federation of Turkey.

The Turkish economy is expected to slow to 3.3 percent growth in 2016 and 3.0 percent in 2017, according to International Monetary Fund projections. In the first half of 2016 total retail sector grew 10 percent and GDP increased 3.7 percent. However, GDP contracted by 1.8 percent in the third quarter of 2016 on weak consumer spending and exports, marking the first contraction in 27 quarters. The Turkish Lira (TL) has declined considerably against the U.S. dollar in recent years, thereby increasing the costs of imported goods. One U.S. dollar bought 2.34 TL on January 1, 2015, 2.92 TL on January 1, 2016, and is now over 3.50 in early December 2016. November 2016 was particularly volatile, starting at a rate of 3.11 TL on November 1 and reaching 3.44 TL by the end of the month.

Despite political and economic fluctuations, the retail sector finished 2015 with a 9-percent growth rate, with organized retail (US\$70 billion) accounting for one-third of the total retail sector. Ten new shopping malls opened in 2016, and sector representatives are estimating 11percent growth in 2016. Compared to the food sector, non-food retail has faced a tougher year in 2016 due to greater impact on the sector stemming from troubles with neighboring countries, decreasing demand from the Gulf countries due to lower fuel prices, exchange rate fluctuations and security concerns.

Following the unsuccessful coup attempt on July 15, 2016, the Turkish government declared a State of Emergency, removed thousands of civil servants from their government positions, and seized businesses which had a suspected connection with the organization the Turkish government believes to be behind the coup attempt. The State of Emergency and subsequent dismissals have interrupted some government operations and processes. However, the State of Emergency has had a relatively small overall impact on the agriculture and food retail sector.

Turkey has a population close to 80 million, almost half of which is below the age of 30 with a high consumption potential. This strong consumer demand still fuels the retail sector as one of the fastest growing sectors in the Turkish economy. The retail sector is projected to grow 2.5 times more than the country’s general economic performance in the upcoming 5 years. Food retail is expected to register an average of 8 percent annual growth in the same period.

Turkey is undergoing rapid urbanization, and the rate of urbanization has reached 75 percent. The population in large cities such as Istanbul, Ankara, Izmir and Bursa has increased 10 percent over the last ten years. 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 roughly 62 percent. The Turkish food industry is enjoying continuous growth trends due to the young population of the country, high urbanization rates, and rising income levels. Total food retail sector reached US\$132.5 billion through 30,000 sales points with 270,000 employees in 2015.

The most important factors affecting the shopping decisions of the average Turkish consumer are the proximity of the grocery retailer to their home/workplace, the prices of products, and the quality of products offered by retailers. Following these trends, leading supermarket chains increased their investment in small store formats with fewer products in more convenient locations and at discount prices. The increase in Turkish consumers' price-sensitivity positively affects modern chained outlets that launch frequent promotions and lead to further growth of discount chain 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.

The retail sector is undergoing significant mergers and acquisitions. 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 percent. 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.

Author Defined:

A. MARKET SUMMARY

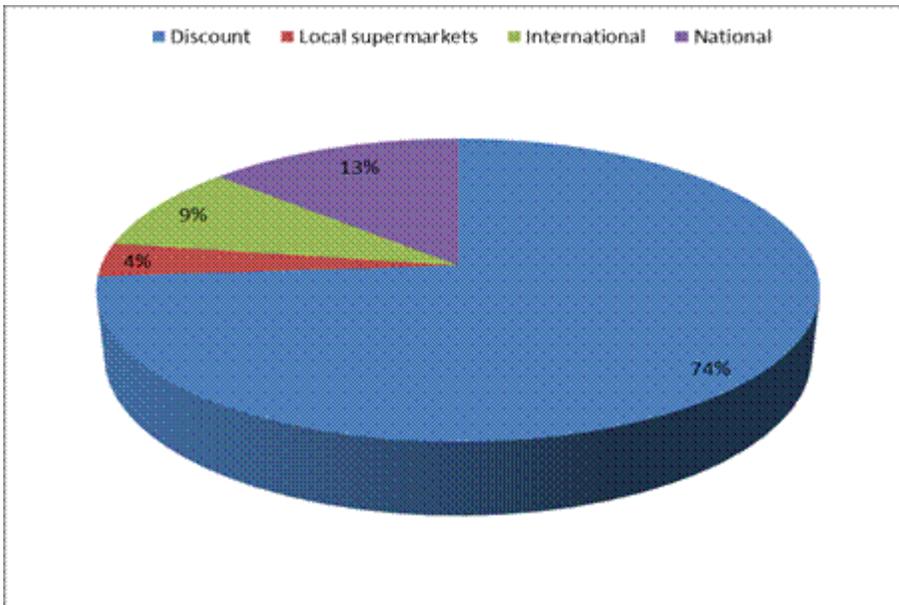
I. The Retail Sector Profile

The food retail sector in Turkey 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 (m ²)	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 (Traditional)	10-50	1	Side street
Gas station stores	10-50	1	Gas station

Another classification that helps to explain the Turkish food retail sector is local versus national and international supermarket chains. As of the end of November 2016, the top 141 supermarket chains with 10 or more outlets in Turkey have a total of 24,671 outlets. Even though the national chains rule the market with sheer number of outlets, once the top 4 national discount chains (which account for 70

percent of the total number) are removed, we can see a large number of local chain store companies with fewer outlets penetrating the market outside the big cities. This also reflects the trend of switching to organized retail throughout Turkey. The chart below shows the distribution of these categories.



Imported food products are generally not found in local supermarket chains or discount stores due to their relatively higher prices, with the exception of 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, and others which cater to higher income consumers.

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 - Consumer trend is shifting towards organized retailers - 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 do not change their food consumption 	<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 -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

	<ul style="list-style-type: none"> - Traditional and cultural consumption habits affect consumers' preferences in their willingness to try new products or tastes.
<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> - Highly interested young population is open to new brands and products - 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 percent 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 trade hub with its neighbouring countries 	<p><u>THREATS</u></p> <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 and the Turkish Lira's depreciation have made imported items more expensive - Unregistered economy and counterfeiting may create unfair competition - Turmoil in neighbouring countries affects trade to and from Turkey and the tourism sector

II. Trends in the Market

It is no longer easy to open hypermarkets 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. While the discount chains are growing by opening new stores, national supermarkets are growing via acquisitions.

Recent years marked the dominance of discount markets in the food retail sector. As of November 2016, there are 24,671 stores in Turkey and 75 percent of these are discount stores. Turkey's first discount chain BİM is today also the world's tenth fastest growing retail company with more than 5,470 stores, according to a Deloitte study cited by BİM. BİM limits its product range to 600 items, 527 of

which are private label products.

In parallel to the rapid growth of discount stores like BİM and A101, private label products are increasing their market share every year. According to studies conducted by AC Nielsen, Turkey is the world's most rapidly growing market in the private label sector with a turnover reaching US\$20 billion. Private label products, which are priced 30 to 40 percent cheaper than well-known brands, account for 16 percent of the total sales in Turkey, and are most common in discount stores. For instance, private label products account for 70 percent of the total number of products in BİM stores and 40 percent in A101 stores.

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 m² and they provide around 700 product varieties, whereas this figure ranges between 2000-2500 products in local retailers. Hard-discount stores target the C segment where the average basket price varies between US \$5 – 15, and where much of the total revenue comes from private label products.

In order to compete with the discount stores, major multinational retailers are changing their strategies and going for diversified concepts such as fast shopping and gourmet or boutique stores. These are referred to as 'multi-format retailers' throughout this report.

Migros stands out as the largest multi-format retailer in Turkey with more than 1500 stores. 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 m². These M-Jet stores include the best-selling brands from the Migros stores, and customers can make their own payments without a cashier. In 2014, Migros collaborated with a prominent gas station "Petrol Ofisi" (PO) to open M-Jet stores in select gas stations, replacing PO's own markets. This is first instance in the sector of a nationwide supermarket chain opening up stores in a nationwide gas station chain.

Carrefour, on the other hand, introduced a concept that it previously only used in Paris where brands have their own little stores within the 13,000 m² complex, which also incorporates a lounge and library, a make-up atelier, and an art corner. The store also has a gourmet product variety that competes with Macro Center (the high end grocery retailer under Migros group) and specialty cellars for wine, cheese, meat, and delicatessen product groups.

BİM has recently introduced its own virtual GSM cell phone service called 'BimCell'. Launched in March 2012 in cooperation with a national GSM service provider, BimCell offers cheap fixed-price packages (including speaking, texting and/or internet). Customers can purchase their new phone lines (or transfer their current number) and buy credit at cash registers in BİM supermarket stores.

Products and services offered to consumers by major national and 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 displaying promotional items and distribute these in bundles to apartments. Some chains sell only produce that is grown with good agricultural practices to model a more 'green' attitude and differentiate themselves from their competitors.

Another recent trend is uniting 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.

E-commerce is also emerging as an important sales channel in food retailing. The number of internet users exceeds 35 million and it is expected that 60 percent of the Turkish population will have internet access at home by 2019. In line with this, e-commerce is expected to reach 12 percent of overall internet retailing in 2019. In the first nine months of 2016, internet and phone shopping increased 23 percent compared to the same period of 2015 where consumers spent US\$26.7 billion. The online food retail sector in Turkey is expected to reach US\$2.5 billion volume by 2018.

Currently the majority of websites that sell food items are targeting consumers with higher income levels with organic and specialty food items. Migros has been utilizing this channel for more than 15 years and provides free delivery service for an order of more than 100 TL.

III. Actors of the Organized Retail Sector

1. Supermarkets

As a consequence of the fragmented market structure, total market share of the four largest retailers 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 and the number of total stores they operated on the dates indicated in the table. The final column indicates the number of stores opened over the year.

	Oct 30, 2016	Oct 30, 2015	Difference (new stores)
A 101 (National Discount)	6273	5582	691
BİM (National Discount)	5475	4904	571
Şok (National Discount)	3766	2680	1086
Ekomini (National Discount)	1560	1353	207
Migros (International)	1509	1252	257
Carrefoursa Super (International)	406	404	2
UCZ (Istanbul Discount)	390	390	0
Hakmar Express (Istanbul Disc.)	374	313	61

UCZ Sistem (National Discount)	303	292	11
Carrefoursa Mini (International)	221	227	-6

Source: www.ortakalan.com.tr

The top three players (BİM, A101 and Şok) are national discount stores and the last column shows how rapidly these 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.

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 Turkish Koc Group. After selling their discount store chain 'Şok' 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.

Metro Group of Germany has been active in Turkey since 1990 with Metro Cash & Carry and Real Hypermarkets. Metro was the first cash & carry store in Turkey to target professional commercial customers such as hotel, restaurant, and kiosk operators, caterers, and small food retailers - unlike the common supermarket retailers that target private households. In 2015, Metro demonstrated two examples of expanding horizons in the retail sector. First, they opened the GastronoMetro in order to contribute to the improvement of gastronomy and cuisine culture in Turkey on a 1,700 square meter area. In collaboration with Boğaziçi University, GastronoMetro organizes training sessions with Michelin star owner chefs from around the world on operational management, hygiene, world cuisine, menu concept, and other topics for anyone that is interested. All 4,000 employees of Metro Grossmarket will also be trained here in the upcoming three years. Metro also started a HORECA Festival (initials stand for Hotels, Restaurants and Catering Facilities) in 2015 where local produce bearing a geographical mark from various regions of Turkey were promoted and more than 7,000 professional customers attended the festival to discuss their issues and demands.

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, and together, the Carrefour-Sabanci merger became CarrefourSA. Sabanci group currently holds 50.74 percent of the shares to CarrefourSA. Sabanci Group sold its DiaSA brand, a partnership with the Spanish soft discount chain Dia (60 percent Dia - 40 percent Sabanci), to Yildiz Holding for TL 320 million in May 2013.

Tesco, a UK origin company, acquired the local Turkish chain Kipa in November 2003 and introduced the Kipa Express concept in 2006. However, Tesco recently faced a struggle against the heavy discounter BİM, and planned to "focus the business on its heartlands" at its profitable stores around Izmir and the Aegean Region, suggesting it would pull out of the east of the country where the brand has not taken off. In June 2016, Migros bought Tesco-Kipa for TL 302.3 million (\$104 million).

3. Gas Station Markets

According to Turkish Petroleum Corporative (TPAO) data, there are 13,000 gas stations in Turkey, and more than 5,600 of them have a market. These markets mostly provide soft drinks and snacks in addition to convenience products that one could need on the road. 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 670 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, Pizza Hut, and Cakes & Bakes (owned by BTA Food & Services Group)
2. Shell Co. operating in Turkey for 90 years, merged with Turcas (Turkpetrol) in 2006, and now has 1024 gas stations which all have markets.
3. Petrol Ofisi, purchased by the Austrian OMV in 2012, has 1785 stations which all have markets, some of which also have Würth, DiaSA, Aslı Börek, and Simit Sarayı restaurants. In 2014 Migros collaborated with Petrol Ofisi (PO) to open M-Jet stores in select gas stations, replacing PO's own markets.
4. Opet has a total of 1424 stations, including its Sunpet brand, and they all have markets.
5. Russian Lukoil purchased Akpet in 2008 and started converting all 700 stations to Lukoil to give them a corporate identity. These stations also have markets and more than 300 restaurants.

IV. Actors in Unorganized (Traditional) Markets

Bakkals, open-air bazaars, and small convenience stores that sell only alcoholic and 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 50 m² or less and are 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. Nationwide discount retailers have been capturing their revenues by entering even the most remote points across the country which makes it more and more difficult for them to survive in the absence of economies of scale. Under pressure from the fast growing retail chains, the number of *bakkals* in Turkey decreased from 165,000 to less than 90,000 in the last decade. 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.

Most cities and towns in Turkey have open-air bazaars (like a farmers' market) on at least one day of the week. Open-air bazaars mainly sell fresh vegetables and fruits. *Bakkals*, open-air bazaars, and small convenience stores are still popular for Turkish consumers because of their convenient locations and because open bazaars in particular 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 towns 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 constantly active with major acquisitions and consolidations. Organized retailers are able to strengthen their position against suppliers as a result of consolidation. In September 2012, the Food Retailers Association was formed with the board of directors composed of representatives of the top 10 retail chains (including BİM, CarrefourSA, Migros, Tesco Kipa, Metro, Kiler, Uyum, etc.)

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.

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

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.

Major Supermarket Chains in Turkey						
<i>Company Name</i>	<i>Type of Outlet</i>	<i>Ownership</i>	<i>Turn-over (2015)</i>	<i>Number of Outlets</i>	<i>Location</i>	<i>Purchasing Agent</i>
BİM A.S.	Hard Discount stores	Turkish	TL 17.4 billion	5475	Nationwide	Importers
Migros A.S.	- Hyper (5M & 3M Migros) - Super (2M & M Migros, M-Jet, Tansaş) - E-trade (www.kangurum.com.tr)	International	TL 9.4 billion	Migros 1509 Macrocenter 39	Nationwide & International	Direct & Importers

) - Niche (Macrocenter)					
Carrefour-SA	Hyper (CarrefourSA) Super (CarrefourSA Express, CarrefourSA Mini) Niche (CarrefourSA Gurme)	French 46.2% Turkish 50.8%	TL 3.9 billio n	691	Nationwide & Internation al	Direct, Importers
Metro Group	Wholesale (Metro) Supermarket(Real)	German	TL 3.2 billio n	35	Nationwide & Internation al	Direct, Importers
Yildiz Holding	- Soft Discount(Şok) - Wholesale (Bizim)	Turkish	TL 6.6 billio n	3766 Şok 158 Bizim 16 File	Nationwide & Internation al	Importers/ Wholesaler s
A101	Hard Discount	Turkish	TL 3.9 billio n	6273	Nationwide	Importers/ Wholesaler s
Source: Websites of the retailers, press releases * Foreign Exchange Rate at the time of this report: US\$1 = 3.1 TL						

II. Mergers and Acquisitions

While foreigner companies 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.

One of the major acquisitions was in 2008 when 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 had 1,230 stores with TL 1.2 billion in turnover) to Yildiz Holding for US\$ 380 million. This acquisition made Yildiz Holding the largest competitor of BİM in the discount segment.

Yildiz Holding also acquired the Belgian chocolate producer Godiva in December 2007, and the British biscuit producer United Biscuits in 2014. Often identified with their confectionary brand Ülker, the group also bought two soft discount chains: DiaSA (1217 stores for 320 million TL) and Onurex (119

stores for 33 million TL). 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 percent 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.

In 2015, CarrefourSA purchased three local supermarket chains: Ismar (with 26 stores), 1e1 (29 stores) and Kiler supermarkets (with 200 stores). As a result, the number of CarrefourSA stores increased from 333 to 691 in one year, and 103 of these stores were newly opened while 255 of them were converted after the acquisitions.

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

The latest acquisition in the sector occurred in June 2016 when Migros bought Tesco-Kipa for 302.3 million TL. Tesco-Kipa's 2015 revenues were 2.2 billion TL.

III. Distribution Channels

The sector has aimed to minimize costs by eliminating 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 percent 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.

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.

Eventually, a Retail Law was passed in 2015 to regulate the establishment, commercial activities, and monitoring of large supermarkets, defined as stores constituting an area of 400 m² or more. The law defines terms such as shopping mall, supermarket, chain market, private label, franchise, and branch, and simplifies retail store opening procedures. The law mainly aims to level the playing field for small producers against their multinational rivals, to support small and medium sized operations and to increase production. In this respect, retail stores were banned from charging extra fees from producers under indirect claims such as store opening, repair works, etc. Discount and promotion periods were also restricted.

Another provision of the law is to reserve at minimum one percent of shelf space in retail stores for local products. This is expected to increase the competitive power of small and local producers who are struggling for shelf space. The law also mandates the allocation of at minimum 5 percent of the total shopping area for small businesses and craftsmen in shopping malls. Another important feature of the law is that it brings the maximum payment term of supermarkets to suppliers down to 30 days for perishable goods. 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.

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 percent of retail food sales, an increasing variety of products are finding their way onto the shelves in recent years.

During fiscal year 2016 (October 2015-September 2016), U.S. agricultural exports to Turkey declined 13.2 percent, while consumer oriented products declined 6.3 percent from the previous year. However, there has been a slight rebound for the calendar year, as U.S. agricultural exports for January-October 2016 are 4.9 percent ahead the same period in 2015, with consumer oriented products up 2.1 percent. The major U.S. food exports to Turkey are tree nuts, rice, prepared food, vegetable oils, pulses and distilled spirits.

Turkey imports tropical fruits such as bananas, pineapples, mangos, and papayas from various countries. Imported bananas and kiwis are available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at large supermarkets and specialty retail outlets.

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

Advantages	Challenges
The 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 harmonization of regulations create advantages for EU member countries. EU and neighboring 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 and the volatile exchange rate makes 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 may be imposed on agricultural commodities as well as packaged products and the regulations are complicated, non-transparent, and subject to overnight changes.
An increasing young population is eager to buy and try imported products. Consumers have a positive perception of U.S. products in terms of quality and are willing to pay more for them.	Local food processing sector is well developed and high quality goods are sold at competitive prices. Rich diversity in agricultural production provides 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.	Turkey's Biosafety Law requires labelling of GE products, and no GE products are allowed for human consumption.
	For confectionaries, there is a risk of products being copied by a local producer and being introduced into the market under a different name.

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. 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 are listed below with their specific dates and venues.

Dates	Upcoming Major Food Trade Shows in Turkey	City (venue)
15-18 Feb 2017	Anfas Food Product : 24th International food trade exhibition http://www.anfasfoodproduct.com/	Antalya
26-29 Apr 2017	Ekoloji Izmir : Organic foods tradeshow, co-held with Oliv-Tech http://ekolojiizmir.izfas.com.tr/index-2.htm	Izmir (Izfas)
21-22 June 2017	Snackex : Savoury snacks and snack nuts trade show and conference http://www.snackex.com/	Istanbul (ICC)
7-10 Sep 2017	Worldfood : 25th International food & beverage, food ingredients and food processing exhibition. Co-held with IPACK Turkey https://www.worldfood-istanbul.com/home	Istanbul (Tuyap)
2-4 May 2018	Fi Istanbul : Food Ingredients http://www.figlobal.com/istanbul/	Istanbul (ICC)

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

C. COMPETITION

The major international 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 for some products. The EU also benefits from lower freight charges and shorter delivery times due to their proximity to Turkey compared to the United States. Investments of major European hypermarket chains such as Carrefour of France, Metro and Real of Germany, and Tesco of the 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 \$398.9 million worth of consumer-oriented agricultural products from the United States in year 2015. Among the long list composing this figure, some of the most significant imports are tree nuts with US \$300 million (almonds: US\$141.6 million and walnuts: US\$153 million), followed by various prepared foods with US \$30.7 million, and processed vegetables (mainly tomato paste) with US \$20.9 million. U.S. agricultural exports for January-October 2016 are 4.9 percent ahead the same period in 2015, with consumer oriented products up 2.1 percent. Some sub-sectors are enjoying growth this year, such as non-alcoholic beverages, prepared foods, processed fruit, and snack foods.

PRODUCT CATEGORY IMPORTS	MAJOR SUPPLY SOURCES in 2015	STRENGTHS OF KEY SUPPLY COUNTRIES	ADVANTAGES AND DISADVANTAGES OF LOCAL SUPPLIERS
<p>Beef:</p> <p>18,094 MT</p> <p>US\$ 109.5 million</p> <p>Poultry:</p> <p>Only transshipments</p>	<p>Beef:</p> <p>1) Bosnia & Herz.: 68%</p> <p>2) Poland: 32%</p> <p>Poultry: Turkey does not import poultry meat due to its highly developed domestic production and high tariff rates (100%). All figures in poultry trade data are transshipments.</p>	<p>European countries benefit from proximity advantage and bilateral agreements. Meat imports increased drastically in 2015 with special agreements between Turkey and Bosnia Herzegovina and Turkey's commitment to EU to import 19,500 MT meat from EU countries mainly because of the shortage of domestic meat production.</p>	<p>Local red meat production is volatile due to increasing feed prices and inconsistent government policies. Local poultry production is strong and well established.</p>
<p>Fish and Seafood</p> <p>Imports: 109,327 MT</p> <p>US\$ 229.7 million</p>	<p>1) Norway: 52.96%</p> <p>2) Iceland: 8.86%</p> <p>3) China: 5.06 %</p> <p>4) US: 1.48%</p>	<p>The most imported item is salmon and Norway dominates the market, having even created a brand name in the market enjoying the zero percent duty advantage. Turkey applies 30% duty to imported salmon but the tax is zero percent for EFTA countries</p>	<p>Local production is not as high quality in salmon, but is strong and developed in other fish varieties such as bream, bass and trout. Turkey produced 672,241 MT of seafood in 2015, up 25 % compared to the previous year. 51% of this production is sea fish, 36% is farmed fish, 5% is lake and river fish and 8% is other seafood</p>
<p>Processed</p>	<p>1) Germany: 13.28%</p>	<p>European countries supply</p>	<p>Turkey has a great amount of</p>

<p>fruits and vegetables</p> <p>Imports: 95,039 MT US\$ 164.6 million</p>	<p>2) Spain: 11.92% 3) Hungary: 7.78% 4) China: 6.82% 5) US: 4.27%</p>	<p>niche products whereas Far East and other countries supply tropical fruits that cannot be grown domestically</p>	<p>domestic production which creates a vast supply for processors and the imported varieties are mostly tropical fruits that are not grown domestically</p>
<p>Milk and Dairy products (including cheese)</p> <p>Imports: 39,172 MT US\$ 130 million</p>	<p>1) New Zealand: 25% 2) Turkish Republic of Northern Cyprus: 19% 3) Ireland: 14% 4) US: 0.28%</p>	<p>Butter, non-fat dry milk, lactose, and cheddar cheese were the primary U.S. dairy exports in 2014 with 13% market share but U.S. exports have fallen since then due to certificate issues and increased competition</p>	<p>Turkey has increased local production of cheese varieties in recent years but is still importing a large amount of specialty cheese</p>
<p>Wine and Beer</p> <p>Imports: 9.3 million liters US\$ 20.8 million</p>	<p>1) France: 29.55 % 2) Italy: 16.32 % 3) Belgium: 10.09 % 4) US: 3.10 %</p>	<p>France and Italy supply wine whereas Belgium and Germany supply beer, and U.S. supplies whiskey</p>	<p>Domestic wine production is improving. Beer production is limited and dominated by the two big companies: Efes and Tuborg</p>
<p>Snack foods</p> <p>Imports:</p>	<p>1) Germany: 25 % 2) Netherlands: 18 %</p>	<p>European countries benefit from proximity advantage and the customs union. Tariff rates vary between 8-</p>	<p>Domestic snack food production is dominated by two major brands: Ulker and Eti. Multinationals like Frito-Lay,</p>

30,440 MT US\$ 134.7 million	3) Italy: 11.69 % 4) US: 5.11 %	10 % for US whereas they are zero for EU countries.	Kraft, and Pringles dominate the chips market with more than 90% market share in total.
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D. BEST PRODUCT PROSPECTS

I. Products Now Present in the Market

The best product prospects for the imported food market are well-known-brand products in the following categories:

Cocoa and chocolate: Turkey is import-dependent in cocoa since there is no local production. The tariff rate for cocoa is 100 percent. Meanwhile, the Turkish chocolate sector has been growing approximately 10 percent annually for the past ten years compared to the 5 percent growth in the global chocolate sector. Chocolate consumption is in direct proportion to income level, and 40 percent 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 flavored 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-Center or other international supermarkets. As third-wave coffee shops are increasing rapidly in number, specialty coffee is gaining more popularity in big cities. The tariff rate for roasted coffee beans is 100 percent and 75 percent for unroasted beans.

Dry nuts and confectionary items: Turkish people consume walnuts, almonds and sunflower seeds as confectionary items, and the United States is the largest supplier of walnuts and almonds to Turkey. Turkey imported US \$299.8 million of tree nuts in total from the United States in 2015. There is always a market for U.S. nuts in Turkey provided that they are price competitive. US cranberries have also shown a success in the Turkish dry fruits sector in the past 5 years. Tariff rate for cranberries is 62 percent and the tariff rate for all tree nuts is 43.2 percent (except for cashew, coconut and Brazilian nut which are 75 percent). The major competitor for U.S. tree nuts is Chile and Ukraine for walnuts.

Wine: Turkey is the world's fifth largest grape producer with 3.7 million tons and is fourth in terms of the area planted with 567,000 hectares, but only 2 percent 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 also being introduced to different wine varieties, and imported wines are increasing in the market. Tariff rate for wine is 120 percent. Apart from domestic production, the major foreign competitors of American wine in the Turkish market are Chilean, French and Italian wines.

Beer: There is a shift in the beer choices of Turkish consumers after being limited to 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 up to new tastes and products. Beer consumption in Turkey has been increasing due to the increase in young population and foreign tourists. Per capita beer consumption is between 10 - 12 liters. While some foreign beer brands such as Miller, Becks, Mariachi, Kozel and Amsterdam, are produced domestically by a local beer company (Efes), there are currently more than 100 imported beer brands in the market. In 2015, Turkey imported US\$ 2.1 million worth of wine and beer from the United States, with beer/malt accounting for nearly US\$1.3 million. Tariff rate for malt beer is 100 percent.

In addition to the import tariffs alcoholic beverages are charged additional domestic sales taxes and have restrictions on marketing and promotion.

Baked goods: 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, supermarkets, and hypermarkets). Products with an 'edge' that the local competition does not 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. Tariff rate for baked goods are mostly 75 percent (except for some bread varieties which are 50 percent).

Non-alcoholic beverages: Soft drinks sector in Turkey is dominated by multinational companies such as Coca-Cola, Pepsi-Cola and Nestlé Waters. These players benefit from strong awareness of their well-established brands, sophisticated distribution networks, and large marketing budgets. In 2015, Turkey imported US\$ 1.8 million worth of non-alcoholic beverages (excluding juices) from the United States. The juice sector is a 1.7 billion TL market and is growing with the launch of new brands. The demand for juice is increasing due to health and wellness trends, and new brands that are marketed as "100 juice – not from concentrate" see the most growth. Tariff rate for fruit juices is 75 percent and for sodas it is 50 percent.

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 2015 Turkey imported US\$ 1.1 million worth of condiments and sauces from the United States. Soy sauce, hot sauces, and barbeque sauces are the most popular imported sauce varieties in the market. Tariff rates for sauces are 50 or 75 percent whereas for syrups the rates vary between 35 to 150 percent.

Functional foods: Consumption of functional food products has been growing rapidly in line with the consumer demand for healthy products. Currently diet products, gluten-free 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 health trend, organic products are gaining popularity in Turkey over 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. Organic products currently account for only 1

percent of the total food products in the market and are mainly fresh produce, eggs, some dairy products, pulses, pasta, tahini and herbs. There are only a few processed goods available such as organic yogurt, chocolate, jams, tahini, etc. Post expects that organic processed product varieties will have sales potential in the Turkish market in the upcoming years.

Prepared food / Ready meals: Pre-prepared and ready-to-consume food products are currently very limited in the market but present a great potential for the urban consumer. As more women join the work force and as work hours are extended in a competitive business environment, many people are looking for quick meal solutions after they come home from a long commute exhausted after a long day. The ready-to-eat/cook meals have a high potential in this respect.

Gourmet/Foreign Ingredients: As Turkish consumers' tastes 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 2015, Turkey imported US\$ 1.2 million of snacks from the United States, but this figure has reached US\$ 2.1 million in the first 10 months of 2016. 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. For detailed and updated information, please refer to the related FAS reports:

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

It can be difficult to export product that has a shelf-life less than six months to the Turkish market due to the shipment time from the United States and 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 one or more 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 has made urban consumers more open to trying and accepting new tastes, Turkish people in general can be quite resistant to try new tastes, so some products may need to be adapted 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: <http://www.fas.usda.gov>.

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

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