



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: 12/30/2011

Turkey

Retail Foods

Retail Food Sector

Approved By:

Rachel Nelson,
Agricultural Attaché

Prepared By:

Meliha Atalaysun,
Agriculture Marketing
Assistant

Report Highlights:

The Turkish retail sector has grown at a remarkable rate during the past decade, reaching a total of 11,588 chain stores and supermarkets, and 291 shopping malls as of the end of 2011. The share of food in the total retail sector is 54% and the size of the retail food market was US \$96 billion in 2010. The food & beverage sector grew 18% in 2010 reaching a total of TL 222 billion. In 2009 despite the global economic crisis, the share of direct foreign investment in the organized retail sector increased 12% compared to 2008. The Turkish food sector imported US \$3.5 billion and exported US \$6.7 billion in 2010, which reflects a 13% increase in exports compared to 2009.

Post:

Ankara

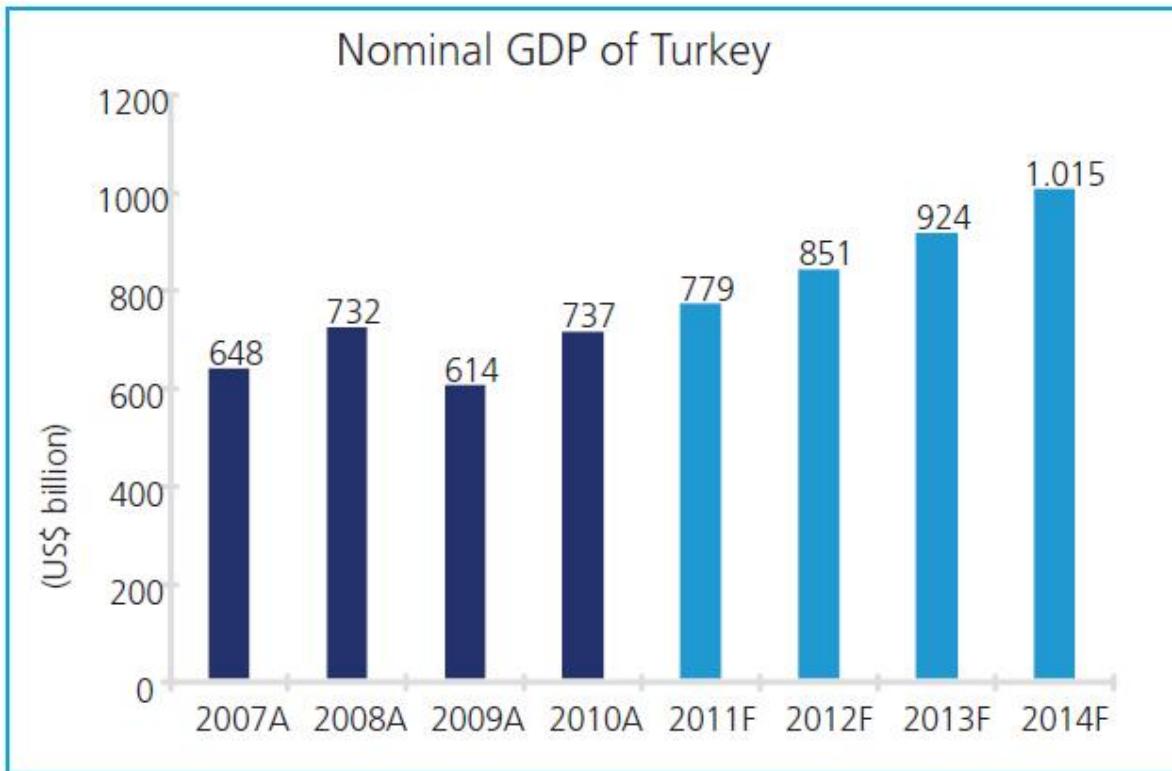
Executive Summary:

The retail sector is one of the fastest growing sectors in the Turkish economy. The total volume of the retail sector has increased from US \$70 billion in 2005 to US \$187 billion in 2010 and is expected to reach US \$250 billion by the year 2014. The number of modern shopping malls in Turkey more than doubled in the last five years, from 129 in 2006 to 291 in 2011. Accordingly, total retail area is at least 23 million square meters, with 2.1 million employees, 520,000 of which have been in organized retail. Based on these figures, Turkey is the 7th largest retail market in Europe and the 10th in the world.

Food retail holds the largest share in the total retail sector with sales reaching US \$96 billion in 2010. The share of organized retail in the food retail sector is increasing rapidly, and has reached 54% versus 36% unorganized food retail in 2011.

Turkey is undergoing rapid urbanization. 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.

The Turkish economy has performed successfully in the past decade and relatively better than in other countries during and after the global crisis of 2008. Despite global financial problems, Turkey grew 9.6% in the first three quarters of 2011 which exceeded even China and became the world's largest growing economy. In the past decade, the inflation rate was sustained at single digit numbers varying between 9.3 percent in 2004 and 6.4 in 2010. In parallel, GDP has also increased considerably and is projected to continue increasing steadily in the upcoming years.



Turkey is the world's 5th largest in terms of spending on food. Making a simple calculation based on GDP, the total volume of the food sector can be projected as follows: Taking a GDP of US \$750 billion, private consumption accounts for 70% of GDP and food & beverage (F&B) consumption accounts for 30% of private consumption. This means that F&B accounts for 21% of total GDP which means that the total expenditure on food and beverages is about US \$150 billion. This includes restaurants, hotels, cafes and all points of sale. After these are eliminated, we can say that the retail food expenditure is approximately US \$100 billion in total.

The Turkish food industry is enjoying continuous growth trends due to the young population of the country, high urbanization rates, and rising income levels. The food sector enjoyed an 8% increase in overall sales in the first seven months of 2011 and this rate is expected to reach 20% by the year end. Commodities consumed the most in the sector are bread, pulses, sugar, dairy products, fruits and vegetables.

The Turkish food retail sector has also seen robust economic growth. The sales of large food retailers have risen and new hyper and supermarkets are continuing to be opened at an incredible rate. This reflects a rising consumer preference for branded products.

The availability of a vast range of choices at large supermarkets attracts customers who are demanding versatility in line with the increase in their income levels and changing life-styles. Moreover, the member discount cards of modern retailers became very popular since their introduction in 1998 and have improved buyer's loyalty and helped boost sales.

All these factors combined with an increase in purchasing power affected consumption trends. 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 54% 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 36%. As of 2011, there are about 110,000 *bakkals* in Turkey.

A. MARKET SUMMARY

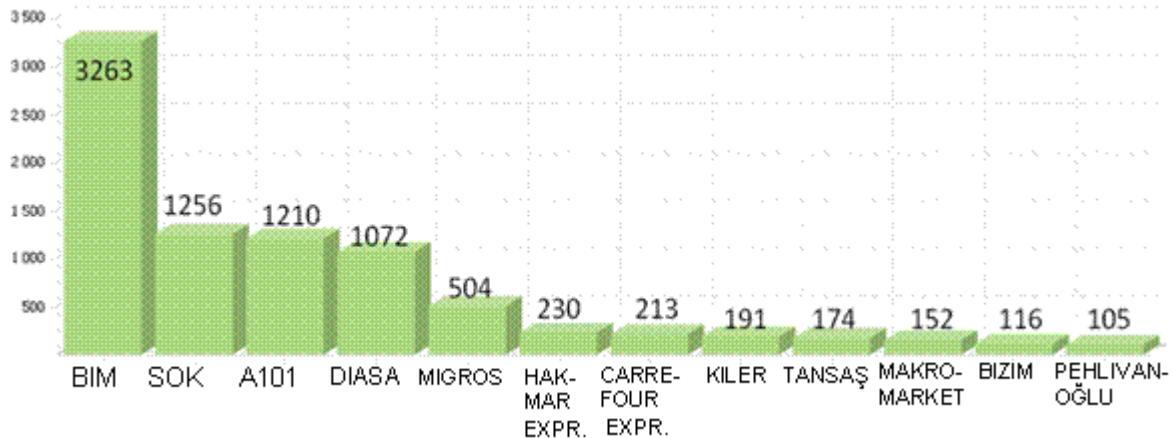
I. The Retail Sector Profile

The retail sector is classified into two major groups, organized and unorganized retailers. Organized retailers are mostly chain stores that have a corporate entity and are fully registered. Unorganized retailers, also called the traditional market, constitute smaller, single stores and bazaars. A further classification of food retail outlets in this report is given in the table below:

	Sales area (m²)	No. of cash registers	Offered features
Hypermarkets	2500 and above	8	Self service, 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
Convenience & gas station stores	10-50	1	Side street, gas station

A more important classification that helps to explain the Turkish retail sector is local versus national & international supermarket chains. There are 168 local chains with a total of 3303 stores, whereas there are 21 national & international chains with a total of 8735 stores. Even though these figures seem to show that the national chains rule the market, after you remove the top 3 national discount chains (BIM with 3263 stores, Şok with 1256 stores and A 101 with 1210 stores which account for 47.59% of the total number), the remaining figure shows that the number of local chain market stores is more than that of national and international chains.

The bar chart below shows the top 10 retail chains according to their number of stores. It is worth mentioning that the first four chains in the chart above are national discount stores.



Source: www.ortakalan.com.tr

Imported food products are generally not found in local supermarket chains or discount stores 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.

On January 2008, the value added tax (VAT) was reduced from 18 percent to 8 percent for food items, and then to 1 percent for basic consumable goods. Recently it was reduced to 1% for meat and poultry products as well, but this reduction was hardly reflected in retail prices, and was absorbed at the wholesale level.

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

STRENGTHS	WEAKNESSES
<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 effected by religion and high Special Consumption Tax rates -High import duties imposed on both agricultural and processed products -High shelf fees charged by the large chains lead to high costs for introducing new products
OPPORTUNITIES	THREATS
<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 still not matured nor been saturated which provides easier entrance opportunities for new products 	<ul style="list-style-type: none"> -Complex and extensive import procedures bring up the cost of imported products -For confectionaries there is a threat of being copied by a large local producer and marketed under a different brand name -Competition from European countries that entered the market first and have preferential tariff rates.

II. Trends in the Market

Products and services offered to consumers by the major national & international chains include private label food items, membership cards, free delivery for internet purchases and mobile phone applications. In addition to printing periodical booklets where promotional items are displayed and distributed in bundles to apartments, some chains also adopt good agricultural practices to differentiate themselves from their competitors.

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 BİM for instance, private labels constitute more than 50% of total sales. This figure is around 35% in DiaSa and 30% in A101 markets.

As a consequence of the rise of the organized retail sector, supermarkets have strengthened their bargaining power over suppliers of both food and non-food products and even further established their position through consolidation. *Bakkals* on the other hand are trying to fight back by diversifying their services and products; they moved their product range towards fast moving items such as candy bars, biscuits, snacks, soft drinks and cigarettes. They also started to market provincial items from countryside such as local cheeses, honey and homemade ready to eat food items.

Since the recent global financial crisis started, even high-income consumers became more price conscious. This can be observed in the tremendous increase in the number of discount stores opened and in the turnover they make. The table below lists the top 10 supermarket chains that opened the most number of stores in the past year (between November 2010 and November 2011).

	Nov. 1 st , 2010	Nov. 1 st , 2011	Difference
A 101 (National Discount)	721	1210	489
BİM (National Discount)	2907	3623	356
DiaSa (National Discount)	788	1072	284
Migros (National)	352	504	152
Hakmar Express (İstanbul Discount)	107	230	123
Onurex (İstanbul Discount)	59	92	33
Makromarket (National)	121	152	31
Carrefoursa Express (National)	190	213	23
Sok (National Discount)	1235	1256	21
Kiler (National)	172	191	19

Source: www.ortakalan.com.tr

The last column shows how rapid the discount stores are growing. In order to compete with this trend, major retailers are changing their strategies and going for concepts such as fast shopping, gourmet and boutique stores.

For instance, Carrefour lately 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.

Migros on the other hand evolved the Jet-Cashier application, which it has been using in its larger markets since 2009, into a store concept and created M-Jet stores that 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 (already reached 36 stores in Istanbul, Ankara, Izmir and Bursa).

As discount markets gain popularity among organized retailers, this resulted in a decline in the average size of stores since the size of these vary between 200-400 sqm. These stores, like BIM, provide around 700 varieties of products whereas this figure is between 2000-2500 in local retailers. These hard-discount stores target the C segment where the average basket price varies between US \$5 – 15 and a good percent of the total revenue comes from private label products. Industry sources estimate that the discount sector is approximately 40% saturated and that there is still a 60% potential growth capacity.

Another recent trend is the grouping of independent local chains getting together under the roof of a single company to make joint purchases in order to benefit from 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 Samsun with 6 local chains coming together for a Cash & Carry concept.

In the Cash & Carry segment Ulker, 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 111 Bizim stores in 54 cities.

III. Actors of the Organized Retail Sector

A. Supermarkets

1. Local Supermarket Chains

Local supermarkets are increasing in number and in turnover volume as a result of the large scale switch from *bakkals* to local supermarkets. As of October 2011, these local supermarket chains raised their total number of stores to 3,303, employing 62,757 personnel.

The table below shows the dispersion of these local chain stores throughout Turkey.

Region	Nr. of Stores	Total Share
Marmara	1531	46%
Central Anatolia	712	22%

Mediterranean	461	14%
Aegean	239	7%
Black Sea	173	5%
East Anatolia	126	4%
South East Anatolia	61	2%

Source: www.ortakalan.com.tr

In 2011, international retail chains grew 4.8%, national chains grew 5%, and local chains grew 21% in Turkey. This trend is expected to continue in 2012 with an even more emphasis on discount and cash & carry segments.

2. Foreign 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, Şok, to Ulker in 2011 Migros is now trying to fill that void with its new concept stores called M-Jet and Mini Tansas. Albeit their small sizes, these store are not discount stores but maintain a supermarket concept with nearly 3200 product types. There has been a change in strategy for the Izmir based Tansas stores which Migros purchased in 2005 away from expansion in Anatolia towards growth in the Aegean Region. Having made 6.3 billion TL revenues in 2010, Migros's revenue for 2011 is expected to be 5.7 billion TL and 6.3 billion TL in 2012.

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 which targets professional commercial customers such as hotel, restaurant and kiosk operators, caterers and small food retailers unlike the common supermarket retailers which target private households. Having invested over 700 million Euros in Turkey so far, Metro Group's 2010 sales reached € 1.698 million from a total of 20 Metro Cash & Carry Stores, 12 Real Hypermarkets, 17 Media Markets, and 3 Saturn stores. The group also exports € 600 million in products from Turkey annually and employs 6,866 full time-staff.

The French chain Carrefour entered the Turkish market in 1993. Three years later, in 1996 Carrefour partnered with a leading conglomerate in Turkey, the Sabanci Group, by selling 40% and keeping 60% of its ownership. Together, the Carrefour – Sabanci merger became CarrefourSa. Currently, CarrefourSa has 27 hypermarkets operating under the name CarrefourSa, 220 supermarkets under the name CarrefourSa Express and 1100 discount stores under the name DiaSa. As of 2011, the group employs 7,500 staff and generates a sales volume of US \$2.5 billion.

Tesco, a UK company, acquired the small Turkish chain Kipa in the Izmir region in November 2003 and since then its volume has increased from US \$310 million in 2005 to US \$1.2 billion in 2011. Tesco has 150 Kipa stores in Turkey and employs 10 thousand staff. In their Kipa Extra stores, they sell non-food items like textiles and electronic products.

3. Gas Station Markets and Convenience Stores

According to Turkish Petroleum Corporative (TPAO) data, there are 10,000 gas stations in Turkey and 65% of these also have a market. In other words, there are 6,500 gas station markets with total sales

of TL 1.6 billion annually.

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

1. There are 604 markets in BP's gas stations, and some of these have fast food chains such as Burger King, McDonald's and Pizza Hut along with a grocery store.
2. Shell Co., with 1250 gas stations after its merger with Turkpetrol, has a market in all of its stations.
3. Petrol Ofisi has 2500 markets in its stations, some of which also have Würth, DiaSA, Aslı Börek and Simit Sarayı restaurants. PO also makes special agreements with companies like Coca-Cola, Nestle, and Craft to sell certain products cheaper than the marketplace under their "Product of the month" campaign.
4. Opet, which has around 800 markets, includes Seven Eleven in their gas stations.
5. Akpet also has over 700 markets and 300 restaurants in its gas stations.

These stores have a relatively limited sales volume, cannot sell alcohol, and their make procurements from wholesalers, hypermarkets, importers, agents and/or distributors.

IV. Actors in Unorganized (Traditional) Markets

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

Bakkals are small mom-and-pop outlets which are usually around 50m², 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 few brand alternatives. It is estimated that there are about 110,000 *bakkals* in Turkey as of 2011.

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.



Source: Turkish Institute of Statistics (e= estimate, f= forecast)

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, in *bakkals* and open-air bazaars, only bulk commodity products such as pulses and rice can be found 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 US\$	Number of Outlets-2011	Location	Purchasing Agent
BIM A.S.	Hard Discount stores	Turkish	US \$4.3 billion	3263	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	US \$3 billion	701	Nationwide & International	Direct & Importers
Carrefour -SA	Hyper (CarrefourSA) Super (CarrefourSA Express) Soft Discount (DiaSA)	French 60% Turkish 40%	CarrefourSA US \$1.3 billion DiaSA US \$516mil.	27 Carrefour 216 Car.Exp. 1120 DiaSA	Nationwide & International	Direct, Importers
Tesco-Kipa	Hyper, super and Express stores	U.K. 93% Turkish 7%	US \$1.12 billion	150	Nationwide	Importers
Metro & Real	Hypermarkets	German	US \$1.5 billion (estimate)	Total 35; 23 Metro 12 Real	Nationwide	Direct, Importers
Şok	Soft Discount	Turkish	US \$642 million	1256	Nationwide	Importers/ Wholesalers
A101	Hard Discount	Turkish	US \$588 mil.	1210	Nationwide	Importers/ Wholesalers
Kiler	Supermarkets	Turkish	US \$428 mil.	191	Nationwide	Importers/ Wholesalers

Source: Websites of the retailers, press releases
 * Foreign Exchange Rate at the time of this report: 1US\$ = 1,87 TL

II. Mergers and Acquisitions

Turkish supermarket chains have been undergoing a continuous trend of mergers and acquisitions since 2005. The acquisitions started with CarrefourSA acquiring Gima & Endi from the Ankara Municipality on May 3, 2005 for US \$135 million.

Not long after, 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 percent 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.

Last but not the least, Migros sold its discount store line "Şok" (established in 1995 and having 1,230 stores and TL 1.2 billion in turnover) to Ulker Group for TL 600 million in 2011. This acquisition made Ulker the largest competitor of BIM which has over 3,000 stores in the discount segment.

There have been mergers and acquisitions among smaller food chains as well. Industry sources explain that companies are trying to increase their economies of scale and market penetration by acquiring smaller retailers rather than opening new stores.

Some local chains were listed in Istanbul Stock Exchange in 2010 and 2011. These chains were Kiler, Bizim and Uyum and their initial public offerings were 15, 35, and 30 percent of their shares, respectively.

Ulker, having acquired the Swiss chocolate producer Godiva in December 2007, is growing substantially. The group has 53 production facilities inside and outside of Turkey, and US \$11 billion annual business volume. In 2011, they also purchased Şok supermarket chains from Migros. The food retail sector is not used to a major supplier (having 10% share of the products displayed on their shelves) becoming their competitor. On the other hand, the fact that a local retail chain is purchased by a large local producer is also a sign that local investors can utilize economies of scale as well as the global companies.

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. In imported products, an 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 four percent of the total turnover of the food products retail sector.

Nearly all major suppliers today have their own chain store departments which are then intra-specialized as national and local chains. Supermarkets no longer purchase from agents or distributors, but directly from the suppliers themselves.

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. Draft Law on Supermarket Regulation

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 no 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 over 400 m². The envisaged articles make it more complicated for the super and hypermarkets to re-locate in central places, and aims to move them to the suburbs. The draft law incorporates gas station markets into the supermarket category. It also mandates large supermarkets and chains to open up an art gallery within their compounds.

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 to the suppliers whenever possible.

The draft law proposes standards such as minimum space for parking areas. The draft also implies the limitation of working hours for the supermarkets, like closing them earlier in the evenings and during national holidays. If this law comes into force, consumers may have more incentive to prefer traditional retailers over supermarkets because these smaller stores would not be limited by the restrictive measures regarding location and working hours. According to the draft, total turnover of private label products could not exceed 40 percent of the total sales.

This draft law was first prepared in 2003; it took 5 years to send it to the Prime Ministry and it is still at the proposal stage. As would be expected, the organized retail industry opposes it.

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.

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 awaiting U.S. exporters in the Turkish market are summarized in the below table:

Advantages	Challenges
A significant increase in purchasing power and improvements in the macro economy combined with the good reputation of U.S. food products lead to a 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 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 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)
Young population is eager to buy and try imported products regardless of their price, and consumers have a positive perception of U.S. products in terms of quality and are willing to pay more for that.	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, ready-to-eat foods and frozen food products, which are imported, as well as locally produced.	High shelf fees charged by the large chains lead to high 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.

Organized retailers are able to strengthen their position against the suppliers as a result of consolidation. Large supermarket chains ask for high "shelf prices" to sell a product in their stores. In other words they ask the supplier to pay them a certain amount of money to sell its product in their stores. This price is negotiable and varies according to the 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 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 relations with the retailers could create price advantages. Moreover, in order to make sure that the products are placed on a visible shelf, 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

U.S. exporters are highly recommended to participate in food shows in Turkey. The major food shows to be organized in Turkey in 2012 are listed below with their specific dates and venues.

Date	Fair Name and Description	Place
02.15.2012	19th Anfas Food Product : International food trade exhibition	Antalya Info
02.18.2012		
09.06.2012	GIDA : 20.international food & beverage, food ingredients and food processing exhibition	Istanbul Info
09.09.2012		
09.20.2012	7th İstanbul Food - Tech : Food and beverage technology, food safety	Istanbul Tüyap
09.23.2012		
11.29.2012	7th International Food And Food Technologies Fair : Food products and food machinery,	Ankara Info
12.02.2012	packing, flour products	
12.06.2012	FOODIST 6th İstanbul Food and Beverage Fair : Food & beverage	Istanbul Tuyap
12.09.2012		

While it is recommended to go through importers for high value items, commodities can be marketed with the help of certain institutions like the USA Rice Federation, US Dry Bean Council, etc.

In 2011 a 40 day shopping spree was organized between March 18 and April 26 under the name Istanbul Shopping Fest (ISF) including 93 shopping malls and many shopping streets which resulted in a 26% increase in revenues and 67% increase in the number of transactions compared to the same period of the previous year. Even though it is primarily a non-food activity, with the success it brings, it is bound to become a tradition in the upcoming years and will definitely affect the food retail sector as well.

Another innovative promotional activity in the sector was the Retail Train. Composed of 13 trailers, the train visited 6 cities and held children's events, conferences and concerts.

C. COMPETITION

The major competition facing U.S. exporters is from the European Union. EU countries enjoy advantages of the Customs Union agreement such as lowered import duties as well as lower freight charges and shorter delivery times due to their proximity compared to the US. 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.

Moreover, Turkey's processed food sector is modernized 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, The United States ranks Turkey's fifth largest food supplier after Poland, Germany, France and Netherlands. During the first ten months of 2011, Turkey imported US \$140 million worth of consumer oriented agricultural products from the United States. Among the long list composing this figure, some of the most significant ones are: US \$1.6 million of fish and seafood products, US \$6.5 million of processed fruits and vegetables, US \$2.47 million of snack foods (excluding nuts), US \$2 million of cheese, US \$3 million of other dairy products, and US \$132,000 of beer and wine.

In terms of bulk commodities, Turkey imported US \$328 million worth of wheat, US \$82 million worth of tree nuts, US \$65 million worth of rice and US \$7.8 million worth of pulses from the U.S. during the same period.

D. BEST PRODUCT PROSPECTS

I. Products Now Present in the Market

Best product prospects for the imported food market are internationally well-known branded products such as 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 dependent on imports in this category, since there is no local production of cocoa. Meanwhile the Turkish chocolate sector is growing approximately 10% annually for the past ten years compared to the 5% growth in the global chocolate sector, and reached TL 2.8 billion in volume. Chocolate consumption is in direct proportion to income level, and forty 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 opened up 52 stores in 11 cities since then. 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: U.S. walnuts, almonds and confectionary sunflower seeds are popular among the Turkish consumers and there is always a market for these items provided that they are price competitive. Turkish people consume walnuts and almonds as confectionary, and Turkey imported US \$82 million worth of walnuts and almonds from the United States in 2011.

Wine: The total alcoholic beverage sector volume is US \$1.1 billion in Turkey, and wine constitutes only 6% of this volume. Even though Turkey is the world's 6th largest grape producer with 3.6 million tons and is the 5th in terms of the area planted with 540 thousand hectares, only 0.2% of this grape production goes into wine making. Even though annual wine consumption is still around 1 liter per person, imported wine varieties are increasing in the market and are sought by consumers.

Beer: The majority of Turkish consumers still prefer the Turkish brand Efes Beer, however 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 (nearly 30 million in 2011).

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

Breakfast Cereals: Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit and chocolate cereals are increasing in variety as they are welcomed by Turkish consumers as breakfast items, even though they are relatively new in the market, cereals 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.

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

Frozen food: The frozen food sector is expanding substantially and varieties are increasing with the recent introduction of frozen seafood items in the past years. Domestic frozen food consumption has increased 47% in the past two years and reached 37 thousand tons. The total market volume including non-domestic consumption has been 250 thousand tons with TL 700 million in total revenues. The key to this growth is the change in consumers perceptions. Health-conscious consumers are getting rid of their prejudices and becoming knowledgeable about the food safety aspects of frozen goods with the help of marketing activities that emphasize the notion that it is healthier to buy frozen rather than freezing them at home.

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

Organic high value items: In line with the healthy trend, organic products are gaining popularity in Turkey for 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. However, currently sold organic products are limited more to fresh produce and herbs. There are only a few processed goods like organic yoghurt, etc. available. Post forecasts that any organic processed product to be introduced to the market would have substantial sales potential.

Ready-to-eat, ready-to-cook meals & canned soup: As more women join the work force and life styles change, processed foods are increasing their popularity among urbanites who don't have the time to cook for hours after work. The ready-to-eat and ready-to-cook meals market has a high potential in this respect. There are only a few local companies marketing such products. Therefore, exporters especially specialized in Far Eastern, French, and Tex-Mex cuisines have a good chance for successful market entry.

Gourmet/Foreign Ingredients: As Turkish consumers' tastes become more sophisticated, there is 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. 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

Regulations in Turkey may be subject to drastic changes over short periods of time, so every exporter 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 in every aspect made consumers more open to try and accept new tastes, 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