

Turkey



ECONOMIC OVERVIEW

Located at the crossroads of Europe and Asia, Turkey has historically played a critical role as a bridge between the East and the West. Turkey is a member of major international organizations such as NATO, OECD, UN, IMF, and WTO and is now seeking to integrate with the EU. With an unsaturated market, a tradition of entrepreneurship and intense business relations, Turkey offers remarkable business and investment opportunities.

Turkey's dynamic economy is a complex mix of modern industry and commerce with a traditional agriculture sector that in 2003 still accounted for 39% of employment. It has a strong and rapidly growing private sector, with the state still playing a major role in basic industries, banking, transportation and communication. The most important industry and largest exporter is textiles and clothing, followed by white goods, brown goods and automotive, which are almost entirely in private hands. In recent years, the economic situation has been marked by erratic economic growth and serious imbalances. The year 2004 is very important for Turkey. The critical decision

on EU membership negotiations will be made in December 2004. At the December 2002 Copenhagen Summit, the EU Council decided that if Turkey fulfilled the Copenhagen political criteria by December 2004, the EU would open accession negotiations without delay.

GDP AND CPI

Real GDP growth exceeded 6% for many years; however this strong expansion was interrupted by sharp declines in output during 1994, 1999 and 2001. Inflation has remained in the high double-digit range.

Change in GDP and CPI between 1999-2003

| Key economic indicators | 1999 | 2000 | 2001 | 2002 | 2003 |
|-------------------------|------|------|------|------|------|
| Real GDP growth (%) | -4.7 | 7.3 | -7.5 | 7.9 | 5.8 |
| CPI (%) | 68.8 | 39.0 | 68.5 | 29.7 | 18.4 |

Source: State Institute of Statistics and Internet Securities Consensus (ISI)



Area ('000 sq km): 774.8
(US 9,600 – EU 2,500 – World 133,700)

Capital: Ankara

Population (million): 68.0
(US 288.4 – EU 305.5 – World 6,200)

GDP (USD billion): 183.7
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 2,490
(US 35,400 – EMU 20,320 – World 5,120)

Currency: Turkish lira (TRL)

Languages: Turkish (official), Kurdish, Arabic, Armenian, Greek

Main religion: Muslim

Government type: Republican parliamentary democracy

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Strong economic activity, which gained momentum in 2003, is evidence of both a strong build-up in foreign trade and improved productivity. Industrial activity has kept its main role of stimulating economic growth. Export growth, having a key role in industry's improved contribution to economic growth, is a result of a limited recovery in domestic demand and post crisis improvement in productivity. Domestic trade appears as another significant component supporting economic growth. A visible acceleration was evident in private consumption expenditures and consumer loans throughout 2003.

UNEMPLOYMENT

Unemployment increased during the post-crisis period in 2002 as productivity improved. Despite strong economic growth, improvement in unemployment rates remained limited in 2003. At the end of 2003, the working population was 21 million and the unemployment rate was 10.5%. Unemployment in urban areas increased faster than unemployment in rural areas. Among the unemployed, the share of educated young people increased to 30%.

Unemployment rate 1999 – 2003 (% of labor force)

| 1999 | 2000 | 2001 | 2002 | 2003 |
|------|------|------|------|------|
| 7.3 | 6.6 | 8.4 | 10.3 | 10.5 |

Source: State Institute of Statistics

ECONOMIC FORECASTS

Economic forecasts envisage GDP growth at 5% for 2004 with CPI falling to 12%. In 2004, the number of unemployed is estimated to be 2 million with the unemployment rate estimated to reach 11.4% for Turkey as a whole.

Key economic forecasts

| | 2004 | 2005 |
|-----------------------|------|------|
| Real GDP growth (%) | 5.0 | 5.0 |
| CPI (%) | 12.0 | 10.6 |
| Unemployment rate (%) | 11.4 | 11.2 |

Source: IMF for GDP growth and CPI change, Internet Securities Consensus Forecasts for unemployment rate.

REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

Foreign direct investment (inflows)

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|-------------|-------|-------|------|------|------|
| GDP (%) | 0.5 | 2.2 | 0.37 | 0.2 | 0.32 |
| EUR million | 1,054 | 3,647 | 450 | 172 | 368 |

Despite its strong potential, Turkey has not benefited greatly from increased FDI flows brought by globalization. From 1999 to 2003, FDI inflows to Turkey averaged approximately EUR1,330 million net per year, equivalent to 0.6% of GDP. In Turkey, low FDI may be attributed partly to the slow pace of reforms, instability in growth, high inflation rates and high competition for FDI from other eastern European countries.

In Turkey, the currency is transferable and convertible, exchange controls are liberal, capital earnings after

taxes can freely be repatriated, almost no industries are closed to foreign investment and 100% foreign ownership is permitted for both business formation and acquisition.

The Foreign Capital Framework Decree No 95/6990 governs foreign investment. In principle, the objective of the regulation was to simplify the process of transactions with non-residents as part of the establishment of Turkey's open door policy with world markets. In addition, a new FDI law was approved by Parliament in June 2003, in order to improve existing regulations and create a better environment for foreign investments. The aim of the law is to encourage foreign direct investments; to protect the rights of foreign investors; to define investment and investors in line with the international standards; to accept a notification-based system for foreign direct investments rather than screening and approval; and thus promote principles to increase foreign direct investments.

EU ACCESSION TALKS

A series of important developments took place regarding Turkish-EU relations during the recent period, the most important being the European Commission's revised accession partnership document on Turkey. The EU General Affairs Council accepted, on April 15, 2004, a Revised Accession Partnership Document on Turkey prepared by the European Commission. The nation's short and middle term priorities in the accession process and the conditions, under which accession preparations are to be carried out in light of the political and economic criteria, were set out by the Union. Thus, Turkey's next step will be to revise its own National Program for the adoption of the Acquis in accordance with the new accession partnership document and then to present its National Program to the European Commission.

The Revised Accession Partnership Document in general meets Turkey's expectations. Turkey wants the EU to assume the same impartial approach towards defining the country's responsibilities on the road to EU membership as it has done towards other candidate countries. The Term President Conclusions of the Helsinki summit in 1999, too, require such an impartial stance.

Turkish lawmakers adopted a series of amendments to the constitution in a bid to meet EU democracy norms and win the go-ahead to begin talks. The latest package, which was passed by Parliament in May 2004, amended 10 articles of the constitution relating to judiciary and gender equality matters, and drew overwhelming support from the parliament as both the governing party and the opposition backed the changes.

PROPERTY / REAL ESTATE REGULATIONS

Companies formed and registered in Turkey may freely purchase real estate for the purposes of their investment (i.e. in accordance with their company statutes), subject to the routine approval of local authorities. Foreign individuals may own land, provided that it is purchased with imported capital. Land acquisition by foreigners is restricted in villages and in border and other military areas. Non-resident individuals may legally buy and sell real estate, provided a reciprocity agreement exists in their own country that covers land ownership for Turkish citizens.

THE DRAFT OF RETAIL BILL

The draft law on the retail market, which has been on the agenda for years and is expected to change the regulatory environment of the retailing sector completely, was recently submitted to the Prime Ministry. As the draft law has a restrictive nature, the sector participants have raised their concerns on limitations that may reduce the share of organized retailing in Turkey at a time when there is a need to promote it. It is expected that there will be major changes in the draft before it is submitted to the Parliament in the last quarter of 2004.

Currently, the regulation of the supermarket establishment is conducted through city planning and development laws, and overseen by the government. There are no limitations on opening hypermarkets in city centers: the only problem is finding convenient locations.

Under the new law, a permission grant is needed for the establishment of stores measuring 400 square meters (including parking lots) and above.

According to the draft bill:

- Stores that are up to 3,000 square meters will be established by the permission of the local governorship;
- Stores between 3,000 square meters and 15,000 square meters will be established in accordance with architectural plans and environmental regulations and on the approval of both the local authorities and the governorship;
- Stores with a surface area of more than 15,000 square meters will be either established in trade centers mentioned in architectural plans or outside city limits with governorship recommendations and permission from the Industry and Trade Ministry of Turkey.

The draft bill defines:

- City limits: socially and economically developed districts that have traffic and environmental problems.
- Outside city limits but still within local authority jurisdiction: districts that are not extensively developed in trade and do not have traffic and environmental problems.

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The big stores should have car parks that have an area equal to:

- one half of their selling spaces in residential centers within city limits; or
- their entire selling space outside residential centers of the city.

Stores with surface areas of less than 400 square meters are exempt from the draft bill:

- Pharmacies
- District markets
- Factory stores of below 1,000 square meters

The draft law also aims to control the organized retailers' payback procedure to their suppliers. Unless otherwise agreed, organized retailers are expected to pay suppliers within 60 days. For perishables, the draft bill restricts payment terms to 10 days (20 days for meat products). As is known, Turkish retailers sell in cash and pay in terms. In other words, retailers can sell their products at a lower price to realize an operating loss. These losses consist of high financial income generated from negative net working capital. Therefore, if the ministry puts a limit on "days payable" of retailers, this may damage their

competitive edge, as they have to sell at higher prices to generate operating income. Meanwhile, corner stores and so-called open bazaars will gain a competitive edge, as they usually do not pay taxes on their income and thus can reflect these tax advantages in their selling prices in direct comparison to the organized segment which fully operates under the registered economy.

TAXATION

In 2004 corporation tax is payable at a rate of 33% after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. After 2004 the tax rate will decrease to 30%.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations, are not subject to withholding tax. Otherwise dividends paid are subject to withholding tax at the rate of 11% (10% effective from January 1, 2004). An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

According to the latest census taken in 2000, the population of Turkey stands at over 67 million. The population is concentrated in coastal and agricultural areas. While the population of urban areas came to approximately 44 million people, the rest was rural.

Turkey's urbanization gained momentum in the 1990s. The rate of urbanization rose from 60% in 1990 to 65% in 2000.

Population evolution

Population growth (1999-2005)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004E | 2005E |
|----------------------|------|------|------|------|------|-------|-------|
| Population (million) | 64.4 | 65.3 | 66.2 | 67.1 | 68.0 | 68.9 | 69.8 |

Source: State Institute of Statistics of Turkey (SIS)

Population by age group

| | 2000 (%) |
|----------------|----------|
| Under 14 years | 32.8 |
| 15-64 years | 61.9 |
| Above 65 years | 5.3 |

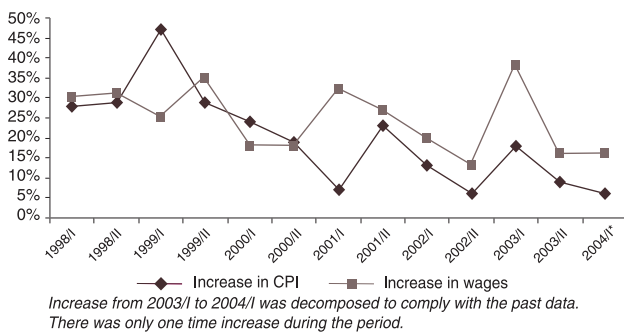
Source: State Institute of Statistics of Turkey (SIS)

INCOME / BUYING POWER

In Turkey, wage increases have generally been high in nominal terms due to high inflation rates. With the exception of 1999 and 2001, wage increases have consistently followed inflation. In 1999 wages increased in real terms at a higher rate than inflation, while in 2001 the case was just the opposite due to the macroeconomic crisis.

In Turkey, income distribution has been and still is uneven. The top 20% income group gets circa 44% of the total income while the bottom 20% group receives only 7%.

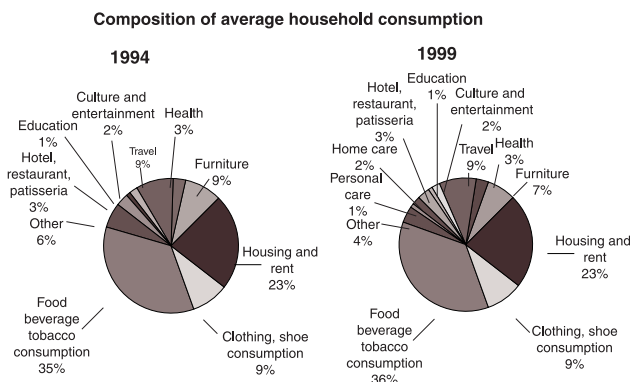
Income per capita declined during the crisis in 2001, mainly due to sharp depreciation of the Turkish Lira against other major currencies. Average disposable annual income per capita declined from EUR3,233 in 2000 to EUR2,414 in 2001, recovering to EUR2,734 in 2002 and EUR2,894 in 2003.



CONSUMER BEHAVIOR

Average household spending patterns

According to a research conducted in 1999 by the State Institute of Statistics, an average consumer spends 36% of his/her income on food including tobacco consumption, 23% on rent, 9% on clothing, 9% on travel, 7% on furniture, 3% on dining out, 3% on health, 2% on cultural and entertainment activities, 2% on home care, 1% on education and 1% on personal care.



Source: State Institute of Statistics of Turkey (SIS)

Lifestyles

The strong movement towards urbanization, better education and an increasing role for women in the workforce have been changing lifestyles. People have started to prefer ready-to-cook products rather than cooking themselves. Internet shopping and home-delivery have started to become preferred alternatives for some of the more affluent working population. The increased number of satellite towns with detached houses and gardens in the suburbs of large cities like Istanbul, Izmir and Ankara has increased the demand for DIY outlets.

Brand / Price sensitivity

Consumers have a preference for cheaper B-brands and private labels, and there is a significant trend indicating a tendency for cost efficiency. Consumers are much more price sensitive since the financial crisis in 2001 and accompanying fall in personal incomes. According to a panel survey, the most important criterion in shopping has become price. Consumers that used to go shopping 12 times in a month in the previous year now go shopping 14 times in a month. Since price sensitivity has increased as a result of the crisis in 2001, it has replaced brand loyalty in many products. Consumer behavior has been changing rapidly partly as a reflection of strong international trends for consumer rights and the entrance of international companies into the Turkish market and partly due to intensifying competition. The slogan "consumer is the boss" has been gaining more recognition in Turkish markets. Companies, brands and salespeople who do not act according to this slogan are challenged strongly in the media and other public sources.

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RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR LOCAL CONSUMER GOODS PLAYERS

In Turkey, expenditure on food, beverages and tobacco, accounted for 36% of total consumer expenditure in 2003. On the other hand, Turkish white

goods and consumer electronics industries are well developed and mainly export-oriented. Many domestic companies produce a wide range of white goods and electronic goods under the licenses from various big international companies.

| Top local players | Category of products | 2003 Sales (EUR million, excl. VAT) |
|--|--|-------------------------------------|
| Tekel (Turkish state monopoly in tobacco) | Tobacco | 2,425 |
| Koç Holding (Arçelik, Beko and Aygaz brands) | White goods | 2,195 |
| Ulker (top Turkish producer) | Food and beverages | 975 |
| Zorlu Holding (Vestel brand) | White goods | 855 (2002) |
| Efes Pilsen | Beer | 605 |
| Yasar Group (Pinar brand) | Dairy products, meat and mineral water | 340 |
| Turk Demirdokum | White goods | 190 |
| Teba Holding | White goods | 155 (2002) |
| Eczabacibasi | Home and personal care products | 145 |
| Gidasa (Piyale brand) | Food and beverages | 40 |

Especially during the last ten years, local producers have been faced with very strong competition from amongst themselves and from big international companies (for example, Unilever, Coca Cola, Nestlé, Philip Morris, BAT, JTI, Bosch - Siemens, Procter & Gamble, and Gillette). This competitive phase saw the

weaker local companies eliminated. The survivors on the other hand, have continued on to be market leaders against the international competitors and have gained good reputations in Central European and Middle Eastern markets.

MAJOR RETAIL PLAYERS

Retail sales

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Retail sales (TL trillion) | 6,400 | 12,420 | 20,756 | 33,440 | 48,321 | 71,925 | 72,500 |
| Retail sales (EUR million) | 34,260 | 38,730 | 40,295 | 43,485 | 32,055 | 38,797 | 40,650 |
| Retail sales EUR value growth (%) | -1.3 | 13.0 | 4.0 | 7.9 | -26.3 | 21.0 | 4.7 |

According to figures compiled by the Association of Shopping Centers and Retailers (AMPD), in EUR terms, retail sales increased by 4.7% in 2003 to around EUR 42 billion, whereas modern grocery total sales were EUR12 billion. The share of the organized retail sector in Turkey is approximately 28%, which is 50% in Germany and 99% in France.

The Turkish retail sector recovered sharply from a decline of 26.3% in 2001. Retail sales in 2003 accounted for about a quarter of GDP. Demand for organized retailers such as hypermarkets, supermarkets and shopping centers has increased due to the rapid urbanization of the Turkish population and liberalization. But the number of retail businesses has declined; many small retailers went bankrupt as a result of severe recessions that followed the earthquakes in the north-west Turkey in late 1999 and the devaluation of the Turkish lira in February 2001.

Only a small segment of the population can afford to shop in modern retail outlets. Industry sources estimate that only 5 to 7 million people do the majority of their shopping in modern retail outlets. Although some supermarkets and hypermarkets exist in large cities such as Istanbul, Izmir and Ankara, the majority of Turks continue to buy food products from small, specialized neighborhood outlets, called "bakkals". Open-air bazaars constitute a significant share in total retail turnover, something not substituted in Mediterranean countries. The vast majority of products available are produced locally using local ingredients. Food prices in Turkey, especially for imported processed goods, are extremely high. For example, beef prices are higher in Turkey than they are in Switzerland. High tariff protection applies to processed food products with tariffs ranging by up to 227.5%.

The classification of food retail outlets in this report is based on outlet size in square meters:

Hypermarkets are over 2,500 square meters
Large Supermarkets between 1,000 and 2,500 square meters
Supermarkets 400 to 1,000 square meters
Small Supermarkets less than 400 square meters
Markets 100 to 50 square meters
Bakkals 50 square meters or less

The structure of the retail sector is significantly influenced by the type of food consumed by the

majority of the population. For low-income groups, it is estimated that 55% of the diet is made up of bread with additional 15% made up of rice, potatoes and pasta products. For the entire population, processed foods make up only about 15 to 20% of consumption. Thus, the share of hypermarkets in the overall food retail market is still low but increasing gradually. Industry sources estimate that hypermarkets controlled approximately 9.5% of the retail market in 2002, up from 6.5% in 1999. This share is expected to reach 12% by the end of 2004.

Total retail food sales broke down as 41.4% in bakkals and markets, 12.7% in small supermarkets, 12.1% in supermarkets, 11.4% in large supermarkets, 10.4% in hypermarkets and the remaining 12% in specialist food retailers, convenience stores and open-air bazaars.

After the recovery period in 2003, food sales grew by almost 4% in real terms. Despite the slower growth since the crisis in 2001, hypermarkets and supermarkets continue to be among the most dynamic sub-sectors. While existing food retail chains continue to open up new stores, new international chains are acquiring local chains. For example, Tesco recently bought Kipa, a hypermarket chain that is prevalent in Izmir and its surrounding areas. Hard discount stores also started to grow rapidly in 2001. These formats have benefited from a shift in consumer preferences towards lower-price goods.

Trends in products and services provided by the major chains include private label food items, phone and Internet purchases and delivery, and membership cards. Since bakkals have traditionally provided a delivery service, and the minimum purchase level is relatively low, supermarkets hope this service will increase their customer base. In order to increase their sales, large supermarkets have increased their advertising spending and have started various promotional campaigns.

The share of hypermarkets and supermarkets is expected to increase from their current 33.9% to more than 50% of the retail market by the end of 2005. Although the share of bakkals and markets decreased from 76% to 41.4% between 1994 and 2003, this segment still continues to boast more than EUR8 billion in annual sales. However, the growth in larger outlets is having an impact on the bakkals and increasing numbers of them are closing.

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Top 10 food retailers

This ranking is established according to the market shares:

| Parent company | Retail formats | Ownership | 2003 Sales (EUR million, excl. VAT) | Number of outlets | 2003 Market share(%) |
|------------------------------------|---|---|---|------------------------|-------------------------|
| Migros SOK | Hyper, super & discount stores (SOK), e-trade | Turkish (Koç Holding) | 1,057 | 436 | 6.2 |
| CarrefourSA ChampionSA DiaSA | Hypermarkets Supermarkets Discount stores | French (Carrefour) & Turkish (Sabanci) | 581 51 | 11 82 | 3.8 |
| BIM | Hard discount stores | Turkish, US & Saudi Arabian | 975 (2001) | 921 | 3.7 |
| Tansas Makro | Hyper & supermarkets | Turkish (Dogus Holding) | 400 | 193 | 2.5 |
| Gima | Supermarket & discount stores (Endi) | Turkish (Fiba Group) | 365 | 78 (Gima) 52 (Endi) | 2.4 |
| Yimpas | Hyper & supermarkets | Turkish (Yimpas Holding) | 285 | 50 | 2.0 |
| Tesco-Kipa | Hypermarkets | UK (Tesco Plc) | 190 | 5 | 1.2 |
| Metro Real | Cash & Carry Hypermarkets | Germany (Metro Group) | 452 167 | 9 7 | - 1.2 |
| Kiler | Supermarkets | Turkish | N/A | 37 | 0.8 |
| Afra | Hypermarkets | Turkish | 120 | 22 | 0.7 |

Source: Market Share Information derived from AMPD

Major non-food retailers

| Company name | Ownership | Retail formats | 2003 Sales (EUR million, excl. VAT) | Number of outlets |
|-----------------|-----------------------|-------------------|---|----------------------|
| Carsi | Turkish | Department stores | 216 | 13 |
| Praktiker | German | DIY | 56 | 8 |
| Koçtas | Turkish & Switzerland | DIY | 40 | 5 |
| YKM | Turkish | Department stores | N/A | 42 |
| Marks & Spencer | Turkish | Department stores | N/A | 11 |
| Tekzen | Turkish & German | DIY | N/A | 9 |
| Bauhaus | German | DIY | N/A | 2 |

Source: Company data

The majority of the leading companies have ambitious expansion plans, which should see them capture an increasing share of the market through alliances with small local players. However, local players are also producing strategies to strength themselves through alternative alliances.

Retail channels

Number of retail outlets

According to research, the number of retail outlets in Turkey between 2000 and 2003 are as follows:

| | 2000 | 2001 | 2002 | 2003 |
|-------------------|----------------|----------------|----------------|----------------|
| Hypermarket | 129 | 149 | 151 | 143 |
| Large Supermarket | 306 | 357 | 368 | 367 |
| Supermarket | 726 | 835 | 909 | 968 |
| Small Supermarket | 1,818 | 2,299 | 2,577 | 2,764 |
| Medium Market | 13,232 | 13,210 | 13,555 | 14,537 |
| Bakkal | 136,763 | 128,580 | 122,342 | 124,283 |
| | 152,074 | 145,430 | 139,902 | 143,062 |

and their market shares are:

| | 2002 (%) | 2003 (%) | Growth (point) |
|-------------------|----------|----------|----------------|
| Hypermarket | 10.2 | 10.4 | +0.2 |
| Large Supermarket | 11.9 | 11.4 | -0.5 |
| Supermarket | 11.2 | 12.1 | +0.9 |
| Small Supermarket | 12.1 | 12.7 | +0.6 |
| Medium Market | 8.5 | 8.3 | -0.2 |
| Bakkal | 34.1 | 33.1 | -1.0 |

The rest of the market share belongs to open-air bazaars.

Hypermarkets, supermarkets, warehouses

Hypermarkets have recently become fashionable investments within the retailing sector in Turkey. Sabanci, Koç and Dogus - three major conglomerates in Turkey - are heavily involved in this sector. There are more than 50 different chains operating in the Turkish retail business. Foreign investors present in the Turkish retail market include Metro (Germany), Carrefour (France) and Tesco (UK).

Large western-style retail outlets have flourished in Istanbul, Ankara, Izmir and other large cities such as Adana, Gaziantep, Bursa, Kocaeli, Konya and Mersin. Here consumers are more aware of international trends, have higher disposable incomes and have cars to reach large warehousesized stores. Locally owned retail chains tend to concentrate on middle to small cities and towns of Turkey.

Convenience stores, gas marts, kiosks, etc.

Seven Eleven has been the leading organized convenience type store chain in Turkey since 1995. The new owner of Seven Eleven, Opet (Koç Holding), plans to increase the number of outlets from 25 to 50 by the end of 2005. Other convenience stores, gas marts and kiosks are generally single individual enterprises.

Gas station minimarts are also new in Turkey, with 7 or 8 major brands. Marketim, a market chain, made an agreement with Elf Gas Stations to open up 24-hour service gas station minimarts. They plan to open 25 outlets initially. Other gas stations and gas mini-marts do not operate as part of a chain.

Traditional markets

Bakkals, certain types of convenience stores and open-air bazaars are forms of traditional outlets in Turkey. Bakkals are small outlets, which sell anything from food (fresh and prepared) to personal care products. Convenience stores mostly sell dry nuts confection items, tobacco products and soft drinks. Open-air bazaars mainly concentrate on fresh vegetables and fruit. All three are still preferred by the majority of Turkish consumers. Two main reasons for this preference are: bakkals and convenience stores are in accessible locations close to home with delivery services, and corner bazaars offer a wide variety of products, fresh fruits and vegetables, clothing, over-the-counter products and personal care products at low prices.

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E-commerce

E-commerce has become a sell-side channel as a result of the increasing competitiveness between major retailers. Although the current Internet penetration rate is considered to be very low, compared with European

averages, it is likely to increase in the future. Furthermore, initiation of shopping via digital TV, home telephones and cellular phones is in progress.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Modern chain retailing remains largely unexplored

The main factor stimulating retailers to invest in the sector and to build up modern structures has certainly been growth potential due to a large and growing population and unsaturated market conditions. Factors such as the growth of disposable income along with the changes in the composition of the country's production factors, demographic characteristics, life styles and consumption patterns have all fostered positive expectations.

Retailers have been building up a wider network of store chains with the emphasis on ergonomics and parking lots, improving service quality and attempts to attract new customers whilst retaining existing ones. In order to increase their market share, large supermarkets have conducted various promotional campaigns, initiated phone and Internet purchase and delivery, and issued membership cards. The transformation to modern format food retailing has mainly occurred in large cities where shopping habits are changing fast and the population justifies large-scale investment.

Despite the progress, chain retailing remains a largely unexplored market in Turkey, with organized retail representing only a 30% share of the total turnover in 2003. Per one million of the population, there are approximately 2 hypermarkets and 16 supermarkets in Turkey, whereas there are 15 hypermarkets and 150 supermarkets in EU countries. These figures show that the Turkish market still has lots of potential. The Turkish retail sector is also relatively fragmented.

At present, the top five players hold a combined market share of under 20% of the modern grocery distribution.

Improve operational efficiency

Operational efficiency, better use of information technology in inventory management, purchase planning, customer data warehousing, customer relationship management and category management are the main areas in which Turkish retailers need to improve.

OPPORTUNITIES

Positive medium-term outlook

Despite periodic setbacks, the medium-term economic outlook is positive and a number of trends and events will positively influence the retail sector. Income growth, high urbanization rates and the increasing number of women in the workforce all influence changes in tastes and preferences that support the development of the retail sector.

New area for branded imported items

Change in retailing structure has opened new areas for branded import items. Industry sources estimate that only the top 5 to 10% of the Turkish population can afford imported food items.

EMERGING TRENDS

CRM activities

Organized retailers have started to concentrate on CRM activities and to observe consumer behavior in order to retain their customers and create brand loyalty. Therefore, they have initiated store cards, which bring extra benefits (mostly discounts) to consumers holding the card of that store. Strategic partnerships with banks to increase the use of credit cards and in return to gain extra benefits or discounts

for consumers have been widely implemented by retailers.

Increasing interest in own-label products

Retailers have been putting more emphasis on private label products in order to provide cost efficiency for the benefit of their customers. After the economic crisis in February 2001, consumers have been more inclined to private label or non-label products as these products have a price advantage. The share of consumers buying private label products comprised 58% of the total consumers in 2001, while it was 39% in 1999.

Implementation of foreign food retailers

Most Turkish conglomerates entered the retail market in the last decade with increased expectations of financial income and with the aim of achieving “synergies”, such as creating a customer database and higher prestige. Seeing this through the cold light of operational performance, most foreign retailers may have avoided penetrating Turkey so far. Among the leading international food retailers only Carrefour, Metro and, more recently, Tesco are present in Turkey. However, there are strong signs indicating that foreign retailers are eyeing Turkey for possible acquisitions. With lower interest rates and smarter competition, Turkey is likely to be more comparable to other markets, which would make the decision-making process easier.