



Transition of the Turkish Retail Sector and the Impacts on the Economy

Executive Summary

Turkish retailing is on the verge of a drastic transition; from traditional retailing to modern (organised, professional and therefore institutionalised) retailing. This transition is causing intense debates since the entire society and economy will be significantly affected.

Concerning the impact on the economy, models of both agricultural and industrial production, distribution and employment have already started to change. Due to the increase in the market share of the modern retailing sector, officially declared revenues and tax payments of the sector are growing in parallel. Considering the investments in the sector, the ensuing debates regarding the future of the retailing sector are becoming good indicators of the impact of the transition.

As for the social impact, hygiene, safety and quality standards in general are becoming common practice. Consumers are starting to grasp the meaning of competition and its advantages, and are becoming more demanding and selective than ever. Thus, the transition in the way of supplying and consuming is leading to unprecedented changes to everyday life.

In this respect, this PricewaterhouseCoopers Turkey and TCSCR joint “Thought Leadership” study is an important attempt to consider the key characteristics of modern retailing in Turkey and its impacts on the economy. The key objective of this thought leadership study is to discuss the implications of modern retailing on the Turkish economy and to analyse the current status of affairs in the Turkish retail sector.

The first part of this study focuses on the key areas which will be impacted through further development of modern retailing in Turkey:

Employment, registered economy and tax revenues, suppliers and small and medium sized entities (“SMEs”), agriculture, customers and society, hygiene and safety standards and overall economic growth.

The second part of the study analyses the current status of the retail sector in Turkey, i.e. size, share in the economy, major players and includes a comparison to the European Union (“EU”).

The final section summarises challenges, opportunities, emerging trends and winning formats.

Based on the very recent independent data from Planet Retail, total turnover of the retail industry (non-food and food) was USD136.9 billion in 2006 and is expected to reach USD199 billion by 2010. This figure in itself is self-evident of the actual and potential impact of the retail sector on the Turkish economy.

Traditional retailers are known to have a 65% market share of the total Turkish retail market, while modern retailers have a 35% market share which amounts to some of USD47.9 billion.

The most important segment of the market is food retailing, which accounts for 52.8% of total sales (around USD72.3 billion). The modern retailing segment generates volumes of USD16 billion in the food-retailing market, including hypermarkets, supermarkets and local chains. If traditional operators are encouraged to modernise and are guided along the path (i.e. through franchises, buying groups and specialisation), they will be able to participate more extensively in the continued rapid growth.

The retail and wholesale trades create USD6.7 billion and employ approximately 2.5 million people, which amount to 3.5% of total production and 12% of total employment, even disregarding the effects of the agriculture sector on the retail market. These rates reflect the significant effect of the retail market on the economy.

The first and most significant effect of the growth in the retail market is on employment, one of the priorities of Turkey.

According to Turkish State Planning Organisation estimations, Turkey has a population of around 73 million; roughly 65% of the population is in the 15-64 age bracket, and more importantly, around 30% of the population is in the 0-14 age bracket. The median age of the population is 27.3.¹

Consequently, Turkey has a large, growing and young population. It is estimated that every year 750,000 young people join the work force and, due to an increasing level of urbanisation, many people are quitting the agricultural sector to seek jobs in other areas. The manufacturing industry has increasingly been focusing on efficiency improvements and is not generating new employment opportunities to the degree the growth rate suggests. As a result, Turkey is experiencing higher levels of unemployment rates, estimated at 10% for 2004, 2005 and 2006, despite positive growth rates for the last four years.

Therefore, in this difficult transition period, modern retailers are offering opportunities such as non-agricultural employment to rural youth and a better quality of living for agricultural communities due to the fact that currently the modern retailing sector employs around 300,000 people and offers additional opportunities for employment, training, social security and specialisation to potential employees.

Indirect employment generation is also triggered in the chain reaction. The growth of modern retailing has positive effects on manufacturers and producers, as well as other support services such as grading, sorting, packaging, transportation, storage, security, training, IT, architects, store designing, facility management and infra-structural services.

¹ Based on Turkstat – 2003 and 2004 estimations

Considering these developments, the forecasts show that within five years time, at least 150,000 to 200,000 new jobs will be created by modern retailing in Turkey.

Besides unemployment, the significant size of the unregistered economy is another major concern of the Turkish Economy. In some official reports, it is forecasted that the unregistered economy accounts for 30-50% of GDP in Turkey. This concern not only causes unfair competition in the economy, but also huge amounts of tax evasion.

Modern retailing offers a clear solution to such fiscal evasion by accepting a general rule of registering all transactions.

When considering the impact on suppliers considered SMEs, instant market access and the ability to sell in large volumes are the most obvious benefits. Modern retailers have been accused of putting too much pressure on SMEs by relentlessly requesting better terms, however this in turn is forcing SMEs to enhance their product development skills, quality standards and competitive prices, which will ultimately add to increasing their competitiveness in local and foreign markets.

Due to the inefficiency faced by the agriculture sector in Turkey, the labour employed in this sector constitutes 30% of the total workforce of the economy, while the contribution to GDP is only 10%. However, it is forecasted that Turkey is the most important candidate for supplying Europe's fresh fruit and vegetable demand, which will have positive repercussions on the sector.

Modern retailers are assisting in the transition of the agriculture sector by educating farmers on quality standards, aggregating demand and minimising wastage at each stage of the supply chain.

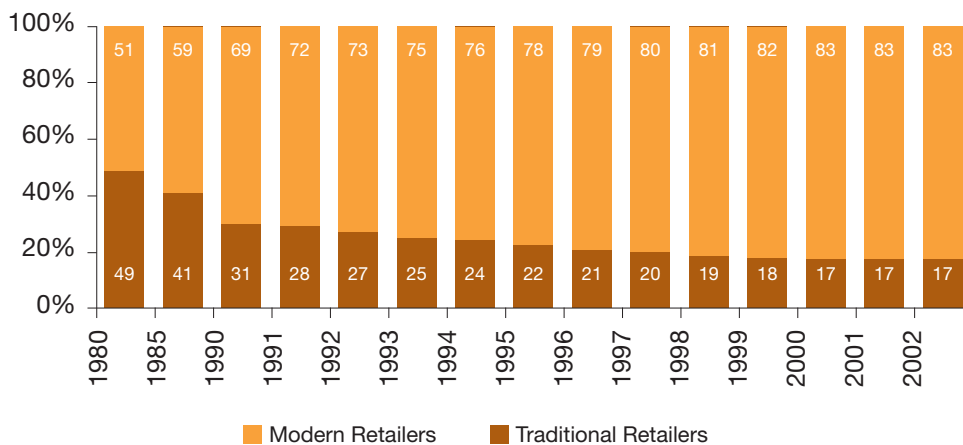
In terms of standards and choice, modern retailers request documents and certificates from suppliers in order to assure quality, hygiene and safety standards. They also satisfy customer needs by offering a wide variety of products as well as different kinds of facilities, stores and activities.

Yet the most important advantage of having a large modern retail sector is the effect on the overall economy. Eventually the growth of the retailing business will trigger the expansion of construction, security, facility management, logistics, food processing and various infra-structural investments along with the sectors mentioned previously.

The current Turkish retail market is very similar to the EU retail market in the 1970s with approximately a 65% traditional retail market share. In the EU, year-on-year modern retailers' market share has increased; in 2002 it reached 83% from 51% in 1980 (Table 1). Moreover, there are approximately three hypermarkets and 17 supermarkets per one million of the population in Turkey, compared to an average of 15 hypermarkets and 150 supermarkets in EU countries.

Table 1

Market Shares in EU



Referring to the development of the retail market in the EU, it is clear that when modern retailing begins to gain more of a market share against traditional retailing, the overall retail industry employment productivity level improves with the help of economies of scale and the use of modern IT systems in supply chain management, as well as developing an international presence.

In the last five years, concerning food retailers, the number of supermarkets and discounters has increased dramatically (Table 2). The rise of discounters and supermarkets is a new trend. Due to their convenience, such as proximity to residential areas and less time required to do the shopping, an increasing number of people prefer shopping at supermarkets and small supermarkets in Turkey.

Table 2**Market Shares of Food Retailers**

	2000	2001	2002	2003	2004	2005
Hypermarkets	2.8%	2.9%	2.9%	3.0%	3.1%	3.2%
Supermarkets	19.3%	19.8%	20.8%	21.8%	23.0%	24.2%
Discounters	3.2%	3.7%	4.0%	4.4%	5.0%	5.6%
Convenience stores	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%
Independent grocers	47.4%	46.4%	45.3%	44.3%	43.2%	42.0%
Food specialists	16.8%	16.8%	16.7%	16.5%	16.0%	15.6%
Other	9.4%	9.3%	9.2%	9.0%	8.7%	8.4%
Total	100%	100%	100%	100%	100%	100%

Source: TCSCR based on Euromonitor data

Based on the results of the research² conducted in some cities of Anatolia, after the opening of large supermarkets, fast moving consumer good (“FMCG”) price indexes tend to go down and make goods cheaper for lower income families.

Besides consumers’ tendency to spend more money on non-food items, the increasing welfare of consumers and the rising foreign interest of non-food retailers in the Turkish market has caused non-food retailing to have higher growth rates.

Consequently, with a per capita income of approximately USD5,500 in 2006 (USD5,000 in 2005) and a population of some 73 million, Turkey is a big market for retailers. Rapid growth and a promising outlook have made retailing one of the most attractive businesses to invest in. Considering that Turkey has undergone much economic, political and social change in the past five years, and will do more so during the lead up EU accession negotiations, there is great potential in the Turkish retail sector.

As the economy grows, more Turkish households will be able to afford a middle class lifestyle, which will consequently result in a more equal income distribution structure in Turkey by 2010.

The main factor that attracts retailers to invest in the sector and to develop modern structures is the growth potential due to a large and growing population, and unsaturated market conditions. Factors such as the growth of disposable income, along with changes in the composition of the country’s production factors, demographic characteristics, lifestyles and consumption patterns, have all fostered positive expectations.

² Structural Transformation in Turkey and Retail Industry Presentation, TEPAV- Economic Policy Research Institute, 29 December 2005

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Turkish Council of Shopping Centers & Retailers (TCSCR)

TCSCR is the leading organization of the sector. Founded in 1994, TCSCR serves to highlight and improve the role of shopping centers, food retailers, chain stores and related sectors in the economy and society. The objective is to pave the way for the retailing to become one of the first 5 leading sectors in Turkey. The association develops policies and strategies to improve the conditions of the sector in general. The goals are:

- To upgrade the quality of service
- To represent the sector at an international level
- To increase foreign investment in the retailing sector in Turkey

The mission is to institutionalize and contemporize the merchant identity of retailing. The members consist of the sector's leading companies which are registered, and professionally run, employing qualified personnel, and providing quality service.

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