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Abstract
Fast moving consumer goods (FMCGs) constitute a large part of consumers' budget in all countries. The retail sector for FMCGs in Turkey is in the process of a drastic transformation. New, "modern" retail formats, like chain stores and hyper/supermarkets, have rapidly diffused in almost all major urban areas, and increased their market share at the expense of traditional formats (grocery shops, green groceries, etc.) in the last couple of decades. This rapid transformation has raised concerns about competitive conditions in the sector. This study is aimed at to shed light on competitive conditions prevailing in the FMCGs retail trade sector in Turkey. We analyze how the structure of the market is being transformed in recent years by new retail formats. The study is focused on the analysis of competitive dynamics (inter-firm rivalry, pricing and non-price policies, barriers to entry, regulatory conditions, etc.) within the sector, and draws lessons for competition policy.

Keywords: FMCG, competition policy, Turkey
JEL Codes: L4, L81

1. Introduction

Fast moving consumer goods (FMCGs) constitute a large part of consumers' budget in all countries. Retail trade in these products, that is, their supply to households, has attracted considerable interest from consumers and policy-makers because a well-functioning retail sector is essential for daily provision of these essential products at high quality and low cost.

The retail sector for FMCGs in Turkey is in the process of a drastic transformation. New, "modern" retail formats, like chain stores and hyper/supermarkets, have rapidly diffused in almost all major urban areas, and increased their market share at the expense of traditional formats (grocery shops, green groceries, etc.) in the last couple of decades. This rapid transformation has raised concerns about competitive conditions in the sector.[1]

This study is aimed at to shed light on competitive conditions prevailing in the FMCGs retail trade sector in Turkey. We analyze how the structure of the market is being transformed in recent years by new retail formats. The study is focused on the analysis of competitive dynamics (inter-firm rivalry, pricing and non-price policies, barriers to entry, regulatory conditions, etc.) within the sector, and draws lessons for competition policy. Since the FMCG retail sector is closely related to suppliers (FMCG producing industries), other services (most importantly, wholesale trade), and users of FMCGs (hotels and restaurants), the backward and forward industry linkages are also taken into account.

The study is based on four sources of information. First, we extensively use official statistics collected by the State Institute of Statistics (SIS). Although the SIS provides comprehensive data on the retail trade sector and supplier industries (number of firms, employees, production, foreign trade, etc.), the data are not up-to-date (most of the data are not available beyond 2002). Second, we conducted a series of interviews with the main observers and actors both in the private (FMCGS retailers as well as suppliers) and public sectors. Interviews provided very valuable information on various business practices and

[1] Competitive conditions in the retail trade for fast moving consumer goods received considerable interest in many developed countries as well. As a result of concern s raised by the public and consumer organizations, competition authorities in developed countries conducted specific studies on competitive conditions and anti-competitive practices in this sector. One the most comprehensive studies was conducted for the UK Competition Commission (2000). For competition issues in the retail sector, see Mazzarotto (2001) and Dobson *et al*. (2001).

competitive dynamics in the sector. Third, we conducted a comprehensive survey, partly to get quantitative evidence on the issues raised by the interviewees. A list of 100 main retailers and about 200 suppliers was collected. Two questionnaires, one for retailers and the other one for suppliers, were prepared and the survey was conducted in the fourth quarter of 2004. The response rate was about 50 percent for retailers and 40 percent for suppliers. Finally, we used the HTP Household Consumption Panel data to analyze market share dynamics and pricing behavior.

The study is organized as follows: Section 2 presents the data on the structure of the FMCG retail market. Sector 3 summarizes recent changes in the markets (market dynamics). Section 4, drawing on the survey and HTP data, describes the conduct of retailers and suppliers, and analyzes the implications for competitive conditions. Section 5 discusses likely changes that can be observed in the future. After a brief discussion on competition policy issues in Section 6, the last section summarizes main findings of the study.

2. The market

The retail market for fast moving consumer goods (FMCGs) consists of various retail channels. The International Standard Industry Classification (ISIC, Revision 3) classifies retail channels into seven categories at the 4-digit level: ISIC 5211 retail sale in non-specialized stores, ISIC 5219 other retail sale in non-specialized stores (department stores, etc), ISIC 5220 retail sale of food, beverages and tobacco in specialized stores, ISIC 5231 retail sale of pharmaceutical and medical goods, cosmetic and toilet articles, ISIC 5251 retail sale via mail order houses, ISIC 5252 retail sale via stalls and markets, and ISIC 5259 other non-store retail sale. Since there is no firm in categories ISIC 5251 and 5252 in Turkey, they are excluded from our analysis.

Table 1 presents the summary data on the retail sector[2] in Turkey for the period 1997-2001.[3] The data on wholesale sectors (5121 wholesale trade in agricultural raw materials

[2] Unless otherwise stated, since our study is focused on FMCGs, the “retail sector” refers to only those sectors that trade FMCGs (ISIC 521 and 522), and excludes other sectors such as retail trade of

and live animals, and ISIC 5122 wholesale trade in food, beverages and tobacco) are also included in the table.

The retail sector in Turkey sold $ 29.8 billion worth of goods in 1999. Its contribution to GDP amounted to $ 6.7 billion.[4] The value of goods sold declined sharply in 2001 (21.9 billion) because of the severe economic crisis in that year. The Turkish lira depreciated almost by 100 percent whereas manufacturing prices increased by 67 percent. The value of goods traded by the wholesale industry experienced a similar decline from 1999 ($ 23.1 billion) to 2001 ($ 19.4 billion). The retail sector employed 231 thousands people, and the number of people engaged in the sector (paid workers *plus* owners, self-employed and unpaid family workers) was 580 thousands in 2001. The retail sector, together with the wholesale sector, provides employment for 690 thousands people. In other words, it is one of the leading employment generation sectors in Turkey.

There were about 282 thousands retail and 20 thousand wholesale establishments in 2001, i.e., in an average retail establishment, there are only two people working, whereas an average wholesale trader operates with 5.5 people. The sector shrunk more than 10 percent in real terms in 2001, but the number of establishments and the number of employees/ engaged people increased slightly in the same year, thanks to its flexibility.

The retail sector is closely related with agriculture and FMCG supplying industries.[5] Total value added created by the agriculture sector was $ 27.2 billion in 2000 (Table 2). FMCG supplier industries added $ 7.2 billion. Agriculture employs almost 35 percent of all working people in Turkey (about 7.5 million people). Since a significant part of the population lives in rural areas and are engaged in agricultural production, a large part of

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pharmaceutical and medical goods, textiles, clothing, footwear, household appliances, hardware, paint and glass (ISIC 523), retail sale of second-hand goods in stores (ISIC 524), retail trade not in stores (mail order houses, etc., ISIC 525) and repair of personal and household goods (ISIC 526).

[3] The State Institute of Statistics conducted the Census of Businesses in 2002, but the results were not available as of January 2005.

[4] The share of rent expenses and interest payments in total value added was around 4 percent and 1 percent, respectively.

[5] The following industries are included in FMCG supplier industries (ISIC Revision 3): 1511 meat and meat products, 1512 fish and fish products, 1513 fruit and vegetables, 1514 vegetable and animal oils and fats, 1520 dairy products, 1531 grain mill products, 1532 starches and starch products, 1533 animal feeds, 1541 bakery products, 1542 sugar, 1543 cocoa, chocolate and sugar confectionery, 1544 macaroni, noodles, couscous, 1549 other food products, 1551 spirits; ethyl alcohol, 1552 wines, 1553 malt liquors and malt, 1554 soft drinks, mineral waters, 1600 tobacco products, 2101 pulp, paper and paperboard, 2102 corrugated

agricultural goods are consumed there. The FMCG supplying industries employed 203 thousands people in 2000 (down from 216 thousands in 1998). These industries lost further 10,000 jobs during the economic crisis in 2001.

The retail sector provides households essential consumption goods. However, these same products are consumed by households as services provided by hotels and camping sites (ISIC 5510) and restaurants, bars and canteens (ISIC 5520 that also includes catering activities and take-out activities). These services purchase FMCGs from wholesale and/or retail trade outlets and substitute for consumption at home. These two sectors' sales for private domestic consumption were about $ 5 billion in 1998.[6] Thus, hotels and restaurants demand a considerable amount of FMCGs and they provide these goods embodied in their services to households as substitutes. Moreover, the share of these sectors in total FMCG consumption tends to increase. Total output of hotels and restaurants increased in dollar terms 73 percent in only three years, from 1997 to 2000, whereas the sales of the retail sector grew 31 percent in the same period.[7]

Turkey imported, on average, $ 1.9 billion worth of agricultural products annually in the period 1998-2003, and its average annual export revenue from agricultural products was about $ 2.4 billion in the same period. It is a net exporter in food products ($ 1.9 billion exports vs $ 1.3 billion imports), and a net importer of paper and paper products. It exported somewhat more soap and detergents, cleaning preparations, and perfumes than it imported in the last 6 years. The most important imported food items are meat and meat products and vegetable and animal oils and fats (total import value in 2003 was almost $ 1 billion).

An analysis of the market structure in supplier industries is necessary to understand the performance of the retail sector. The data on concentration rates (4-firm concentration ratios,[8] CR4) are shown in Table 3. The 4-firm concentration rates are higher than 50 percent in fish and fish products (53), dairy products (696), starches and starch products

paper, containers, 2109 other articles of paper and paperboard, 2424 soap and detergents, cleaning preparations, perfumes.

[6] It is calculated from the 1998 Input-Output table.

[7] Professional catering services is one of the fastest growing sectors in Turkey. Although there was no catering firm among the largest 500 private firms in 2001 (listed by *Capital* journal), two catering firms, Sofra and Sodexho were ranked 290th and 346th in 2003.

(913), cocoa, chocolate and sugar confectionery (933), macaroni, noodles and couscous (173), spirits and ethyl alcohol (539), wines (31), malt liquors and malt (329), soft drinks and mineral waters (763), tobacco and tobacco products (3143), and soap and detergents, cleaning preparations and perfumes (1215).[9] In order to determine the degree of concentration in *domestic supply*, we need to check the level of concentration in imports, and the share of imports in domestic supply as well. The SIS data on concentration in imports show that 4-firm concentration ratio in imports, i.e., the share of 4-largest importers in total imports, exceed 50 percent in only macaroni, noodles and couscous, and beverages (all four sub-sectors). Since imports make up less than 25 percent of domestic supply of all FMCG-related products (with one exception, pulp, paper and paperboard), foreign trade does not likely to have a major impact in reducing the market power of domestic suppliers.[10] Thus, we conclude that seller power could be a problem for retailers, especially for small ones, for the aforementioned products.

The SIS does not calculate concentration rates for retail sectors. However, we have collected sales data from major retailers for the period 2000-2003. We have estimated 4-firm concentration rates for the non-specialized retail trade in stores sector (ISIC 521) by assuming that the largest chain stores in our sample do not compete with specialized retail sector (ISIC 522 and 523) and non-store retail trade (ISIC 525). Our estimates suggest that 4-firm concentration rates in the non-specialized retail trade in stores was 10.8 percent in 2000 and 11.5 percent in 2001.[11] The level of concentration is much lower in Turkey than in many European countries, but is expected to increase gradually as a result of the increasing market share of and the wave of mergers between large retailers.[12]

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[8] Since the SIS collected data at the establishment level, concentration ratios are calculated for establishments. The data excludes private establishments employing less than 10 people.

[9] Sales values in 2001 are provided in parentheses to give an idea about the size of the market.

[10] As a result of the customs union with the EU, tariff rates for imports of industrial products from the EU are equal to zero percent. Tariff rates for agricultural products are rather high, about 50 percent for live animals and animal products, 39 percent for vegetable products and 23 percent for edible oils (trade weighted averages for 2003). Tariffs for imports from other countries are slightly higher than those from the EU (Togan and Taymaz, 2005). High tariff rates for these products help large domestic suppliers to protect their market power.

[11] According to the HTP data, the share of four largest chains (BİM, Migros, Tansaş and Gima) in total FMCG sales in 2003 was 8.8 percent.

[12] Among the European countries in the late 1990s, the lowest 5-firm concentration rates for food retailing are observed for Italy (30 percent) and Spain (38), whereas the highest rates are observed in Sweden (87 percent) and Finland (96 percent). The rates for the UK, Germany and France were 67 percent, 75 percent and 67 percent, respectively. The level of concentration increased in the 1990s in almost all major European markets (Dobson Consulting, 1999: 45).

Finally, we will look at the financial performance of the retail sector and FMCG-related sectors. Table 4 presents the data on profit margin (operating profits/turnover).[13] As may be expected, the profit margin is very low in retail trade (ISIC 521): it was around 1 percent in 1997 and 1998, but it became negative in 1999 and continues to be negative. Retail trade of new goods in specialized stores (retail trade in pharmaceutical and medical goods, textiles, clothing, footwear, household appliances, hardware, paint and glass) had a much higher profit margin, around 10 percent in the period 1997-2002. Profits margin in wholesale trade is somewhat higher than the margin in retail trade (5.8 percent in wholesale of agricultural raw materials, and 1.9 percent in wholesale of food, beverages and tobacco). Among the FMCG-supplier industries, other chemical products and tobacco have the highest profit margins.

Profit rates (profits before tax/equity ratio) are highly correlated with profit margins. Retail trade in FMCG experienced a sharp decline in profit rate in 2001 (-43 percent), and sustained substantial losses in 2002 as well. However, retail trade in non-FMCG (ISIC 523) has had quite high profit rates throughout the period under investigation. Wholesale trade has a high profit rate (on average, around 25 percent in the period 1998-2002), and tobacco and other chemicals are among the most profitable FMCG-supplying industries.

Although there are a few observations, there is a discernible positive correlation between profitability measures and 4-firm concentration ratios (average values for 1999-2001). Highly concentrated sectors, like tobacco and other chemicals, score well in profitability measures. Incidentally, retail trade in FMCG (ISIC 521) has the lowest concentration rate and it is one of the least profitable sectors.

[13] The data are collected by the Central Bank of the Republic of Turkey. Unfortunately, there are no data for ISIC 522. The main drawback of the CBRT data is its coverage. It includes only those establishments that applied for a loan from the banking system. Profit margin can be calculated from the SIS data as well. Profit margin as defined by value added minus wage payments (including imputed wages for unpaid family workers and self-employed) to sales ratio was around 10-13 percent for the retail sector (ISIC 521) in the period 1997-2001.

3. Market dynamics

We have seen that the level of concentration in retail trade in FMCG is quite low compared to the European countries. However, the concentration data provides a snapshot of the sector without much information on the underlying dynamics. Therefore, in this section, we will analyze market dynamics, i.e., entry and exit processes with a special emphasis on entry by foreign firms, and changes in the composition of the industry by retail type. (The process of internationalization of retailers in Turkey is extensively studied by Tokatli and her colleagues, see Tokatlı and Boyacı, 1997; Tokatlı and Özcan, 1998; Tokatlı and Eldener, 2002. For a comparison between the retail market in Turkey and other emerging markets of Europe, see Tokatli, 1999).

The market dynamics is to a large extent determined by the regulatory framework. The Australian Productivity Commission (APC), in collaboration with the Australian National University, has measured restrictions on trade in services for a number of countries in the world.[14] The OECD has also compiled a large database, the OECD *International Regulation Database*, for various sectors, including wholesale and retail trade (see, for example, Boylaud, 2000; Boylaud and Nicoletti, 2001). In this study, we use the APC database to compare Turkey with various categories of economies because it covers a large number of countries and summarizes regulations in index form.

The trade restrictiveness index is calculated for two types of supply (domestic and foreign) and two types of activities (ongoing operations and establishment of new businesses). It covers all distribution services, i.e., wholesale and retail trade (ISIC 51 and 52). Table 5 presents the data on restrictiveness index scores for Turkey and average values for four country categories (developed countries, EU-15, Latin America and Asia). The domestic index scores for all country groups are quite low. In other words, there are not many restrictions on establishment of domestic retail firms and their ongoing operations. The domestic index score for restrictions on establishment is zero for Turkey, i.e., Turkey does not impose any serious restriction that may impede the establishment of domestic retail firms. The domestic index score for restrictions on ongoing operations is slightly higher

[14] The database was downloaded in December 2004 from the Australian Productivity Commission website: http://www.pc.gov.au/research/rm/servicesrestriction

than the average of other countries, mostly because of insufficient protection of intellectual property rights (IPRs).

Turkey seems to have minor restrictions on the establishment of foreign retail firms: the index score is only 0.031 (much lower than the EU-15 average, 0.153; other developed countries, 0.094; Latin American countries, 0.080; Asian countries, 0.176). In other words, contrary to other countries, Turkey does not discriminate against foreign firms in the retail sector. The index score for restrictions on ongoing operation of foreign firms in Turkey is comparable to those observed in other countries (0.096 for Turkey vs 0.086 for EU-15, 0.071 for other developed countries, 0.074 for Latin America, and 0.105 for Asian countries). "Insufficient protection of intellectual property rights" is again the main factor contributing to the foreign index in Turkey. Turkey seems to restrict "movement of people" that imposes additional restrictions for foreign firms.

Turkey has introduces a number of changes in protecting IPRs in recent years. Turkey introduced a number of laws on the protection of patent rights, industrial designs, geographical indications, and trademarks, and ratified the Patent Co-operation Treaty, and Nice, Vienna and Strasbourg Agreements, and specialized courts on IPRs were established. Turkey has become a member of the European Patent Convention in 2000. The new law on foreign direct investment (No 4875, enacted on June 5, 2003) guarantees national treatment for foreign firms established in Turkey and allows 100 percent foreign ownership in almost all sectors.[15] Moreover, the law on work permits for foreign nationals (No 4817, enacted on February 27, 2003) has reduced the administrative burden on getting work permit, and opened up a large number of occupations to foreign citizens. We can conclude that, with the recent legislative changes, Turkey has lifted almost all restrictions in retail sector for domestic and foreign investors.

The regulatory framework has changed so as to create an environment favorable to entry of new companies, and efficient operation and growth of existing ones. Turkey has a number of policy tools to promote investment in various sectors, activities and/or regions. The Decree of the Council of Ministers on investment incentives (No 2002/4367, June 10,

[15] There are some exceptions defined in sector-specific laws. The exceptions are: (i) broadcasting, where foreign shareholders' equity participation is restricted to 25 percent; and (ii) aviation, maritime

2002) provides the legal basis for state support schemes. The Regulation on the implementation of the decree (No 2002/1, published in the *Official Journal* on July 3 2002), defines the administrative procedures, and clarifies the types of investment activities that can benefit from state support. The Regulation (Appendix 6, A.11) explicitly states that investment in "hypermarkets, shopping centers and car parks" in any region will not benefit from any investment incentive. Although the exclusion of hypermarkets and shopping centers from the state support program is potentially an unfavorable amendment for large chains companies, they did not raise much concern about it.[16]

There is no reliable data on entry and exit in the retail sector. However, since the average establishment size is very low (only 2 people per establishment), the turnover rate is expected to be high. In spite of high turnover and the economic crisis in 2001, the number of establishments in the retail sector has continuously increased since 1997.[17] For example, there were 260175 establishments in retail trade[18] in 1997, and it increased to 267370 in 1998, 273057 in 1999, 279329 in 2000, and 281911 in 2001. The number of establishments increased in other retail types and wholesale trade as well.

Although there is a slight increase in the number of retail establishments, the market has been transformed by the entry and diffusion of "organized" or "modern" retailing (chain stores, hypermarkets and supermarkets). Migros-Turk, established in 1954, was the first retail joint-venture between Municipality of Istanbul and the Federation of Swiss Cooperatives in Turkey (Tokatlı and Boyacı, 1997: 105). However foreign partner withdrew in 1975 and majority shares of the company were transferred to Koç Holding. The first supermarket chain in Turkey, Gima, was established in 1956 as a public undertaking. It was privatized in 1993, and sold to the partnership of Bilfer and Dedeman. The majority shares of the company were later sold to Fiba Holding in 1996 (Tokatlı and

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transportation, ports, fish processing and telecommunications services provided under concession agreements, where foreign ownership is restricted to 49 percent.

[16] An interviewee claimed that major chain stores have already invested in hypermarkets, and do not plan to open many more hypermarkets in the future. Therefore, they were indeed in favor of excluding hypermarkets from the coverage of investment incentives scheme because it may restrict entry into this segment of the market. In other words, this amendment is favorable for incumbent chain stores.

[17] However, AC Nielsen (2004) estimates that the number of retailers declined continuously from 176 thousands in 1996 to 143 thousands in 2003. The number of chains, hyper and supermarkets and specialists (gas station markets, dry fruit vendors, etc.) increased in the same period. For the survival strategies of small retailers, see Özcan (2000).

[18] It includes sectors ISIC (Rev. 2) 5211, 5219, 5220, 5231 and 5259.

Özcan, 1998: 92). Another main retailer, Tansaş, was set up in 1973 by Izmir Municipality. It was also privatized in 1996 and Doğuş Holding purchased the majority of its shares.

The 1990s witnessed entry by foreign firms. As the first foreign retailer, Metro International entered into market in 1988. (Although Metro adopted the cash-and-carry format, it is regarded as a "retail" store serving mostly small scale shops and households.) Carrefour and Promodes, French retailers, entered into market in 1991 and 1992, respectively (Tokatlı and Boyacı, 1998: 6). Carrefour entered into retailing by establishing partnership with Sabancı Holding (CarrefourSa) in 1996. The merger by parent companies of Carrefour and Promodes affected the Turkish retail market, and CarrefourSa acquired Continent in 2000. After operating ten years in Turkey, Metro planned to set up a joint venture with Migros in 1998. Although the Competition Board granted a conditional permission, the merger was not realized. Metro established a new retailer, Real, in 1997, which was followed by Dia in 1999 and BİM in 2000. The last major foreign entry occurred in 2003. A leading retail chain store in the UK, Tesco, entered into the Turkish market in 2003 by merging with Kipa, a regional retailer. The industry analysts suggest that new foreign retailers, for example, Wall Mart, are planning to enter into the Turkish retailing market.[19]

Most of the large domestic chains that entered into the retailing sector in the 1990s, are members of business groups that operate in FMCG-supplier industries and service sectors (see Table 6). There seems to be a tendency towards both vertical integration and horizontal integration. For example, Sabancı and Koç groups are active in supplier industries and hotels and restaurants sector. In the retail sector, they have different retail formats (hypermarkets, supermarkets and discount stores) operated under different brands names. Other retailers also tend to be active in various retail formats and own vertically related firms (Özcan, 2001).

[19] The data on foreign firms in Turkey have been collected by the Undersecretariat of Treasury. Foreign firms started to enter in large numbers in the mid-1980s. The number of foreign entrants in FMCG-related sectors reached 60 firms per year in the 1993-1997 period. By the end of 2004, there were more than 1000 foreign firms operating in FMCG-related sectors, and most of them (more than 80 percent) were majority-owned foreign companies. Hotels and restaurants sector are leading in terms of foreign entry, and food and hotels in terms of total capital. (The list of all foreign companies can be downloaded from the Treasury web site: www.hazine.gov.tr.)

As noted earlier, we have conducted a survey of large FMCG retailers and FMCG-suppliers in Turkey, and received responses from 51 retailers and 79 from suppliers. Table 7 presents the data on the time of establishment of these companies that can be used as an indication of entry into the retail market by large companies. Our survey data show that most of the largest retailers operating in 2004 were established in the 1990s. More than 60 percent of retailers were established in the 1989-1998 period whereas those established before 1989 represent only 20 percent of retailers. 13 of 51 retailers who responded to our survey belong to a (domestic) business group, and 5 are foreign-firms.[20] Most of companies belonging to business groups and multinational companies were also established in the 1990s. There is no new large-scale entry since 1998.

The entry pattern of FMCG-suppliers is quite different than the one observed for retailers. More than half of suppliers who responded to our survey were established before 1984. This is valid for suppliers who belong to business groups as well. The difference in entry patterns in retail and supplier sectors indicate that FMCG retail sector, once considered to be dominated by traditional retailers, has become quite appealing for large companies, and attracted significant amount of large-scale entry in the 1990s. However, the FMCG-supplying industries seem to be dominated by large, old (established) companies who do not face with entry competition, as evident in high concentration rates in most of these industries.

The transformation of the retail market brought by entry of large (chain) companies can be observed in FMCG purchasing patterns of consumers. We look for purchasing patterns of four groups of consumers, categorized by their socio-economic status as AB, C1, C2 and D groups,[21] because chain markets operating mainly hypermarkets and large supermarkets may incline to serve well-to-do consumers who can afford to travel these stores by their own cars.

[20] Only one foreign firm operating in the retail sector did not respond to our survey. However, it is owned by a business group, and its sister retailer company responded to our survey.

[21] We use the HTP Household Consumption Panel data for this purpose. HTP runs the household panel since 1996 and it currently covers 4,900 households. The panel covered 12 provinces until, and expanded to 27 provinces in 2002 to represent all Turkey. We use the data on only 12 provinces because chain stores have established mainly in large provinces. Since the FMGC market is mainly a local market, it is better to focus on main provinces to analyze competition dynamics between retail types. We would like to thank Güntaç Özler, Vural Çakır, Kerem Soğukpınar, Erdem Çiğdem and Ayşe Pancar of HTP and the Retailing Institute for their generosity in sharing their data and knowledge with us.

Figures 1a-1d depict purchasing patterns of four categories of consumers, respectively. AB group consumers used to purchase their FMCGs mostly from traditional grocery shops. The share of grocery shops in total FMCG expenditures of the AB group was more than 35 percent in 1999 but it declined steadily to 22 percent in 2004. The main winners are local supermarkets, and DVFV and kiosks, gaining about 6 and 3 percentage points market share, respectively, in the last five years. Thus, local supermarkets have been the largest retailer for AB group of consumers since 2002. The single most important chain that achieved a considerable increase in its market share is BİM, a hard discount store. Its market share for AB group increased from 4 to 12 percent. Migros and Şok seem to be the losers for the AB group. Their total share declined from 14.2 percent to 8.7 percent in the same time period.

Grocery shops have been the main retailer for the C1 group but its share declines continuously (from 50 percent in 1999 to 35 percent in 2004). Local supermarkets (from 24 percent to 31 percent) and BİM (from 4 percent to 12 percent) are the main winners in this market as well. Migros has not been an important outlet, and its share fluctuated around 4 percent.

The C2 group behaves as the C1 group. Grocery shops have a declining share (from 53 percent to 42 percent), and local supermarkets (from 18 percent to 31 percent) and BİM (from 5 percent to 10 percent) increased their shares.

The D group experienced possibly the most dramatic transformation. Grocery shops had the dominant share for this group of consumers in 1999 (about 65 percent), but lost their market drastically (48 percent in 2004). Local supermarkets (from 14 percent to 27 percent), BİM (from 4 percent to 10 percent) and DFV and kiosks (from 2 percent to 7 percent) had increased their shares substantially.

Although the trends are similar for four categories of consumers (declining shares of grocery shops, increasing shares of local supermarkets, BİM, and, to some extent, DFV and kiosks), the levels of market shares of retail formats are still significantly different across consumer groups. For example, the share of traditional outlets (grocery shops and open bazaar) was only 22.4 percent for AB group in 2002, it was 35.1 percent for C1 group, 43 percent for C2 group, and 48.6 percent for D group. In a similar way, chain stores have a larger share in FMCG expenditures of well-to-do consumers. Total share of all chains (BİM, CarrefourSA, Dia, Gima, Kipa-Tesco, Migros, Real, Şok and Tansaş) was 35.8 percent for AB group and 28.1 percent, 18.9 percent and only 15.3 percent for C1, C2 and D groups, respectively. However, chain stores *excluding* BİM have not been successful in increasing their market shares in the last five years. The combined market share of all chain stores excluding BİM increased only a few percentage points for AB and C1 groups, and declined almost the same amount for C2 and D groups. These findings indicate that large chain stores, as a group, has gained some market share in the early- and mid-1990s, especially in those markets serving AB and C1 groups, but their market share has been stabilized. However, local supermarkets and BİM continue to increase their market shares at the expense of traditional retail formats.

The informal sector is considered as one of the main obstacles for the development of the "modern" retail sector because informal sector firms, by not paying social security contributions and any taxes, gain an unfair competitive advantage against firms obeying laws and regulations. Although it is almost impossible to measure the exact size of the informal sector, its share in the market can be estimated roughly.

According to the SIS 2003 Household Labor Force Survey, there were 4.1 million people employed in wholesale and retail trade, hotels and restaurants, and 42 percent of these people were not covered by any social security system. Thus, more than 40 percent of the people employed in "wholesale and retail trade, hotels and restaurants" are employed "informally".

We have asked in our survey the firms about the extent of the informal sector. Almost three quarters of retail and suppliers firms indicated that they compete with the informal sector firms. These firms estimated that the market share of the informal sector was around 30 percent in retail and 20 percent in FMCG supplier sectors. These estimates are somewhat lower than the estimates derived from the HLFS[22], but they indicate that informal sector continues to play and important role, especially in the retail sector.

[22] Informal sector firms are usually small firms with low turnover/employee ratio. Therefore, the size of the informal sector estimated by survey respondents is consistent with the share of employees without any social security as estimated by the Household Labor Force Survey.

In spite of the rapid development of the modern retail formats in Turkey in the last decade[23], their market share is still very low compared to the European countries. According to AC Nielsen data (AC Nielsen, 2004: 20), the markets shares of hypermarkets and big supermarkets reached 36.0 percent and 23.3 percent, respectively, in European countries in 2002 whereas their total share in Turkey in the same year was only 22 percent (11 percent for hypermarkets and 11 percent for big supermarkets). Among the European countries, the lowest total share of hypermarkets and big supermarkets was observed in the Netherlands (25 percent), Austria (29 percent) and Greece (36 percent), and the highest shares in Portugal (62 percent), the UK (76 percent) and France (77 percent). These findings indicate that modern retail formats (hypermarkets and big supermarkets) are likely to increase their market shares substantially in Turkey.

4. Retailers' conduct

Large chain stores have entered into the FMCG retail sector in Turkey in the early- and mid-1990s and have transformed its structure. Although their share in the national market is still small, they may have significant market power in localities they operate because the FMCG market is basically a local market. There are different definitions for the geographical dimension of the market, but it is commonly accepted that a customer is not likely to move more than 30 km for shopping. Therefore, large retailers' conduct should be analyzed to shed light on possible abuses of market power. Since retailers sell FMCGs without any further processing, we will focus on pricing behavior and supplier-retailer relations.

We have conducted interviews with about 20 large retailers, and on the basis of our findings, designed two surveys, one for retailers and the other one for FMCG-suppliers to get information about retailers' conduct and retailer-supplier relations. We received responses from 51 retailer and 79 from suppliers. The responses rates were 50 percent and 40 percent, respectively. Table 8 presents the data about the coverage of these surveys. According to the SIS statistics, total sales value of the "non-specialized retail trade in

[23] High inflation rates in the 1990s were one of the main reasons behind the rapid increase in the market share of modern retail formats (hypermarkets and supermarkets) which could make large financial profits due to

stores" sector (ISIC 521) was $ 14.3 billion in 2001. Total sales of 44 firms who provided the sales data for 2001 for our survey was $ 2.6 billion. In other words, the surveyed firms account for at least 18.3 percent of non-specialized retail trade.[24] The SIS data are not available for 2003. However, HTP estimates total FMCG retail sales in 2003 as $14.4 billion. Chains, discounters, hypermarkets and supermarkets sold 4.6 billion worth of FMCG in the same year. Thus, according to HTP data, our sample of firms covers 30.3 percent of total sales and 94.6 percent of sales by chains and supermarkets.[25] These comparisons suggest that our sample firms provide a good coverage of large retailers. The coverage ratio for FMCG-supplier industries is also quite satisfactory (18.4 percent of sales in 2001). The retail firms' turnover in our sample was around $ 100 million, and they employed, on average, about 900 people. Suppliers are slightly smaller ($ 78 million turnover and 750 employees per firm in 2001).

In order to compare our results across firm size, we have classified firms into three categories, small, medium-sized, and large. Since more retail firms provided their employment data, we used the number of employees in 2003 for classification for the retail sector (small means employing less than 150 people, medium-sized 150-499 people, and large 500 and more people). However, for those firms we have sales data, the classifications based on employees and turnover were almost the same. For suppliers firms, we used turnover data for 2003 for classification (small means turnover less than $20 million, medium-sized $ 20-50 million, and large more than $ 50 million). The cut-off values are chosen such that firms are more-or-less equally distributed in these three categories.

Table 9 shows the distribution of firms across size categories. All five foreign firms in the retail sector are large firms. Moreover, all but one firm that belong to business groups are medium-sized and large firms. There are 9 foreign firms in our sample of suppliers (11 percent of all firms). There are two small, one medium-sized and five large foreign suppliers. Suppliers belonging to business groups are, on average, large firms.

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their superior financial management skills. We thank our referee for this comment.

[24] Since the surveyed firms are large firms, they account a smaller share of employment.

[25] Some of the surveyed firms sell non-FMCGs as well. Therefore, the coverage rates could be slightly overestimated.

There is a strong positive correlation between retailer size and store size (see Table 10). Small retailers do not own any hypermarket, and concentrate on supermarkets and small supermarkets (store area between 100-1000 m^2). A few medium-sized retailers operate some hypermarkets, but their preferred type is a supermarket with 400-1000 m^2 store area. Almost all hypermarkets are operated by large retailers who have also a large number of small supermarkets. Foreign retailers operate either hypermarkets or small supermarkets.

An analysis of large domestic and foreign retailers at the firm reveals clear differences in firm strategies. More than 80 percent of small supermarkets of large domestic firms are operated by only two firms, whereas there is only one foreign firm that operates small supermarkets. In other words, most of large firms, either domestic or foreign, concentrate on operating relatively small number of large stores (hypermarkets, large supermarkets, etc.) whereas a few large firms have been following the strategy of opening a large number of small supermarkets all around the country.

Estimates on total store area indicate that large retailers have a dominant position. 11 large domestic retailers had 58 percent of total store area whereas 4 large foreign retailers had 28 percent in 2003.

The number of products sold by a retailer changes positively by size as well. Small and medium-sized retailers sell about 9000 and 12000 products, respectively. Large retailers sell a large number of products, about 24000.

The survey questionnaire included questions that define the “relevant market” for retailers. Three aspects of the market, consumers’ socio-economic status, retail format, and geographical market, are used to define the “relevant market”. There seems to be no difference between small and large retailers in terms of serving different categories of consumers. Large retailers claim to serve all categories more, but there is not any specialization towards serving any specific consumer group. As may be expected, all retailers indicate that “supermarkets” constitute the main competitive form. 75 percent of large retailers consider hypermarkets as a part of their market. It is interesting to observe that discount markets and cash&carry are closely related with large retailers’ markets.

Geographical aspect seems to be main aspect that defines the “relevant market” for retailers. Almost all small and medium-sized retailers consider their market as local (only one province), or regional whereas half of large retailers consider the market as a national market. Moreover, the market is conceived as “international” by one third of large retailers (5 firms). It is interesting that only one foreign retailer considers its market as “international” whereas others (4 firms) consider it as national and/or regional.

Firms were asked to provide data on the number of entrants into and exits from the market in which they operate. Most of the firms (60 percent) could not respond to this question. The average values for the number of entrants and exits were 3.6 and 2.5 for retailers, and 12.3 and 12.1 for supplies. Firms estimated their market share in 2003. Interestingly, small retailers estimated larger market shares, probably because of the fact that, as note earlier, they consider their market local. In the case of FMCG-suppliers, large firms claimed to have larger shares, as one would expect, because suppliers’ compete mainly at the national level.

FMCG retailers sell (or could sell) almost identical products. Therefore, price-competition is likely to be very important. If they have local market power, they would be able to raise their prices. Price comparisons could be helpful in identifying if some retailers (mostly, chain stores) enjoy a certain degree of market power. However, it is notoriously difficult to make a price comparison across retailers and/or retail type because each retailer sells a different basket of products and the number of products sold is very large. To mitigate the effects of differences in product mix, we calculate relative prices for baskets of products sold by each retailer/retail type as follows:

$$RP_{jt} = \sum_{i \in I_j} p_{ijt} q_{ijt} / \sum_{i \in I_j} p_{it}^* q_{ijt}$$

where RP_{jt} is the relative price for retailer j at time (quarter) t, p_{ijt} the price of product i sold by retailer j at time t, I_j the set of products sold by retailer j, and q_{ijt} the quantity sold. p^*_{it} is the average price of product i at time t, and is calculated as follows:

$$p_{it}^* = \sum_{j \in J} p_{ijt} q_{ijt} / \sum_{j \in J} q_{ijt}$$

Thus, RP compares the cost of the basket of products purchased from retailer *j* to the amount the consumer would pay for the same basket had s/he bought it at (weighted) average of prices observed in the market, i.e., the amount a random buyer would pay.

We calculated relative prices for various retail types and all national chain stores for three groups of products, food, personal care products, and cleaning products.[26] Figure 2a presents the data on relative food prices for the period 1999:4-2004:3 (we use 4-quarter moving averages to mitigate the effects of quarterly fluctuations). The data reveal consistent and persistent patterns in relative food prices. For example, BİM, the hard discount store, had the lowest relative food prices throughout the period. A BİM customer paid on average 8 percent less than what s/he would pay at average market prices. Other discount stores, Dia and Kipa had also low prices. CarrefourSA, known for its aggressive pricing strategies, was among the low cost chains. Gima and Migros had a tendency to raise their prices relative to the market, and has become the most expensive chains in 2004 (the price differentials were 6 percent for Gima, and 3 percent for Migros in 2004). Tansaş, Real and Şok chains increased their relative prices especially in the period 2000-2003. It is remarkable to find that DFV and kiosk and grocery stores have been 3-4 percent more expensive, and local supermarkets 1-2 percent cheaper throughout the period. In other words, grocery shops that are usually blamed for operating informally are not low-cost outlets for consumers.[27]

The relative price data on personal care products reveals somewhat different trends (Figure 2b). For these products, BİM chain and cash&carry and open bazaar formats provide low cost alternatives. Real, Gima, Tansaş and Migros chains are among the most expensive providers of personal care products in recent years. Grocery shops are again relatively more expensive (1-2 percent). Local supermarkets were relatively expensive in 1999 and 2000, but have reduced their relative prices, and get close to the average in 2004. There

[26] We use the HTP data in calculating relative prices. The dataset includes price and quantity data for those products that were sold by most of the retailers in almost all quarters under investigation (1999:1-2004:3).

[27] A recent study by McKinsey Global Institute (2003) indicates that there are substantial productivity differentials between "traditional" (for example, groceries) and "modern" (hypermarkets, supermarkets, etc.) retail formats. It is estimated that the "modern" retailers are almost three times more productive than "traditional" retailers ("productivity" is measured as value added per hour worked). Similarly, the SIS data indicate that "large" retailers are 3-4 times more productive than "small" retailers. Although the productivity differential between traditional and modern retailers is huge, the impact of productivity differentials on prices is much smaller because the share of wage payments in turnover (sales revenue) is only about 2-5 percent, and the share of value added in turnover is about 20 percent in the retail sector. Moreover, the traditional retailers reduce their costs to some extent by avoiding tax and social security payments.

seems to be an upward trend in almost all relative prices. This is caused by the substantial shift towards low-cost retailers.

Cleaning products have a different ranking. Open bazaars experienced a sharp decline in relative prices of cleaning products after 2001 crisis. Carrefour and cash&carry were low-price leaders in 2004. Gima, Migros and Tansaş, as in the case of other products, were relatively more expensive. Prices at local supermarkets, grocery shops and BİM fluctuated around the average values.

There are two conclusions that can be drawn from price comparisons: first, price differentials are not trivial. It was about 14-15 percent in all products (food, personal care and cleaning products) in 2004. Considering quite thin profit margins in the retail sector, these differences seem to be quite significant. Second, consumers are fairly price-sensitive in food products:[28] low-price retailers, most importantly, local supermarkets and BİM have increased their market shares (for all consumer categories), whereas grocery shops lost substantial market share in the last five years.

Since there are quite significant price differentials between retail types and customers have different shopping characteristics that depend on their socio-economic status, prices paid by different groups of consumers may differ. This issue is certainly important from welfare point of view.

We calculated relative prices paid by different groups of consumers as follows:

$$RP_{ct} = \sum_{i \in I_c} p_{ict} q_{ict} / \sum_{i \in I_c} p_{it}^{*} q_{ict}$$

where RP_{ct} is the relative price paid by c group of consumers, and p^{*}_{it} is the average price:

$$p_{it}^{*} = \sum_{c \in C} p_{ict} q_{ict} / \sum_{c \in C} q_{ict}$$

There seems to be no difference in relative food prices paid by socio-economic groups. The price differential was widened in 2001, after the economic crisis that hit probably hardest the D category, but even in that year, the differential remained less than 2 percent. Although well-to-do consumers, presumably the AB group, could pay higher prices for

[28] The share of food in total FMCG expenditures is about 85 percent.

food, and the D group is more sensitive to food prices, they turn out to be paying almost the same price because the D group goes to grocery shops for shopping, but as noted earlier, grocery shops are relatively expensive.

The behavior of relative prices for personal care and cleaning products is completely different. The price differential between socio-economic groups was quite small in 1999 and 2000 (only a few percentage points), but it widened up rapidly after the 2001 economic crisis, and reached almost 15 percent in the case of cleaning products. It is apparent that price sensitive poorer consumers (D group) have substituted cheap, no-brand products after the economic crisis for more expensive brands (recall the low prices in open bazaars), whereas well-to-do consumers (the AB group) could afford more expensive brand-name products.

We have established that average prices differ consistently and considerably across retail types. However, price differences do not directly imply market power. Since the FMCG markets are local, chain stores face with different competitive conditions in different local markets. Therefore, those companies that have market power may differentiate their prices across local markets. This behavior, called "price flexing", can be an indicator for the exercise of market power.

We calculated weighted average of standard deviation of prices by retail type as follows:

$$PF_{jt} = \sum_{i \in I_j} w_{ijt} \delta_{ijt}$$

where PF_{jt} is the degree of price flexing by retail j at time t, w_{ijt} the share of i^{th} in total sales of retailer j at time t, δ_{ijt} the coefficient of variation of i^{th} product prices for retailer j during the period t. Thus, the PF variable shows the degree of price dispersion (price differentiation) by retail types.

Figure 3a shows the data on price flexing in food products. All retail types experienced the same trend: after a slight increase in the degree of price differentiation until the middle of 2001, there was a sharp decline in the second half of 2001 and throughout 2002. The decline in price differentiation continued at a slower pace in 2003 and 2004. Since we calculated the PF index by using quarterly observations, any change in prices within the quarter will increase the index value. In other words, the general pattern of changes in the *PF* values follows closely changes in inflation rates. When the rate of inflation is high, price changes will be more frequent/ large, leading to a higher PF value.

A closer analysis of PF values reveals that traditional FMCG outlets, open bazaars and grocery shops had higher price differentiation than all chain stores. Local supermarkets and cash & carry stores had also high price differentiation values. All chain stores had much lower values throughout the period. There is not any permanent ranking of chain stores in terms of the PF values. Thus, it seems that chain stores have either more stable prices or they do not differ much their prices across their shops. Prices differ more across open bazaars, grocery shops and local supermarkets. The lowest PF values are found among DVFs and kiosks that mainly sell items whose prices are usually set at the national/regional level (tobacco products, beverages, etc.).[29] Thus, there is not much scope for price differentiation for these shops.

A different pattern emerges in the case of personal care products. Grocery shops, local supermarkets and cash & carry stores had higher PF scores for personal care products, but some chains, most notably, the market leaders, Migros and Şok, had also quite high PF values in 2004. There seems to be price flexing in these chain stores as high as the one in traditional outlets.

Since there was not sufficient number of observations for a number of chain stores, the PF values for cleaning products were calculated for a small set of chains. As in other cases, traditional retailers (open bazaar and grocery shops), local supermarkets and cash & carry stores had higher price differentiation than main chain stores.

[29] TEKEL, the state monopoly company, used to have a monopolist position by law in the markets for alcoholic beverages and tobacco products. The market was gradually opened to competition, and a regulatory agency was established in 2002. Moreover, the alcoholic beverages division of TEKEL was privatized in 2003. The law grants the Tobacco and Alcoholic Beverages Board the right to set prices for those firms whose production, sales or imports are below a certain threshold level (the threshold level was 1 million liters per year and could be gradually reduced by the Board in the next five years). Large firms whose capacity is higher than the threshold level are free to set their own prices. There are similar restrictions in the tobacco products market. Whereas large firms with an annual capacity to produce at least 2 billion cigarettes or 15,000 tons of other tobacco products per brand may freely import, price, distribute, and sell that brand, the price and marketing principles for small importers are determined by the Board. The first attempt to privatize the tobacco division of TEKEL in 2004 was unsuccessful. The tobacco products market is highly concentrated. There are three multinational firms (Philip Morris Sabancı (PMSA), JTI and British American Tobacco) that share half of the market (the other half is served by TEKEL). PMSA and JTI were 6th and 23rd largest private firms (in terms of turnover), respectively, in Turkey in 2003.

The data on price flexing indicate that there are some differences in product prices across different stores. These differences are higher among traditional outlets and local supermarkets that do not have common ownership. Therefore, local conditions seem to matter more for these retailers. In the case of chain store, there seems to be some price flexing, especially in personal care products.

The data on prices give some information about the outcome of retailers' conduct. Therefore, in order to get more information about pricing behavior, the survey included questions on what determines sale prices, and how firms apply price flexing.

The retailers who participated in our survey suggest that input costs have a strong impact on sales prices (Table 12). Almost all retailers consider the impact of input costs on sales prices as "strong". The second most important determinant of sales price is other retailers' prices (half of respondents consider that other retailers' prices have a "strong" impact on their own prices). Large retailers take into consideration the demand for their products, and small retailers their stocks in pricing decisions. These findings suggest that retailers' may have a certain degree of flexibility in setting their prices, i.e., they may have some market power. FMCG-suppliers prices, i.e., input prices for retailers, are determined largely by input conditions, the label on the product (private label), and payment conditions. Moreover, there is not any significant difference between small and large suppliers in term of pricing decisions.

Since retailers (and, to some extent suppliers) are concerned about their competitors' prices, we asked them if they regularly monitor competitors' prices. All large retailers and almost all of small and medium-sized retailers (about 90 percent) said that they monitor other retailers' prices regularly. Interestingly, supplies are also likely to monitor retailers' prices (85 percent).

Half of retailers acknowledge that they differentiate their prices across their stores (Table 13).[30] Moreover, there is a monotonic increase by size in the share of price flexing firms.

[30] In this table (and the following tables) the data on the proportions of firms are given. For example, in Table 13, the number in first row, first column indicates that 33 percent of small retailers responded to the question

Although only 33 percent of small retailer said that they apply price flexing, the ratio increases to 53 percent for medium-sized retailers, and 75 percent for large retailers. The proportion of price differentiating firms is much higher in FMCG-supplying industries (68 percent). Thus, price flexing observed in traditional retailers and local supermarkets may be caused by price differentiation by suppliers that have some market power.

Other regional retailers' prices seem to be the main determinant of price flexing. 85 percent of firms that acknowledge price flexing consider local competition the main reason for price flexing. Prices set differently at new stores. Half of firms suggest that regional demand is important. It is interesting to observe that "regional cost differences" is found to be the least important reason among price flexing. FMCG-supplying firms revert to price flexing because of regional cost differences (65 percent of firms) and as a reaction to other suppliers' prices (60 percent of firms). These findings indicate that there is a strong relationship between price setting and the degree of local competition in the retail sector.

In addition to price flexing, price reduction through promotions is a widely-adopted strategy in the retail sector. Half of all retail firms indicate that they always apply promotions, and most of the remaining firms have promotions at least once a month. Price changes are also made frequently (at least once a month). Small retailers adjust prices either more frequently or adopt state-dependent pricing policies (change prices as a response to changes in input costs). These findings support our conclusion on the stability of prices in large chain stores.

Near- or below-cost selling is a practice used by some retailers to catch the attention of consumers. Some retail companies in our interviews indicated that it is used as an anti-competitive practice by some large retailers. In order to assess the extent of near- or below-cost selling in the retail sector, we asked retailers about the frequency of below-cost selling at their stores and in the sector at large. The same question was asked to FMCG suppliers as well.

Below-cost selling seems to be quite common: more than half of retailers have applied near- or below-cost selling at least once a month (Table 14). However, contrary to our

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apply "price flexing" (i.e., differentiate prices across stores). "n" in the table indicates the number of firms who responded to that particular question (item response rate).

prior expectations, it is applied more frequently by small rather than large retailers. Almost all retailers (about 90 percent) believe that below-cost selling is applied by other retailers at least once a month. These findings indicate that this practice is quite common but it is not used, by all retailers, to eliminate their competitors. Interestingly, the proportion of suppliers who believe that retailers' apply below-cost selling is lower than the proportion of retailers who think so.

Most of the firms (about 90 percent of retailers and suppliers) believe that below-cost selling causes unfair competition, but a large majority of them (74 percent of retailers and 84 percent of suppliers) suggest that it cannot be used systematically (Table 15). A small group of firms (around 30 percent) claims that below-cost pricing is used to push competitors out of the market and/or makes the market more competitive. Below-cost selling is used as a marketing method according to half of retailers. However, this practice seems to be harmful for suppliers (64 percent of retailers, 83 percent of suppliers), possibly because of the fact that suppliers in some cases are required to accept lower prices.

Supplier-retailer relation is a contentious issue in studies on the dynamics of competition in the retail sector. There could be two types of distortions in supplier-retailer relations. First, if suppliers have market power, they can try to blockade entry by other suppliers through various restrictions (for example, exclusivity agreements) or providing discounts not related to production and marketing costs (shelf space, product range, etc.). Second, if retailers have market power, they can impose certain fees on suppliers that are not related their costs (listing fees, slotting fees, etc.).

In order to analyze supplier-retailer relations, we first get information about procurement and distribution channels suppliers and retailers use. An average retailer in our sample buys products from 500 suppliers (Table 16). There is a positive relation between the size of the retailer and the number of suppliers: although a small retailer buys from 180 suppliers, a medium-sized retailer is served by 400 suppliers. The number of suppliers a large retailer deals with reaches 1250 (median values for size categories). These data are consistent with the number of products sold by retail size. Moreover, small retailers prefer to buy from suppliers that sell a wide range of products. Small retailers buy about 50 products per supplier, medium-sized retailers 30 products per supplier, and large retailers 20 product per supplier.

Most of large retailers (60 percent) buy products directly from suppliers thanks to large quantities they purchase. However, small and medium-size retailers rely mainly on distributors (about 55 percent). A small group of retailers (only 20 percent) buy their products through wholesalers. The share of wholesalers seems to be small.[31]

On the supplier side, most of suppliers use distributors to supply their products. Large suppliers tend to use more suppliers than small and medium-sized suppliers do. The share of suppliers who sell their products through wholesalers is small (21 percent). The rest of suppliers (26 percent) sell their products directly to retailers.

There is a dual structure in supplier-retailer relationship. First, there is a relationship between large retailer and large/suppliers. Second is the relationship between small retailers and distributors. Large retailers can act as a counterveiling power to large suppliers that may have market power in specific FMCGs industries (Dobson *et al*., 2001). Moreover, they set supply prices at the national level, and reduce regional/locational differences in prices, as observed in price flexing (Figures 3a-3d). Small retailers may subject to restrictive vertical agreements by distributors and are likely to be open to the effects of regional factors.

Table 17 summarizes the data on supplier-retailer relations. No significant difference is found between practices of small and large retailers.[32] Retailers claim that suppliers share frequently to the costs of promotions, i.e., they pay for promotions (insert fee, etc.). Slotting/position fees (gondola, “palet”, etc., fees that depend on shelf position) are paid less frequently. Listing fee (fee paid for listing the first time) is applied “sometimes”, and shelf fee (fee paid for the duration of listing) is not common. However, all suppliers, irrespective of their size, claim that promotion, slotting and listing fees are charged frequently by retailers. It seems that charging these fees is commonly accepted as a conduct of business. These practices could make entry by new suppliers more difficult.

[31] Recall that our sample of retailers is much larger than the sector average.
[32] There is only one exception. Packing of products by suppliers is observed more often among large retailers than small ones.

In terms of supply conditions, suppliers are almost always are required to take back returned items. Moreover, large retailers frequently ask suppliers to do packing (small retailers usually do not have the power to impose such a condition), and small suppliers face with such demands by retailers more frequently than large suppliers do.

There are two potentially problematic practices that can be applied by retailers and suppliers: exclusivity restrictions on suppliers (requiring suppliers not to sell their products to other retailers), and prices fixing by suppliers. Retailers and suppliers agree that exclusivity restrictions on suppliers are imposed rarely and price fixing occurs "sometimes".

Regarding discounts provided by suppliers, the most common types are quantity-based (volume) discounts and advance payment discounts. These types of discounts are closely related to the cost of supply. As noted earlier, suppliers provide discounts to support promotions launched by retailers. Potentially anti-competitive practices, discounts based on product rage, shelf area and exclusivity restrictions (retailer required not to sell competitive suppliers' products) are observed less frequently. These restrictions, if imposed by dominant suppliers, may create entry barriers for new suppliers.

In order to check the extent of price discrimination by suppliers (through, for example, abovementioned discounts), we asked retailers if they pay the same price as other retailers do. A majority of retailers (68 percent) claimed that there is no difference in prices, 23 percent pay lower prices, and only 9 percent pay higher prices. When asked about what they could do if they discover that a supplier sold the same product to other retailers at a lower price, half of retailers stated that they can charge retrospective discounts (to match the price differential) to the supplier.

There are 10 retailers (4 medium-sized and 6 large) in our sample that are a member of a business group that also owns supplier firms. When asked about the relations with suppliers in the same group, 6 retailers (4 of them are medium-sized) said that they provide preferential access to shelf space for their sister suppliers, and 5 (4 medium-sized) of them get lower prices and/or better payment conditions. Among the sample of suppliers, 4 (2 medium-sized) have sister retailers. 3 (2 medium-sized) suppliers stated that they get preferential access to shelf space in sister retailers, and they offer lower prices and/or better payment conditions. Although the number of vertically related retailers/suppliers is small, these findings suggest that retailers (and suppliers) tend to favor their sister companies. This practice could be a concern for competition policy if any one of the vertically-related companies has a dominant position in the market. However, in our sample, it seems that medium-sized companies, not the large ones, have a stronger tendency to establish preferential relations with their sister companies.[33] In other words, the relations between vertically-related suppliers and retailers is not, at least for time being, likely to distort competitive conditions in the retail sector.

Private label products have an increasing market share and changed the competitive conditions in the market (for competitive effects of private label products, see Cotterill, Putsis Jr. and Dhar, 2000; Morton and Zettelmeyer, 2004; Sayman and Raju, 2004; Steiner, 2004). The share of private label products in total sales is quite high (the arithmetic average across all product categories is around 30 percent). Cleaning products, packed food products, milk products and paper products have higher private label shares. Large retailers have somewhat higher private label sales in these categories. Moreover, retailers, especially large ones, expect that the share of private label products will continue to increase in the next three years in all product categories.

It seems that a large number of suppliers are involved in private label production. Almost all firms producing cleaning products produce private label products for retailers, whereas the proportion of suppliers that produce private label products is about 40-50 percent in food and beverages categories. The share of private label products in total turnover is around 16 percent: it is quite high in the case of cleaning products (43 percent), and low in food products (6 percent). Private label products have a higher share in total turnover of small firms (33 percent). They contribute to 10 percent of turnover of medium-sized retailers and only 3 percent of turnover of large retailers. Large suppliers that market their products under national, well-known brand names are involved in private label production in small quantities.

[33] A sales manager of a large retailer that belongs to a business group claimed in the interview that they do not have special arrangements with their sister supplier companies because they operate independently as profit centers within the group.

Retailers and suppliers believe that private label products are of inferior quality (Table 18). Partly because of this reason, production cost is thought to be lower. A majority of retailers and suppliers agree that these products are cheaper than national brands. There are more suppliers who believe that private label products are relatively cheaper than those who believe that their production cost is lower. Thus, there seems to be a reputation premium on national brands.

5. The future

The organized retail market (local supermarkets and chain stores) have grown rapidly at the expense of traditional retail formats (grocery shops and open bazaar). Of course, organized retailers face with certain problems in developing their businesses. They claim that (high) tax rates restrict their growth (Table 19). This is the most important obstacle cited by small and medium-sized retailers. In addition to taxes, land/store availability and competition from informal firms are also important barriers for further growth of the organized retail sector. It seems that urban areas develop without a proper implementation of well-designed city planning in Turkey. This has the most adverse effect on retailing sector. Since it is rather difficult to find an estate suitable for a large-scale store in city centers, the rents and prices for suitable places/areas in city centers may reach prohibitive levels. In order to overcome this problem, the large-scale retailers prefer to acquire supermarkets located in central areas. The lack of suitable locations acts as a significant entry barriers for supermarkets and large chains, and prevents their rapid diffusion.

Small and medium-sized retailers consider competition from large chain stores as a noteworthy obstacle. Regulations, macroeconomic uncertainty, costs of financing financial and transportation facilities are only partially important. Interestingly, consumer demand is among the least important factor that inhibits retailers' growth. This is a striking finding because the SIS survey on capacity utilization finds consistently that the most important reason for underutilization of production capacity in manufacturing industries in Turkey is the lack of (domestic) demand.

Retail characteristics that determine competitiveness provide the clue to understand which retail formats are likely to grow in the future. All retailers, large and small, said that the most important determinant of competitiveness in the retail sector is stores' location (Table 20). It is followed by quality-related aspects (product quality, product range/ diversity, and retailer's brand/reputation), and prices (promotions, proximity to consumers, and prices). Other services offered by the retail (parking, packing, store's appearance and loyalty cards) are slightly less important than quality and prices. Product brand is also among the partially important factors. Given those factors, retailers (and suppliers as well) believe that hypermarkets, supermarkets and discounters will increase their market shares in the next decade. Some suppliers (20 percent of all suppliers) predict that cash & carry and gas station markets will also increase their markets shares. There is almost no firm that believes that grocery shops, open bazaars and specialized markets (butchers, green groceries, etc.) will be able to increase their market shares. Consistent with these predictions, all large retailers who responded to the survey plan to open new stores in the next three years. There are three out of 17 medium-sized and 4 out of 14 small retailers that do not envisage any increase in the number of stores. No retailer predicts any contraction in the number of stores it currently operates. One small retailer stated that it plans to exit from the market in the next three years.

Almost all retailers and suppliers (about 90 percent of firms) expect that foreign retailers' market share will increase in the next decade (Table 21). The proportion of small retailers that expect an increase in foreign presence is a little lower (75 percent). Those firms that predict foreign entry in the retail market believe that, as a result of foreign entry, retail prices will decline somewhat, and product quality and diversity will increase to a large extent. Retailers, especially small ones, are skeptical on the impact of foreign entry on domestic suppliers' production, but suppliers, especially small ones, are hopeful that domestic suppliers' production may increase as a result of foreign entry.

As noted in the second section of this study, there is no specific law regulating the retail market in Turkey. A draft law prepared last year initiated an intense debate on a number of issues. It is obvious that almost all retailers and suppliers are in favor of having a law regulating the retail market (Table 22). Majority of retailers (67 percent) and almost all suppliers (90 percent) support the idea that the law should impose restrictions on below-cost sales. The stance of suppliers on this issue is consistent with their opinion that below-cost sales are harmful for suppliers. Suppliers are also strongly in favor of restrictions on payment conditions and exclusivity agreements whereas small and medium-sized retailers are indifferent and large retailers are weakly against these restrictions. While retailers, especially large ones, are against restrictions on promotions, suppliers are somewhat in favor of these restrictions, too. Overall, suppliers seem to be worried that retailers could pass on the costs of fierce competition in the market on their shoulders.

The issue of imposing restrictions on private label sales by retailers (such as 20 percent ceiling) is a contested area where suppliers and retailers, and small and large firms disagree each other. Large retailers who can capitalize on the reputation they establish in the market by selling more private label products are against restrictions on private label sales, whereas medium-sized and large suppliers, who consider private label as a threat to their national brands, are in favor of these restrictions. Small and medium-sized retailers, who may not benefit much from private label products, are somewhat in favor of restrictions, and small suppliers, whose position may not differ under private label production, are indifferent. Private label products seem to be a tool that may shift the benefits of brand name advantages in favor of large retailers.

6. Issues for competition policy

The conduct of firms in the retail and supplier sectors has received considerable attention due to its direct impact on consumers. There have been 23 complaints on retailers made to the Competition Authority in the period 1998-2003. Most of these complaints are about below-cost selling and discriminatory practices.

The common feature of below-cost selling complaints is the claim that hypermarkets sell their products at excessively low prices that may force small retailers to exit from the market. According to the Competition Law, below-cost selling or excessively low prices can be deemed as the violation of the law only if the undertaking concerned has a dominant position in the relevant market. The law defines dominant position as “any position enjoyed in a certain market by one or more enterprises by virtue of which, those enterprises have the power to act independently of their competitors and purchasers in determining economic parameters such as the amount of production or distribution, price and supply". The Competition Board rejected all complaints about below-cost selling as out of scope by arguing that the dominant position of any hypermarket in the relevant market is unlikely because of low concentration ratios in the market, low entry barriers and dynamic market conditions.

Other main complaints brought before the Competition Board are concerned with discriminatory practices done by suppliers against small retailers in favor of large retailers. Complaints were generally brought by small retailers or the Chamber of Small Grocery Shops (Bakkallar Federasyonu Odası). They claimed that suppliers sell their products under more favorable conditions to large retailers. The Competition Board deemed almost all these complaints as out of scope because it decided that small retailers and large retailers are not in equivalent position because of differences in their sizes, volumes of purchased products, product diversity, etc.

There are two cases of infringement of the Competition Law. The Competition Board decided in the case brought by the Istanbul Food Wholesale Traders Association (IGTOD) that a number of large food suppliers (Benckiser, Sezginler, Ülker, Besler, Eczacıbaşı Procter & Gamble, Marsa Kraft Jacobs Suchard, Unilever, and LeverElida) violated the law by imposing sales restrictions on their distributors. Likewise, another food supplier (Frito-Lay) was found to be abusing its market power by imposing exclusivity restrictions on retailers. [34]

There have been five merger cases in retail trade brought before the Competition Board since 1998. In the first case, Metro and Migros joint venture (1998), the Board granted a conditional permission, but the venture was not established later on. In all other cases, Doğuş Holding-Tansaş (1999), Carrefour-Continent (2000), Tesco-Kipa (2003), and Carrefour-Gima/Endi (2005) the Board permitted mergers unconditionally.

[34] Frito-Lay was the dominant firm in the salty-snack market in Turkey (two largest firms controlled about 98 percent of the market). It was found that, Frito-Lay tried to establish an exclusive sales network at the final sales points, especially in traditional retailers, in the period 1998-2003. The sales agreements explicitly stated that the retailer could not sell any other brands. Frito-Lay applied also special promotions (awards, gifts, discounts, bonuses, etc.) aimed at achieving exclusivity. Since Frito-Lay's sales personnel visited retailers once or twice a week, it was able to enforce the exclusivity agreements. After the investigation, the Competition Board decided to withdraw the exemption for the non-competition (exclusivity) clause in vertical agreements done between Frito-Lay and the retailers (final sale points), because it did not bring out any economic benefit or efficiency gains, and acted as an barrier to entry.

As noted earlier, there is no special legislation regarding the establishment of large retailers in Turkey. There have been several attempts to introduce a law for this purpose, and three draft laws were brought before the Competition Board in recent years. Although there were some differences between these laws, the common aim was to help small retailers (groceries, green groceries, etc.) by forcing large stores to be located "outside" the city.

The first draft law prepared in 2001 aimed at regulating the establishment of stores having a sales area greater than 250 m^2 subject to the permission obtained from a Board composed of the Municipality, Chamber of Commerce, Competition Board and consumer associations. The Board would give its decision by considering the location (its distance to the city centre), demand and supply conditions in the city concerned, and the competitiveness of small retailers. The same procedure would apply to the stores that are larger than 1000 m^2 that would be located 5 km away from the city centre.

The second draft law was prepared by Ministry of Trade and Industry in 2003. The difference between the first and second laws was the fact the latter one did not envisage any special Board. It assigned the authority to the governor or the Ministry of Industry and Trade according to size of large stores. It also included provisions that prohibited certain forms of conduct (predatory pricing tactics, etc.) that could be addressed indirectly under the Competition Act.

The last draft law was put on the agenda in 2004. Those above-mentioned prohibitions were excluded from draft law after the Competition Board's objections. Although there are some improvements in the new draft law, the Competition Board opposed to two issues concerning restriction of private label sales by large stores (the draft law envisaged 20 percent limit for private label sales) and limitations on low-price sales promotions. The Competition Board states that these restrictions harm consumers (by preventing price competition) and small and medium-sized manufactures (who can gain competitive advantage by producing private label products for large retailers). It seems that the law is not agenda of the government, and is not likely to be enacted in recent future.

Although most of the retailers and suppliers who participated in our survey stated that they welcome a law on regulating the retail market, restrictions on different forms of competitive practices and on the location of large stores need to be tackled with care. Since the competition law provides sufficient safeguards against any anti-competitive behavior, there may not be any need to introduce additional general restrictions. The idea of protecting small retailers by imposing a ban on the establishment of new large stores around the city center is also questionable because it basically helps the incumbent large retailers. The issue of land provision for large stores and shopping centers can be better dealt within the context of urban planning.

7. Conclusions

Major findings of our analysis can be summarized as follows:

- ❖ The retail market in Turkey is competitive. There are no legal restrictions on entry, and no discrimination against foreign companies.
- ❖ Prices across retail formats differ substantially for a market operating on a very thin profit margin. However, these differences are likely to stem from cost differences.
- ❖ There are some practices applied by retail companies that are potentially anti-competitive (price flexing, listing fees, slotting fees, etc.). However, these practices do not distort competition in the retail market seriously, because these companies seem to lack a significant degree of market power. There are some practices applied by supplier companies that are potentially anti-competitive (discounts based on exclusivity agreements, shelf area, product range, etc.). These practices could distort competition because of high level of concentration in certain markets. These markets need to be scrutinized closely by the Competition Authority to guarantee further development of the retail market.
- ❖ Supermarkets, chains stores and foreign firms are likely to increase their market shares in the future. Any single retailer may not seem to establish a dominant position in the national market. However, the relevant markets in the retail sector should be defined locally rather than nationally. It is possible that some retailers may establish a dominant position in certain local markets, especially following a merger activity and/or exits.[35]

[35] After the first draft of this study was written, Carrefour announced on May 3, 2005, that they reached an agreement with Fiba Holding to acquire Gima and Endi for USD 132 million and it would become Turkey's biggest food retailer after the acquisition. (The merger was later approved by the Competition Board on June 17.) Koç Holding reacted to this announcement by stating that they had reached an agreement with Fiba

- The share of private label products is likely to increase in the future. The increase in the share of private label is likely to lead to a more competitive retail market.
- These trends may have a slightly positive impact on retail prices, especially if discount stores continue to increase their market shares.
- These trends are likely to have a positive impact on product diversity and the quality of products/services offered by retail stores.
- Employment impact of these trends could be negative because turnover/employee ratio is three times higher in chain stores than in traditional retailers. However, modern retail formats can generate new jobs if they provide additional services for their customers.
- The transformation of the retail market is likely to have a long-lasting impact on wholesale trade and the distribution of FMCGs as well. Traditional wholesalers are the most likely losers, because large retailers tend to buy directly from suppliers. Logistics companies that provide a wide range of complementary services will play an increasingly more important role in the distribution of FMCGs.

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Holding on all matters including the price in their acquisition deal for Gima and Endi, but Fiba Holding moved ahead with Carrefour instead without any prior notice. As a result, Koc Holding broke away with Sabanci Holding in their planned joint bid for the privatization of Turk Telecom. A few months later, it was announced on August 22 that Migros of Koç Holding agreed to buy 70.77 percent stake in organised retailer Tansas for USD 387.million from Doğuş Group. Koç Holding declared that they would preserve the brands Migros and Tansaş. After the acquisition, Migros will again be the largest FMCG retailer in Turkey.

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Tables and Figures

Table 1. FMCG wholesale and retail trade sectors, 1997, 1999 and2001
(million USD)

	Number of estab.	Number of empl.	Number of engaged	Payments to empl.	Input	Output	Value added	Total sales
1997								
51 - Wholesale trade (except of motor vehicles and motorcycles)								
5121 - Agricultural raw materials and live animals	2 408	12 832	14 603	42	77	967	889	1 949
5122 - Food, beverages and tobacco	15 705	69 559	82 901	177	299	2 463	2 164	14 393
52 - Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods								
5211 - Retail sale in non-specialized stores	172 741	96 460	319 583	270	416	2 997	2 581	11 627
5219 - Other retail sale in non-specialized stores (departm	8 099	29 241	39 574	109	166	852	687	4 461
5220 - Retail sale of food, beverages and tobacco in spec	58 562	31 365	109 014	53	167	1 182	1 015	4 759
5231 - Retail sale of pharmaceutical and medical goods, c	20 717	23 940	46 906	45	113	712	600	2 503
5259 - Other non-store retail sale	56	546	563	1	3	9	6	14
1999								
51 - Wholesale trade (except of motor vehicles and motorcycles)								
5121 - Agricultural raw materials and live animals	2 474	12 824	14 573	64	109	1 256	1 147	3 398
5122 - Food, beverages and tobacco	16 664	77 359	90 754	246	569	4 456	3 888	19 676
52 - Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods								
5211 - Retail sale in non-specialized stores	180 934	110 803	338 897	399	520	3 950	3 431	15 247
5219 - Other retail sale in non-specialized stores (departm	8 629	43 197	52 212	205	273	1 353	1 080	5 477
5220 - Retail sale of food, beverages and tobacco in spec	61 937	36 013	119 373	72	245	1 631	1 385	6 124
5231 - Retail sale of pharmaceutical and medical goods, c	21 557	26 426	51 183	61	120	869	749	2 885
5259 - Other non-store retail sale	67	779	798	2	3	13	10	23
2001								
51 - Wholesale trade (except of motor vehicles and motorcycles)								
5121 - Agricultural raw materials and live animals	2 503	13 567	15 465	56	118	1 083	965	2 181
5122 - Food, beverages and tobacco	17 875	82 265	97 407	264	513	4 720	4 207	17 189
52 - Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods								
5211 - Retail sale in non-specialized stores	185 504	117 956	346 193	256	373	2 371	1 998	10 406
5219 - Other retail sale in non-specialized stores (departm	9 430	44 582	54 599	146	214	894	680	3 879
5220 - Retail sale of food, beverages and tobacco in spec	62 693	37 049	121 538	63	183	1 361	1 178	4 296
5231 - Retail sale of pharmaceutical and medical goods, c	24 201	30 753	57 050	66	95	941	846	3 213
5259 - Other non-store retail sale	83	581	617	1	2	8	6	69

Source: SIS.

Table 2. Value added, FMCG-related sectors, 1997-2001
(million USD)

	1997	1998	1999	2000	2001
A - Agriculture, hunting and forestry	25815	33758	26665	27206	17890
D - Manufacturing					
15 - Food products and beverages					
151 - Meat, fish, fruit, vegetables, oils and fats					
1511 - Meat and meat products	373	543	381	476	259
1512 - Fish and fish products	53	27	20	20	17
1513 - Fruit and vegetables	680	687	744	610	569
1514 - Vegetable and animal oils and fa	650	653	564	492	419
152 - Dairy products					
1520 - Dairy products	235	305	384	412	224
153 - Grain mill products, starches, animal feeds					
1531 - Grain mill products	191	225	196	209	136
1532 - Starches and starch products	31	42	41	33	26
1533 - Animal feeds	171	212	270	224	81
154 - Other food products					
1541 - Bakery products	323	336	286	304	197
1542 - Sugar	203	414	401	410	396
1543 - Cocoa, chocolate and sugar conf	343	341	451	312	359
1544 - Macaroni, noodles, couscous	71	83	54	59	44
1549 - Other food products n.e.c.	336	479	373	461	307
155 - Beverages					
1551 - Spirits; ethyl alcohol	177	438	523	444	453
1552 - Wines	17	20	15	14	16
1553 - Malt liquors and malt	231	225	215	208	191
1554 - Soft drinks, mineral waters	270	269	333	209	258
16 - Tobacco products					
160 - Tobacco products					
1600 - Tobacco products	552	817	1000	1063	2015
21 - Paper and paper products					
210 - Paper and paper products					
2101 - Pulp, paper and paperboard	181	159	161	260	162
2102 - Corrugated paper, containers	228	269	250	244	214
2109 - Other articles of paper and paper	242	474	170	193	144
24 - Chemicals and chemical products					
242 - Other chemical products					
2424 - Soap and detergents, cleaning pr	851	468	920	655	518
Total	**6412**	**7487**	**7752**	**7312**	**7004**
G - Wholesale and retail trade; repair of motor					
51 - Wholesale trade (except of motor vehicles an					
512 - Agricultural raw materials, live animals,					
5121 - Agricultural raw materials and live	889	977	1147	1632	965
5122 - Food, beverages and tobacco	2164	2843	3888	3930	4207
52 - Retail trade, except of motor vehicles and mo					
521 - Non-specialized retail trade in stores					
5211 - Retail sale in non-specialized sto	2581	2879	3431	3668	1998
5219 - Other retail sale in non-specialize	687	1193	1080	1069	680
522 - Retail sale of food, beverages and toba					
5220 - Retail sale of food, beverages an	1015	1214	1385	1873	1178
523 - Other retail trade of new goods in speci					
5231 - Retail sale of pharmaceutical and	600	706	749	811	846
525 - Retail trade not in stores					
5259 - Other non-store retail sale	6	10	10	8	6
Total	**7943**	**9822**	**11690**	**12993**	**9879**
H - Hotels and restaurants					
55 - Hotels and restaurants					
551 - Hotels; camping sites and other provisio					
5510 - Hotels; camping sites and other p	1797	1954	2449	2997	2489
552 - Restaurants, bars and canteens					
5520 - Restaurants, bars and canteens	2385	2376	3491	4449	3250
Total	**4182**	**4330**	**5940**	**7446**	**5739**
Total (all sectors except agriculture)	**18537**	**21639**	**25382**	**27750**	**22622**

Note: The data on manufacturing industries exclude private establishments employing less than 10 people.
Source: SIS

Table 3. Concentration rates in domestic production, FMCG-related sectors, 1997-2001

	1997		1998		1999		2000		2001	
	n	CR4	n	CR4	n	CR4	n	CR4	n	CR4
D - Manufacturing										
15 - Food products and beverages										
151 - Meat, fish, fruit, vegetables, oils and fats										
1511 - Meat and meat products	94	33.4	110	29.6	99	32.4	101	31.2	99	34.7
1512 - Fish and fish products	16	90.5	19	82.8	17	77.5	14	79.7	16	68.1
1513 - Fruit and vegetables	239	17.6	251	21.4	240	11.8	226	16.3	234	20.0
1514 - Vegetable and animal oils and fa	124	48.4	120	42.5	108	43.2	103	44.0	95	35.1
152 - Dairy products										
1520 - Dairy products	113	51.1	118	50.0	112	51.4	110	49.5	114	51.8
153 - Grain mill products, starches, animal fe										
1531 - Grain mill products	305	16.3	310	16.6	279	24.0	272	22.8	264	18.1
1532 - Starches and starch products	10	93.5	8	96.7	7	96.4	7	96.6	6	95.8
1533 - Animal feeds	141	23.9	149	26.3	144	27.9	134	29.1	130	33.0
154 - Other food products										
1541 - Bakery products	431	36.6	442	38.6	390	39.0	365	43.8	372	35.5
1542 - Sugar	35	39.1	34	33.2	34	35.9	35	32.0	39	35.9
1543 - Cocoa, chocolate and sugar conf	86	64.1	91	59.3	84	59.1	85	59.6	85	61.4
1544 - Macaroni, noodles, couscous	15	79.2	16	68.0	13	75.7	16	69.1	19	61.6
1549 - Other food products n.e.c.	101	39.4	106	41.4	106	43.4	110	38.4	113	38.3
155 - Beverages										
1551 - Spirits; ethyl alcohol	15	58.5	13	65.8	14	71.4	14	73.7	13	71.3
1552 - Wines	12	72.2	14	71.5	12	77.5	12	72.1	13	73.5
1553 - Malt liquors and malt	9	74.6	10	79.5	9	69.0	8	76.5	8	77.2
1554 - Soft drinks, mineral waters	54	65.7	60	67.0	60	63.5	55	67.9	54	75.0
16 - Tobacco products										
160 - Tobacco products										
1600 - Tobacco products	38	54.8	39	58.9	35	57.6	28	61.4	25	66.7
21 - Paper and paper products										
210 - Paper and paper products										
2101 - Pulp, paper and paperboard	40	46.7	46	37.7	40	35.9	43	31.5	46	36.6
2102 - Corrugated paper, containers	101	24.9	117	26.2	105	27.2	107	26.4	116	26.1
2109 - Other articles of paper and paper	50	59.9	68	60.1	52	47.7	60	46.3	56	42.5
24 - Chemicals and chemical products										
242 - Other chemical products										
2424 - Soap and detergents, cleaning pr	63	62.1	67	64.9	64	71.2	63	63.3	71	66.8
52 - Retail trade, except of motor vehicles and motorcycles; repair of personal and household goods										
521 - Non-specialized retail trade in stores							194127	10.8	194934	11.5

Source: SIS, *Concentration Rates in Manufacturing;* Sector 52, authors' estimates.

Table 4. Profit margins in FMCG-related sectors, 1997-2002
(operating profits/turnover)

Sectors (ISIC Rev. 3)		1997	1998	1999	2000	2001	2002
011	Growing of crops	0.11	0.13	0.12	0.11	0.13	0.11
012	Farming of animals	0.08	0.12	0.10	0.06	0.07	0.10
014	Agricultural and animal husbandry service activities	0.04	0.04	0.04	0.03	0.03	0.02
050	Fishing, fish farms	0.12	0.10	0.11	0.08	0.14	0.08
151	Meat products	0.01	0.10	0.06	-0.04	0.00	0.04
152	Fish products	0.12	0.16	0.17	0.01	0.06	0.08
153	Fruit and vegetables	0.09	0.07	0.08	0.03	0.09	0.06
154	Vegetable and animal oils and fats	0.09	0.09	0.07	0.05	0.09	0.05
155	Dairy products	0.10	0.06	0.05	0.03	0.04	0.02
156	Grain mill products	0.05	0.04	0.02	0.03	0.04	0.05
157	Animal feeds	0.05	0.05	0.05	0.04	0.02	0.06
158	Other food products	0.08	0.10	0.06	0.06	0.11	0.12
159	Beverages	0.11	0.01	0.03	0.06	0.06	0.10
160	Tobacco products	0.16	0.13	0.09	0.14	0.08	0.13
211	Pulp, paper and paperboard	0.04	0.04	-0.02	-0.05	0.01	0.04
212	Containers of paper and paperboard	0.13	0.09	0.09	0.09	0.11	0.13
245	Other chemical products	0.14	0.18	0.17	0.11	0.13	0.12
512	Wholesale of agricultural raw materials	0.07	0.07	0.06	0.03	0.09	0.03
513	Wholesale of food, beverages and tobacco	0.03	0.01	0.02	0.02	0.02	0.02
521	**Non-specialized retail trade in stores**	**0.01**	**0.01**	**-0.02**	**-0.02**	**-0.05**	**-0.02**
523	**Retail trade of new goods in specialized stores**	**0.06**	**0.11**	**0.15**	**0.08**	**0.11**	**0.06**
551	Hotels; camping sites	0.10	0.08	-0.02	0.04	0.10	0.08
553	Restaurants, bars and canteens	-0.02	0.00	0.01	0.02	0.00	0.03

Source: The Central Bank of the Republic of Turkey

Table 5. Restrictiveness index scores for distribution services (wholesale and retail trade)

	Developed countries	EU-15	Latin America	Asia	Turkey
Domestic Index					
Restrictions on commercial land	0.000	0.000	0.000	0.013	0.000
Direct investment in distribution firms	0.000	0.001	0.000	0.001	0.000
Restrictions on large-scale stores	0.011	0.012	0.000	0.009	0.000
Factors affecting investment	0.005	0.007	0.002	0.005	0.000
Local government requirements	0.017	0.005	0.013	0.011	0.000
Restrictions on establishment total	*0.033*	*0.025*	*0.015*	*0.039*	*0.000*
Wholesale import licensing	0.005	0.001	0.011	0.019	0.000
Limits on promotion of retail products	0.007	0.008	0.004	0.003	0.000
Statutory government monopolies	0.004	0.000	0.005	0.005	0.013
Protection of intellectual property rights	0.014	0.050	0.018	0.028	0.050
Restrictions on ongoing operations total	*0.031*	*0.060*	*0.038*	*0.055*	*0.063*
Domestic index total	**0.064**	**0.085**	**0.053**	**0.094**	**0.063**
Foreign Index					
Restrictions on commercial land	0.043	0.100	0.000	0.038	0.000
Direct investment in distribution firms	0.000	0.005	0.031	0.085	0.000
Restrictions on large-scale stores	0.011	0.012	0.000	0.009	0.000
Factors affecting investment	0.010	0.012	0.004	0.018	0.000
Local government requirements	0.017	0.005	0.017	0.015	0.000
Permanent movement of people	0.013	0.020	0.027	0.011	0.031
Restrictions on establishment total	*0.094*	*0.153*	*0.080*	*0.176*	*0.031*
Wholesale import licensing	0.005	0.001	0.011	0.023	0.000
Limits on promotion of retail products	0.007	0.008	0.004	0.003	0.000
Statutory government monopolies	0.004	0.000	0.005	0.005	0.013
Protection of intellectual property rights	0.014	0.050	0.018	0.028	0.050
Licensing requirements on management	0.033	0.019	0.030	0.038	0.014
Temporary movement of people	0.007	0.007	0.007	0.008	0.019
Restrictions on ongoing operations total	*0.071*	*0.086*	*0.074*	*0.105*	*0.096*
Foreign index total	**0.165**	**0.239**	**0.154**	**0.281**	**0.126**

Note: Developed countries: Australia, Canada, Japan, New Zealand, South Africa, Switzerland and United States; EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom; Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Uruguay and Venezuela; Asia: India, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand

Source: Productivity Commission Trade Restrictiveness Database, Australia

Table 6. Vertical integration in FMCGs sector in Turkey

Business group	Sectors					
	Retail		Manufacturing		Wholesale/Distribution	Hotels and Restaurants
	Store Brands	Retail Formats	Company Name	Sector	Company Name	Company Name
Sabancı Holding	Carrefoursa	Hypermarket	Marsa Kraft	Oils and fats	Philip Morrissa	Tursa A.Ş.
	Championsa	Supermarket	Gıdasa	Macaroni, flour		Ankara Enternasyonel.
	Diasa	Discount Store		juice, biscuit, cake		Otelcilik A:.Ş.
			Philsa	Tobacco		
Koç Holding	Migros	Hypermarket	Tat	Meat products, dairy	Düzey Pazarlama A.Ş.	Divan A.Ş.
		Supermarket		products, macoroni		Talya A.Ş.
	Şok	Discount Store		canned food		
				bottled water		
Doğuş Holding	Tansaş	Supermarket				Antur Turizm
	Macrocenter	Supermarket				Garanti Turizm
						Voyager Turizm
						Datmar Turizm
						Göktrans Turizm
Fiba Holding	Gima	Supermarket				
	Endi	Discount Store				
Azizler Holding	BİM	Discount Store				
Kombassan	Afra	Hypermarket	Komas Gıda	Macaroni, flour,	Baykur A.Ş.	Bera Turizm
		Supermarket		dry food		Hotel Bera
			Kardelen A.Ş.	Bottled water		
Yimpaş Holding	Yimpaş	Hypermarket	Aytaç	Meat products, dairy		Yimpaş Otelcilik ve
	Proma	Supermarket		products, oils and fats		Restoranları
				bottled water, juice		
Canerler Group	Canerler	Hypermarket	Anmar	Mineral waters		
		Supermarket	Beka	Dry food		
	Keybi	Supermarket	Söğüt	Meat products		
İttifak Holding	Adese	Hypermarket	Selva Gıda	Macaroni		

Source: Compiled by authors' from company web sites.

Table 7. Establishment year of survey firms

	Retailers			Suppliers		
	Total	Foreign	Holding	Total	Foreign	Holding
1983 and before	6		3	38	3	11
1984-1988	5		1	12	3	5
1989-1993	19	3	4	11	2	1
1994-1998	13	2	2	7		2
1999-2003	7		1	5		1
Unknown	1		1	6	1	1
Total	51	5	12	79	9	22

Figure 1a. AB group purchasing patterns (4-q MA) 1999:4-2003:3

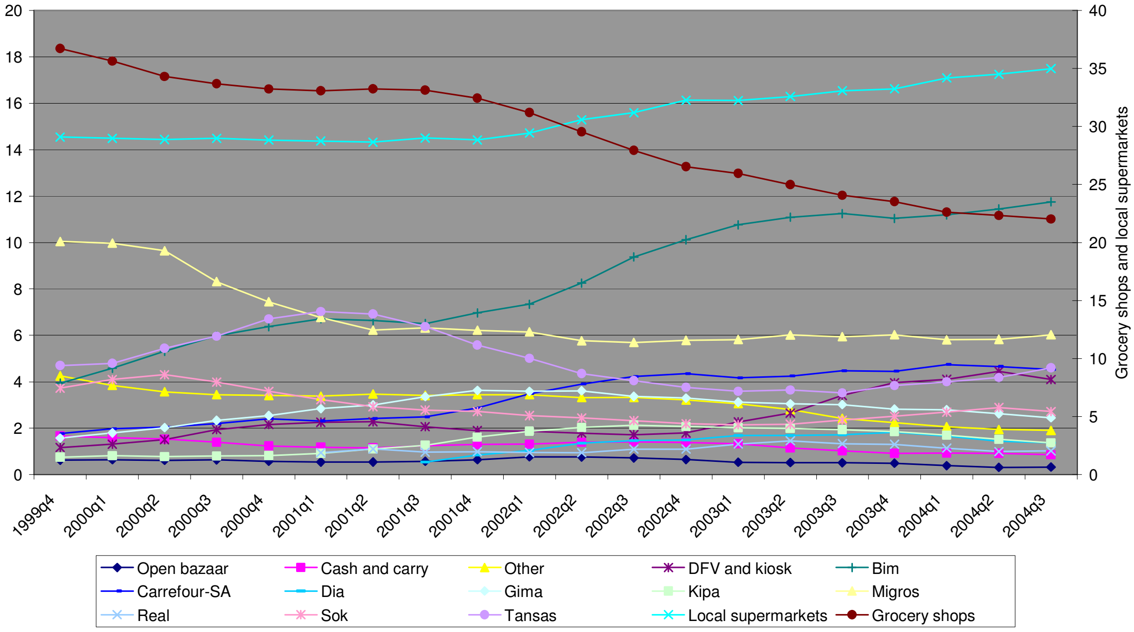

Figure 1b. C1 group purchasing patterns (4-q MA) 1999:4-2003:3

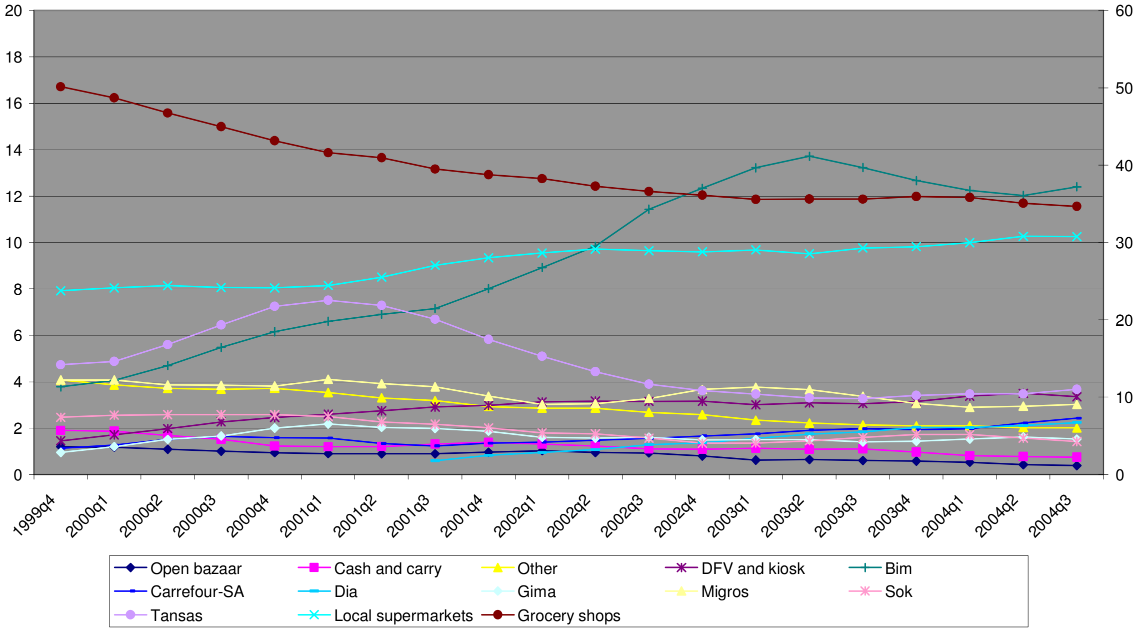

Figure 1c. C2 group purchasing patterns (4-q MA) 1999:4-2003:3

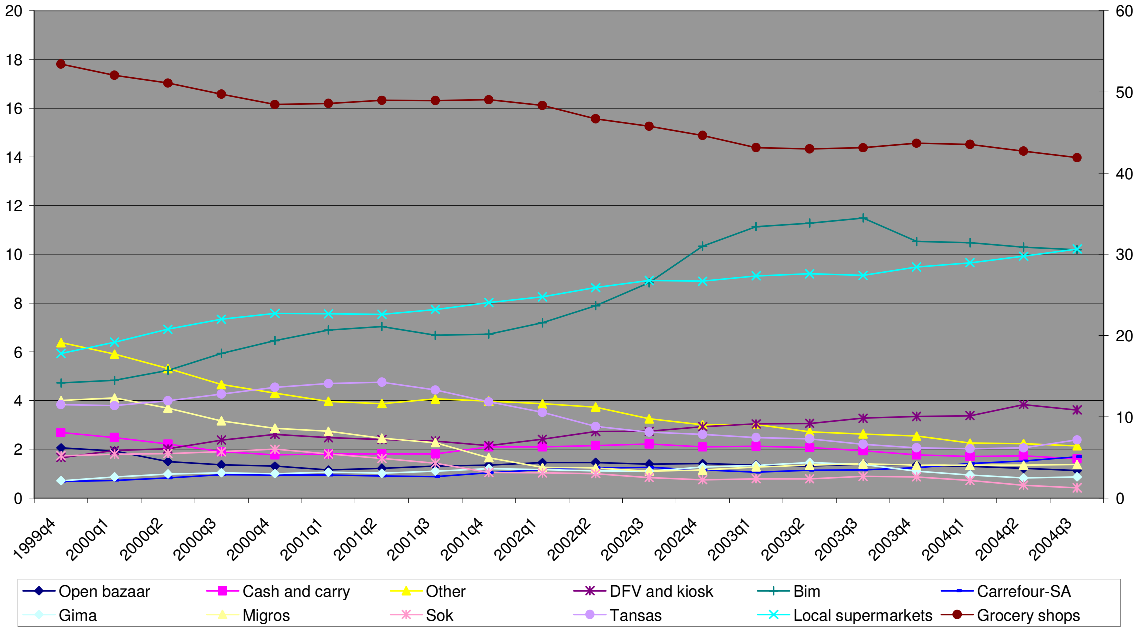

Figure 1d. D group purchasing patterns (4-q MA) 1999:4-2003:3

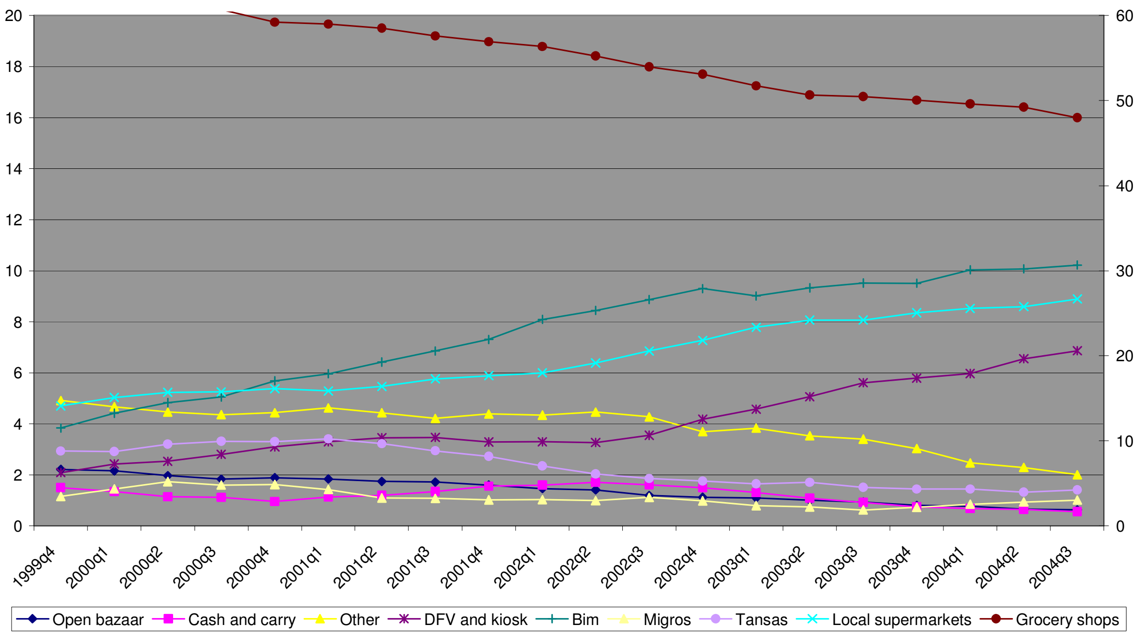

Table 8. Survey coverage

	Sales (million USD)	Number of employees	Firm size (million USD)
SIS, 2001			
Total retail (521 and 522)	18581	721917	0.093
521 - Non-specialized retail trade in stores	14285	563330	0.088
522 - Retail sale in specialized stores	4296	158587	0.116
Total suppliers[a]	18602	194166	9.357
HTP, 2003			
Total	14438		
Chains/discounters/hyper and super	4617		
Survey sample[b]			
Retail, 44 firms[c], 2001	2608	35063	59.3
Retail, 47 firms[c], 2003	4368	40025	92.9
Supplier, 69 firms, 2001	3418	53234	49.5
Coverage ratios			
SIS total retail, 2001	0.140	0.049	
SIS non-specialized retail trade, 2001	0.183	0.062	
SIS suppliers, 2001	0.184	0.274	
HTP total, 2003	0.303		
HTP >supermarkets, 2003	0.946		

a Supplier industries (ISIC Rev 3): 1511, 1512, 1513, 1514, 1520, 1531, 1532, 1533, 1541, 1542, 1543, 1544, 1549, 1551, 1552, 1553, 1554, 1600, 2101, 2102, 2109 and 2424.

b There are 51 and 79 firms who responded to the retail and supplier surveys, respectively.

c Turnover for 8 firms estimated as 0.78 and 0.11 USD turnover/employee in 2001 and 2003, respectively.

Table 9. Size distribution of survey firms

	Retailers			Suppliers		
	Total	Foreign	Holding	Total	Foreign	Holding
Small	16		1	25	2	1
Medium	19		5	19	1	5
Large	16	5	6	26	5	13
Unknown				9	1	3
Total	51	5	12	79	9	22

For retailers, small: <150 employees (<10 million USD turnover); medium: 150-499 employees (10-50 million USD turnover); large: 500+ employees (50+ million USD turnover).

For suppliers, small: <20 million USD turnover; medium: 20-50 million USD turnover; large: 50+ million USD turnover.

Table 10. Number of stores by size, 2000-2003

	2000	2001	2002	2003
Small retailers (total)	**18**	**31**	**39**	**71**
Hypermarket (>2500 m2)	0	0	0	0
Large supermarket (1000-2500 m2)	4	6	7	10
Supermarket (400-1000 m2)	7	10	14	21
Small süpermarket (100-400 m2)	6	14	17	39
Market (50-100 m2)	1	1	1	1
Total area (000 m2)	13.5	21.1	26.4	42.0
n	10	12	12	14
Medium-sized retailers (total)	**122**	**142**	**162**	**206**
Hypermarket (>2500 m2)	3	3	4	4
Large supermarket (1000-2500 m2)	5	8	13	19
Supermarket (400-1000 m2)	63	71	73	96
Small süpermarket (100-400 m2)	50	59	71	86
Market (50-100 m2)	1	1	1	1
Total area (000 m2)	75.9	89.0	105.7	136.0
n	14	14	14	15
Large retailers - excl. foreign (total)	**774**	**857**	**895**	**915**
Hypermarket (>2500 m2)	51	62	67	69
Large supermarket (1000-2500 m2)	102	112	117	125
Supermarket (400-1000 m2)	162	179	192	221
Small süpermarket (100-400 m2)	456	500	516	497
Market (50-100 m2)	3	4	3	3
Total area (000 m2)	584.6	663.6	702.9	739.4
n	10	11	11	11
Foreign retailers (total)	**581**	**684**	**801**	**958**
Hypermarket (>2500 m2)	15	28	31	32
Large supermarket (1000-2500 m2)	0	3	3	5
Supermarket (400-1000 m2)	0	0	0	0
Small süpermarket (<400 m2)	566	653	767	921
Small süpermarket (100-400 m2)	0	0	0	0
Total area (000 m2)	194.0	266.5	305.5	351.0
n	3	4	4	4

Note: Data from 44 retailers

Total area is estimated by assuming 3500 m2 area for hypermarkets. For all other stores, the mid-values are used.

Table 11. Relavant market for retailers
(per cent of retailers)

	Small retailers	Medium-sized retailers	Large retailers	Total
Consumer group (socio-economic status)				
A category	0.56	0.53	0.75	0.63
B category	0.56	0.73	1.00	0.80
C category	0.56	0.67	0.88	0.73
D category	0.11	0.27	0.44	0.30
n				40
Retail format				
Hypermarket	0.36	0.50	0.75	0.54
Supermarket	0.79	0.83	0.88	0.83
Discount market	0.14	0.22	0.31	0.23
Cash & carry	0.00	0.11	0.25	0.13
Grocery	0.14	0.11	0.19	0.15
Bazaar	0.29	0.17	0.19	0.21
Gas station	0.00	0.06	0.13	0.06
Specialized	0.00	0.11	0.06	0.06
n				48
Geographical market				
International	0.00	0.00	0.31	0.10
National	0.07	0.17	0.56	0.27
Regional	0.47	0.17	0.31	0.31
Local	0.53	0.72	0.31	0.53
n				49

Note: Colum totals exceed 1 because of multiple response.

Figure 2a. Relative food prices (4-quarter moving averages), 1994:4-2004:3

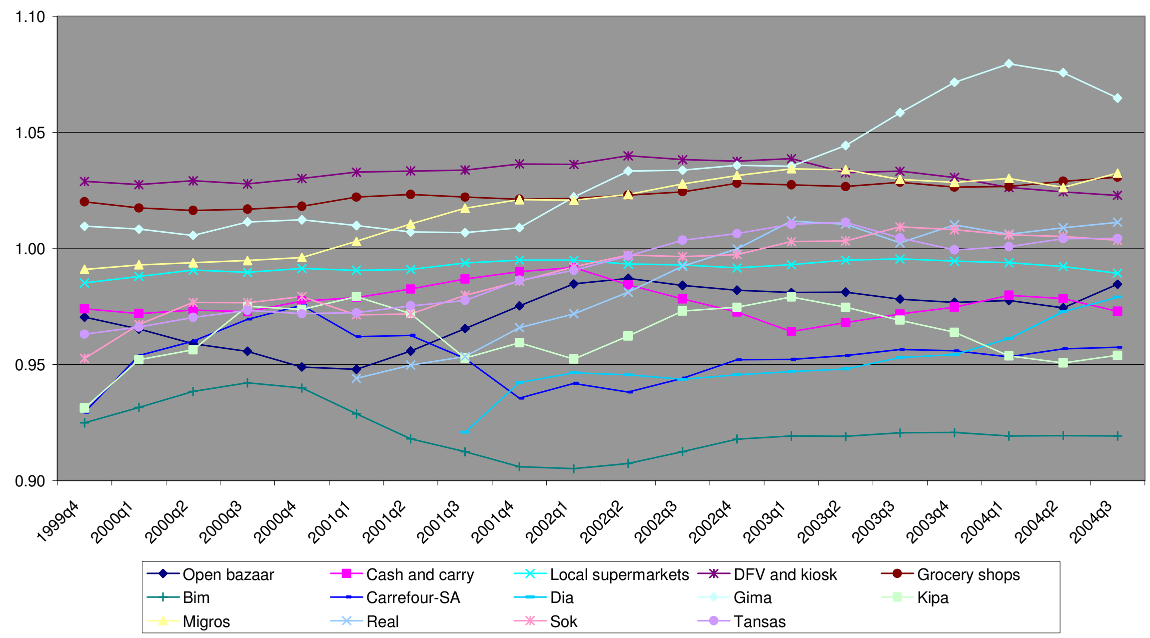

Figure 2b. Relative prices of personal care products (4-quarter moving averages), 1994:4-2004:3

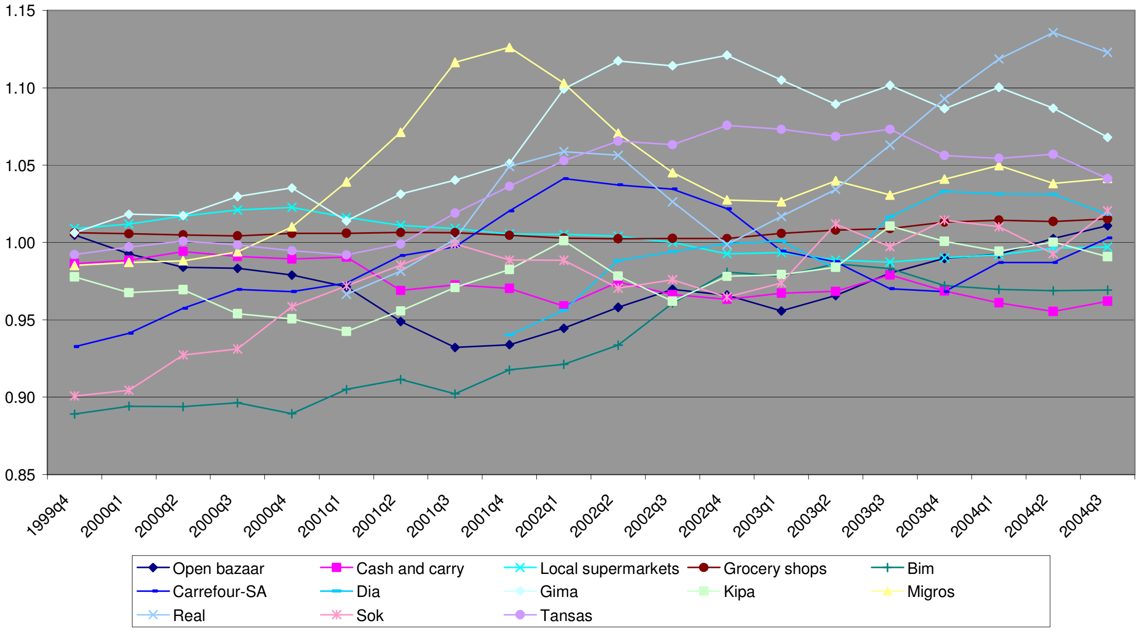

Figure 2c. Relative prices of cleaning products (4-quarter moving averages), 1994:4-2004:3

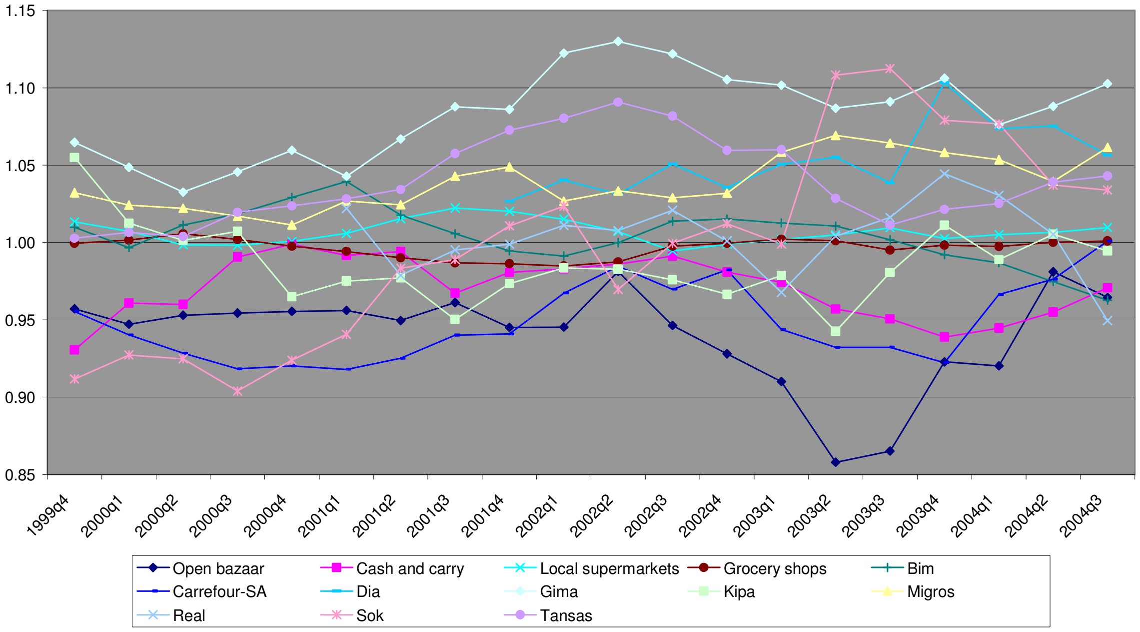

Figure 3a. Price flexing in food products by retail type, 1999:4-2004:3

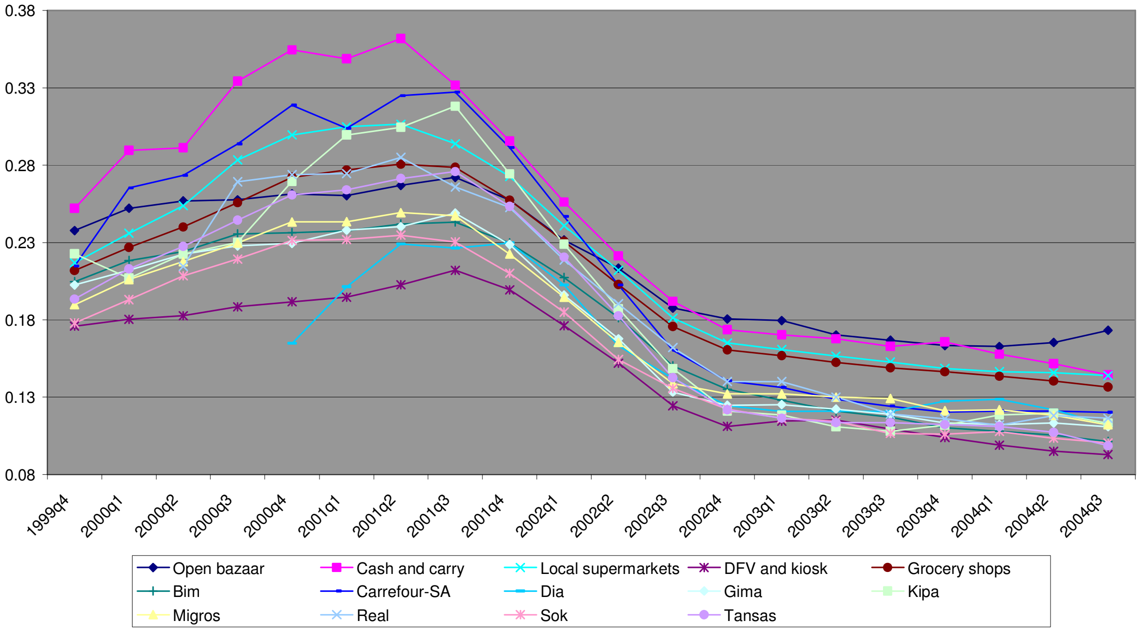

Figure 3b. Price flexing in personal care products by retail type, 1999:4-2004:3

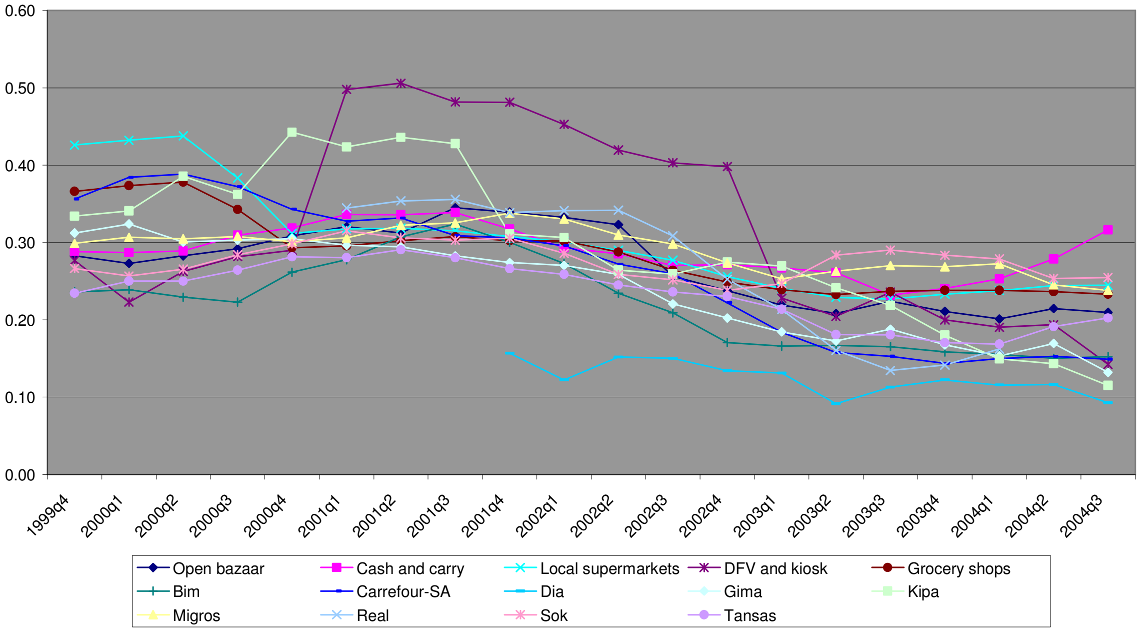

Figure 3c. Price flexing in cleaning products by retail type, 1999:4-2004:3

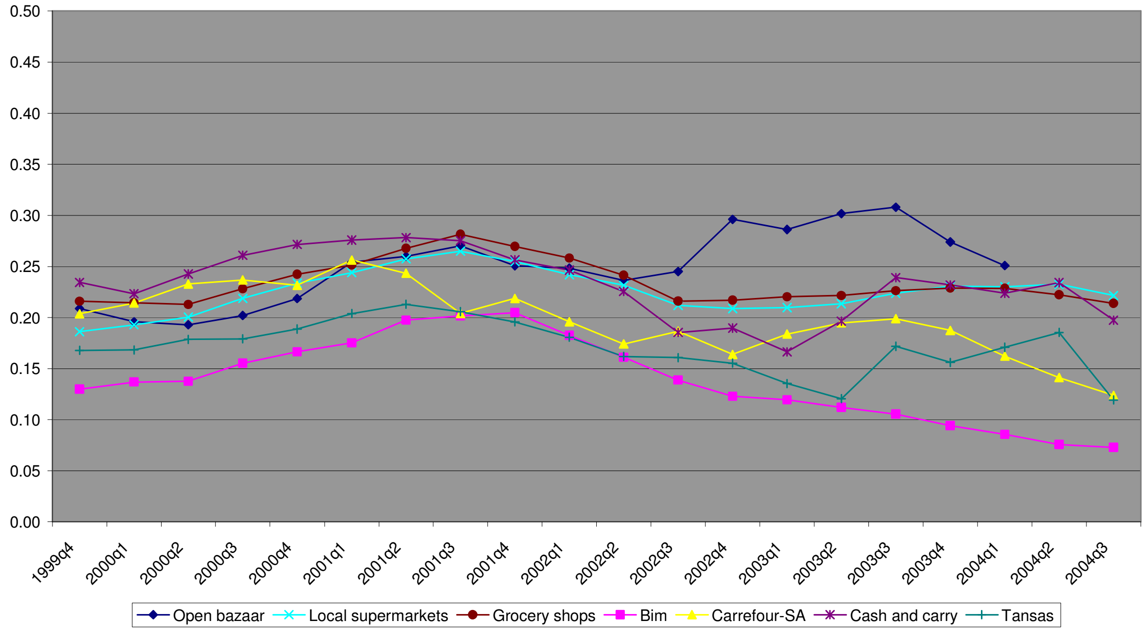

Table 12. Determinants of product prices

	Retailers				Suppliers			
	Small	Medium	Large	Total	Small	Medium	Large	Total
Input costs	2.9	3.0	2.9	2.9	3.0	2.8	2.9	2.9
Demand	2.3	2.4	2.6	2.4	2.0	2.1	2.0	2.0
Other retailers'/suppliers' prices	2.6	2.6	2.6	2.6	2.0	1.9	1.8	2.0
Level of stocks	2.4	2.2	2.0	2.2	1.8	2.0	1.9	1.9
Retailers' financial position					2.1	2.3	1.9	2.1
Payment conditions					2.4	2.6	2.2	2.4
"Private label"					2.5	2.6	2.5	2.5
n	50				74			

Scale: 1 no impact, 2 some impact, 3 strong impact

Table 13. Price flexing

	Retailers				Suppliers			
	Small	Medium	Large	Total	Small	Medium	Large	Total
Price flexing	0.33	0.53	0.75	0.54	0.63	0.61	0.79	0.68
n	50				74			
Determinants of price flexing								
Regional demand	0.80	0.50	0.33	0.48	0.33	0.43	0.80	0.48
Regional cost differentials	0.60	0.20	0.50	0.41	0.56	0.50	1.00	0.65
Other regional retailers'/suppliers' prices	1.00	0.80	0.83	0.85	0.44	0.67	0.80	0.60
New stores	0.80	0.60	0.75	0.70				
Entry by others	0.80	0.50	0.25	0.44	0.11	0.00	0.60	0.20
n	27				21			

Table 14. Near- and below-cost sales

	Never	Once a year	Once a month	Once a week	Always
Near- or below-cost selling by yourself					
Small	0.27	0.00	0.27	0.40	0.07
Medium	0.29	0.07	0.43	0.14	0.07
Large	0.36	0.45	0.09	0.00	0.09
Total	**0.30**	**0.15**	**0.28**	**0.20**	**0.08**
n	40				
Near- or below-cost selling by other retailers					
Small	0.08	0.08	0.31	0.15	0.38
Medium	0.00	0.00	0.53	0.24	0.24
Large	0.20	0.10	0.20	0.00	0.50
Total	**0.08**	**0.05**	**0.38**	**0.15**	**0.35**
n	40				
Suppliers' assessment					
Small	0.43	0.35	0.22	0.00	0.00
Medium	0.54	0.00	0.46	0.00	0.00
Large	0.33	0.33	0.19	0.14	0.00
Total	**0.36**	**0.29**	**0.23**	**0.06**	**0.06**
n	66				

Table 15. Assessment on below-cost sales

	Retailers			
	Small	Medium	Large	Total
Used as a marketing method	0.53	0.50	0.53	0.52
Used to eliminate stocks	0.47	0.58	0.88	0.64
Used to force competitors to exit	0.33	0.32	0.19	0.28
Used to attract customers for other products	0.67	0.68	0.50	0.62
Cannot be used systematically	0.60	0.79	0.81	0.74
Harmul for suppliers	0.60	0.63	0.69	0.64
Makes markets more competitive	0.47	0.32	0.19	0.32
Causes unfair competition	0.93	0.89	0.81	0.88
n	48			
	Suppliers			
	Small	Medium	Large	Total
Used as a marketing method	0.30	0.39	0.32	0.33
Used to eliminate stocks	0.70	0.72	0.72	0.71
Used to force competitors to exit	0.35	0.33	0.32	0.33
Used to attract customers for other products	0.43	0.71	0.60	0.57
Cannot be used systematically	0.86	0.89	0.79	0.84
Harmul for suppliers	0.74	0.88	0.88	0.83
Makes markets more competitive	0.35	0.28	0.12	0.24
Causes unfair competition	0.83	0.89	0.96	0.89
n	75			

Table 16. Procurement and distribution channels

	Retailers				Suppliers			
	Number of	Share of			Number of	Share of		
	suppliers	producers	distributors	wholesalers	retailers	distributors	wholesalers	retailers
Small	178	0.20	0.60	0.19	10	0.47	0.23	0.30
Medium	400	0.27	0.52	0.21	10	0.44	0.29	0.28
Large	1250	0.60	0.31	0.09	28	0.66	0.14	0.20
Total	**500**	**0.35**	**0.48**	**0.17**	**10**	**0.53**	**0.21**	**0.26**
n	51	50			60	78		

Note: Number of suppliers and number of retailers are median values.

Table 17. Retailer-supplier relations

	Retailers				Suppliers			
	Small	Medium	Large	Total	Small	Medium	Large	Total
Retailers' charges on suppliers for shelf space								
Listing (entry) fee	2.2	2.1	1.9	2.1	3.1	2.6	3.1	3.0
Shelf fee	1.4	1.3	1.2	1.3	1.7	1.9	1.8	1.8
Slotting/position fee (gondola, palet, etc)	2.4	2.4	2.3	2.4	3.0	2.6	3.1	2.9
Promotion (insert) fee	2.6	3.0	2.6	2.7	3.1	2.7	3.2	3.0
n	50				71			
Supply conditions								
Packing by suppliers	1.8	2.6	3.1	2.5	3.7	2.8	3.0	3.2
Returned items taken by suppliers	3.4	3.4	3.1	3.3	3.6	3.1	3.0	3.2
Exclusivity restrictions on suppliers	1.5	1.3	1.1	1.3	1.6	1.5	1.3	1.5
Prices set by suppliers	1.6	1.7	1.8	1.7	2.1	1.9	1.7	1.9
n	50				71			
Discounts by suppliers								
Quantity purchased	2.8	2.7	2.5	2.7	2.6	2.1	2.4	2.4
Payment period	3.2	3.0	2.9	3.0	2.4	2.7	2.5	2.5
Retailers' promotions	2.7	2.4	2.7	2.6	2.6	2.3	2.4	2.4
Product range	2.5	2.8	2.5	2.6	2.1	1.8	2.0	2.0
Exclusivity agreement	2.2	2.5	2.0	2.2	1.9	1.8	2.1	1.9
Shelf area	2.2	2.3	1.8	2.1	1.4	1.4	1.9	1.6
n	50				72			

Scale: 1 never, 2 sometimes, 3 frequently, 4 everytime

Table 18. Characteristics of private label products

	Retail price	Supplier price	Production cost	Marketing cost	Quality
Retailers' assessment					
Small	-0.58	-0.58			-0.25
Medium	-0.64	-0.71			-0.21
Large	-0.87	-1.00			-0.27
Total	**-0.71**	**-0.79**			**-0.24**
n	42				
Suppliers' assessment					
Small		-0.59	-0.29	-0.53	-0.18
Medium		-0.58	-0.17	-0.50	-0.25
Large		-0.78	-0.35	-0.47	-0.35
Total		**-0.66**	**-0.28**	**-0.50**	**-0.26**
n	54				

Index values: -1 lower/worse, 0 same, +1 higher/better

Table 19. Obstacles for retailers' growth

	Small	Medium	Large	Total
Tax rates	3.3	3.4	2.9	3.2
Land/store availability	2.9	2.9	3.1	3.0
Competition from informal firms	3.1	2.7	3.1	3.0
Competition from large chain stores	3.1	3.1	2.4	2.9
Regulation on opening new markets/shops	2.7	2.3	3.1	2.7
Macroeconomic uncertainty (exchange rate, inflation, etc.)	2.7	2.9	2.5	2.7
Costs of financing (interest rate, etc.)	2.3	2.7	2.0	2.4
Conditions on financing (collateral, etc.)	2.2	2.3	2.1	2.2
Transportation	2.1	2.0	2.3	2.2
Customs and trade regulations	1.9	1.9	2.0	1.9
Consumer demand	2.0	1.8	1.7	1.9
n	48			

Scale: 1 does not pose any problem, 2 partially important, 3 important, 4 the most important obstacle.

Table 20. Determinants of retailers' competitiveness

	Small	Medium	Large	Total
Stores' location	2.9	2.9	3.0	3.0
Product quality	2.9	2.9	2.9	2.9
Product range/diversity	2.9	2.8	3.0	2.9
Retailer's brand/reputation	2.8	2.8	3.0	2.9
Promotions	2.8	2.8	2.9	2.8
Proximity to consumers	2.9	2.8	2.8	2.8
Price	2.5	3.0	2.8	2.8
Other services provided (parking, etc.)	2.8	2.8	2.6	2.7
Sales services (packing, etc.)	2.9	2.6	2.6	2.7
Stores' appearance (lighting, open area, etc.)	2.9	2.6	2.5	2.7
Product brand	2.7	2.7	2.6	2.6
Loyalty card practices	2.4	2.1	2.1	2.2
n	50			

Scale: 1 does not important, 2 partially important, 3 very important

Table 21. Expected change in foreign firms' market share in the next decade

	Retailers			
	Small	Medium	Large	Total
Foreign share will increase (% of retailers)	0.75	0.89	0.93	0.86
n	50			
Impact on				
Retail prices	-0.36	-0.12	-0.43	-0.29
Product diversity	1.00	0.76	0.93	0.88
Product quality	0.73	0.59	0.64	0.64
Employment	0.55	0.47	0.79	0.60
Production of domestic suppliers	-0.09	-0.06	0.21	0.02
n	42			
	Suppliers			
	Small	Medium	Large	Total
Foreign share will increase (% of suppliers)	0.87	0.94	0.88	0.89
n	72			
Impact on				
Retail prices	-0.35	-0.13	-0.22	-0.24
Product diversity	1.00	0.94	0.91	0.95
Product quality	0.80	0.25	0.68	0.60
Employment	0.65	0.44	0.68	0.60
Production of domestic suppliers	0.55	0.37	0.32	0.41
n	64			

Index values: 1 increase, 0 no change, -1 decrease.

Table 22. Assessment of the draft law on retail sector

	Retailers			
	Small	Medium	Large	Total
A law regulating the retail sector	0.69	1.00	0.69	0.80
Restrictions on private label share (like 20%)	0.25	0.35	-0.25	0.12
Regulations on payment conditions	0.00	0.06	-0.19	-0.04
Restrictions on below-cost sales	0.62	0.84	0.50	0.67
Restrictions on exclusivity agreements	0.12	0.12	-0.13	0.04
Restrictions on promotions	-0.31	-0.11	-0.75	-0.37
Regulations on work time (like Sunday holiday)	0.44	0.37	-0.06	0.25
Restrictions on hypermarket locations (outside residential areas)	0.06	0.11	-0.63	-0.14
Requiring permission to open new markets	0.75	0.32	-0.06	0.33
n	50			
	Suppliers			
	Small	Medium	Large	Total
A law regulating the retail sector	0.79	0.89	1.00	0.89
Restrictions on private label share (like 20%)	0.08	0.59	0.48	0.36
Regulations on payment conditions	0.78	0.89	0.72	0.79
Restrictions on below-cost sales	0.83	0.94	0.92	0.90
Restrictions on exclusivity agreements	0.47	0.41	0.41	0.43
Restrictions on promotions	0.08	0.39	-0.04	0.12
Regulations on work time (like Sunday holiday)	-0.04	0.22	-0.13	0.00
Restrictions on hypermarket locations (outside residential areas)	0.37	0.50	0.44	0.43
Requiring permission to open new markets	0.37	0.67	0.52	0.51
n	72			

Index values: 1 in favor, 0 indifferent, -1 against.