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# **Concentration in food retailing and anti-competitive practices in Turkey**

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# Concentration in food retailing and anti-competitive practices in Turkey

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**Abstract:** *As seen in many developing countries, concentration and globalization have substantially increased in food retailing in Turkey. Foreign direct investment, incentives to reduce informal economy through modern retailing, income, education, economic crises and urbanization are the main drivers for structural change of retail supply chain. Market shares of global retailers have increased in general and also food sub-sectors. The restructuring and concentration in food retailing have changed the marketing system and conditions facing firms. Concentration is also expected to increase in the future. With increasing concentration, anti-competitive practices has appeared in the food supply chain in Turkey: listing fees, shelf fees, advertising and announcing fee, discount pressure, unconditional product restoration and forces for own private label product package have been commonly used anti-competitive practices. Based on the interviews and literature survey and news gathered from newspapers, it is found that several anti-competitive practices are executed by supermarket in Turkey when these practices are compared with the anti-competitive practices determined by the United Kingdom Competition Commission (2000). It is observed that at the margin 16 of 52 practices are executed by supermarkets against the suppliers. Moreover, price flexing and sales below cost can be reflecting the monopoly power in consumer market segment.*

**Keywords:** Food retailing; restructuring in food retailing; buyer power and competition in food retailing.

## 1. Introduction

Turkey is a relatively large country in terms of population and land area in the European region. It is in the upper middle-income country with a mix of modern industry and a well developed tourism business, along with a modernizing agro-food sector. Also, Turkey lies at the nexus of several cultures, it has a great potential to become an exporting country's hub market via a re-export program in which this competitive logistic position is very attractive for global retailers in the region (both for Balkan, Middle-east). Currently, Turkey's economy is in a transition from a high degree of reliance on agriculture and heavy industry to a more diverse economy with an increasing global services sector, including global retailers.

Turkish economy experienced significant problems in its vulnerable national income, high inflation rate and financial deficit during last three decades of past century. However, since the severe economic crisis in 2001, Turkey government has implemented various reforms in its monetary and fiscal policies and structure. Along with the supports from the International Monetary Fund (IMF) and the World Bank, Turkey's economy has maintained a stable growth between 2002 and 2007, with an average annual growth of 6.8 per cent in its real GDP (IMF 2009). Similar to other countries, Turkey's economy has been suffered from the global economic recession and financial crisis since late 2008 but real GDP is projected to increase by 5.5 per cent annually over the next decade (2010 onwards). Although the economy still has some issues such as high unemployment rate, skewed income distribution and institutional impediments, the vulnerabilities in the economy have been reduced with structural reforms. Continuous effort in the policy and structural reforms is likely to attract more foreign investments and to stimulate the growth in all economic sectors in near future.

Grocery retail sector is still one of the high potential areas for foreign direct investment (FDI). However, grocery retail sales reached 86.6 billion US Dollar in 2007 that is consist of approximately 52 per cent of total retail sales in that year. According to the estimated numbers, grocery retail sales were 103.4 billion US Dollar in 2008 that is consist of 51 per cent of total retail sales (Planet Retail, 2008). But, according to the Planet Retail statistics, modern grocery distribution (MGD) sales were 50.3 billion US Dollars in 2007 and estimated as 64.8 billion US Dollar in 2008 (Planet Retail, 2008).

Turkey's population almost has doubled between 1970 (36.2 million) and 2008 (71.1 million), and is expected to reach 80.3 million by 2020, based on the estimation by Turkish Statistical Institute (TurkStat, 2009)<sup>1</sup>. Turkey has a relatively young population than other European countries, with nearly one-fourth of

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<sup>1</sup> It was counted as 70,517,100 as of December 31, 2009 by TURKSTAT (Population Registration System, Population Census Results). Population growth rate was measured as 1.31 per cent in 2008 (Turkstat, 2009).

population under the age of 15 in 2008. In addition, a significant population growth in the urban area, combined with a declining rural population, reflects the trend of migration. As of 2008, three-fourth of Turkey's population lived in the provinces and sub-provinces centres which increased from 35 percent in 1970. This rapid demographic change, combined with sustained economic growth, has gradually changed the consumption basket and household purchasing behaviour.

With expected economic and population growth, household purchasing and consumption habits will continue to keep changing towards more ready to eat foods, away from home, diverse and differentiated foods including services. Therefore, both global retailers and retailer chain was born in country will continue to increase their market share and will become more powerful against its supplier and consumers. Currently, based on fast-moving consumer goods data, food market share of organized retailers is 57.5 per cent (Nielsen, 2009). Based on data obtained from Turkish Competition Authority, market share of first five retailer chain in food based grocery sales is 61.6 per cent in 2008.

The restructuring and concentration in food retailing have changed the marketing system and conditions facing suppliers. Concentration rate are also expected to increase in the future. Although, tremendous changes has been occurred in Turkish food retail markets and also in supply chain, there is no comprehensive study either empirically studied the impact of food retail re-structuring or documented the complaints or facing condition of suppliers and consumers. Based on literature survey, we found a few academic studies interested in retail sector re-structuring and its impacts on traditional retailers and also supply chain. There are only three studies partly interested in market power of the retailers against suppliers (Tokatlı and Eldener, 2002; Çelen et al., 2005; and Kovacı, 2007).

Tokatlı and Eldener (2002) stated that there have been vertical conflicts between manufacturer-wholesaler, wholesaler-retailer and manufacturer-retailer in Turkey since 1980s. Retailer's pressures on manufacturers for production of their own branded products are given as examples in this study. It is also stated that manufacturers has lost their power against the retailers. Çelen et al (2005) conducted a survey covering 51 retailer and 79 suppliers in order to examine whether the retailers exercised some anticompetitive practices against suppliers. They found that price flexing, requesting listing fees and requesting shelf fees are anticompetitive practices used by retailers. Kovacı (2007) conducted a survey covering 15 food manufacturers. He found some anticompetitive practices in his study. He reported that exercises practiced by retailers against food manufacturers are price and quality pressure for commodity, unconditioned product restoration, forces to supply with its own private brand package, request for exhibition fee on shelf, listing fee, advertising and announcing fees etc.

This study aims at focusing on the effects of the concentrated retailing on the supply chain and competition issues regarding the monopoly and/or buyer power. The paper is organized as follows. In the first section, drivers of restructuring are presented. In the second section restructuring process in grocery retailing has been evaluated from 1950 to present. In the third section anti competitive practices applied by increasingly concentrated retail chains are examined in both procurement and consumer market segment based on literature, media news and inter-branch organization reports. Final section concludes important results.

## **2. Drivers for Transforming the Retail Market in Turkey**

The expansion of supermarket chains in the developing countries was driven by many factors which are fairly similar in the countries (Reardon et al., 2004, s.48). As in many developing countries, rapid urbanization, income growth, education, changing life style, participation of women in workforce, developments in transportation and economic crises are the demand side factors in retail sector transformation in Turkey (Koç et al., 2007).

**Urbanization:** Turkey has a very fast-growing urban population, mainly due to rural–urban migration during last five decades. According to the more recent data, 75 per cent of population is living in province and sub-province centres while this was only 35 per cent of the total population in 1970 (TurkStat, 2009). Urbanisation brings deep socio-economic and cultural changes; more women are economically active, there are more nuclear families, and greater distances between housing and workplaces (Koç et al., 2007).

**Changing Life Style:** Urbanization greatly influences the demand for individual cars,<sup>2</sup> deep-freezers, refrigerators, microwave ovens, and other user-friendly cooking and stocking devices, ready-to-eat or user-friendly processed food-drinks, and large retail outlets where consumers can do all their shopping to save time. The changing shopping behaviour of consumers and their increasing demand for high-quality products stem directly from rapid urbanization, increasing education levels, per capita income growth, increasing numbers of wage-earning women, and changes in the family structure towards a nuclear family (Koç et al., 2007).

**Increasing per capita income:** Per capita gross domestic product (GDP) reached around 10 thousand US dollar in 2008 which is 4.7 times higher than per capita GDP in 1980. According to the SPO (2009a), even if there is a skewed distribution of income among the different socio-economic classes, this increase has a very positive impact on global consumption patterns of urban households.

**Education level:** The general level of schooling changed during the second half of the last century. The percentage of the population who had graduated from primary school (five years), junior high school and equivalent (three years compulsory), high school and equivalent (three years) and higher education (university education) increased from 69.5, 4.8, 5.2, and 1.3 per cent in 1950/1951 to 100, 64.3, 54.7 and 23.2 per cent respectively in 1996/1997. The rate of the schooling was 87.6, 53.3 and 25.7 for primary (eight years compulsory), secondary school (3 years) and higher education respectively in 1997/1998 and further increased 104.5, 87.6 and 38.2 respectively for primary, secondary and higher education<sup>3</sup>. The rate of schooling in female population also reached 102.6, 80.7 and 33.6 respectively for primary, secondary and higher education (SPO,2009b).

In addition to mentioned demand side drivers, supply side drivers have also affected restructuring of the retail sector. The flow of foreign direct investment, with the liberalisation process, has been an important determinant of supermarkets' expansion among the regions (Reardon *et al*, 2003:1140-1141).

**Foreign direct investments (FDI):** Important changes occurred at macro-economic level and in government policies when structural adjustment policies were applied and the Turkish economy was opened in 1980. In the agrifood sector, the food processing and retailing sub-sectors changed greatly with the arrival of large foreign companies from France, Germany, Holland and Belgium. The first foreign investment in food retailing was made by the French company Prisunic who collaborated with the Municipality of Istanbul to open the BELPA hypermarket in the Merter district of Istanbul in 1990. Carrefour started its joint venture with Sabanci Holdings in 1993, while the Dutch hypermarket chain Spar arrived in 1994. Kipa hypermarkets, a Belgian–Turkish joint venture, opened its first hypermarket in Izmir in 1995, followed by Metro Group, who arrived in 1998. In 2003, the British company Tesco entered the Turkish retail market by buying the Kipa supermarket chain. As of 2004, total investment made by Carrefour and Metro Group in food retail sector was 791 million US dollars; the share of the Carrefour was 69.7 percent (Koç et al., 2007).

**Government policies supporting the retail sector:** Since 1985 successive governments have supported the modern retail sector, but mainly those with a certain format and size. The government's aim was to increase tax revenues thanks to greater sales while reducing the level of unrecorded commerce. In the mid-1980s government support was granted to business centres, entertainment centres that host social events, and to the construction of shopping centres through investment subsidies, credits, and tax reductions. Among the different retailer categories, hypermarkets have been the major beneficiaries of increasing government support since 1992. In 1994, almost all government support was captured by the hypermarkets being established in large cities, mainly in Istanbul. Over time, retailers from other regions also benefited from government support, which was oriented mostly toward importing the technology used by hyper and supermarkets (Ozcan, 1997).

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<sup>2</sup> Even if there is an important increase in the number of individual cars, overall car ownership is still very low in comparison with European Average (92 cars per 1,000 people in Turkey in 2007, versus 345 in Europe Region) (OSD, 2009).

<sup>3</sup> The last reform in the Turkish education system, in 1997, combined elementary with secondary school education, so primary education was expanded from five to eight years and this changed the statistical data for the 2003/2004 period.

### 3. Evolution of the retail sector from 1950 to 2008

The structure of the food retailing sector in Turkey is largely based on micro-grocers (*bakkal, manav*, etc.) that were established as family businesses. The profile and historical evaluation of the major food retailers are reported in Table 1.

**Table 1:** Profile of the Major Large Retailers and Restructuring in Turkey (2008)

| Company Name And Ownership          | Information about firm  | The number of store and type of outlet (2008) *  | Number of employee* | Turnover (million \$)* |
|-------------------------------------|---|--|---------------------|------------------------|
| Migros (Turkish And Uk)             | It was established by Turkish-Switzerland partnership in 1954. It strengthened its leadership position in the markets by acquisition of Tansaş in 2005. The major share (50.8%) of Migros was taken-over by British BC Partners in 2008. Further it acquired 18 stores of Yonca market and took over Mak Food chain with 8 stores in 2009.                                | 241 (Migros)<br>672 (Sok)<br>6 (5M Migros)<br>(hyper, supermarkets, discount stores (SOK) and e-trading) | 15.500 (2008)       | 3.925 (2008)           |
| Tansaş                              | It was established in 1973 in Izmir in Aegean Region. It acquired the Macro supermarkets chain in 2002. Finally, It was purchased by Migros in 2005.  | 262 (Tansas)<br>8(Macro)   |                     |                        |
| Bim (Turkish, Usa,And Saudi Arabia) | It was established by five partnerships in1995 as hard-discount market format. Its business style is similar with German ALDI format.   | 2.300 (discount stores)  | 13.700 (2008)       | 3.078 (2008)           |
| CarrefourSA (Turkish And French)    | It began a single store in Istanbul. It became a joint venture with Sabancı in 1996 and it was named CarrefourSA. It acquired Gima supermarket chain (including Endi discount market with 47 stores) in 2005. Recently, local supermarket chain called Kenan Evren in Adana province and 12 local market chains in Samsun province was taken over by CarrefourSA in 2009. | 470 (discount stores, supermarkets, hypermarket)   | 7.200 (2008)        | 1.770 (2008)           |
| Gima                                | It is the first national supermarkets chain in Turkey. It was found in 1956 as a public economic enterprise. It was privatized and purchased by Fiba Holding in 1996. Finally, it was acquired by CarrefourSA in 2005.  | 81   | 3.500               | 500                    |
| DiaSA (Turkish-Spanish)             | DIA began to open its first store in Istanbul at the end of 1999. It established a partnership with Sabancı Holding in 2000. Endi discount markets 47 with stores joined to DiaSa group in 2005 after CarrefourSA acquired the Gima supermarket chain and its Endi discount stores in 2005.   | 550 (hard discount store)  | 2.800               | 491                    |
| Metro (Germany)                     | METRO Group has been active in Turkey since 1990.   | 13 (Metro Cash&Carry)<br>11 (Real Hyper Market)<br>8 (Media Market)                                      | 5.000 (2008)        | 2.155 (2008)           |
| Tesco (Uk)                          | Tesco entered the Turkish market in 2003 by acquiring the Kipa which was already founded in Izmir in 1995.  | 30 (Hyper)<br>62 (Express)<br>(discount stores, supermarkets, and hypermarkets)                          | 7.500 (2008)        | 1.000 (2008)           |
| Kiler (Turkish)                     | It was established as grocery store in 1981 and named KILER in 1994. It purchased the 51 per cent of Canerler supermarket chain in 2005 and Güler market in 2006. It also took over the Karıncalar Market chain in 2007.  | 160 (supermarkets and hypermarkets).   | 5.700 (2008)        | 1.000 (2008)           |
| Yimpas (Turkish)                    | It was founded in 1982. It has 500-2000 m <sup>2</sup> space for supermarkets.  | 15 (domestic)<br>2 (foreign)<br>(supermarkets and hypermarkets) (2007)                                   | 7.000 (2007)        | 538 (2007)             |
| Makromarket- (Turkish)              | It was founded in 1991 in Ankara. It purchased the Nazar market chain and merged with Uyum market chain in 2007. Recently it bought the Afra markets chains in 2008, acquired Kaya supermarket with one store in Samsun province and took over Eras supermarket in Kayseri province and kept on its growth in 2009.   | 104 (supermarkets and hypermarkets).   | 3.500 (2008)        | 750 (2008)             |
| Adese (Turkish)                     | It was founded in Konya in 1991. It was the first supermarket chain in Konya and it kept up growth by taking over the Mercek markets in 2007.   | 119 (supermarkets and hypermarkets).   | 2.720 (2008)        | 346 (2007)             |
| A.101 Turkish And Singapore         | It was founded in 2008. Its four shareholders are Azizler Holding, Balsu Food Co., Participation Bank of Asya and Oligo Investment Co. It works in hard discounts store format.   | 320 (hard discount stores)   | 1.350               | n.a.**                 |
| Begendik Turkish                    | It was founded in 1986 in Kayseri. It has a growth strategy towards “Department Store” Style.   | 16 (supermarkets and hypermarkets).  | n.a                 | n.a.                   |
| Pehlivanoglu-Turkish                | It was founded in 1980 as regional chain in Aegean Region   | 96 (markets and supermarkets).   | 1.300               | n.a.                   |

**Source:** \*Obtained by the Author from the firms' website. \*\*n.a. means “not available”

As seen in the table, traditional structure of the retailing started to change during the 1950s with state initiatives to create 'self-service' retail chains, first under the Sumerbank brand (which was a state-owned company that included a commercial bank, textile manufacturing plants and consumer textile product stores), then later by inviting the Swiss retailer cooperative Migros to invest in Turkey. The arrival of Migros created important spill-over effects in Turkey's retail sector, particularly in Istanbul where the cooperative had its headquarters. The country's largest conglomerate, Koç Holdings, bought the capital of the Turkish affiliate of Migros from the Swiss cooperative in 1975, keeping the right to use the name 'Migros', but only in Turkey.

Gima food retail chain was the first multi-store to open in Ankara, in 1956, and was founded as a partnership of the Agricultural Bank, Turkish Grain Board, and Güneş Insurance Company. This chain, which was one of the most common department stores with a grocery department in Turkey, was privatized in 1993. It had 57 stores in 22 provinces. It was purchased jointly by Bilfer Mining Company and Dedeman Tourism in 1993, and then sold in 1997, to Fiba Company. CarrefourSA acquired the Gima Retailing Group from Fiba Co. in July 2005 for \$132.5 million, together with its Endi discount stores network. Further, Endi joined to the DiaSA discount chain in the same year. This acquisition pushed CarrefourSA to challenge for the top position in the 2005 national ranking of retailing companies in Turkey, up from fourth place.

Tansas food retail chain was established in 1973 by the Municipality of Izmir. It became the leading retail chain of the Aegean Region and the second-largest chain in Turkey after Migros by the late 1990s. The company was sold to Dogus Group in 1999, one of the leading conglomerates in Turkey. Under Dogus Group management, Tansas gained a foothold in Istanbul in September 1999 by acquiring the Bonus chain with four stores, and opened four more in the city by the end of that year. In January 2000, Tansas acquired the Macro supermarket chain, which had 15 stores in Istanbul. In 2003, the company operated in three regions with 220 stores, equating to 125,155m<sup>2</sup> of sales area and 4,067 employees in the Aegean, Marmara, and Central Anatolia regions, and with three types of store: hypermarket, supermarket and discount. The success of the company was one of the main reasons for its acquisition by Migros in 2005. However the true take-off of supermarkets in Turkey took place in the early 1990s with the arrival of Carrefour in 1991 and which established a joint venture with the second-largest Turkish conglomerate Sabanci Holdings in 1996 and its name become CerrefourSA in 1997 (Ozcan, 1997 and [www.carrefour.com.tr](http://www.carrefour.com.tr)).

DIA began to open its first store in Istanbul at the end of 1999 and established a partnership with Sabanci Holding in 2000. DiaSA continued to its growth purchasing of Endi discount market with 47 stores in 2005. The British company Tesco entered the Turkish retail market by buying the Kipa supermarket chain in 2003. MakroMarket founded in 1991, has grown by buying Nazar market chain and Uyum in 2007, Afra markets in 2008 and Kaya and Eras supermarket in 2009. Adese, also has keeping on its growth via purchasing Mercek markets in 2007. In addition to growth via mergers & acquisitions, some new market chains has founded in 2008, such as A.101. During the crisis period, Bim, Sok (belong to Migros), A101 and DiaSA like discount formats have increased the number of store. It seems this growth trend will continue via internal and mergers & acquisitions during next years.

As seen in Table 2, there is a change from traditional retailing towards organized retailing in Turkey. Although the share of *bakkals* (small grocers of less than 50m<sup>2</sup>) in the total number of food retail outlets decreased from 91.6 to 82.8 per cent between 1996 and 2008, they still constitute the bulk of food retailing in terms of numbers. There has been a substantial increase in number of discount stores and supermarkets. During the last decade the economic crisis in 2001 contributed to this increase trend. However, total number of the hypermarkets and supermarkets (including big, medium and micro size) increased from 2,979 to 8,252 between 2000 and 2008. The growth in larger outlets has had an impact on *bakkals*, with increasing numbers having closed. It is expected that the market share of *bakkals* will fall below 35 per cent by 2010. The discount store format has been one of the most attractive investments in the retail sector in the last few years, as shown by the rapid rise of BIM, a Turkish company founded in 1995 with US and Saudi Banks as the other main shareholders. BIM focuses on discount stores and has grown into one of the largest retailers in Turkey, with more than 2,300 (as of 2008) scattered throughout the country. The number of the BIM increased almost two-fold since 2005. BIM is sometimes called the 'Turkish Aldi'. The first discount stores appeared in the mid-1990s and have rapidly spread throughout Turkey during last decade. Hypermarkets (supermarkets of more than 3,500m<sup>2</sup>) have recently emerged as key players in Turkey's retail sector. There were 41 in 1995, which grew to 151 in 2002 and 183 in 2008.

**Table 2:** Evolution of the number of food retail outlets in Turkey (1998–2008)<sup>4</sup>

|  | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Hyper, Chain and supermarkets            | 2,135   | 2,421   | 2,979   | 3,640   | 4,005   | 4,242   | 4,809   | 5,545   | 6,474   | 7,221   | 8,252   |
| Hypermarkets >2.500 m <sup>2</sup>       | 91      | 110     | 129     | 149     | 151     | 143     | 152     | 160     | 164     | 178     | 183     |
| Big Supermarket 1000–2500 m <sup>2</sup> | 210     | 251     | 306     | 357     | 368     | 367     | 396     | 454     | 504     | 568     | 623     |
| Supermarket 400–1000 m <sup>2</sup>      | 464     | 567     | 726     | 835     | 909     | 968     | 1,082   | 1,258   | 1,567   | 1,712   | 1,902   |
| Micro supermarket ** < 400               | 1,370   | 1,493   | 1,818   | 2,299   | 2,577   | 2,764   | 3,179   | 3,673   | 4,239   | 4,763   | 5,544   |
| Mid-size market 50- 100 m <sup>2</sup>   | 12,192  | 13,247  | 13,232  | 13,210  | 13,555  | 14,537  | 15,197  | 15,076  | 14,775  | 14,876  | 15,273  |
| Grocery <50 m <sup>2</sup>               | 155,420 | 148,925 | 136,763 | 128,580 | 122,342 | 124,283 | 122,781 | 120,397 | 116,857 | 115,220 | 113,295 |
| Total organized firms                    | 169,747 | 164,593 | 152,974 | 145,430 | 139,902 | 143,062 | 142,787 | 141,018 | 138,106 | 137,317 | 136,820 |

Source: Nielsen, 2005, 2007 and 2009 (Fast Moving Consumer Goods-FMCG Retail Market Reports).

## 4. Consolidation, Concentration and Anti-Competitive Practices

### 4.1. Consolidation and Concentration

An important concentration process during summer 2005 deeply restructured Turkish retailing: Carrefour, which entered the Turkish market in 1991 and formed a joint venture with Sabancı in 1996, bought the Gima supermarket chain in July 2005. As mentioned before, the leader of the sector, Migros, acquired Tansaş supermarkets in 2005. At the same time, local players like Kiler, an Istanbul-based supermarket chain, bought 51 per cent of the capital of Canerler, the largest supermarket chain in Ankara region (Kobifinans, 2005). In 2003 the British leader Tesco also entered the Turkish retail sector by buying the İzmir-based medium-sized regional chain Kipa. From fall 2005 onwards, Migros remained the leader in the Turkish retailing sector, with an estimated turnover of more than \$3,9 billion in 2008 while Carrefour, with a cumulative turnover of \$1.8 billion in 2008 (including former Gima see Table 1) became the challenger (Koç at al., 2007). As seen in Table 1, consolidation has further been continued with regional domestic supermarket chain in 2005 and onwards such as Makromarket (Nazar, Uyum and Afra supermarket chains), Killer (bought Canerler and Guler supermarket chains) and Adese (Mercek supermarket chain). Further consolidation is expected and the market is likely to become increasingly more concentrated. The regional concentration is also increasing in Turkey. In a local based study (for İzmir), (Kompil and Çelik, 2006), it is forecasted that 1,900 groceries (bakkals) would close down and the share of big chain supermarkets would increase from 48 % to 59 % in next five years. As seen in Table 3, first-five firm concentration rate exceed 60 per cent in food retailing. Even if global grocery retailers such as Metro, Tesco, and CarrefourSA are increasing their presence, Migros Türk still remains the market leader thanks to the continued expansion of its *Şok* discount stores, which have been one of the few formats that benefited from the economic downturn.

**Table 3:** Organized Retail Chain in Food Based Grocery Retail Sales, (2008)

| Enterprise  | (%)  |
|-------------|------|
| Migros      | 22,4 |
| Carrefoursa | 13,8 |
| BİM         | 13,5 |
| Metro       | 7,8  |
| Tesco       | 4,1  |
| Others      | 38,4 |

Source: Turkish Competition Authority (www.rekabet.gov.tr)

<sup>4</sup> According to the definition of A.C. Nielsen, Turkey's retailing sector can be categorized into six main outlet types based on sales area: Hypermarkets (above 2,500m<sup>2</sup>); big supermarkets (between 1,500 and 2,000m<sup>2</sup>); supermarkets (between 400 and 1,000m<sup>2</sup>); microsupermarkets (between 100 and 400m<sup>2</sup>); mid-size markets (between 50 and 100m<sup>2</sup>); and traditional groceries (*bakkals*) (less than 50m<sup>2</sup>).



## 4.2. Anti-Competitive Practices

There were 23 complaints against retail firms to Turkish Competition Authority during the 1998-2008. The most of these complaints are related to sales below cost (predatory pricing) and discriminatory practices (Çelen et al, 2005:37-38). As mentioned before, price flexing, listing fees, shelf fees, , advertising and announcing fee, discount pressure, unconditional product restoration and forces for own private label product package are commonly used anti-competitive practices in Turkey food supply chain (Kovacı, 2007, Çelen et al, 2005, TESK, 2008:105-106). Competition Commission (CC) determined 52 anti-competitive practices in United Kingdom (UK) which accepted as an indicator of monopsony/monopoly power and confirmed 30 of 52 practices were executed by five largest retail chains in the UK (CC, 2000). Based on the surveys, interviews, articles and news gathered from newspapers (see table in Appendix), anti-competitive practices executed by supermarket chains in Turkey were arranged in order and also compared with anti-competitive practices determined by UK CC (2000). As seen in the Table 4, 16 of 52 practices executed by supermarkets are against the suppliers. Some food manufacturers gave up supplying their products to supermarkets due to these anti-competitive practices (for example Besler Food Co. in Kutahya)<sup>5</sup>.

**Table 4:** Anti-competitive practices in Turkey in comparison to the UK CC (2000) practices

| <i>Practices of retailers are determined as monopoly power indicator by the UK CC</i>  | <i>Situation in Turkey</i> |
|--|----------------------------|
| Required or requested payments from suppliers as a condition of stocking and displaying their products, or as a pre-condition for being on your list of suppliers.                       | Article 2, YES             |
| Required or requested suppliers to make a payment for better positioning of their products within your stores.   | Article 3, YES             |
| Required or requested suppliers to give an improvement in terms in return for increasing the range or depth of distribution of their products within your stores.                        | Article 4, YES             |
| Required or requested a financial contribution from a supplier in return for its products being promoted within the store during the year (described by some supplier as “pay to play”). | Article 9, YES             |
| Required suppliers to give over-riding or “in anticipation” discounts.   | Article 10, YES            |
| Sought discounts from suppliers retrospectively which reduced the price of the price of product agreed at time of sale.  | Article 11, YES            |
| Required or requested compensation from a supplier when your profits from a product were less than you expected.   | Article 13, YES            |
| Sought support from supplier to match a lower retail price of a product by competing retailer.   | Article 14, YES            |
| Required or requested suppliers to buy back unsold items, or failed to pay for them outside a written agreement that “sale or return” was in the terms of sale.                          | Article 17, YES            |
| Failed to compensate suppliers for costs caused through your company’s forecasting errors or order changes.  | Article 21, YES            |
| Required or requested suppliers to contribute specifically to the cost of store refurbishment or the opening of a new store.   | Article 23, YES            |
| Delayed payments to suppliers outside agreed contractual periods, or by more than 30 days from the date of invoice, where deliveries had been made to your specification.                | Article 25, YES            |
| Instigated a promotion on a product without the agreement of the supplier and requested the supplier retrospectively to fund the promotion.  | Article 46, YES            |
| Required or requested suppliers to make contribution if a promotional activity carried out by your company failed to meet expected target.   | Article 48, YES            |
| Invited suppliers to make contribution to charitable organizations (directly or by participation in events designed to raise money for such bodies).                                     | Article 51, YES            |
| Required or requested suppliers to make payments for a specific promotion (e.g. gondola ends, advertising allowances) where the payments exceeded the actual costs to your company.      | Article 52, YES            |

**Source:** The CC (2000), Kovacı (2007), Çelen et al (2005), TESK (2008) and newspapers.

<sup>5</sup> Information gathered via personnel interview.

## 5. Conclusion

Globalization and concentration have substantially increased in food retailing in Turkey. While urbanization, changing life style, increasing per capita income, education level are demand side drivers of expansion of supermarket chain in Turkey, foreign direct investments and government policies supporting the retail sector are supply side drivers. There has been a tremendous transformation from traditional retailing towards organized retailing in Turkey since 1990. The five retail firms Metro, Tesco, CarrefourSa, Migros Türk and Bim has taken the big share of the domestic retail sales and their market share is 61 per cent in food retail sales. It is expected that concentration rate will increase via mergers & acquisitions and internal growth in next years.

With increasing concentration, anti-competitive practices has appeared in the food supply chain in Turkey: listing fees, shelf fees, advertising and announcing fee, discount pressure, unconditional product restoration, entrance fee and forces for own private label product package are some anti-competitive practices. Based on the interviews and literature survey and news gathered from newspapers, it is found that several anti-competitive practices are executed by supermarket in Turkey when these practices are compared with the anti-competitive practices determined by the United Kingdom Competition Commission (2000). It is observed that at the margin 16 of 52 practices are executed by supermarkets against the suppliers. Moreover, price flexing and sales below cost can be reflecting the monopoly power in consumer market segment. It is clear that, a study which investigates the effects of increasing concentration in food retailing on competition, welfare and labour market is necessary.

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## Appendix:

**Table:** Media News Related to Food Suppliers' Complaints about Food Retailer

| News Headline  | Sources and Content of News   |
|--|---|
| Food Producer does not a feed for Supermarket Chains Date: 01.01.2009.                               | <b>Source:</b> Emin Demirci (Olive Processing Plant Owner and also member of Aegean Olive and Olive oil Exporter Association). Supplier has to pay fee to retailers for shelf space, entrance, promotion and advertising and so on. Furthermore, it is required to supply at least 20 per cent lower price than normally selling price. The terms of payment is prolonged up to 90 days, but it is extending up to 120-150 days during economic crisis. Furthermore, retailer also charges cost of new stores on supplier. In other words, suppliers are financing new stores of the chain retailers ( <a href="http://www.tarimdunyasi.net/?p=236">http://www.tarimdunyasi.net/?p=236</a> Access date 06 June 2009).   |
| Bad News for 3 thousand Producers! Date: 01.08.2005.   | <b>Source:</b> Edirne Vegetable Oil Processing Plant Owner (Olin Brand) and Marketing Manager of Bifa Cookies Company. He stated that the exhibition of the product on the retail shelf space is assumed prestigious by food manufacturer. This is the reason, supplier give product to chain retailers even if they can not make profit from the business. But, shelf space rent is very expensive that ranges from minimum 2 thousand to 150-200 thousand US dollars depending on the number of product assortment. The terms of payment is prolonged up from 60 days to 90-120 days after delivery day. Many suppliers also complained that the terms of payment are longer. Furthermore, supplier has to make higher price discount in order to enter to the retailers' stores since price competitions among the retailers put pressures on suppliers for price discounts. Some suppliers gave up working with nationwide chain retailers such as Olin. ( <a href="http://www.capital.com.tr/haber.aspx?HBR_KOD=3031">http://www.capital.com.tr/haber.aspx?HBR_KOD=3031</a> Access Date 05 June 2009).       |
| Retailers request surprisingly its sponsored concert cost from its supplier. Date: 04.10.2006.       | <b>Source:</b> Independent Manufacturers and Business Man Association (MUSIAD), Head of Food and Agriculture Committee (Abdurrahman Kaan). Suppliers can able to obtain payment for its delivery from the retailers up to 6 months and pay at least 2 thousand shelf space fee for each product. Some retailers also request separate shelf fee for each of its stores. Furthermore, retailers started to charges the cost of sponsored concert, social assistance made to institutions or persons on suppliers. The terms of payment are at least two months even if the product is used at most within ten days such as meat and dairy products. Supplier may be indebted if they do not pay attention to contract agreement. Supplier has to pay extra fee if they want to put their product in the hotspot (called insert). The cost of entrance fee to new stores is more than 5 thousand Euros. In summary, sum of the fees and cost reaches 30 percent of product gross receipts. ( <a href="http://www.tumgazeteler.com/?a=1723449">http://www.tumgazeteler.com/?a=1723449</a> Access Date 05 June 2009). |
| Retailers are using its own private brand in order to offer product at low prices. Date: 13.12.2007. | <b>Source:</b> Reis Gıda (President of Board of Directors, Mehmet Reis). He complained about the retailer's ethics behaviour. He said that after 2001's severe economic crisis, retailers started to offer unpackaged and private brand pulses without serious quality check and also to exhibit their own private brand goods on the foot level versus manufactures' brands at top of the shelf. ( <a href="http://www.referansgazetesi.com/haber.aspx?HBR_KOD=85934&amp;KTG_KOD=28">http://www.referansgazetesi.com/haber.aspx?HBR_KOD=85934&amp;KTG_KOD=28</a> Access Date 06 June 2009)   |
| GİMDER: Chain supermarkets destroy distribution sector. Date: 23.09.2003.                            | <b>Source:</b> Association of Food and Perishable Commodities Distribution (GİMDER), head of executive committee (Mustafa Gülgün). He stated that big supermarkets had created huge unbalances in retail sector and they don't give guarantee deposit currency and commercial paper. He also stated that big supermarket chains pay the bill whenever they want, they don't ensure any security of tenure and their term of payment is open. He expressed that big supermarkets force the manufacturer for sale of all products in same conditions. ( <a href="http://www.dunyagazetesi.com.tr/haberArsiv.asp?id=144052">http://www.dunyagazetesi.com.tr/haberArsiv.asp?id=144052</a> Access date 08 June 2009)   |

|   |  |
|---|--|
| Canned food sector suffers from appreciated Turkish lira in export. Date: 29.05.2008.                   | <b>Source:</b> The executive head of Penguen Food (Orhan Gençoğlu). He stated that supermarkets or groceries buy some products without quality control for market. He suggested that a new legal arrangement forbidding this uncontrolled product selling and uncontrolled product selling should be fined at high rate. The problem of suppliers with retail chains is high rents. The 35 percent of total revenue of manufacturers is devoted for retail chains for shelf exhibition.<br>( <a href="http://www.referansgazetesi.com/haber.aspx?HBR_KOD=98072&amp;KOS_KOD=102">http://www.referansgazetesi.com/haber.aspx?HBR_KOD=98072&amp;KOS_KOD=102</a> Access Date 06 June 2009)   |
| Firms in food sector in Trabzon is in trouble. Date: 26.05.2009.  | <b>Source:</b> Tansa Food Market Manager (Abdurrahman Büyükdin). He stated that the supermarket chains don't want to market local food products. The Trabzon municipality licensed many supermarket chains to their affiliates but these supermarkets sell products produced in other regions not local food products. This application put pressure on local food manufacture in Trabzon.<br>( <a href="http://www.haberexen.com/news_detail.php?id=12184">http://www.haberexen.com/news_detail.php?id=12184</a> Access Date 11 June 2009)  |
| From Turkey: Rice Miller Association (PDD). Date: 07.02.2008.   | <b>Source:</b> The Head of Rice Miller Association (Turgay Yetiş). He stated that fast growing supermarkets replaced the wholesaler so the quality expectation has slowed. Mr.Yetiş has also stated that, big supermarket chains pressured for price reduction to suppliers, sometimes price is more important than quality of product.<br>( <a href="http://www.gidasanayii.com/modules.php?name=News&amp;file=article&amp;sid=14378">http://www.gidasanayii.com/modules.php?name=News&amp;file=article&amp;sid=14378</a> ,Access Date 07 June 2009)  |
| SME (Small and Medium Scale Enterprises) is against to hypermarkets and supermarkets. Date: 25.12.2008. | <b>Source:</b> The Head of Association of Small and Medium Scale Enterprises (KOBİDER) (Nurettin Özgenç). He stated that a new legal arrangement is necessary to protect the small retailer against to big supermarket chain's unfair trade practices.<br>( <a href="http://hurarsiv.hurriyet.com.tr/goster/haber.aspx?id=10632398&amp;tarih=2008-12-25">http://hurarsiv.hurriyet.com.tr/goster/haber.aspx?id=10632398&amp;tarih=2008-12-25</a> Access Date 11 June 2009)  |
| The number of grocery has decreased. Date: 24.11.2005.  | <b>Source:</b> The head of Antalya Chamber of Commerce and Industry (ATSO). Mr. Kemal Özgen states that growing rate of hypermarkets in Turkey is four times faster than in Europe. This harms small scale retailers, wholesalers and manufacturer. A big chain sells contracted manufacturing products as their own label. Big chains give priority to their own label products on shelves. They also request high shelf fee from small producers. They request price reductions for products. This brings additional challenges for manufacturers to compete in domestic and foreign markets.<br>( <a href="http://arama.hurriyet.com.tr/arsivnews.aspx?id=3559806">http://arama.hurriyet.com.tr/arsivnews.aspx?id=3559806</a> Access Date 07 June 2009) |

**Source:** Authors gathered from news form newspapers and websites.