

Retail Industry of Turkey: Growing while Transforming



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Foreword by TFSCR



Zafer Kurşun

Chairman of the Trade Council of Shopping Centers and Retailers

We are proud to represent all the players in the organised retail industry, including clothing retailers, shopping centers, food retailers, chain stores, and restaurants, under the Trade Council of Shopping Centers and Retailers, the top umbrella organisation of organised retail in Turkey. Each representing the dynamics of their relevant fields, prominent figures in the industry came together under the umbrella of our council in 2013 and formed a family, working hard to contribute to organised retail, which has shown steady growth coupled with ever-increasing shares in the Turkish economy.

Driven by the unwavering dynamism of the industry, organised retail has sustained year on year growth around 2.5 times that of the Turkish economy. Thanks to the participation rates of women and youth in the industry, which increase annually, its employment composition can claim a positive socioeconomic effect. Moreover, shopping centers and recreational spaces, which have a significant impact on social life, particularly in Anatolia, allow the industry to contribute remarkably to social life in Turkey.

The harmonised development of the organised retail industry and shopping centers is of great importance for the globalisation of our international brands, most of which have become a source of pride for the industry. Our federation witnessing our affiliates emerge as world-class Turkish brands by 2023 is one of our most significant targets.

Driven by the unwavering dynamism of the industry, organised retail sustains year on year growth of around 2.5 times that of the Turkish economy.

As regulatory steps have been taken for the retail industry, which represents a significant share of the Turkish economy, we use every means available to collaborate in harmony, directly involve all our members in these regulatory initiatives, and finalise regulations in a way that serves the national economy and the industry. I wholeheartedly believe this is how we can bring concrete solutions to major, long-lasting issues to law-makers' attention, while, together, strengthening the council's mission to create common ground and represent the industry broadly.

The fruit of meticulous and time consuming efforts, this detailed and comprehensive report, which provides insight into developments in the retail industry and shopping centers, supported by scientific data and analyses, will be a guide for industry representatives, decision-makers eager to learn about the industry, and new investors seeking an understanding of the field.

As the Turkish Federation of Shopping Centers And Retailers, we proudly present this value-adding report which contains an inclusive and all-encompassing perspective of the players in organised retail, and we would like to thank PwC Turkey officials, in addition to all those who have taken part in preparing such valuable input.

Foreword by PwC Turkey



Adnan Akan

PwC Turkey Retail and Consumer Products Industry Leader

The 2007 and 2010 reports entitled Rising Star-Retail Industry on the Turkish Economy were the result of the combined efforts of PwC Turkey and the Turkish Federation of Shopping Centers And Retailers (TFSCR), and both have proven to be the most important references on the Turkish retail industry to date. We are honoured to introduce you to **Retail Industry of Turkey: Growing while Transforming**, an extension to the previous reports which we have updated in light of developments and trends in the local and global retail industries. We are convinced that this updated report will also quickly become a reference document.

Prepared together with the TFSCR, the report sheds light on the deep transformation the retail industry has gone through, like other industries, due to current mega-trends such as technological advances, changing global economic power, rapid urbanisation, climate change, and demographic shifts. The Turkish retail industry is expected to maintain its solid momentum of change and transformation, in line with unprecedented rapid developments in consumer habits and technology.

The Turkish retail industry began to strip itself of its traditional structure, having entered a modernisation period in the early 2000s mainly as the result of social and economic developments. Despite the remarkable progress of the rapid modernisation and development movements, a look at market shares, number of stores, and similar indicators reveals that the industry still has a

long way to go to achieve its expected goals. The progress organised retail has made to date and the progress it is expected to make in the future highlight its significant role in and obvious contributions to the development of the national economy.

The industry today faces a great number of new, complicated, and, generally, conflicting challenges. With its dynamic structure, high potential,

In order to promptly and accurately respond to shifting consumer demands, the retail industry must act swiftly and manage different sales channels in a coordinated manner, which means there is a substantial need for investments in information technologies and the relevant infrastructure.

and contributions to modernisation, the Turkish retail industry has all the means necessary to turn challenges and changes into opportunities, thus maintaining optimism about the future. Accordingly, the industry remains an engine of the economy. As indicated in previous reports, the retail industry will continue to be among the top contributors as Turkey utilises its potential more effectively, works towards a complete formalisation of its economy, and rises through the ranks of nations with the largest economies.

The introduction of modern store management methods further helps organised retail to grab a larger market share from the traditional retail industry, increasing its employment figures and improving its economies of scale. As a result, the contributions the modern retail industry makes to the Turkish

economy will be strongly felt from the economic and sociological perspectives. A striking indicator is the above-average growth rate of the retail industry.

In order to promptly and accurately respond to shifting consumer demands the retail industry must act swiftly and manage different sales channels in a coordinated manner, which reveals an urgent need for investments in information technologies and the relevant infrastructure. E-commerce has a strong presence, driven by technological advances, diversification of mobile applications, and the fact that consumers' time is more limited every day. Integrated technology platforms, data storage systems allowing the creation of customer analytics, technological investments, and efficiency applications introduced to procurement systems constitute the building blocks of the future retail business model.

As always, the thought leadership report we have released this year covers all the sub-units of the Turkish retail industry, and provides crucial data for every retailer regardless of market or field of activity. The purpose of this report is to present extensive data to potential investors, regulators, and other stakeholders, while analysing the current state and future projections of traditional and organised retail in Turkey in light of emerging trends.

We hope that you will find this thought leadership report which produced by PwC Turkey and the Turkish Federation of Shopping Centers and Retailers, useful and enlightening.



You may also scan the QR code to access the report
www.pwc.com.tr/perakenderaporu

Yours respectfully,

Executive Summary

The Turkish retail industry is expected to maintain the upward trend in turnover seen in previous years, reaching approximately TRY 880 billion by 2018.

Estimated to enjoy a size of TRY 663 billion as of 2015 year end, the retail industry has preserved its stable growth trend with only occasional fluctuations. Changing dynamics in both Turkey and the world, population growth, urbanisation, and other similar factors have helped to sustain this growth.

Population growth and rapid urbanisation, higher household expenditures resulting from stronger purchasing power, and a young population more eager to spend all provide significant opportunities for progress in the retail industry. Ranking among Europe's top 10 in consumption expenditures and in the top five in food expenditures, the Turkish retail industry is expected to sustain its five-year turnover performance, boasting an average growth rate of 9% per year in the medium term.

Despite being on a slow-burner while shifting from traditional retail—which still enjoys a particularly high share compared to that of European countries—to organised retail, mergers and acquisitions primarily in food retail have injected momentum into the industry. Consequently, small and medium-sized retailers tend to merge. On the other hand, online retail has seen frequent 'in' and 'outs' in the market, where the number of acquisitions has risen remarkably.

The industry is anticipated to continue growing in the upcoming period, even though some occasional fluctuations may loom, triggered by a combination of events in the near future. 2015 and 2016 growth rate forecasts indicate relatively slower economic activity, with higher inflation estimated to adversely affect household expenditures. In parallel, growth in the Turkish retail industry may slow somewhat in this period, but organised retail, with a push from day-to-day operations, will still contribute positively to further developing the Turkish economy.

Spanning a variety of relevant issues, **Retail Industry of Turkey: Growing while Transforming** reveals the economic and social contributions of the retail industry that, in essence, interacts with each and every aspect of daily life.

Maintaining the upward trend in turnover of previous years, retail is expected to record approximately TRY 880 billion by 2018. As a result of exchange rate fluctuations and a somewhat stumbling consumer confidence index, retailers are currently seeking sales and long-term investments rather than high profitability.

The service industry and wholesale and retail sales account for 57.7% and 12% of the gross domestic product, respectively. Service industry and wholesale and retail commerce shares in GDP make the steady contribution of the retail industry obvious.

Although organised retail has been grabbing a bigger share of the overall retail industry pie, its percentage of the overall market in Turkey still seems to be significantly lower than that in developed

countries. A look into organised retail's share in developed economies makes it clear that the industry in Turkey has some way to go and more potential to capitalise on, regardless of how solid its foundations are. The local retail market mainly consists of traditional players, despite steady growth of local and international chain stores and recent acquisitions and mergers. In addition, industry sprawl has pushed organised retailers located in big cities into every corner of the country. This expansion of organised retail has helped improve supply and distribution capacity in small and medium-sized cities, paving the way for development, growth, and institutionalisation.

The food retail industry, of which traditional retailers have approximately 70%, accounts for 62% of overall retail sales. Turkey's extremely low rank among European economies for organised food retail sales per capita, shows the industry obviously has room for improvement in this particular field.



Market Shares in the Industry

According to current turnover data provided by the Turkish Statistical Institute and AC Nielsen, traditional and organised retail segments account for 67% and 33% of the Turkish retail industry, respectively.

These figures, and the fact that shopping centers have now reached approximately 7.3 million square metres of sales per month, are convincing evidence of the potential for organised retail to play a significant role in the years to come.

Organised retail's share of the total retail industry has expanded tremendously due to the flood of investments in new shopping centers and thanks to the growing number of chain stores, while at the same time competition has intensified. On the other hand, although awareness of quality and hygiene has risen, Turkish consumers stick to their traditional shopping habits. Low-priced, open-air neighbourhood markets are widely visited for a large range of consumer products, such as fresh fruit and vegetables.

A study by Euromonitor shows that food sales by store-based retailers showed a compound annual rate of growth of 9% between 2009 and 2014. In the same five-year period, the organised retail market saw rapid development (particularly in hypermarkets and discount stores), along with a striking increase in food sales.



Formal Economy and Tax Revenues

In the third quarter of 2015, the current shopping center supply reached 10.5 million square metres, with Istanbul representing the largest portion at 38%. Moreover, today, 55 shopping centres have around 2.5 million square metres of leasable area under construction.

Measured as covering only 129 square metres of leasable area per 1,000 people at 2014 year end, Turkish retail concentration increased to 135 square metres in 2015.

From 2011 to 2014, the organised retail industry generated monthly turnover of TRY703 per square metre, with a compound annual growth rate of 7.5%. Growing revenues from sales also increased average indirect taxes paid per square metre, which monthly generated an average VAT-based tax revenue of TRY70 per square metre from 2011-2014. With shopping centers planned to be completed by 2018, around 2.5 million square metres of new sales area will be added, and total sales area in shopping centers will reach around 13 million square metres. It is estimated that new sales areas in shopping centers will generate additional VAT revenue of approximately TRY198 million per month.

Powered by the ever-accelerating investments in shopping centers, organised retail has been one of the factors enabling the popularity of credit cards. Facilitating the fight against the informal economy, in 2014 credit cards helped shopping turnover reach TRY 443 billion and cash withdrawals reach TRY 47 billion. Debit card shopping transactions saw a 25% year-on-year increase, and shopping transactions turnover jumped by 35%.

2012 figures showed a 25% hike in credit card payments, followed by a 17% increase in 2013, with further slowing in the aftermath of the 1 February 2014 regulation that restricted the highest permissible number of instalments. The regulation had a direct impact primarily on small-scale enterprises, which offered attractive fees based on the convenience of instalment-based transactions.



Employment

Employment figures in the retail industry have been increasing constantly thanks to the global and national growth of the industry. Cities of Opportunity, an annual PwC study conducted in 27 capitals of finance, culture, and trade, anticipates the wholesale and retail sales industry will create a net volume of 1.6 million additional job opportunities worldwide from 2012 to 2025. The retail industry introduces a diversified labour force, going beyond its role as a mere provider of employment in the economy. As national economies prosper and welfare levels increase, the diverse job opportunities offered by retail have become more attractive.

The retail industry's contribution to the formal workforce stands out upon examination of stronger organised retail within the overall industry and the increase in the number of stores and shopping centers. Nationwide development of organised retail creates a significant opportunity for extending institutionalisation efforts, and thus formalising both the economy and the workforce.

Investments



In 2014, the retail industry was able to open stores at an average rate of 15 per day. The total number of shopping centers in Turkey reached 360 in 2015, up from 231 in 2010, and total available space for rent rose to 10.5 million square metres in the same period. With 20 new shopping centers becoming operational in 2015, the total number of shopping centers in Turkey reached 360 in 58 cities. Total available space for rent rose by 757,000 square metres. 55 more shopping centers are planned to open by 2018, increasing the total leasable area by around 2.5 million square metres, which will result in 13 million square metres of total supply.

Although online shopping is considered a threat for physical store sales at first glance, the total disappearance of physical stores is not expected. On the contrary, e-commerce contributes positively to sales in physical stores in developed markets.



Consumers

Contrary to growing gross domestic product per capita, consumer confidence has been trending downward the last five years, except in April 2014 when it increased to 78.5%. In the following period the downtrend continued as a result of both local and global socio-political events and global economic issues.

The average monthly household consumption expenditure was TRY 2,572 in 2013 and was estimated to be TRY 2,848 in 2014. Analysis of expenditures by income group shows that low-income households allocate twice as much for food as high-income households.



E-Commerce

For commercial transactions performed on the internet, e-commerce in retail in particular has grown significantly, enjoying strong national and international potential. E-commerce is becoming more attractive because it eliminates the hassle of spending time at, and going to, a particular location to shop, while offering the added benefit of shopping swiftly.

In developing countries a fast-growing middle class is emerging, and the resulting increase in the desire and means to spend, coupled with younger populations, supports the development of e-commerce industry. Other supporting factors include the proliferation of high-speed internet infrastructures and the increasing numbers of internet users. E-commerce has benefited from rapidly spreading use of mobile phones in line with the introduction of 4.5G infrastructure. Although online shopping may be considered a threat for physical store sales at first glance, the total disappearance of physical stores is not an expected outcome. On the contrary, e-commerce has been observed to contribute positively to physical store sales in developed markets.

A great number of companies tend toward online sales as they are more cost-effective than traditional methods when it comes to leases and workforce, while at the same time they offer the chance to reach out to wider groups of shoppers. Both at national and international levels, advances in e-commerce are mainly promoted by the increased use of the internet, mobile devices, and credit cards by young and dynamic populations. Demographic analysis of online sales shows a remarkable hike in the number of young female users. In Turkey, the number of online users and e-commerce is constantly rising.

In 2014, volume of e-commerce grew by 35% and reached TRY 19 billion (IT Industrialists' Association). With a market size of TRY 7.3 billion in 2013, retail e-commerce saw a 37% increase in volume, reaching TRY 10 billion in 2014.

Foreign Direct Capital



According to data from the United Nations Conference on Trade and Development, cross-border investments decreased to 1.2 trillion USD in 2014 as a result of macroeconomic fluctuations. In 2013, international direct investments soared in all economies, but faltered in 2014, a severe blow to economies in transition, which saw a 52% decrease.

According to data from the Ministry of Economy, international direct investments increased year on year by 5%, reaching 9.3 billion USD in 2014.

Although Turkey remains among those countries attempting to increase development of the retail industry, its efforts are restrained by a variety of factors such as increasingly difficult borrowing, restrictions on credit cards, liquidity problems in middle-income families, etc.



Opportunities and Emerging Trends

Radical changes in economic growth, population, information technologies, etc. are among the hot agenda items being closely followed by all players in recent years. The analysis of world-shaping developments and their implications across different industries revealed five mega-trends: shifting global economic power, rapid urbanisation, climate change, limited resources, and technological progress.

As it is forecast these mega-trends will have crucial implications for corporate activities and customer behaviours, a good many companies have already analysed them in order to shape their strategies and investments and preserve their commercial existence in the future. In addition, laws and regulations will also undergo changes in various industries. Adapting to these changes and efficiently positioning the supply network is essential.

Rapidly increasing populations in some regions versus decreases in other regions directly affects the balance of economic power, resource shortages, and social norms, among other things. The global population is expected to reach 8 billion by 2025, with half of this increase anticipated to take place in Africa in the next 30 years.

Advances in digital technologies result in extensive changes in the behaviour of consumers, who seem to be placing less and less importance on the sales channel through which they obtain their preferred products. In order to position them vis-a-vis changing consumer behaviours, it is inevitable that retailers will adopt new technologies, new processes, and new

organisational formats, and will develop business strategies which stay abreast of the requirements imposed by the era. It is anticipated that consumers will perceive each retailer as a constantly accessible single brand, without making distinctions between the virtual and real worlds. Therefore, one cannot dismiss the role multi-channel strategies play along the way.

Retailers should include the one-stop shopping concept in their strategies in order to create excellent shopping experiences that encompass all channels demanded by consumers. Assisted by physical and e-stores and digital tools, consumers should be able to access retailers anytime, anywhere, and to select the best fit for themselves from among different purchasing and delivery options offered by retailers. The modern consumer is now willing to switch between sales channels at any time to access discounts and promotions.



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The Current State and Future of the Turkish Economy

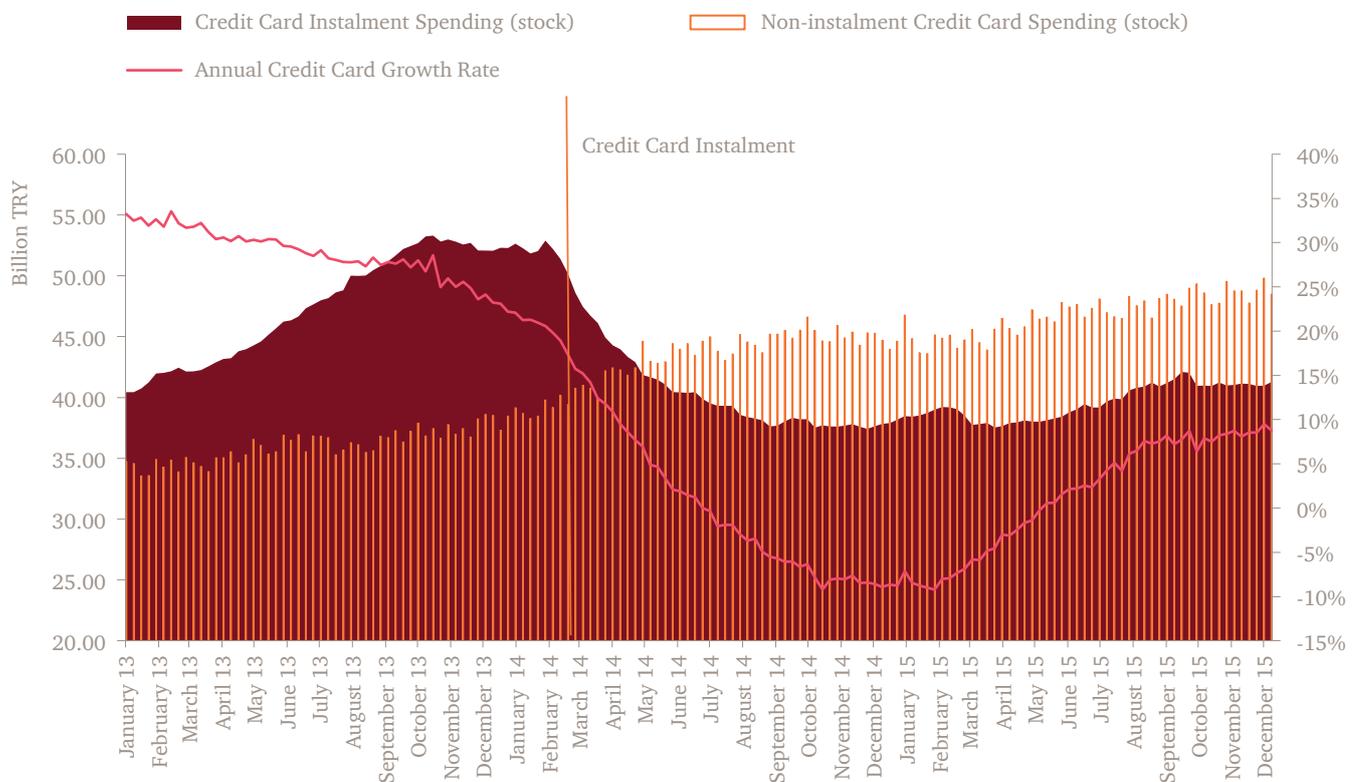
Trying to build external balance on solid pillars, in recent years Turkey has adopted policies that target economic and financial stability. Recent implementations and regulations were intended to reduce the demand for export goods and mitigate the balance of payments deficit through foreign trade, while also establishing a sound financing structure for the current account deficit, aided by increased savings.

Macro-prudential measures aimed to reduce consumer spending by reducing the annual rate of increase for loans towards the 15% reference point announced by the Central Bank of Turkey (CBT) by limiting consumer loans. Measures to secure financial stability included limitations on credit

card instalments and consumer loans, new calculation methods for the capital adequacy ratio, and moved general and required reserve ratios.

Of these measures, macro-prudential measures to limit loans had the most impact. Limitations on credit card instalments paved the way for significantly reduced credit card instalment spending, which forced annual variations in total credit card spending to negative figures. However, as of the beginning of 2015, increased consumer expenditures led to higher credit card spending figures. This resulted in a relative rise in the economic growth rate in the first three quarters of 2015.

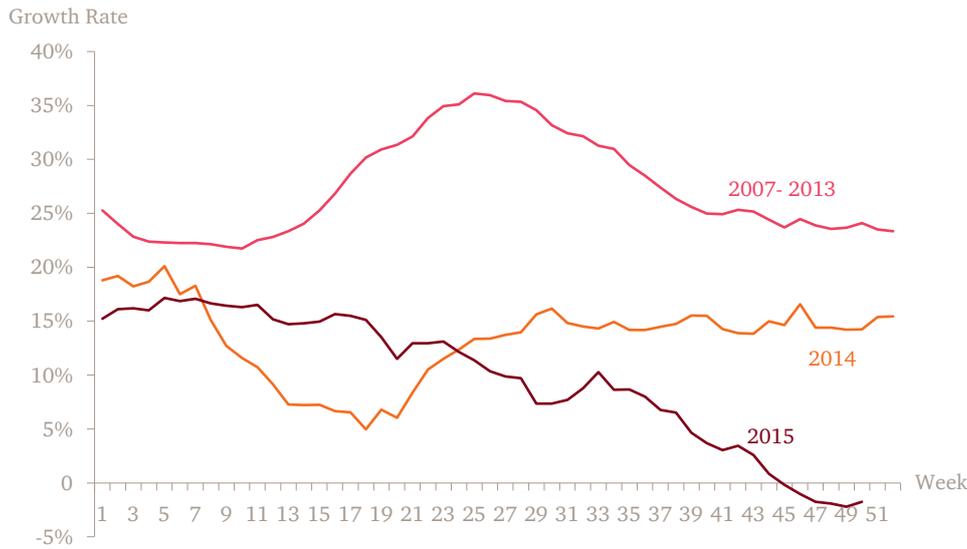
Credit Card Spending and Annual Growth Rates



Sources: CBT, PwC



Consumer Loan Growth Rate (Annualised, 13-week Moving Average)



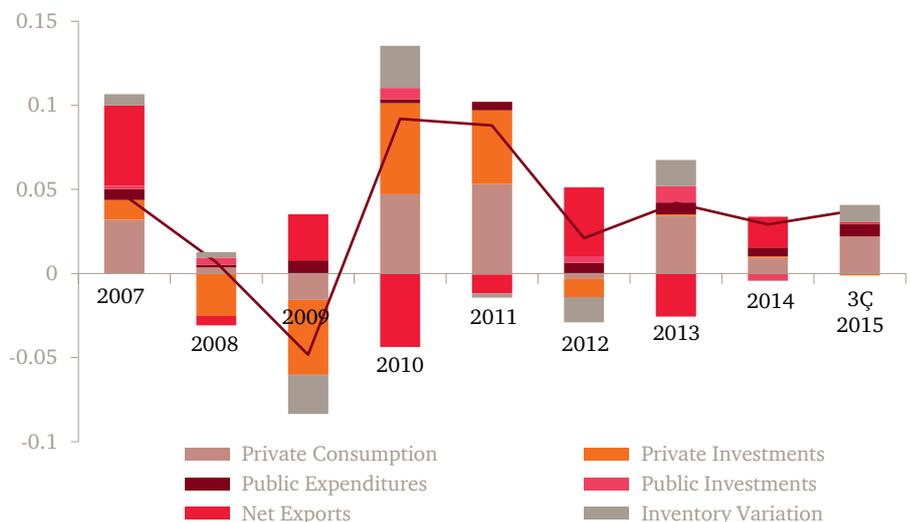
In addition to measures taken for credit cards, the impacts of policies developed to limit consumer loans were also strongly felt. According to data from the CBT, the 2014 consumer loan growth rate (annualised 13-week moving average) was lower than in previous years, and was followed by even lower YoY rates in the second half of 2015.

Consequently, it is clear that policies intended to ensure financial stability in 2014 (primarily to reduce the current account deficit) resulted in significant reductions in private consumption. However, the base effect and low levels of re-emerging delayed demand revived consumer expenditures in 2015.

Given the contribution of private consumption (which hovered around 70%) to economic growth, these developments brought about reduced household expenditures. Accordingly, lower growth performance relatively in 2014. According to data from Turkstat, the Turkish economy grew by 4.1% in 2013, accounting for 822 billion USD, and recorded a YoY increase of 3.3% in the first half of 2014. In the first three quarters of 2015 the real economy grew by 3.4%, however faced with a depreciating Turkish lira (TRY), the size of the economy declined to around 743 billion USD. Having dropped significantly in 2014, the contributions of private consumption to economic growth soared in 2015 in line with consumer expenditures.

In 2014 reduced consumption expenditures led to a decline in imports, while a relative increase in exports (even though the trend was slower than expected because of a slowdown in global growth and due to geopolitical issues) led to net exports contributing positively to economic growth. In 2015 an apparent reduction in imports was observed due to depreciation of developing currencies, and geopolitical issues caused exports to suffer a decline.

Contributions to Economic Growth

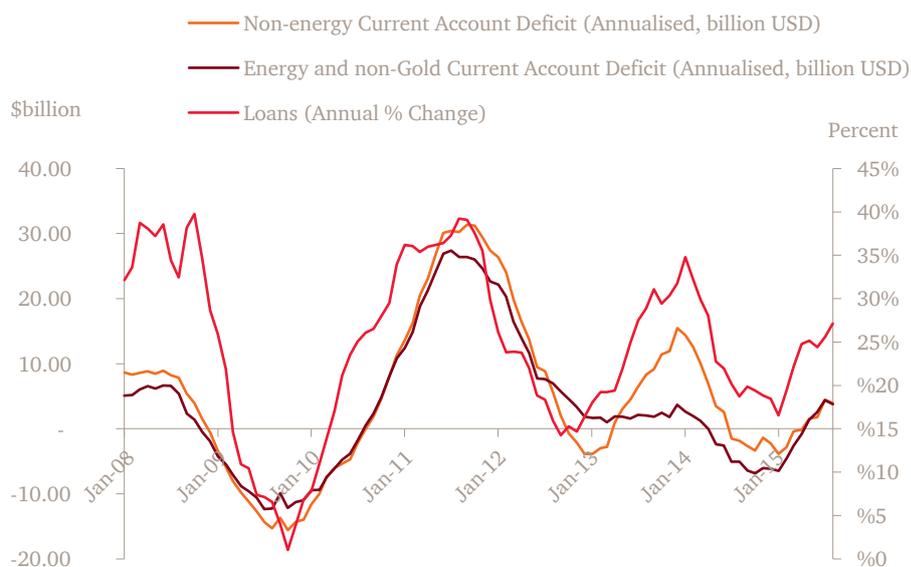


One result of the slight sacrifice in 2014 growth was an improvement to the balance of payments. Thanks to the aforementioned measures, the current account deficit, which reached 7.9% of the national income in 2013 due to the 35% growth in annual loans, recovered to a certain extent. The current account deficit decreased from 65 billion USD at the end of 2013 to 46 billion USD at the end of 2014, due to the economic rebalancing period and falling oil prices in the last quarter of the year. Taking into account the most recent data announced in 2015, the annualised current account deficit seems to be declining further. Lower loan growth rates in 2014 helped shrink the current account deficit. Moreover, the recovery of private consumption and the loan growth rate paved the way for a slight increase to the non-energy current account deficit in the first half of 2015. However it would not be wrong to expect a lower current account deficit driven by current developments.

As in 2014, inflation, another element deeply affecting the retail industry, remained a concern in 2015. Although reduced private consumption limited demand-side effects in 2014, high food prices and rising electricity and natural gas bills imposed pressure on a CPI that swelled due to the depreciation of the Turkish lira coupled with the effects of the exchange rate pass-through. In 2015 a sharp fall in the value of the Turkish lira brought with it a persistent uptrend in inflation. According to Turkstat data, consumer price inflation closed 2015 at 8.81%.

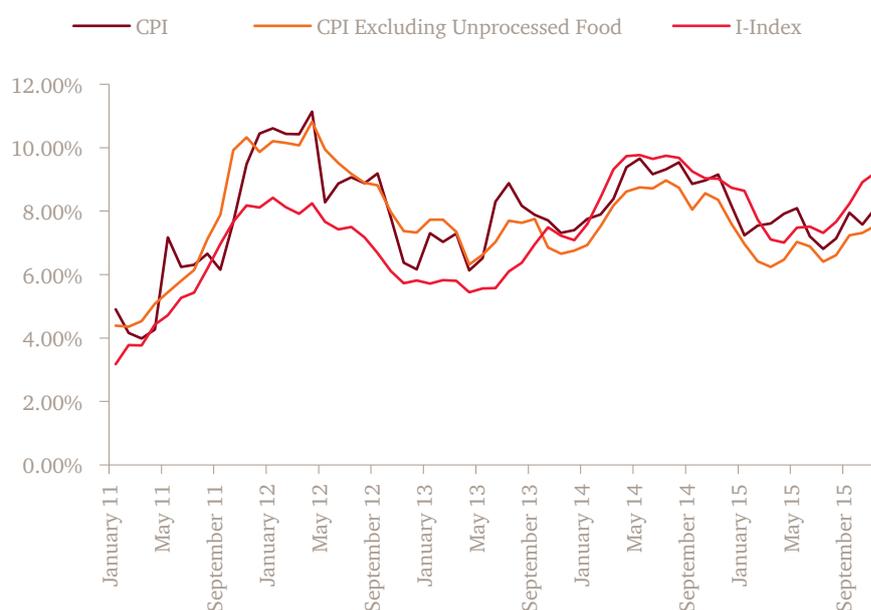
Annual changes in the CIP index, with the exception of unprocessed food prices, remained below both the CPI index and the I-Index (one of the core inflation indices). This alone shows the impact of food prices on the CPI.

Development in Current Account Deficit and Loans



Sources: CBT, BRSA, PwC Turkey

Inflation Index by Year

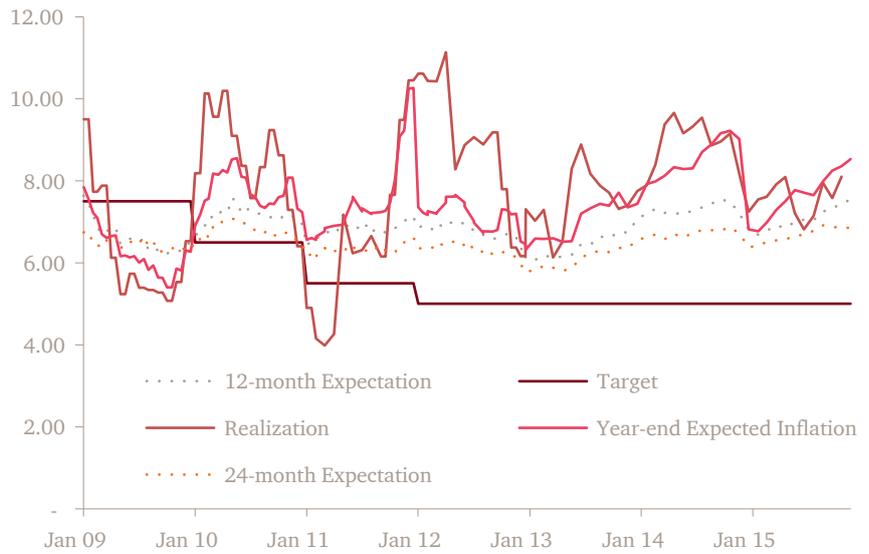


On the other hand, annual core inflation remaining above the CPI distorts expectations. In fact, CBT expectation survey results indicate an increase in medium-term inflation is expected.

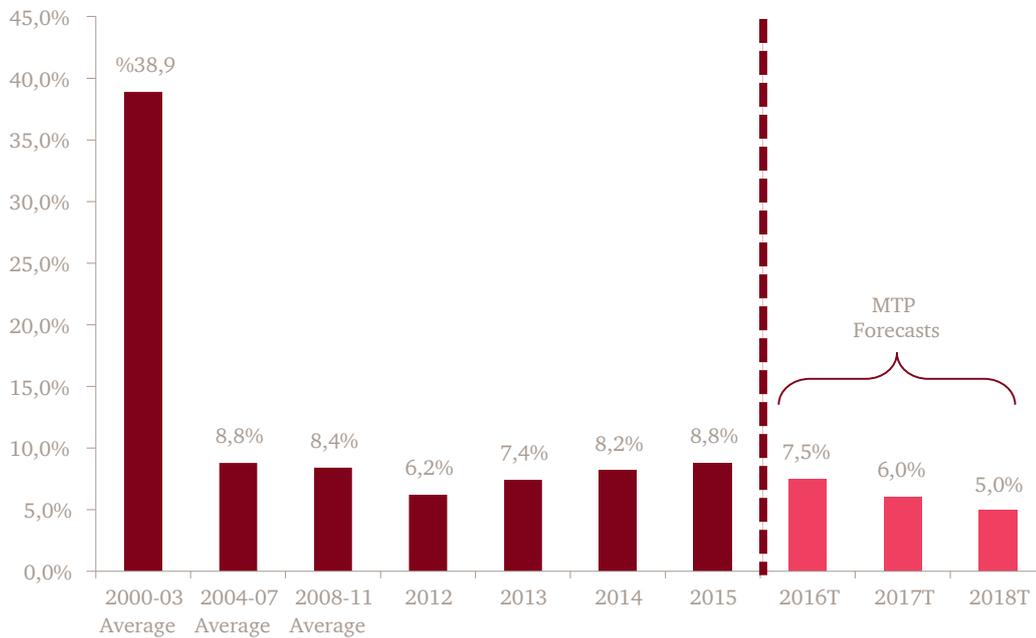
One can safely say that the CBT's firm position is the most effective tool in the fight against inflation. Having closely followed the normalisation process in the USA, the CBT stated that they would take market volatility into account in determining the actions to be taken.

The sharp fall in oil prices in 2014 continued in 2015, affected by concerns around the Chinese economy, dropping below 40USD per barrel. In the medium-term programme, it is estimated the Brent crude oil price will average 46USD between 2016 and 2018, which has a positive implication on macroeconomic indicators, primarily including inflation and current account deficit.

Expected Inflation



CBT Interest Rate Forecasts



Another indicator closely related to the retail industry is the labour market. Faltering economic growth has also led to higher rates of unemployment. Turkstat data shows that the unemployment rate was 9.9% in 2014 and more than 10% in the second half of 2015. The non-agriculture unemployment rate was 12% at the close of 2014, and currently stands at more than 12% according to the most recent 2015 data. This remains an important factor shaping consumer expenditures.

Structural reforms and the forthcoming period

The last two years witnessed the relatively recovery of the US and UK economies, while the European economies have slightly, though not yet permanently, improved, thanks to the expansionary monetary policies the European Central Bank introduced. As for developing economies, the downward trends in economic activity in China, an influential player in global trade, and in Brazil, a leading economy of Latin America, remain global concerns. The direction of monetary and fiscal policies vary and will continue to vary in global markets, depending on country-specific dynamics.

Ongoing expansionary policies in regions that face growth concerns may reflect positively on countries with commercial relationships with them. The expansionary policies the European Central Bank initiated in the second half of 2014, and which it is anticipated will continue in light of economic activity, seem to positively affect economic growth in the region. With more than 40% of Turkish exports going to the EU, this positive impact will support the growth of the Turkish economy as well.

On the other hand, as a result of the optimistic outlook for economic growth and unemployment rates in the US, interest rate hikes came into play at 2015 year end as the next step in the monetary normalisation period. As these hikes were already accounted for to a significant extent, no significant effects have been seen and further developments will depend on data from the US. In fact, it was announced that FED decisions would be incremental and cautious, and the interest rate hikes would be determined in a data-driven manner. Ongoing normalisation if there is no negative reaction from the economy as a result of decisions on interest rates may lead to short-term capital outflows from developing countries, depreciation in exchange rates, as well as associated inflationary effects. However, as long as there is no overall recovery in the global economy, such effects will be limited.

Finally, geopolitical developments and the oil price trend will deeply affect the economy of Turkey and other global economies. In light of current developments, although sanctions imposed by Russia will create some pressure on the Turkish economy in the fields of exports and tourism, given their size, the resulting effect will be limited, and will not exceed 0.4% of national income.

All these factors remain external factors, with occasional positive or negative short-term implications. The key issue for Turkey, though, is structural reforms. Turkey desires to achieve a breakthrough in development, and is expected to concentrate on internal policies aimed at economic growth and progress. In fact, no different than the previous year, the 2016-2018 Medium-term Programme aims to expedite 25 different transformation programmes, which were set out in the 10th Development Plan. The 2016 Action Plan is concrete evidence of the steps to be taken in this direction.

The primary objective of the medium-term programme is to ensure higher and more inclusive growth through structural reforms, in an environment where macroeconomic stability is maintained and the current account deficit and inflation gradually decrease.

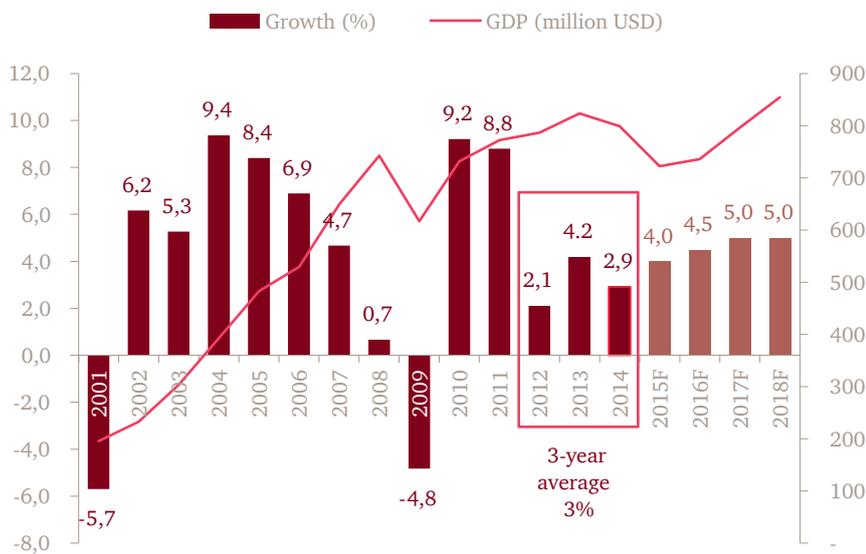
The programme also intends to increase domestic savings, to re-channel existing resources towards productive areas, and to improve the production capacity and technological accumulation of the economy. With these structural

reforms the programme seeks to achieve sustainable economic growth, lower inflation rates, and a more reliable balance of payments.

Numerical data in the programme imply that economic indicators will recover gradually within the next three years (for economic growth in particular). Based on the projections in the 2016-2018 Medium-term Programme, the Turkish economy is expected to show 4% growth in 2015 due to recent domestic political issues and consequentially increasing geopolitical and economic risks. 4.5% growth on average is estimated for 2016 to 2018. Further analysis of underlying details results in the expectation of 3.6% annual growth of private consumption for 2016 to 2018, which had been projected to reach 4.8% in 2015. Another expectation for 2016 is a considerable jump (8%) in private investments, which have picked up momentum in the second quarter of 2015. Consequently, the Turkish economy is estimated to reach TRY 2.8 trillion (854 billion USD) in size by 2018, with per capita income standing at 10.659 USD as a result of the depreciation of the Turkish lira.

Independent analysis conducted by the PwC Macroeconomic Consulting Team estimates that the Turkish economy will rank 14th in the world by 2030 based on its purchasing power parity.

Economic Growth and National Income in Turkey



Sources: Turkstat, PwC

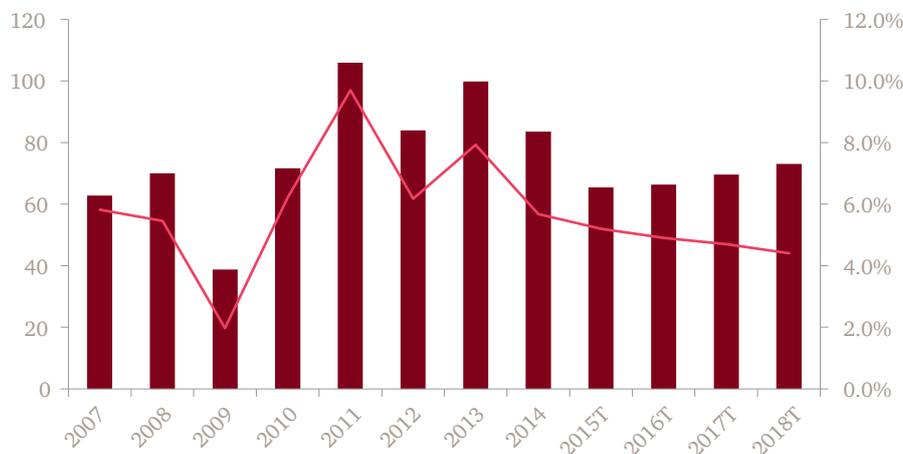
Along with a higher sustainable growth strategy, a sounder financing structure is still a target regarding the balance of payments. A more solid balance of foreign economic relations is pursued through various steps, including measures to restrict imports and enhance exports and the adoption of policies to increase savings. In addition to the recovery resulting from the rebalancing of foreign trade since 2014, the reduction in global commodity prices has also had a positive impact on the balance of payments. Energy accounts for approximately 25% of imports in Turkey. Therefore, the positive effects of falling oil prices seem to be felt more strongly and directly affect the decrease in import costs and counteract the negative effects resulting from currency depreciation. In the medium-term programme, assuming that average oil prices will be 46USD between 2016 and 2018, the ratio of the current deficit to national income is estimated to be 3.9% and 3.7% in 2016 and 2017, respectively, and later to decline to 3.5% in 2018

Economic Forecasts

2016F	2017F	2018F	2018T
Economic Growth (%)			
MTP	4.5	5.0	5.0
IMF	2.9	3.7	3.5
OECD	3.9	3.7	
Inflation (%)			
CBT	7.5	6.0	5.0
IMF	7.0	6.5	6.5
OECD			
Current Account Deficit/GDP (%)			
MTP	3.9	3.7	3.5
IMF	4.7	5.2	5.7
OECD			
Unemployment Rate (%)			
MTP	10.2	9.9	9.6
IMF	11.2	10.9	10.9
OECD			

Sources: Turkish Ministry of Development, CBT, IMF

Foreign Trade Deficit and Current Account Deficit



2

The Current State of the Modern Retail Industry in Turkey and Effects on the Turkish Economy

a. Formal Economy and Tax Revenues

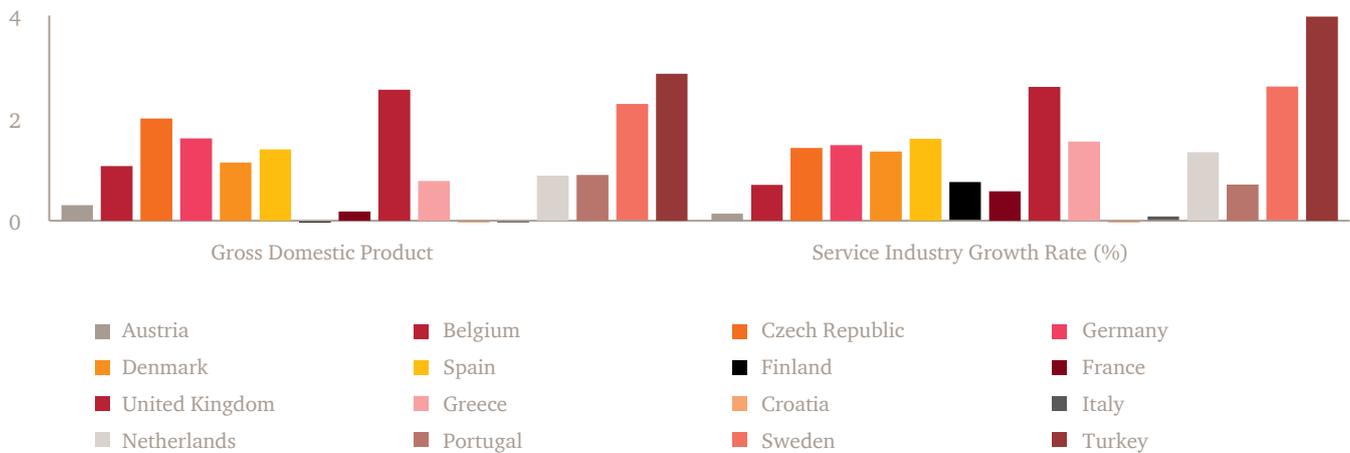
i. Current States and Projections of Organised and Traditional Retail in Turkey

In 2014 the development of the Turkish economy wavered because of tightening monetary policies, faltering EU economies, and political tensions in neighbouring countries. Currency fluctuations and the stumbling consumer confidence index urged retailers to seek sales and long-term investments rather than high profitability. The downward trend in borrowing implies a more cautious consumer attitude towards spending. The limitation on the number of instalments permitted on credit cards, which formerly offered long-term maturity, created a dent in borrowing trends and thus in the spending of consumers who had frequently resorted to borrowing.

Furthermore, in 2015 tension and conflict in nearby territories including Russia and Ukraine, and in neighbouring countries like Iraq and Syria, loomed over commercial activities, causing concern for retailers due to shrinking exports to these countries and the declining numbers of tourists from these regions. The depreciation of currencies against the USD resulted in severe losses arising from differing exchange rates, especially for those retailers who purchase raw materials in USD and mainly export to European countries and Russia. However, the continuing increase in the number of stores opened by local brands both locally and internationally, and an expected 9% growth in organised retail when the overall economy enjoyed only a 4% increase reveals the solid foundations of the retail industry.

Analysis of 2014 GDP growth in European economies and their comparison to growth rates in the service industry, show that Turkey is hovering above the European average. In addition, the rapidly expanding young population and expectations of an overall increase in spending points to the growth potential of modern retailers in Turkey. The Turkish retail industry is expected to grow further in future years, reaching around TRY 880 billion by 2018 (TFSCR). According to current projections, the Turkish economy will perform strongly and reduce inflation to 4% by 2019, enjoying 4% GDP growth. The inflation-adjusted compound annual growth rate in the retail industry is expected to increase by 9%.

GDP Growth Rates in EU Member and Candidate Countries (%)

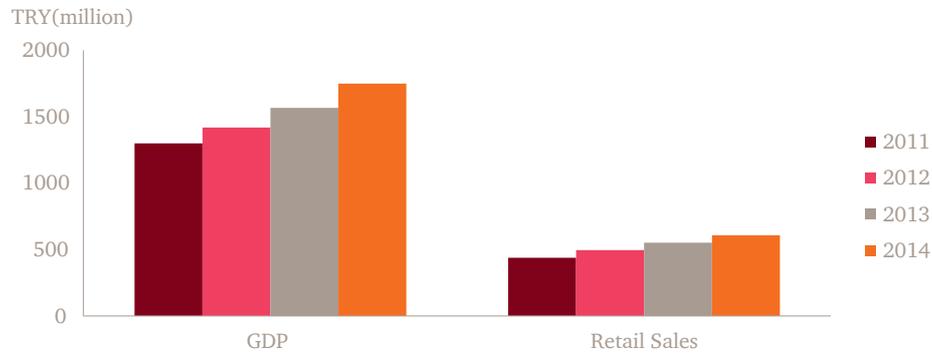


Source: Turkstat, 2014

Although organised retail has been grabbing a higher share of the pie in the overall retail industry, its percentage of the overall market in Turkey still seems to be significantly lower than in developed countries. The local retail market mainly consists of traditional players, despite the steady growth of local and international chain stores and recent acquisitions and mergers. Taking the informal economy into account, organised retail is estimated to have a total share of 33% of the organized retail industry in Turkey, remaining far below the European average of 80%.

One cannot dismiss the positive effects of a growing retail industry on a variety of factors such as investment, employment, and the formal economy. The most remarkable contribution though, is the role it plays in facilitating the formalisation of the economy. The total earnings in the so-called informal retail industry is unknown, and this remains an area where no taxation is possible, although it is estimated the earnings are considerable. However, thanks to further shopping center investments and the spread of credit cards, the presence of informal economy is gradually weakening.

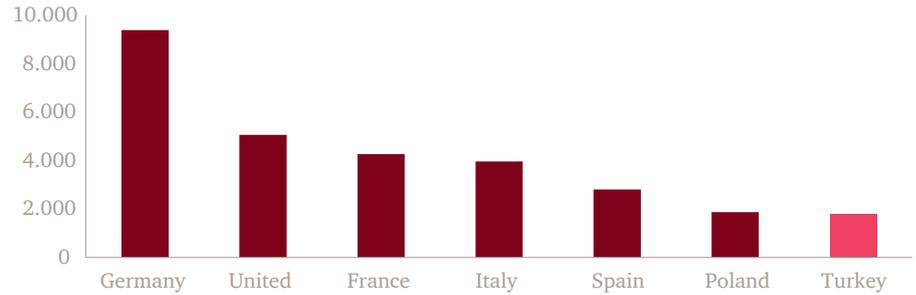
GDP and Retail Sales Changes by Year



Sources: Turkstat, TFSCR

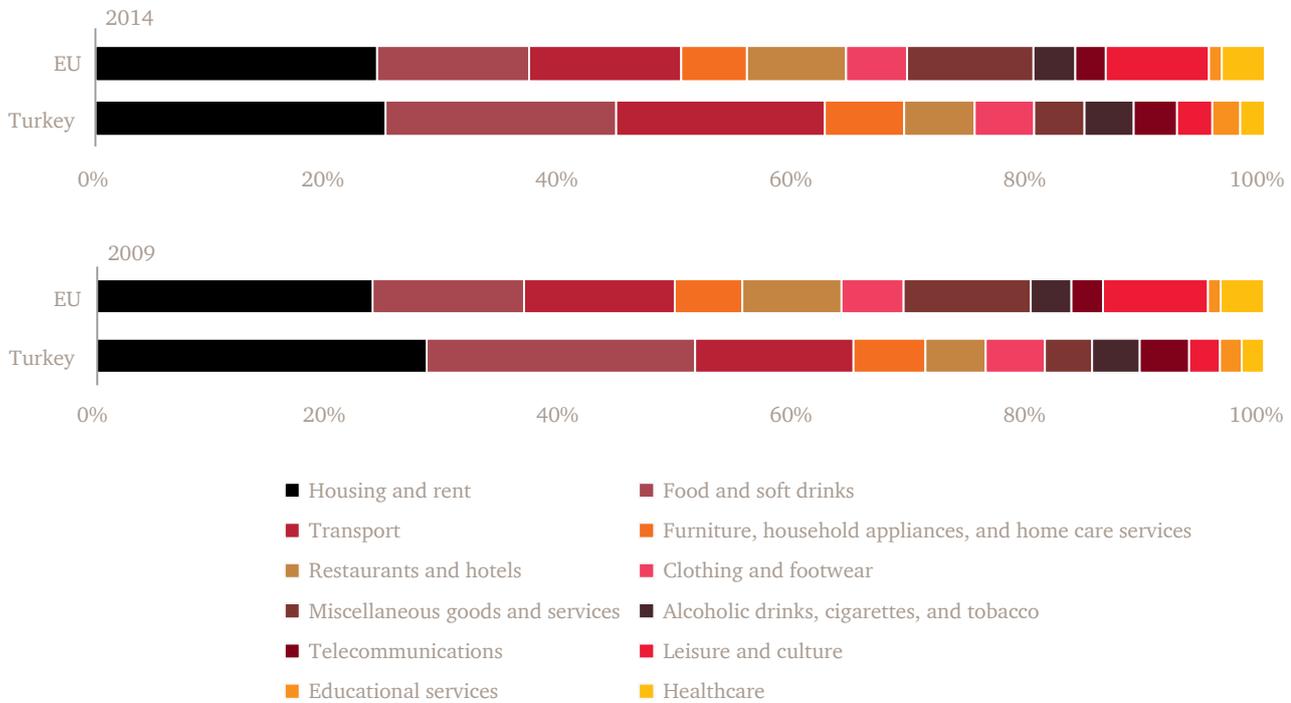
The food retail industry accounts for 62% of overall retail sales, of which traditional retailers have a share of approximately 80%. Turkey is in the bottom ranks in retail food sales per capita in Europe. Food is the second biggest expense item in Turkish households, and around 80% of total expenses for food are made through traditional channels. The breakdown of food expenses in organised and traditional retail, and European rankings, implies remarkable growth potential for organised retail in the food industry.

Retail Food Sales per Capita (TRY)



Source: Planet Retail, 2013

Distribution of Household Expenditures 2014



Sources: Eurostat, Turkstat

Higher budgets for secondary expense items such as entertainment and culture show that the retail industry structure has matured and is approaching that of EU countries. Breakdowns of household expenditures in EU countries and Turkey from 2009 to 2014 reveal the recently

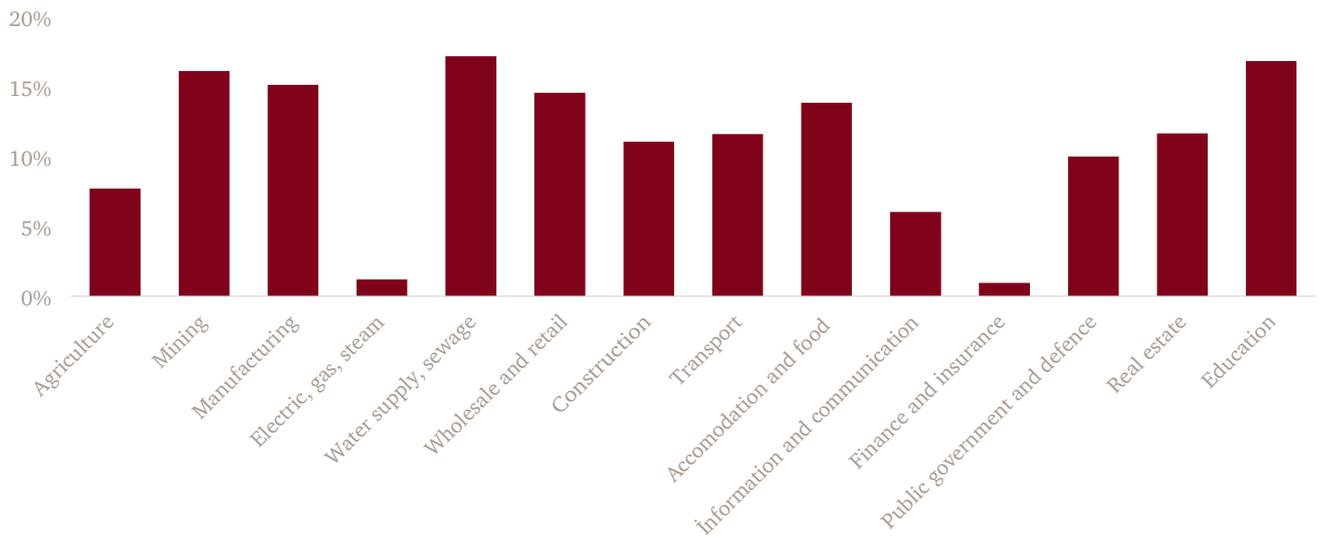
improved spending power of Turkish consumers. A closer look also reveals that the amount spent on housing, rent, food, and soft drinks has decreased to 3.3% of the total, whereas the percentage spent on transport has grown by 4%.

ii. Turnover Evolution in the Organised Retail Industry

In the aftermath of the 2008 financial crisis, the private sector has been the driving force of the Turkish economy. Picking up momentum in 2014, private sector investments contributed to the growth of the GDP. In the same period, private consumption expenditures grew by 5.1%, which contributed 3.3 points to the growth of the GDP.¹

In 2014, the Turkish economy grew less than expected, increasing by only 2.9%. Despite higher-than-expected contributions from net exports of goods and services, the growth rate did not meet targets due to shrinking private consumption and investments in the last quarter of 2014. The economy is expected to grow by 4% in 2015.

GDP Growth by Industry

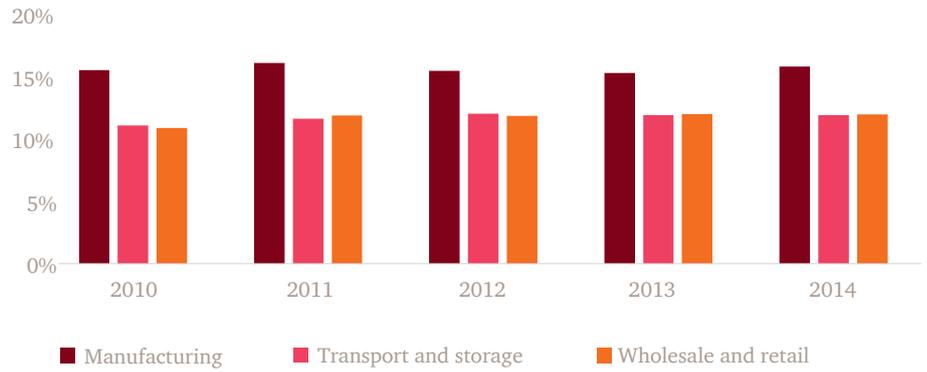


Source: Turkstat, 2014

¹ Turkish Industrialists and Businessmen's Association (TUBA); Turkish Economy 2014

According to 2015 data, around 2 million people are employed in Turkey (TFSCR). A look into the shifting shares industries represent within GDP by fixed price shows that wholesale and retail ranks third in size, following manufacturing and agriculture industries. The service industry and wholesale and retail sales account for 57.7% and 12% of the gross domestic product, respectively. The shares the service industry and wholesale and retail commerce represent within GDP make the steady contribution of the retail industry obviously.

Industry Shares in GDP



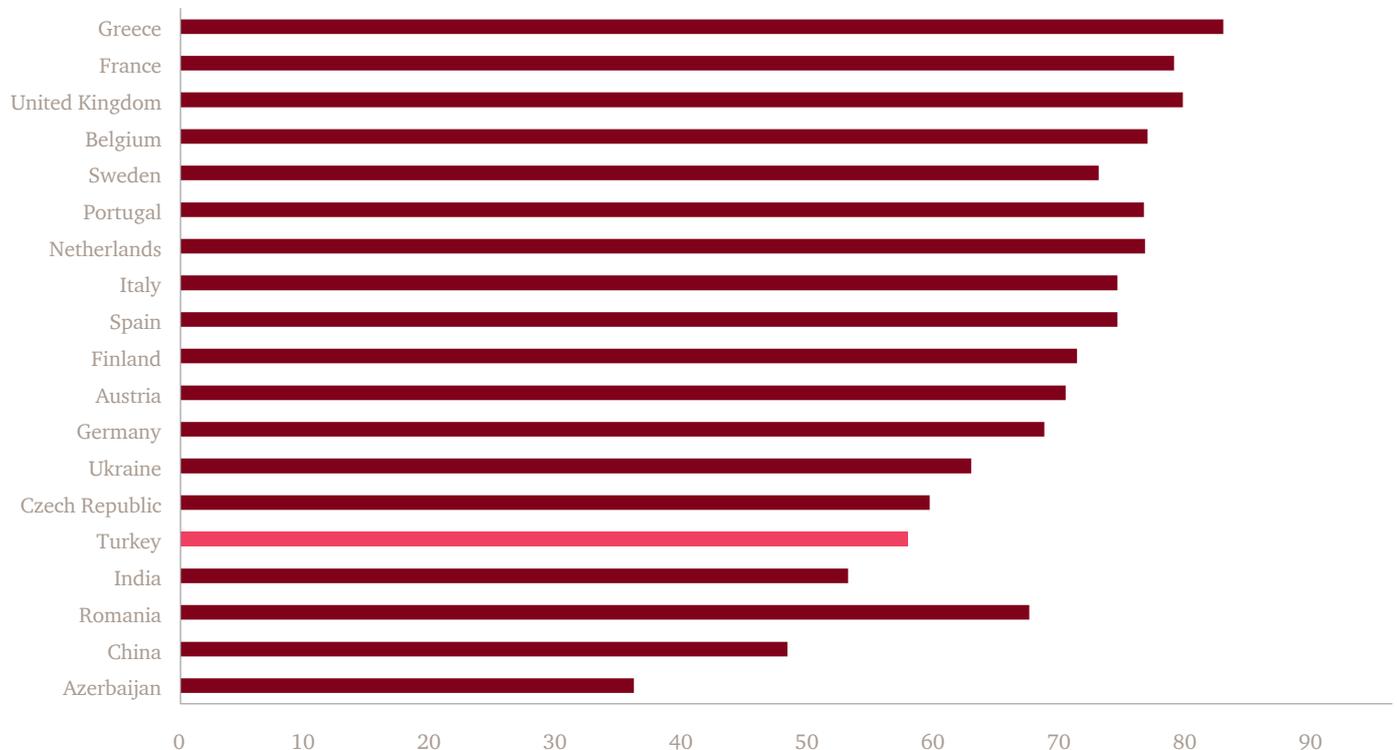
Source: Turkstat

A look into the share of developed economies that organised retail represents makes it clear that the industry in Turkey has some way to go and more potential to capitalize on, regardless of how solid its foundations are. Especially compared to Germany and France, organised retail's contribution to the economy remains well below that in developed EU economies. Considering

the evolution of the EU retail market, the modern retail industry seems to have taken further shares from the traditional retail industry, as well as improving employee productivity in the retail industry and benefitting from economies of scale, expansion into international markets, and the introduction of modern IT systems into supply chain management. One reason organised retail

in Turkey represents a smaller percentage of the industry than in developed economies is the strong market presence of traditional retailers. The key strengths of small retailers such as grocery stores include experience in the local market, occupation of locations easily accessible by consumers, and deep-rooted consumer habits.

Service Industry Share of Gross Domestic Product (%)



Source: Turkstat, 2014

iii. Organised Retail's Contributions to a Modernised Industry

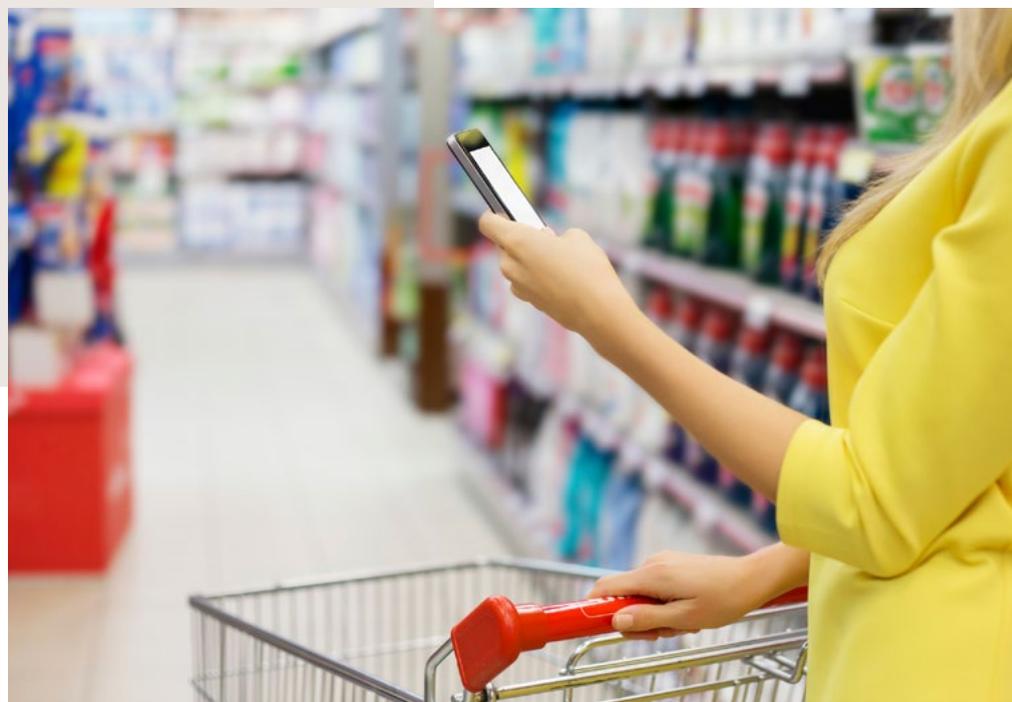
One cannot turn a blind eye to the tangible role of organised retail, which has shown exponential growth since the early 2000s, in the modernisation of the overall retail industry. Formalisation of the informal economy, standardisation of product supply and sales procedures, and employment are the primary contributions of organised retail to modernisation. Improvements and growth in industry are accompanied by more corporate structures.

Organised retailers strive to reach consumers anywhere and any way possible by introducing new sales channels and store concepts like discount markets, and they expect their suppliers to keep pace. An evolving organised retail industry also forces small and medium-sized enterprises (SMEs) within the supply chain to modernise. SMEs are expected to swiftly adapt themselves to development, creating an uninterrupted value chain which provides consumers with products of the desired quality in a timely manner. Retailers see suppliers as business partners, and long-term collaborations reinforce the progress of SMEs in this aspect.

A larger retail market and higher purchasing volumes have allowed for large mass purchases from suppliers. Moreover, organised retailers have strengthened their product distribution channels, and are now able to manage their stock more efficiently. Efficient distribution of mass purchases adds to productivity in the industry. This helps new sectors emerge, and facilitates the creation of new employment opportunities.

The industry has sprawled to such an extent that it has pushed organised retailers from large metropolitan cities into every corner of the country. This expansion of organised retail has helped improve the supply and distribution capacity in small and medium-sized cities. Growing in parallel with an evolving retail industry, investments turn shopping centers into recreational and social destinations in cities. In addition, culture, art, and entertainment activities held in shopping centers contribute to a more sophisticated city culture.

Further investments in the retail industry make it safe to assume that contributions to modernisation will continue to increase. Shopping centers contribute significantly to urbanisation and higher employment rates in the regions where they are located. Aside from Istanbul which already has a high concentration of shopping centers, shopping centers are pioneers in the development of Anatolian cities. Every new shopping center offers a wide variety of employment opportunities, including jobs as store employees, cleaning workers, and security guards. Culture and art, sports, and entertainment events organised in shopping centers allow consumers to spend quality leisure time.



iv. Formal Economy

There are various estimates of the size of the informal economy in Turkey. A common finding is that Turkey has a larger informal economy than that of EU countries.

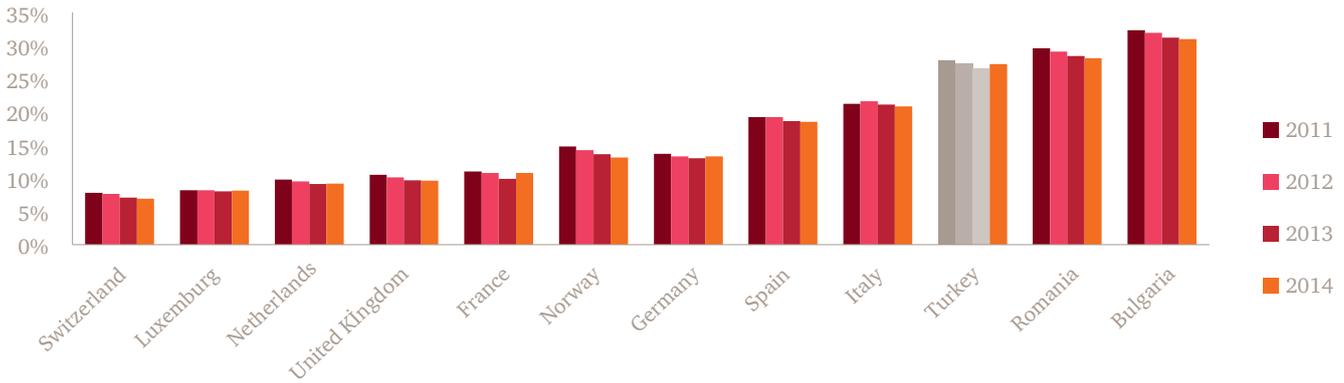
Although the informal economy has eroded over the years, Turkey still ranks third compared to EU countries. Meanwhile, there is an inverse

relationship between GDP size and the formal economy of a country. For instance, Germany ranks first in GDP at approximately 2.7 trillion EUR and has an informal economy of 13%, while Bulgaria's GDP is 41 billion EUR and it has an informal economy of 31.2%.

As shown in the analysis of informal economy rates by industry, the retail industry has the second highest informal

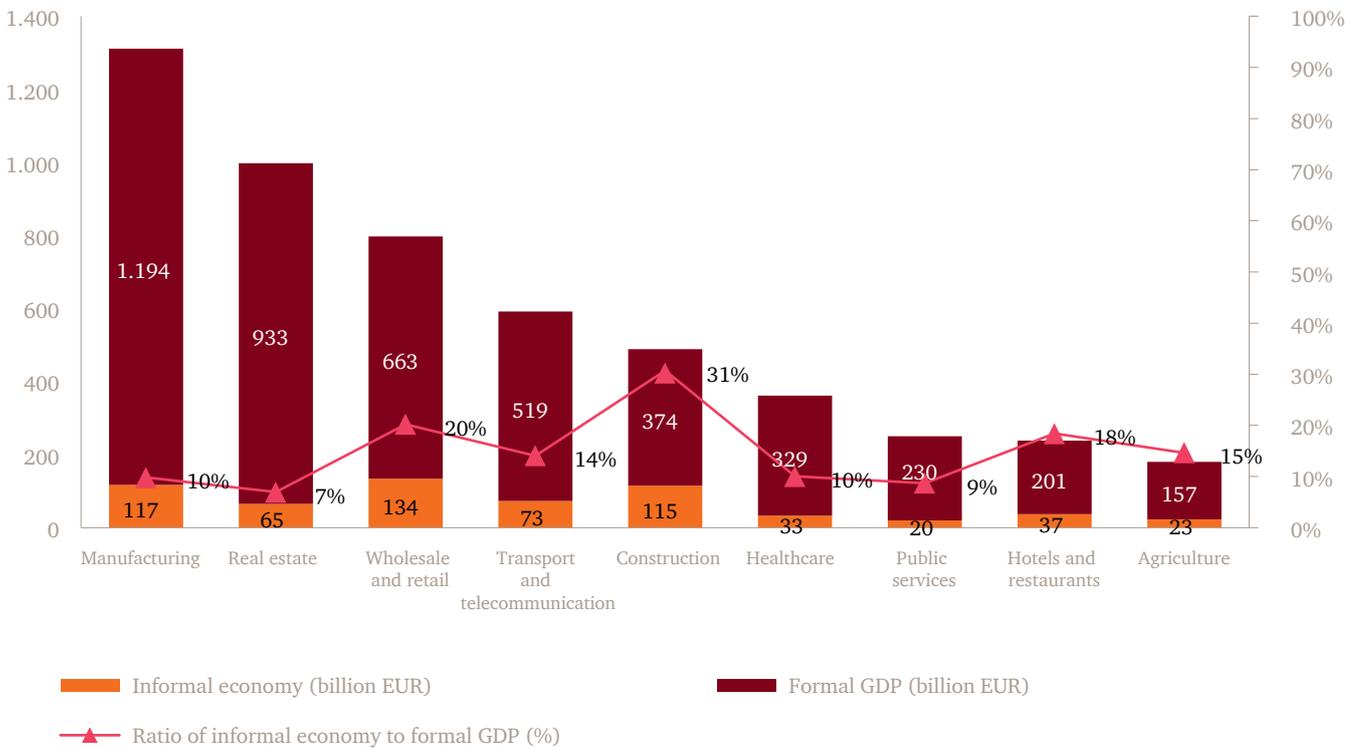
economy, following construction. The informal economy also leads to variations in calculations of turnover in the retail industry. By its nature, organised retail does not allow an informal economy to exist, suggesting that a stronger organised retail presence is one significant contribution to the struggle against an informal economy.

Informal Economy Rate



Source: Journal of Money Laundering Control, 2014

Informal Economy Rates by Industry



Source: Eurostat, Dr. F. Schneider, Johannes Kepler University of Linz, 2013
 * Includes cumulative data from Germany, Italy, Poland, Romania, Spain, and Turkey.

Parallel to the evolution in developed countries, Turkish organised retail has also grown recently. A narrower percentage of the organised market within the overall market compared that of developed countries indicates more growth potential, while also raising expectations of more growth in the retail industry.

Turkish retail industry has recorded a revenue of TRY 663 billion, according to the calculations made based on Turkstat trade volume data, whereas organized retail industry has reached a total revenue of TRY 217 billion in 2015. The

performance of the total formal retail industry and the formal organised retail segment shows that formal organised retail lagged behind formal traditional retail in 2015. Despite the strong presence of traditional retail (street markets, groceries, small markets, etc.), organised retail accounts for 33% of the overall retail industry.

Organised retail represents 23% of the overall food retail industry while organised non-food retail has a 49% share of total retail turnover.

	Turkstat Trade Turnover Data + Informal Economy (2014)			Turkstat Trade Turnover Data + Informal Economy (2015)		
	billion TRY			billion TRY		
Total turnover	608	100%		663	100%	
Traditional Retail	414	68%		446	67%	
Organised Retail	194	32%		217	33%	
Food Retail	367	60%	100%	411	62%	100%
Traditional Food	287	47%	78%	316	48%	77%
Organised Food	80	13%	22%	95	14%	23%
Non-food Retail	241	40%	100%	252	38%	100%
Traditional Non-food	127	21%	53%	129	20%	51%
Organised Non-food	114	19%	47%	123	18%	49%

Sources: Turkstat, AC Nielsen

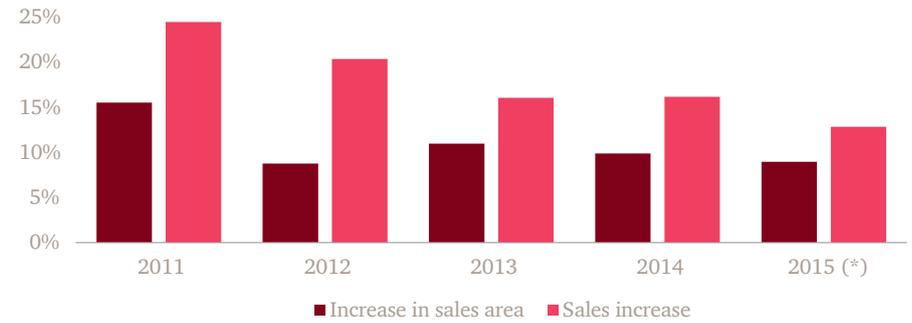
v. Tax Revenues

Between 2011 and 2014 the organised retail industry generated monthly turnover of TRY 703 per square metre (TFSCR). Monthly turnover reached TRY 830 in 2015. Given the changes in total sales per square metre, the compound annual growth rate was 6% and growth of retail turnover was 7.5%, which means sales grew by one unit after the addition of each square metre of sales area.

Growing sales revenues also increased indirect taxes per square metre. From 2011 to 2014 an average of TRY 70 of VAT-based tax revenue was generated monthly per square metre.

With the addition of the shopping centers planned for completion by 2018, around 2.5 million square metres of new sales area will be added, and the total sales area in shopping centers will reach around 13 million square metres. It is estimated new sales areas in shopping centers will generate additional VAT revenue of approximately TRY 198 million per month. Based on the expected increase of 7.8 million square metres of total sales area (Euromonitor), it is estimated the retail industry will generate additional VAT revenue of TRY 591 million per month by 2018.

Changes in Total Sales Area per square metre



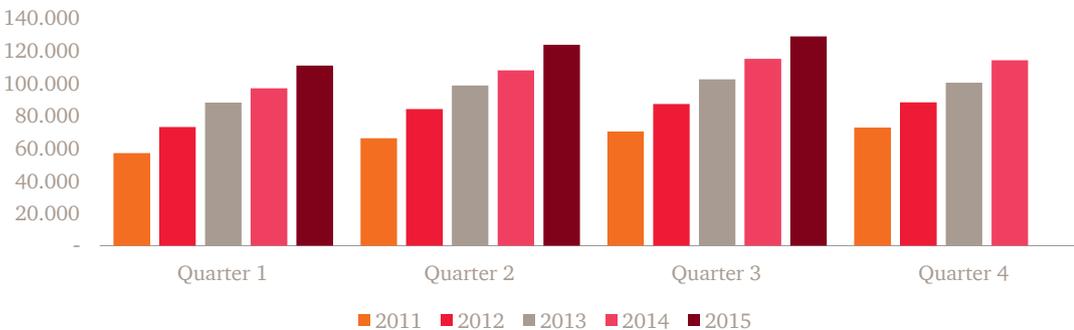
Source: TFSCR
(*) Includes data from the first 8 months of 2015.

vi. Credit Cards and Debit Cards

Credit Cards

Turkey saw a year on year 0.3% increase in the number of credit cards, which reached 57 million in 2014. Attracting users with various benefits such as instalments, bonus points, etc., credit cards have all but replaced cash payments at many points of sale. In 2014, credit cards, which support the fight against the informal economy, were used in 2.7 billion shopping transactions, generating turnover of TRY433 billion, and in 87 million cash withdrawal transactions, which were equal to turnover of TRY 47 billion.

Credit Card Transaction Amount - Million TRY



Source: Interbank Card Center (BKM), Transaction Amounts of Local and Foreign Credit Cards

Demand for instalment transactions shrank upon the decision by the Banking Regulation and Supervision Agency (BRSA) dated 1 February 2014, which aimed to limit the number of instalments to nine for credit card and cash withdrawals, and to eliminate instalment-based purchases of jewellery, telecommunications, food, and fuel oil. The regulations had a negative impact on jewellery and electronics retailers in particular. Although the cancellation of instalments for jewellery was amended to limit the number of instalments to four in October 2014, the fact that no instalments had been offered for most of the year shattered jewellery sales.

2012 figures show a 25% hike in credit card payments, followed by a 17% hike in 2013. This pace slowed in the aftermath of the regulation on instalments dated February 1, 2014. The regulation had a direct impact primarily on small scale enterprises which offer attractive fees thanks to the convenience of instalment based transactions.

When we look at how instalment offerings evolved by industry, the electronics, home appliances, and communication sub-industries offer the highest number of instalments, followed by construction materials, accommodation, furniture, and travel.

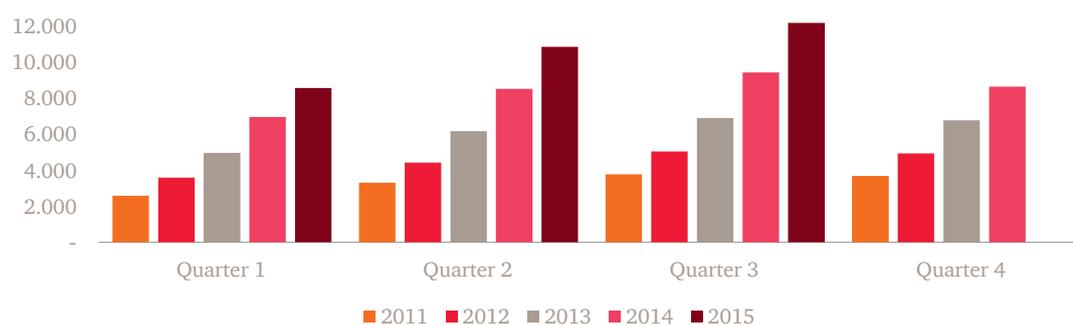
The average number of clothing instalments is six, while that of airline instalments is three.

Average transaction amounts by instalment show that card users consider the price of goods or services when determining the number of instalments, which increases in proportion to the price. According to data from the Interbank Card Center (BKM), TRY 328 is the average amount for transactions having up to eight instalments, and TRY 998 is the average amount for transactions having nine or more instalments

Debit Cards

In Turkey, debit cards are linked to one or more drawing accounts. They may be used, as long as a balance is available, for cash withdrawals from Automatic Teller Machines (ATMs) and for shopping at point of sale (POS) terminals. In 2014, the number of debit cards issued by banks and institutions grew by 10% and exceeded 100 million. Debit card shopping transactions saw a 25% YoY increase in 2014, and the turnover of shopping transactions increased by 35%.

Debit Card Transaction Amounts - Million TRY



Source: Interbank Card Center (BKM), Transaction Amounts of Local and Foreign Debit Cards

Consumer Protection Law No. 6502 (published in the Official Gazette on November 28, 2013 and which entered into force on 28 May 2014) includes important provisions on e-commerce, also known as distant sales. The introduction of the law granted consumers new rights in distant sales of financial goods and services, among other things. Additionally, it stipulated some significant obligations for providers of, and intermediaries involved in, the supply of goods and services to consumers. Providing adequate legal protection, the law is expected to encourage consumers who were otherwise wary of electronic or mobile shopping, and thus to help the trade volume of the sector grow.

b. Development of Employment in the Retail Industry

According to data from Turkstat, Turkey has a population of approximately 77.7 million people, with the 15-64 age range accounting for 76% of the population. The average age in Turkey is 30.5. Driven by the large youthful population, the working-age population increased by 1.7 million people in 2014, on a year over year basis. Approximately one million people joined the workforce in 2014.

Urbanisation channels newcomers to the workforce towards non-agricultural industries. In 2013, the number of agricultural workers decreased by 286,000, whereas the number of non-agricultural workers increased by 694,000. The 9% 2013 unemployment rate grew to 10% in the second half of 2015. Turkey has the highest unemployment rate of any OECD country.

In 2014, 54,000 new people were registered in the payrolls of companies operating in retail, which ranks second to the manufacturing industry in turnover.

(Thousands of people)	2010	2011	2012	2013	2014	2015 (*)
Workforce	25,144	25,681	26,852	27,384	28,786	30,208
Employed	22,631	23,496	24,484	24,892	25,933	27,150
Unemployed	2,513	2,185	2,368	2,492	2,853	3,058

Source: Turkstat

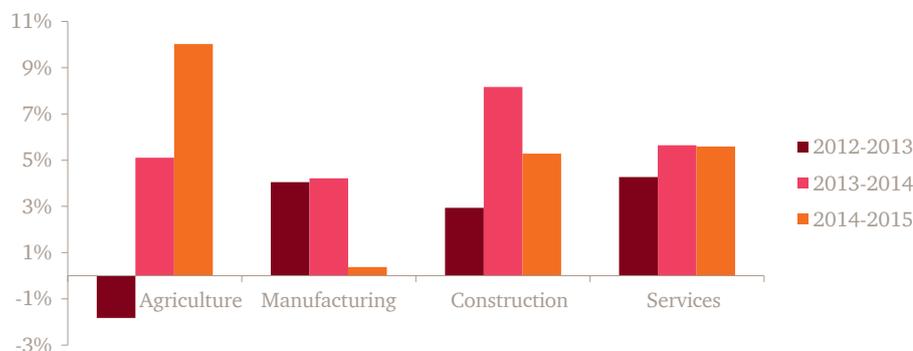
(*) Includes data from the first nine months of 2015.

(%)	2010	2011	2012	2013	2014	2015 (*)
Workforce participation rate (%)	47.1	47.2	48.5	48.5	50.5	52.1
Employment rate (%)	42.4	43.2	44.2	44.1	45.5	46.8
Unemployment rate (%)	10	8.5	8.8	9.1	9.9	10.1
Non-agricultural unemployment rate (%)	12.4	10.4	10.8	10.9	12.0	12.4

Source: Turkstat

(*) Includes data from the first nine months of 2015.

Annual Change in Employment Rates in Leading Industries



Source: Turkstat

(*) Includes data from the first nine months of 2015.

Employment figures in the retail industry have been increasing constantly thanks to the global and national growth of the industry. Cities of Opportunity, an annual PwC study conducted in 27 capitals across the world, anticipates the wholesale and retail sales industry will create a net volume of 1.6 million additional job opportunities worldwide from 2012 to 2025.

Increasing development in a country results in a narrowing of agriculture's share of employment rates, which is offset by higher shares in the manufacturing and service industries. While economic development combined with automated agricultural and industrial processes creates a dent in two industries' shares of employment, the contribution the service industry makes to overall employment is more significant due to its manpower-dependent processes, most of which cannot be replaced by automation.

Furthermore, a higher GDP per capita encourages individuals to prefer services like healthcare, entertainment, and education to industrial goods, which also increases employment rates in the service industry

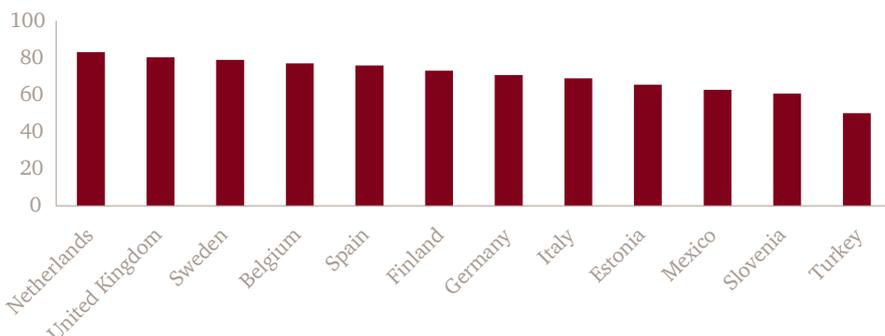
Retail introduces a diverse labour force, going beyond its role in the economy as provider of employment. As national economies prosper and welfare levels increase, the varied job opportunities offered by the retail industry become more preferred. As for the rates of part-time and female employees, the retail industry ranks third worldwide in the diversity of employees, after the insurance and banking industries.



You may also scan the QR code to access the report.
Cities of Opportunity 6



Service Industry Employees Shares in Overall Employment



Source: OECD

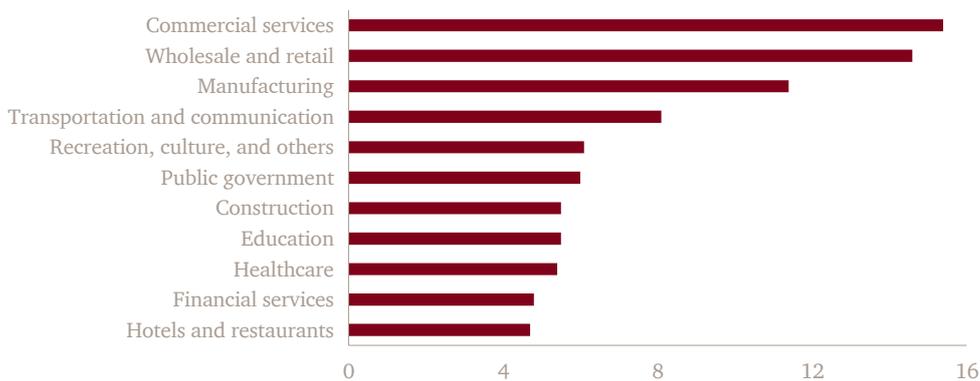
i. Formal and Informal Employment

Formal Employment

According to April 2015 data from the Social Security Institution (SGK), payroll-registered employment in Turkey increased YoY by 5.1%. In addition, seasonally adjusted data shows that employees on payroll increased by 34,000 in April compared to December 2014. Education registered the highest number of people on payroll and the

highest increase with 117,000 additional employees, followed by building construction with 104,000 additional employees, and building and landscaping with 57,000 additional employees. For the last five years, retail has share the top ranking with the building construction industry for percentage of payroll-registered employees.

Employment by Industry (Million People)



Source: Oxford Economics, PwC Cities of Opportunity

The Percentage of Payroll-Registered Employees Represented by Each Industry (June 2011-June 2015)

Industry	2011	2012	2013	2014	2015
Retail Trade	9.3	9.5	9.3	9.1	9.1
Building Construction	8.4	8.8	8.8	8.7	9.1
Education	4.8	4.4	4.4	4.7	5.3
Building and Landscaping Activities	2.2	2.4	2.6	4.3	4.7
Wholesale Trade	4.2	4.2	4.2	4.4	4.6
Food and Beverage Services	3.3	3.4	3.8	4.1	4.2
Landline and Pipeline Transportation Activities	4.9	5.0	5.0	4.5	4.1
Clothing Manufacturing	3.6	3.7	3.7	3.7	3.5
Food Products Manufacturing	3.3	3.3	3.2	3.2	3.1
Other	56.0	55.3	55.0	53.3	52.3
All Industries	100.0	100.0	100.0	100.0	100.0

Source: Economic Policy Research Foundation of Turkey (TEPAV)

Informal Employment

In Turkey, the informal employment rate declined from 43% in 2010 to 36% in 2013, and stood at 34% in 2014. In August 2015, the rate of those employed without being registered with any social security institution declined by 1.3 points YoY, reaching 35%. The rate of uninsured agriculture workers increased to 81% in August 2015 as compared to August 2014, while uninsured workers in non-agricultural industries declined to 21%. The rate of uninsured yet paid per diem workers declined 2 were points YoY to 17%. Despite this downward trend, the informal employment rate remains high (Turkstat).

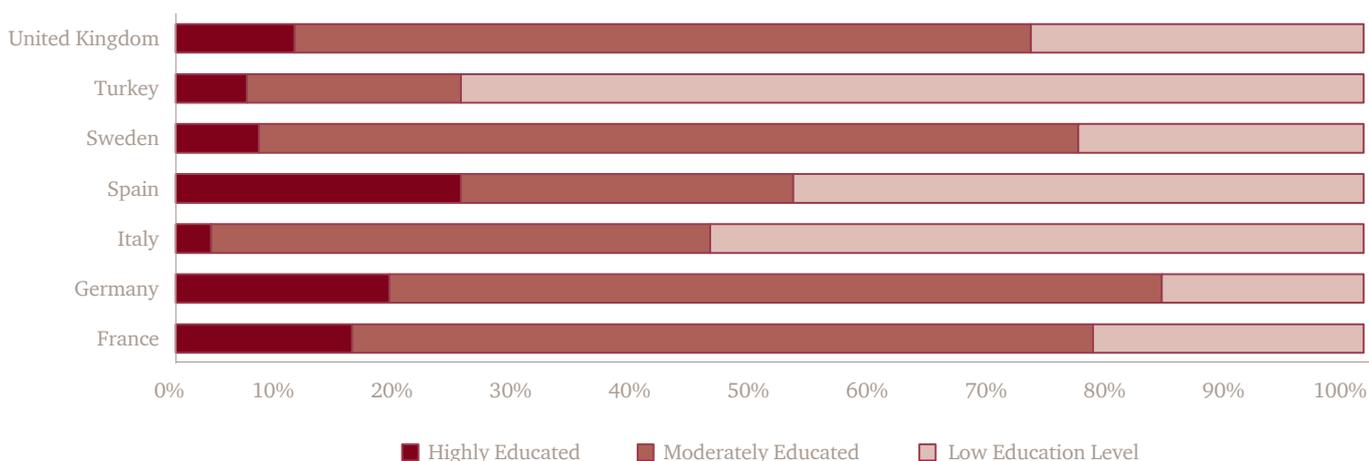
The positive and negative impact of informal employment on traditional retail cannot be calculated because its size is not known. However, the contributions of the retail industry to the formal workforce is clear upon examination of the strong presence of organised retail in overall industry and the growing number of stores and shopping centers. Nationwide development of organised retail creates a significant opportunity for formalising the economy and workforce.

ii. Relationship Between Employment and Human Resources Training

The retail industry creates significant opportunities for those members of the workforce with few qualifications, providing various training programmes throughout their terms of employment to aid with development. Most companies in the retail industry offer their employees training programmes throughout their terms of employment, thus increasing the number of qualified personnel. Many retailers have already initiated specific programmes to better train their employees while others have been developing professional development programmes to improve employee performance.

Employment rates in the retail industry are expected to increase further in the mega-cities of the developing world, including Istanbul. The rise in the number of employees will also further emphasize the need for staff at different educational levels and with different experience. According to PwC’s Cities of Opportunity, Italy’s workers are the least qualified workers in the retail industry. The Turkish retail industry is second to Italy when it comes to employing workers with the lowest-qualifications in terms of education and experience.

Educational Levels of Retail Industry Employees



Source: PwC Cities of Opportunity

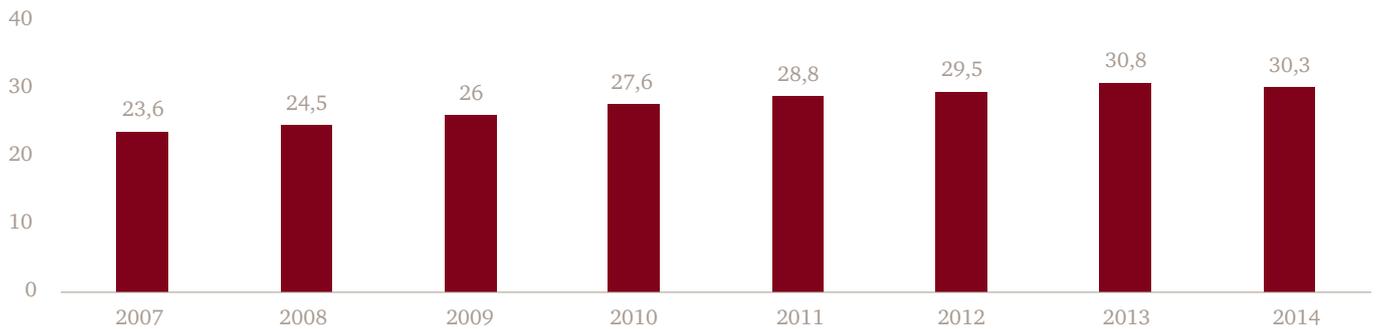
iii. Female Employment

In post-crisis periods female labour force participation increases drastically. 23.6% in 2007, the female participation rate rose to 30.3% in 2014. The effects of these additional workers on this exponential increase since 2008 have been limited, weakening in 2010 and losing its defining role as of 2011. Thus, recent rates indicate a shift towards a stable increase in female labour force participation. Higher female participation is also supported by women's higher educational levels and by the fact women get married and have children later in life.

Education plays a considerable role in higher labour force participation. There is a significant link between female participation and education levels. According to August 2015 data, 17% of illiterate females work, whereas the participation rate for women who attained a diploma in higher education was 69.7%. The same pattern is observed in male participation rates. Labour force participation for men who have attained a diploma in higher education is 86.1%, whereas it is only 31.6% for illiterate males. In 2015, female and male unemployment rates were 13.1% and 8.8%, respectively.

Significant increases in overall employment rates have also affected female employment positively. The female employment rate rose to 27.1% in 2013, a YoY increase of 0.8 points, and grew further, to 27.6%, in June 2014. The service industry has seen the highest increase in female employment.

Female Labour Force Participation Rates



Source: Turkstat

c. Investments

Investment in the organised retail industry is categorised under three main areas:

- Food retail,
- Non-food retail, and
- Shopping centers.

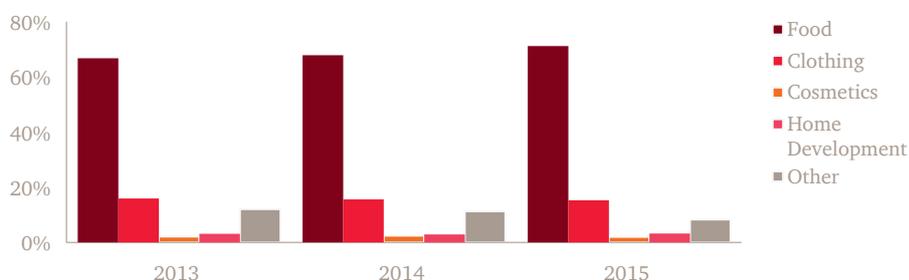
Evaluating investments in organised retail by the number of square metres represented shows that food retail, where more than half of industry sales are performed, enjoys the highest share, followed by clothing.

i. Investments in Organised Food Retail

Organised food retail grew steadily from 2012 to 2015. The increase of annual turnover of food retail correlated with the expansion of the number of square metres available.

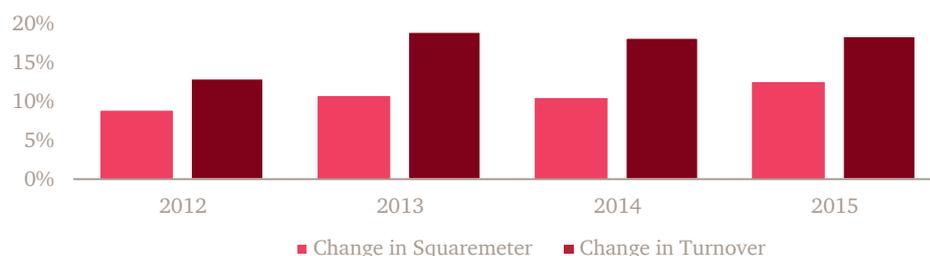
The higher the share of organised retail within Turkish food retail is, the more momentum there is for investments. The driving force behind the expanding total sales area is the steady efforts by chain food retailers to increase the number of stores they have. Along with this organic growth, chain retailers continue to acquire small-scale chain markets. Other drivers of investments include acquisitions within the industry and the introduction of new store formats such as discount stores and convenience stores, both of which have been spreading rapidly in recent years.

Market Share Changes in Sub-sectors



Source: TFSCR

Organised Food

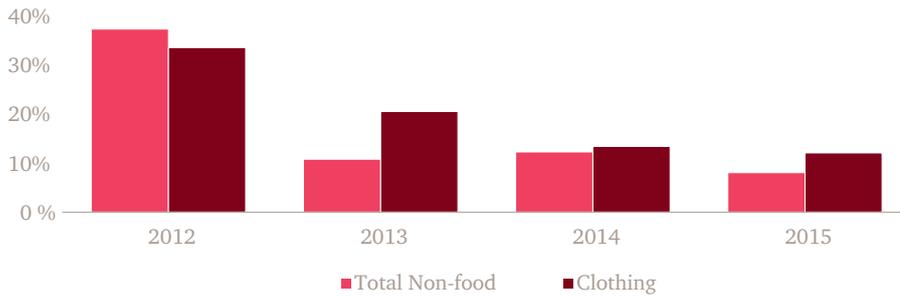


Source: TFSCR

ii. Investments in Organised Non-food Retail

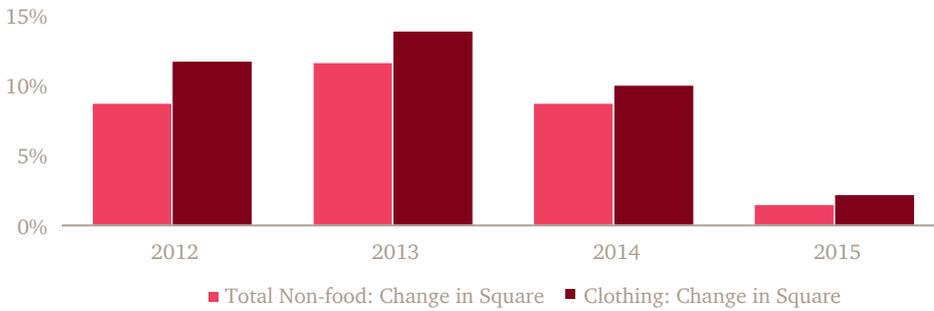
The clothing industries have the highest square metre growth, as revealed by comparing it to square metre expansion in non-food industries. From 2011 to 2014 the total sales area for clothing retail expanded on average 6.4% per annum, more than the 5% average growth of the non-food retail segment.

Turnover Changes in Organised Non-food Retail



Source: TFSCR

Square Metre Changes in Organised Non-food Retail



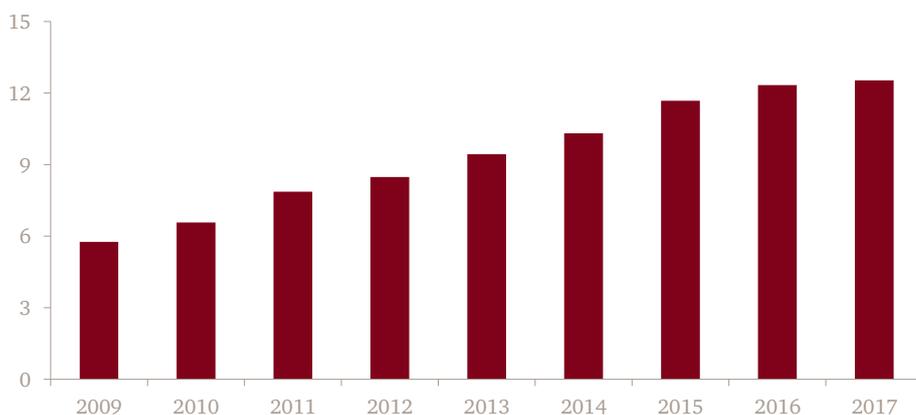
Source: TFSCR

Households enjoying higher purchasing power are more tempted to consume in these industries, which has encouraged investors to open more sales points in order to reach consumers more easily. The increase in clothing turnover low per square metre in 2012, which was relatively low, was partly the result of increasing online sales in that year. Although online sales only represent 1-3% of total sales, the rapid increase in 2012 led to a slowing of the upward trend of sales per square metre on a YoY basis. In-store and online sales returned to their former patterns in 2013. In 2014 the growth of both sales and sales area per square metre slowed due to declining expenditures by consumers caused by shrinking consumer confidence and the fact that sales area density in retail had matured to a certain extent.

iii. Investments in Shopping Centers

The total number of shopping centres in Turkey reached 296 in 2012, up from 231 in 2010, and total available space for rent rose from 6.2 million square metres to 8.3 million square metres in the same period. According to data from the Shopping Centers and Investors Association (SCIA), there were 360 shopping centers in Turkey at year-end 2015, 103 of which were in Istanbul. Total available space for rent stood at 10.5 million square metres.

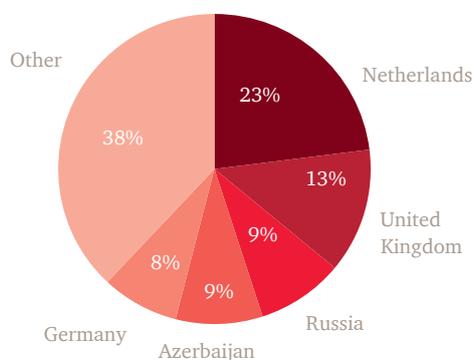
Total Available Space for Rent (Million Square Metres)



Source: SCIA

With 20 new shopping centers becoming operational in 2015, the total number of shopping centers in Turkey reached 360 and spread over 58 cities. Total available space for rent rose by 757,000 square metres. 55 more shopping centers are planned to open by 2018, increasing the total available space for rent by around 2.5 million square metres (SCIA).

Distribution of Foreign Investment Companies in Turkey by Country



Source: CBT, 2014

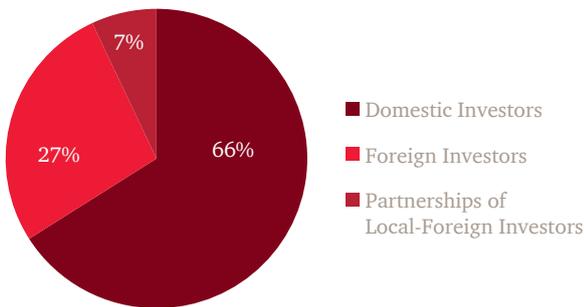
As of 2014, 23% of foreign investments in Turkish shopping centers were made by investors from the Netherlands, 13% by investors from the United Kingdom, and 9% by investors from the Russian Federation. In 2014 the Netherlands replaced Germany, which was ranked highest in 2010, while the United Kingdom and Russia grabbed second and third place, having increased their investments. 79 of 360 shopping centers in Turkey were rendered operational through foreign investments. Total available space for rent in these shopping centers was 2.9 million square metres. With 15 shopping centers financed by foreign investments, Istanbul is the most preferred city for foreign investors, followed by Izmir with eight and Ankara with five shopping centers.

foreign investors. Shopping centers have attracted foreign direct investors who poured a total 14 billion USD into Turkey. Foreign investors have increasingly been paying attention to Turkey in recent years.

The average rate of foreign direct investments per annum in the last five years stands at 10 billion USD according to data provided by the International Investors' Association (YASED). The average foreign investment for shopping centers per annum in the same period was 1 billion USD. This makes it clear that an average of 10-15% of foreign direct investments were made by shopping center investors in the last five years.

Although domestic investors represent a significant majority of shopping center investments, Turkey has also attracted particular attention from

Available Space for Rent (Square Metres)

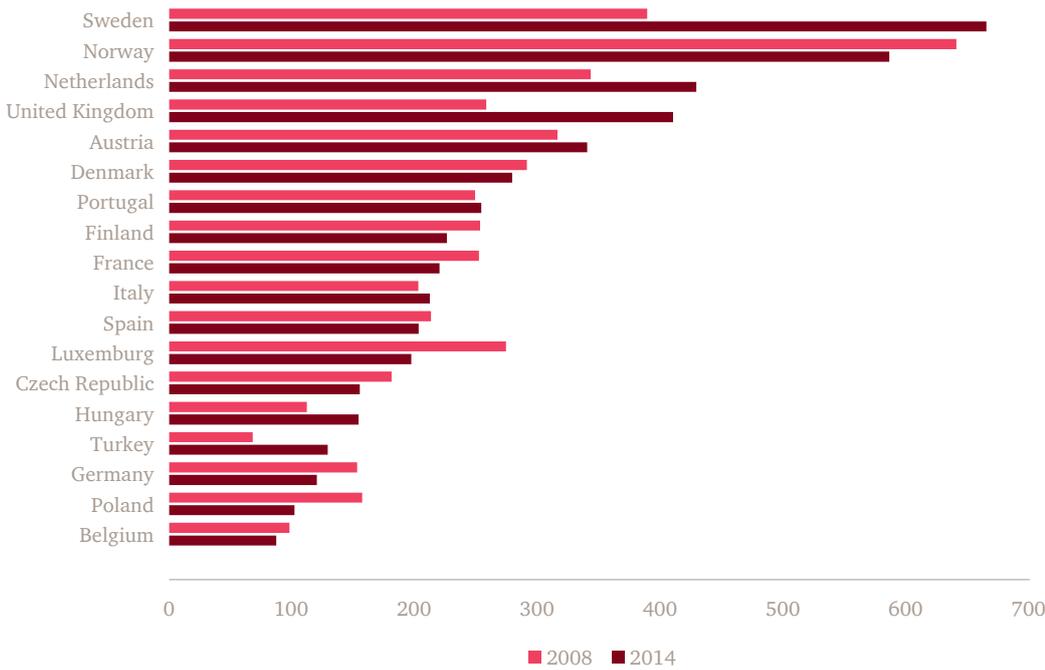


When one looks at total available space for rent per capita as of 2014, Sweden tops the list with 665 square metres, followed by Norway with 586 square metres and the Netherlands with 429 square metres. First and second places have not changed, and the Netherlands has climbed up to third place according to 2008 data.

Average per capita income in EU countries is much higher than in Turkey. Sweden with 58,500USD, Norway with 100,800USD, and the Netherlands with 52,100USD of per capita income in 2008 saw increases to 61,600USD, 103,000USD, and 51,200USD of per capita income, respectively, in 2014. In Turkey, the average income in 2014 was 10,390USD (World Bank). While there are 15 hypermarkets and 150 supermarkets per million people on average in EU countries, Turkey has only three hypermarkets and 17 supermarkets

per million people (Planet Retail). However, Turkey climbed to twentieth in 2015 when compared to EU countries, having doubled the available space for rent per capita to 136 square metres. This shows shopping center investments have evolved in the last five years and reveals promising potential for further growth. Shopping centers are predicted to remain the first option for investors, given high returns on investment. However, shopping centers with different concepts and serving different purposes will be more advantageous in the future. Istanbul has turned into a regional hub for peripheral countries, further attracting foreign investors. The growing interest foreign investors are showing in Istanbul and the spreading of local retail chains are driving forces behind the popularity of shopping centers.

Total Available Space for Rent Thousand People



Source: ICSC

3

Consumer Behaviour and Society

a. Consumer Behaviour

GDP per capita in Turkey was USD 10,807 in 2013 and USD 10,390 in 2014. As of 2014 year-end, average per capita income in Turkey rose to USD 19,054 according to adjusted purchasing power. The last five years show an approximately 21% increase in per capita income, which contributed significantly to rising private consumption expenditures.

analyse consumer profiles, habits, and behaviours and shape their strategies accordingly. Manufacturers and retailers who utilise such data are more likely to launch distinctive and competitive campaigns, pricing policies, and in-store practices, which strengthen their position and enable them to provide higher quality products at more affordable rates.

Developing insight into consumer shopping behaviours and profiles is becoming more important with every passing day. As in the rest of the world, retailers and manufacturers in Turkey gain a competitive edge when they

Evolution of Annual GDP from 2009 to 2014

	2009	2010	2011	2012	2013	2014	2015 (*)
GDP (Billion USD)	619	732	774	786	822	799	546
Per Capita GDP (USD)	8,590	10,003	10,428	10,459	10,807	10,390	-
Per Capita GDP (USD-Purchasing Power Rate)	14,550	16,003	17,781	17,967	18,739	19,054	-
Annual Growth Rate (%)	-4.7	9.2	8.8	2.1	4.1	2.9	3.9

Source: Turkstat

(*) According to Q3 data "Per Capita GDP" data had not been published at the time this report was written.



According to IPSOS KMG's household consumption report, household FMCG expenditures in Turkey rose by 10% in 2015.² The report also points to increase in spending per trip, along with a reduction in the number of trips taken by Turks. The highest spending rates per shopping trip belong to SES group AB³. Households spend most at neighbourhood markets and local chain stores, buying household FMCGs, while spending less at local groceries and nationwide discount and supermarket chains.

24.8% of Turkish household consumption expenditures go toward housing and rental expenses, while food and soft drinks constitute 19.7% of overall spending according to *2014 Household Budget Research* by Turkstat. Of their total expenditures, households allocate 2.2% and 2.5% for healthcare and education, respectively.

Spending category percentages have not seen a significant change since 2013. Comparing 2013 and 2014 data, food and soft drinks represented 19.9% in 2013, decrease to 19.7% in 2014, clothing and footwear decreased from 5.3% to 5.1%, housing and rental decreased from 25% to 24.8%, household goods increased from 6.6% to 6.8%, and culture and leisure decreased from 3.1% to 3%. The amount spent on alcoholic drinks, cigarettes, and tobacco remained constant at 4.2%.

Moreover, the amount spent on healthcare in 2013 was 2.1%, rising to 2.2% in 2014, transportation from 17.4% to 17.7%, communication from 4% down to 3.6%, education services 2.4% to 2.5%, and hotel and restaurant spending went from 5.9% to 6%.

Spending Categories	Distribution of total household consumption expenditures (%)		Average monthly spending per household (TRY)		Average monthly spending per person (TRY)	
	2013	2014	2013	2014	2013	2014
Food and soft drinks	19.9	19.7	511	561	238	266
Alcoholic drinks, cigarettes, and tobacco	4.2	4.2	109	121	51	57
Clothing and footwear	5.3	5.1	136	145	63	69
Housing and rent	25.0	24.8	642	705	299	335
Furniture, household appliances, and home care services	6.6	6.8	168	192	79	91
Healthcare	2.1	2.2	53	60	25	29
Transport	17.4	17.7	448	507	209	241
Telecommunications	4	3.6	102	107	48	51
Leisure and culture	3.1	3	79	87	37	41
Educational services	2.4	2.5	60	68	28	32
Restaurants and hotels	5.9	6	152	172	71	82
Miscellaneous goods and services	4.1	4.4	112	123	51	57
Total household consumption spending	100	100	2,572	2,848	1,199	1,351

Source: Turkstat

² Household consumption reports by Ipsos KMG

³ Socio-economic Status (SES) Group EU

The average monthly household consumption expenditure was TRY 2,572 in 2013, and rose to an estimated TRY 2,848 in 2014. Analysis of expenditure rates by income group shows that low income households allocate twice as much to their food budget as high income households. The 2014 distribution of consumption expenditures by income, divided into five tiers of 20% each, shows that households in the first tier (lowest income group) allocate 27.78% of their budget to food and soft drinks, whereas households in the fifth tier (highest income group) allocate 15.05% to the same category. Educational services

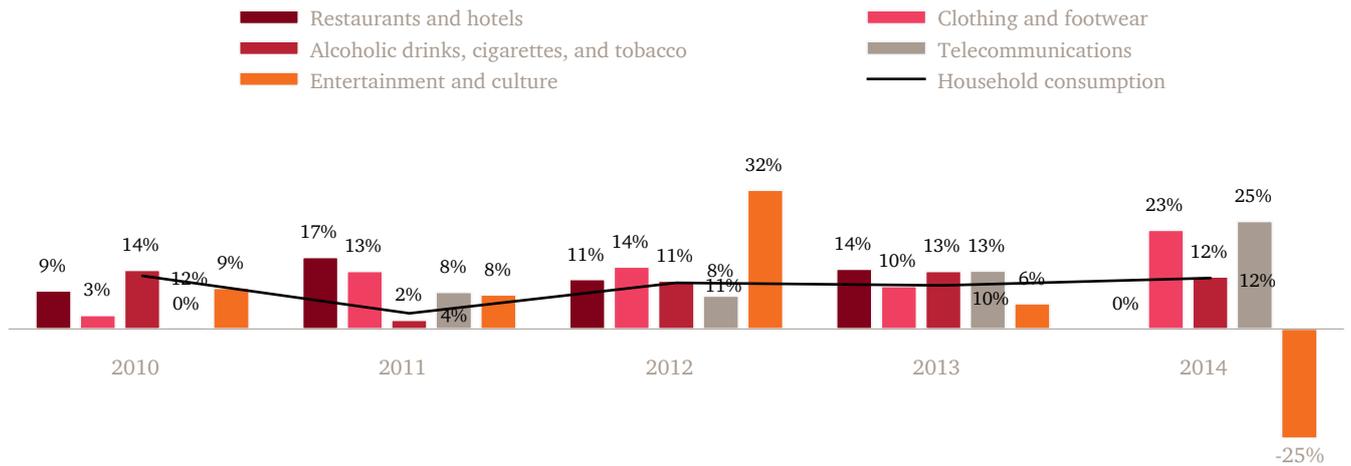
represent 0.62% of expenditures by the first tier, whereas they represent 4.17% of the expenditures by the fifth tier.

The first tier allocates 32.8% to housing and rent, which has a relatively lower share of 21.6% for households in the fifth tier.

Spending categories (%)	Household rates by income tiers									
	Lowest income group								Highest income group	
	1st 20%		2nd 20%		3rd 20%		4th 20%		5th 20%	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Food and soft drinks	28.84	28.78	25.56	24.33	22.13	22.13	19.96	19.3	14.57	15.05
Alcoholic drinks, cigarettes, and tobacco	5.33	4.8	4.8	4.8	4.88	4.91	4.74	4.67	3.16	3.32
Clothing and footwear	3.87	3.97	4.51	4.48	4.88	4.83	5.36	5.28	6.03	5.61
Housing and rent	33.26	32.79	29.6	28.41	26.26	25.81	24.11	23.95	21.19	21.59
Furniture, household appliances, and home care services	5.63	6.01	5.86	6.64	6.43	6.79	7.03	6.92	6.77	6.84
Healthcare	2.11	2.19	2.15	2	2.04	2.03	2.08	1.96	2.02	2.29
Transport	8.14	8.78	12.15	12.74	16.33	16.39	17.41	18.72	22.09	21.87
Telecommunications	3.04	2.89	3.58	3.42	3.97	3.79	4.26	4.12	4.18	3.79
Leisure and culture	1.62	1.85	2.18	2.78	2.6	2.45	2.87	3.05	4.07	3.68
Educational services	0.66	0.62	1.08	0.98	1.43	1.42	1.77	1.78	4.01	4.17
Restaurants and hotels	4.03	4.46	4.83	4.84	5.37	5.62	6.07	6.03	6.85	7.02
Miscellaneous goods & services	3.47	2.86	3.70	4.58	3.68	3.83	4.34	4.22	5.06	4.77
Total Household Consumption Spending	100	100	100	100	100	100	100	100	100	100

Source: Turkstat

Change of Household Expenditures



Source: Turkstat

Looking at shares of essential expenses (food, housing, education and healthcare) and non-food, secondary expenses which contribute to the increase in total household expenditures reveals growth in secondary expenses is higher than that of average household expenditures.

b. Consumer Confidence

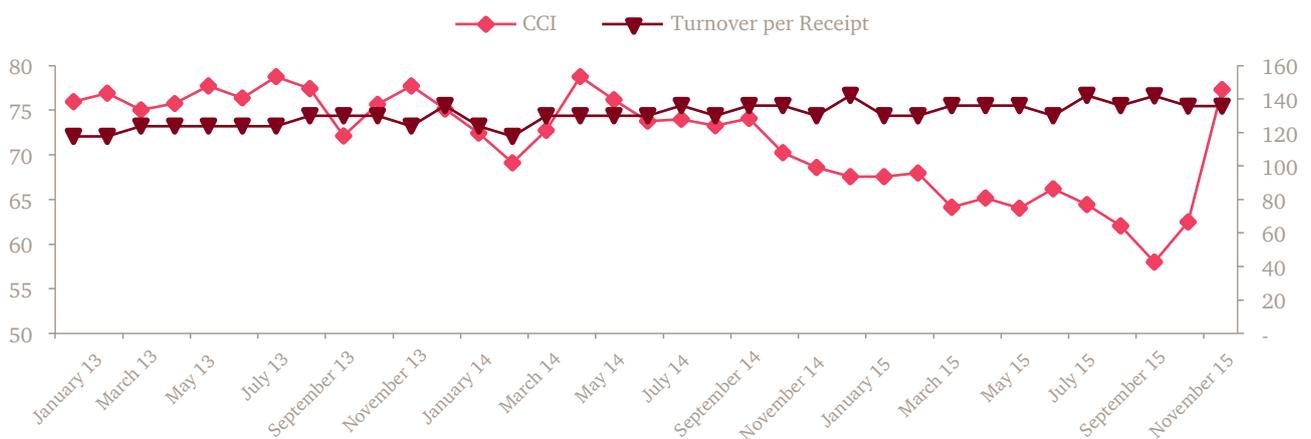
Unlike the higher per capita GDP, consumer confidence has shown a downward trend in the last five years. Standing at 78.5% in April 2014, it entered a period of decline due to local and global socio-political events and global economic conditions. The 2014 average was 73 points, which corresponded to a YoY drop of 3 points.

Regarding consumer shopping behaviours, consumers in Europe seem to have a more pessimistic outlook on

the future compared to previous years, whereas economic expectations have become more positive in Turkey.

As for CPI, there was a month-on-month increase in December 2015 equal to a YoY increase of 9%, and equal to an 8% increase compared to the average rates of the last twelve months. Q1 2015 had been an average month-on-month increase of 1% for consumer prices, which, however, increase by a monthly average of 2% in the last quarter.

Consumer Confidence Index



Sources: Turkstat, TFSCR

4 E-Commerce

Internet entrepreneurship continues to spread locally and internationally. The quality of the services and products offered on the internet is constantly improving, while e-commerce volumes expand with every passing day. Of the commercial transactions on the internet, e-commerce in particular has grown significantly, boosting its promising potential in Turkey and globally. Driven by technological advances, more internet entrepreneurs are now keeping pace with the momentum.

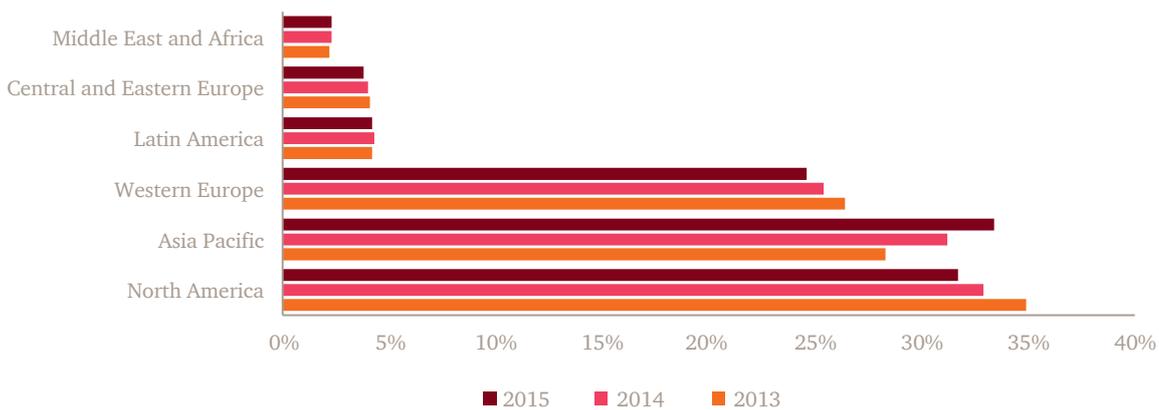
The “Business to Consumer” (B2C) model is the most common e-commerce model in Turkey and around the world. Companies in the B2C category sell their goods and services either in their own virtual stores or on common shopping portals. Electronic portals, where a host of product categories are available, have advantages for consumers in terms of time and price, while retailers are attracted by the cost advantages.

This model allows companies to go beyond the confines of their local markets, penetrate international markets, and achieve competitive power. E-commerce is becoming more attractive because it eliminates the hassle of spending time at, and going to, a particular shopping place, while offering the benefits of swift shopping processes.

a. E-commerce Around the World

Global e-commerce volume reached 1.3 trillion USD as of year-end 2014 according to data published by research company *eMarketer*. Global e-commerce volume is anticipated to rise by 38%, reaching 1.8 trillion USD and a share of 8.8%, up from 5.9% of overall retail trade.

Regional Distribution of Global E-commerce Sales



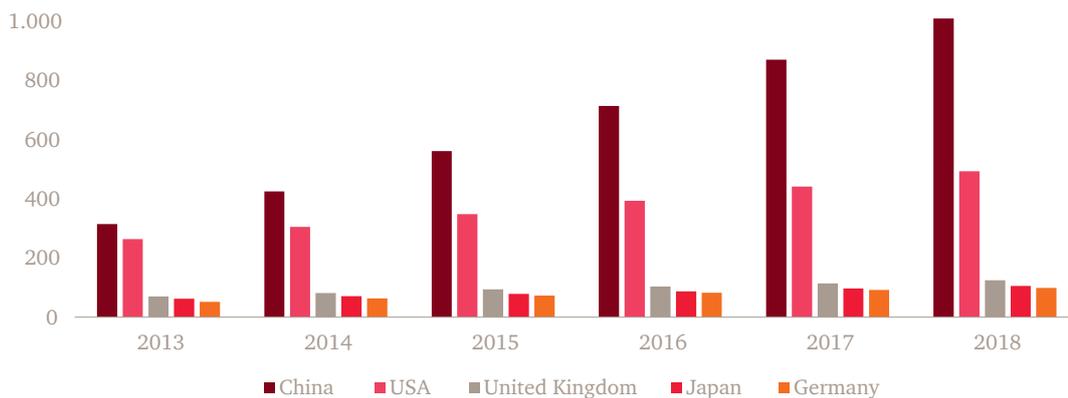
Source: eMarketer.com

Having the largest share of e-commerce volumes in 2013 and 2014, North America was replaced by Asia Pacific in 2015. E-commerce volume in North America is expected to grow by 15-17% from 2015 to 2018. China and the United States, the leading global economies, represent a combined share of more than half of the global e-commerce volume.

Developing countries--primarily Asian economies--are predicted to be a driving force for growth in the years to come, while North America and Western Europe seem set to move at a slower pace. In the global e-commerce market, the annual average growth rate of China alone is over 40%. Despite the remaining potential for growth across Asia, including Japan, South Korea, and Singapore, negative economic trends looming over global markets may put pressure on business volumes in the industry.

Research by eMarketer assumes an e-commerce volume of 347.3 billion USD in North America by 2015. This volume is projected to soar to 491.5 billion USD by 2018 (Internet retailer). E-commerce volume in Europe attained YoY growth of 12% in 2014, which corresponds to 405 billion USD. Broad use of mobile channels for shopping across Europe reinforces the robust volumes in the region. E-commerce represents 19% of overall 2015 sales in the United Kingdom, and is expected to grow further in the years to come.

Top Five Countries in the B2B E-commerce Category (Billion USD)



Source: eMarketer.com

In developing countries the expansion of the e-commerce industry is supported by a quickly emerging middle class and the resulting increase in the eagerness and means to spend coupled with younger populations. Other supporting factors include the proliferation of high-speed internet infrastructures and increasing numbers of internet users. China had seen 39% growth, equal to 625 billion USD, in e-commerce volumes in 2015. E-commerce has benefited from rapidly spreading use of mobile phones in line with the introduction of 3G infrastructure. Along with B2C, other categories have also enjoyed rapid growth in countries where e-commerce has expanded steadily. In South Korea, for example, online trade volume for the B2C model is around 32 billion USD, whereas B2B has a much larger volume of 1,068 billion USD.

Although online shopping for books and music products seems to be most prevalent, sales of other product and service categories is also growing. A strong e-commerce presence is not expected to pose a threat to brick-and-mortar stores in the years to come. The internet is not a domain which solely serves shopping purposes. Virtual stores are also visited to do preliminary searches regarding goods and services. Despite the boost in e-retail and online sales, physical store sales are predicted to represent 85% of overall retail sales in the US by 2025.

In the future the online realm will serve as more of a shopping platform than as a channel where people do only preliminary searches for products/services. Starting in 2015, 40% of global e-commerce will take place on smart phones, 34% on computers, and 26% on tablets. Moreover, a minimum 50% increase is anticipated in company spending for mobile applications and advertisements. Similarly, in Turkey, spending for online ads will reach TRY 1.4 billion by 2016 (İş Bank).

Global mobile commerce will maintain this trend of rapid growth, boosted by the convenience smart phones offer. According to data published by eMarketer, the number of mobile phone users will exceed 2 billion by the end of 2016. Currently standing at 65%, the percentage of online shopping by mobile phone users will soar, driven by the introduction of next generation technologies.

The number of brands and retailers followed on social media is on the rise, in parallel with broader use of internet technologies. It is notable that consumers in China and the US in particular visit the websites of various brands. The rate of first-time encounters with unknown brands on social media, however, has yet to increase. Social media is not used solely for commercial purposes. Rather, it serves as a virtual showcase for brands and retailers.

Campaigns and budget-friendly offers have made the online world a more attractive shopping platform. Real time access and the chance to find special products are among the factors that motivate people to spend on the internet. Various systems are in place to guarantee deliveries at the requested time and in a reliable manner. Among them, "Click-Collect" allows consumers to shop online and pick up purchased products from a physical store.

The estimate number of internet users is 3.2 billion according to the International Telecommunication Union (ITU). On the other hand, there is still significant potential which should not be dismissed by the sector: consumers with no or little experience in online shopping. An emerging global trend is to encourage consumers to increase the amount they spend in addition to encouraging them to shop online.

Foreign investors have a bigger appetite for rapidly growing and expanding markets. Foreign companies partnering with local firms who can accurately analyse consumer trends and market dynamics can unlock the growing potential of mergers and acquisitions in the industry.

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b. E-commerce in Turkey

More than 10 thousand e-commerce websites offer a host of services in Turkey. In addition to private companies, non-governmental organisations are also active in this realm. The B2C model dominates the industry. A great number of companies are tending towards online sales as they turn out to be more cost-effective compared to traditional methods in terms of leases and workforce, while they also offer the chance to reach wider groups of shoppers.

A category-based look reveals the relatively mature nature of some markets, including travel tickets, electronics, and clothing and footwear. Categories like health and cosmetics, home decoration, and food, promise strong growth potential, despite their relatively smaller market shares.

Both at national and international levels, the growing e-commerce industry is largely supported by the increased use of the internet, mobile devices, and credit cards by young and dynamic populations. Demographic analysis of online sales shows a remarkable hike in the number of young female users.

Thanks to “deal” sites offering a wide range of products and services at affordable rates, consumers enjoy attractive price benefits. Food delivery sites that act as service providers between restaurants, cafés, etc. and consumers mainly serve households and workplaces. The convenience of seeing numerous food options in a single portal is the essential feature of these food delivery portals, where the task of the intermediary firm is to process the orders placed on the system, and guarantee at-the-door payment and delivery. In addition to firms providing services in different categories, there are online players that focus on single categories such as book/CD/DVD, flower delivery, holidays, ticket bookings, etc.

In addition to being game changers in various channels and boosting sales, all these trends have various other impacts: faced with more users preferring digital over printed media, for example, companies are urged to revisit the distribution of their current marketing budget.

Euromonitor’s most recent report shows that the largest market share among e-commerce firms in Turkey belongs to online companies that sell different categories and brands. These companies allocate massive budgets to online ads, while ensuring customer loyalty through robust pricing strategies and offering the convenience of fast delivery. These shopping sites have recently adopted same-day delivery service in an attempt to further cement their competitive edge. With this service they aim to mitigate the hassle of the return process.

The tender for 4.5G technology, which will convert the existing internet service in Turkey to ultra-broadband, took place on 26 August 2015. The Information and Communication Technologies Authority (ICTA) announced the introduction of 4.5G technology will begin in Turkey on 1 April 2016 (IMT Advanced). ICTA reports domestic technologies will be further developed in the following periods with the adoption of 5G (IMT2020), which is planned to be introduced in 2020 in parallel with global practices. This project targeting a more robust internet infrastructure is expected to have positive effects on the business volumes of the industry



c. Market Volume of E-commerce in Turkey

In Turkey the number of online users and the resulting interest in e-commerce is constantly rising. In 2014, the volume of e-commerce grew by 35% and reached TRY 19 billion (Informatics Industry Association). With a market size of TRY 7.3 billion in 2013, retail e-commerce saw a 37% increase in volume, which was equal to TRY 10 billion. An expanding e-commerce volume goes hand in hand with enhanced use of the internet and a gradually increasing number of online shoppers. Broader implementation of multichannel trading also contributes

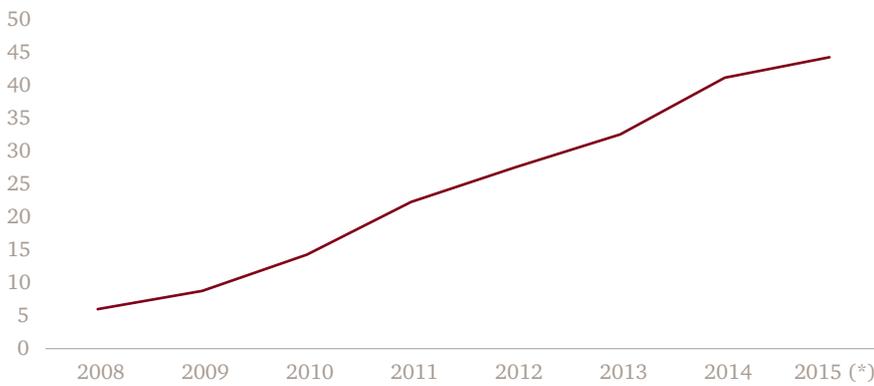
to the growing business volume of the industry. Among users of the internet in Turkey, the total number of registered subscribers has reached 42.9 million, according to ICTA, which means there has been a 4% quarter-on-quarter and 22.6% YoY growth in the number of internet users. 33.9 million of the registered subscribers access the internet on their mobile phones.

33.1% of internet users, as indicated by Turkstat data, purchase goods and services on the internet for individual purposes. On top of that, mobile internet has attracted a notable number of users in recent years. The young population

in particular shows a rapidly growing interest in new technologies, especially smart phones, and in the use of the 3G internet.

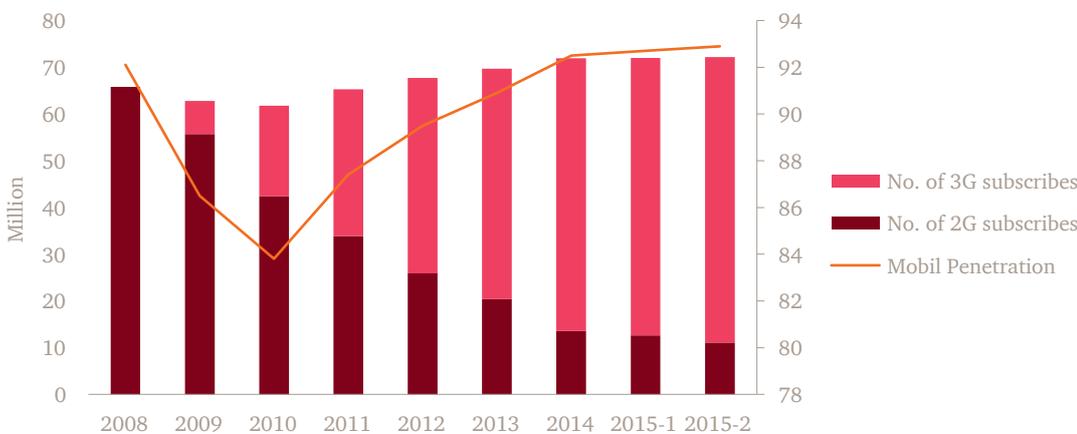
In light of current trends, mobile commerce stands out as a strongly emerging channel especially in countries with broader use of mobile devices and more appetite for spending.

Registered Subscribers of Broadband Internet (Millions)



Source: ICTA
 (*) Data from 2015, first nine months

Total Number of Mobile Subscribers and Penetration by Population



Source: ICTA - Information and Communication Technologies Authority

Turkey topped the list of the fastest growing European countries in card payments on the internet, an indicator for the growth of e-commerce, according to Interbank Card Center (ICC). Card payments on the internet have reached TRY 40 billion per annum.

On the other hand, shopping in physical stores allows consumers to check the quality of products personally and ensure the product they buy fully matches the perceived quality, which makes physical shopping preferable. Consumers opt for brick-and-mortar stores even more frequently if they want to buy a product they can physically check. However, online platforms do play a significant role in helping consumers with their decisions to buy certain products. Product comments other users post on the virtual stores have important effects on consumers' final decisions regarding products. Therefore, use of e-commerce and traditional channels together have a complementary effect on companies' attempts to boost sales.

d. Regulatory Developments

Law No. 6563 on the Regulation of Electronic Commerce entered into force on 1 May 2015. The law covers a variety of subjects, including commercial communication, responsibilities of service providers and intermediary service providers, contracts made via electronic means, obligations to provide information on e-commerce, and sanctions in case of failure to fulfil obligations. Article 3 of the law governs service provider obligations to provide information, and obliges the service provider to provide the following information before concluding contracts via electronic means;

- up-to-date and easily accessible introductory information on the service provider;
- technical steps necessary for the execution of the contract;
- information on whether the executed agreement will be preserved by the service provider and whether it will be accessible by the recipient, and, if applicable, for how long such access will be made available to the recipient;
- information regarding technical tools for determining and correcting errors in data entry;
- privacy rules and information relating to alternative dispute resolution methods; and
- the service provider's affiliated trade association, if applicable, the relevant code of conduct, and how the recipient can electronically access such code of conduct. In all cases the service provider is obliged to enable the recipient to preserve the contractual provisions and general transaction terms.

Also, the *Draft Law on the Protection of Personal Data* is intended to implement regulatory steps regarding the protection of personal data. According to the draft law, all information regarding a specific or identifiable individual is deemed personal data. Moreover, the processing of personal data is defined as collecting, retaining, recording, compiling, storing, adapting or modifying, evaluating, using, disclosing, transmitting or rendering accessible, decompiling or combining, freezing, deleting, or destroying personal data. Subject to certain exceptions,

the data owner's consent is required to process personal data. As stipulated by the draft law, anyone processing personal data is obliged to provide prior notice and make a disclosure to the subjects with regard to the processing of personal data. The subjects are entitled to contact the owner of the relevant data file in order to find out whether or not their personal data is stored in the data file, and to request submittal of such data if it is stored.

New law no. 6563 contains a specific provision regarding protection of personal data, according to which service providers and intermediary service providers are obliged to safely keep the personal data they collect through transactions they perform under this law. Furthermore, the provision prohibits service providers from transmitting personal data to third parties or otherwise using it for purposes other than those set forth therein without the consent of the subject of the personal data. However, the law does not stipulate a sanction in the event of non-compliance with the obligation to protect personal data as governed by law no. 6563⁴.

⁴ <http://www.dunya.com>

5 Opportunities and Emerging Trends in the Retail Industry

a. Megatrends

Global Megatrends

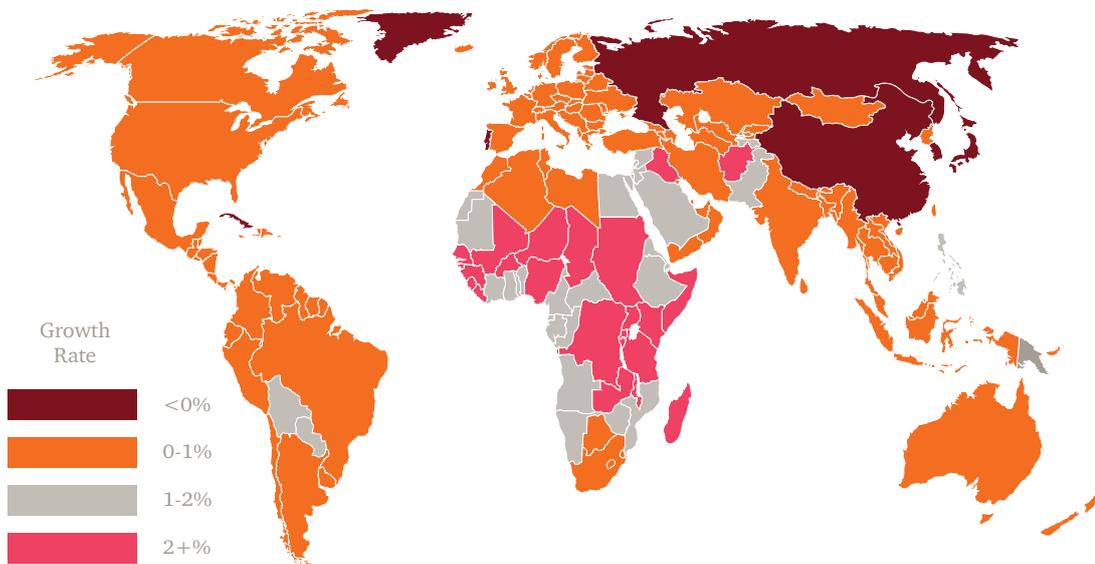
Radical changes in economic growth, population, and information technologies, etc. have been among the hot agenda items closely followed by all in recent years. Consequently, research on world-shaping developments and their implications across different industries revealed five mega-trends that are further analysed in the following pages. As these megatrends will have radical implications for corporate activities and customer behaviours, a good many companies have already analysed these anticipated trends in order to shape their strategies and investments and preserve their future commercial viability. In addition, laws and regulations affecting various industries will undergo radical changes. Therefore it is essential to adapt to these changes and position the supply network efficiently.

i. Demographic Shifts

Rapidly growing populations in some regions and slowdowns in other regions have a direct effect on the balance of economic power, resource shortages, and social norms. Two key developments in global demographics are higher average life expectancies and dropping birth rates. In 2000, 10% of the population was over 60 years of age, whereas now 21% are expected to be over 60 years of age by 2050.

The global population will reach eight billion by 2025, with half of this increase anticipated to take place in Africa in the next 30 years. A narrower working population in the majority of developed countries leads to critical financial challenges, creating a burden on healthcare and social security. The labour market shrinks in ageing countries, whereas young and developing economies witness growing labour forces and consumer markets.

2010-2050 Population Growth (Annual)



Source: UN Department of Economic and Social Affairs

ii. Changing Global Economic Power

The rebalancing of the global economy paved the way for a west to east shift in the center of gravity of the global economy. The next 10 years will have a defining role in rebalancing the global economy in the long run as developing countries continue the trend of going global.

The new order of the global economy and business activities forces the BRIC countries (Brazil, Russia, India, and China) and other developing countries to shift their outdated focus on labour and production towards consumption. It is also essential to take into account the rapidly developing trade and investment relations between developing markets, along with their market sizes and growth rates.

Economic power shifting from developed to developing countries creates an urgent need for retailers to revisit their existing positions within the market. As part of their future plans some have already

announced commitments to expanding their presence in developing countries through organic and inorganic methods. Technological advances may help in establishing smooth procurement chains for products that are offered on a global scale. One thing that's certain is that retailers will cement their strength even more during these current global shifts if they adapt to local changes and sharpen their competitive edge.

iii. Rapid Urbanisation

The urban population represents 50% of the total population today versus 30% in the 1950s. Of a global population predicted to reach 8.3 billion by 2030, 4.9 billion will be part of the urban population. The United Nations anticipates 22 mega cities with a population of more than 10 million in 2015, and of them, 17 will be located in developing economies. Growing populations put a strain on developed economies and existing infrastructures in the older cities of the developed world, whereas the new cities of developing

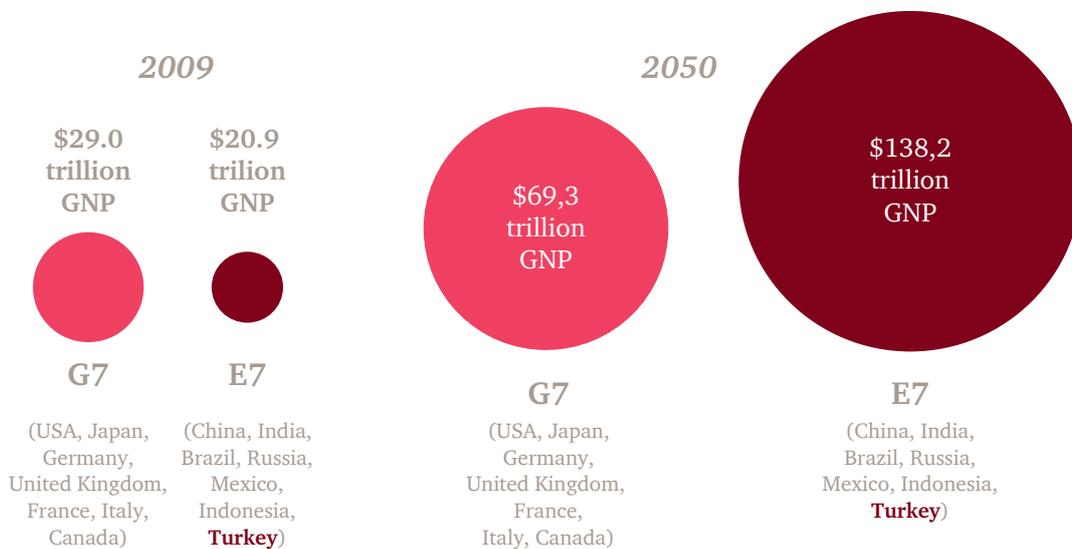
economies are rapidly emerging in a way which brings about sizeable investments and smart infrastructure.

Increasing urban populations and the growth of e-commerce will force large stores to undergo radical changes. The demand for goods and services is also changing, driven by rising income levels and extensive urbanisation in developing economies.

iv. Climate Change and Limited Resources

Resource scarcity around the world and the impacts of climate change are growing concerns around the globe. Turkey will be among those countries facing water shortages in 2025 according to a study by the International Water Management Institute.

GDP in G7 (Developed 7) and E7 (Emerging 7) Countries

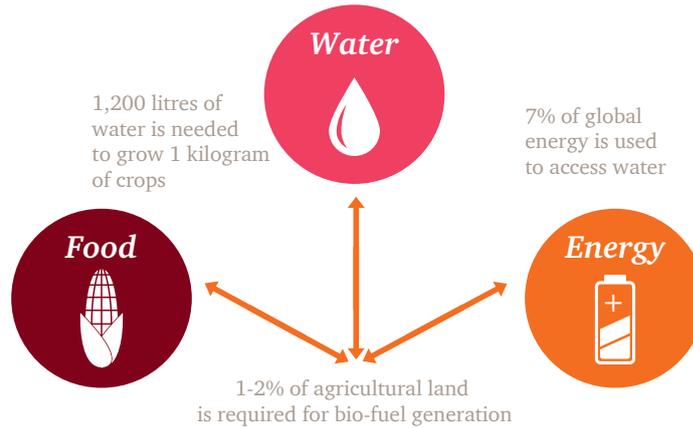


Approximately 80% of Turkey's population lives in cities, and the majority of environmental issues arise from urban life. Urban pollution flows into the sea directly or indirectly, contaminating the resources that provide us with 75% of the oxygen we need.

Sustainability means efficient and environment-friendly use of resources. However, haphazard urban sprawl due to rapid urban migration and inefficient use of natural resources leads to irreversible environmental damage.

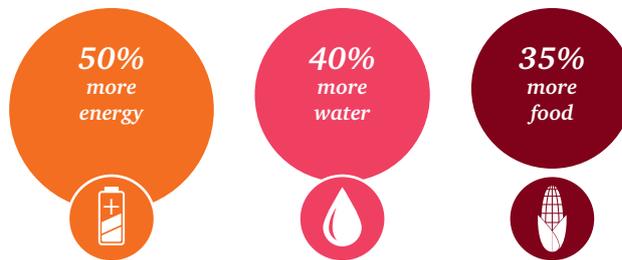
By 2030 energy demand is expected to increase by 50%, with coal, gas, and renewable energies representing a higher share of total energy generation. Electricity demand is predicted to soar, especially in developing countries, while overall demand will rise by 50% in 2030. Shrinking water resources and the resulting agricultural issues will remain a concern in 2030, by which time food needs will also increase by 35%. Therefore, efforts directed at urban planning, efficient use of water, and waste management take on a more important role.

Food/Water/Energy Circle



Source: U.S. National Intelligence Council–Global Trends 2030: Alternative Worlds

Resources Needed for 8.3 Billion People in 2030



Source: U.S. National Intelligence Council–Global Trends 2030: Alternative Worlds

The report “Retail Horizons,” prepared by the Retail Industry Leaders Association (RILA), comes up with sustainability recommendations for the retail industry, some of which are as follows:

Prepare now for a radically different and uncertain future: companies should prepare now and put strategies in place that will be robust in a variety of scenarios, and should carry out risk assessments of their business models and supply chains to create a sustainability roadmap covering all products/services.

Seize the opportunity to be a pioneer: companies can gain the first mover advantage by proactively developing strategies to deal with emerging challenges such as water scarcity.

Embrace the change: in a world that is rapidly changing and unpredictable, success will depend more than ever on being agile and innovative. Companies should invest in design and innovation, and experiment with new business models.

Develop skills for a new world: companies should start developing the skills they will need to be successful in the future. The industry will need change experts, energy policy specialists, and many others to develop new and sustainable business models.

Climate change and rapidly shrinking resources pushed companies to increase their investments in sustainability. As part of their sustainability investments, retailers have been adopting measures to reduce the environmental footprint of their operations. They design sustainable life cycles with policies to collect and sort waste, deter use of plastic bags, and recycle packaging content, while focusing on increasing energy efficiency in shopping centers and individual stores.

Similarly, consumers place more emphasis on whether or not the products they use contain hazardous chemicals and whether packaging includes harmful plastics. To meet these demands, companies revise their production and procurement processes to guarantee more environmentally friendly operations, while looking into products coming from suppliers more carefully.

v. Technological Progress

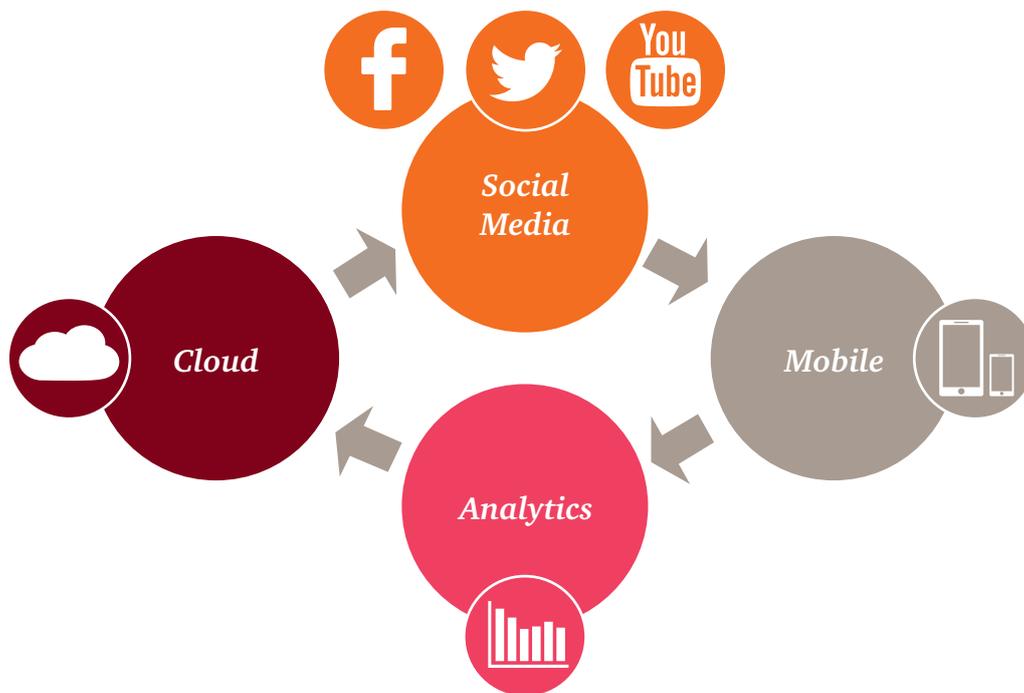
Four key concepts technology introduced into our lives go hand in hand: social media, mobility, analytics, and the cloud. The internet, mobile devices, data analytics, and cloud technologies will without a doubt transform our IT world.

More devices than people will be interconnected by 2020. Therefore, it is essential for companies to develop insights into how these advances will

impact consumer expectations, their relations with customers, and the business models supporting them. Progress in nanotechnology and in other research and development fields reinforces production capacity while unlocking new investment opportunities.

This is why retailers should analyse changing consumer behaviours and plan how to integrate technology into their existing operations: to adjust to these developments. The “mobile wallets” of today directly shape the checkout systems of cash registers in physical stores, where it is a common practice to eliminate conventional cash register queues, introduce more “self-checkout” points, and strategically place customer service stations.

In parallel with the developments summarised above, retailers in Turkey also work to improve their existing IT infrastructure; interconnect in-store technologies, websites, social media and mobile applications; and place particular emphasis on ensuring much more effective communication with and understanding of customers.



b. Transition from Multichannel to Total Retail

It would not be wrong to suggest that the retail industry went through the most radical change when digital technology revolutionised ways of doing business. Advances in digital technologies have also resulted in extensive changes in the behaviours of consumers who seem to place less and less importance on the sales channel through which they obtain the products they prefer. From some perspectives, consumers have been quicker than retailers in adapting to technology, and they rely on their own shopping data while making the most of price benefits and discounts. In order to position themselves vis-a-vis changing consumer behaviours, retailers must inevitably adopt new technologies, new processes, and new organizational formats, as well as developing business strategies to keep abreast of the requirements imposed by the era. Since the 2000s the retail industry has attempted to cope with the challenges of e-commerce by adopting a “multichannel” strategy. However, “total retail” is unquestionably the strategy necessary to gather all existing channels under the same roof.

With the introduction of e-commerce to our lives, the first thought of many was that there would be a total extinction of physical stores in the long term. However, it did not take long for the industry to realise that physical stores will preserve their key role in the shopping experience. This, in the end, encouraged more retailers to adopt the multichannel strategy.

Some of today’s sales strategies, which apply to various channels and lack a holistic approach, offer customers limited benefits, while ever-expanding marketing, sales, and supply teams add to costs retailers incur.

A compelling brand story that promises a distinctive experience

The Global Total Retail Survey conducted by PwC Global demonstrates that consumers have reduced the number of retailers they purchase from. More than 50% of consumers prefer to shop with one or just a few retailers, according to global and Turkey-only findings. This trend emphasises the importance of a compelling brand story to guarantee loyal customers.

Personalised offers based on privacy and trust

Mega data/big data analysis is taking on a more important role in developing personalised offers. Most retailers today work to draw meaningful conclusions from the data they collect in order to offer personalised discounts, benefits, or coupons based on demographic or geographical patterns.

In the multichannel model, various sales channels use heterogeneous customer databases, and the fragmented and disorganised nature of collected data erodes value that could otherwise be offered to customers. Total retail, on the other hand, focuses on integrated customer databases and a holistic perspective on the customer. Security of personal consumer data comes to the fore at this point, and impending cyber threats urge retailers to adopt further measures to ensure data security.

c. One Consumer, One Retailer

Faced with the evolution of physical stores, expanding e-commerce and heightened customer expectations, retailers are searching for ways to offer consumers a seamless shopping experience. By 2020, consumers are expected to perceive each retailer as a constantly accessible single brand, without making a distinction between the virtual world and the real world. Therefore one cannot dismiss the importance of omni-channel strategies.

Omni-channel is gradually replacing multichannel. The craving for a seamless shopping experience makes it increasingly urgent for retailers to build personal relationships with consumers. Therefore, retailer takeaways and insight gained through one-on-one relations with consumers on digital platforms are processed in order to transform store formats in a way that will attract wider target groups. Indeed, customers are attracted to retailers who communicate personally, listen to their demands, and position themselves as solution partners to address consumer concerns. Such consumer expectations require brands and retailers to develop personalised strategies rather than adopting a “one-size-fits-all” approach.

Retailers should include the concept of “one-stop shopping” in their strategies to create excellent shopping experiences that encompass all channels demanded by consumers. Assisted by physical and virtual stores and digital tools, consumers should be able to access retailers anytime, anywhere, and select the best fit for themselves from among different purchasing and delivery options offered by retailers.



You may also scan the QR code to access the report

2015 Total Retail Consumer Survey
by PwC



The existence of both physical and virtual stores wipes out the necessity for physical stores to keep large inventories. Thus, it is likely that physical stores will occupy narrower spaces and, in a way, over time, will act as showrooms for virtual stores

d. The Importance of Brand In Retail

One key prerequisite to success is to create strong brands. Consumer engagement and loyalty guarantees future sales for retailers. As retailers are perceived to be a single points of contact that gather various brands under the same roof, their brand value has yet to rise to the desired level, and the fact that most do not have their own brands makes it challenging to build a loyal group of customers. Louis Vuitton and Amazon.com are the only retail brands that rank in the top 20 in the 2013 Best Global Brands list announced by Interbrand. Retailers should clearly express who they are, to ensure their brands have meaning for consumers.

Brand investments are key here to differentiate shopping experiences for consumers and create loyal customer groups. The modern consumer is now willing to switch among sales channels at any time to find discounts

and promotions across channels. They expect uniform product quality from manufacturers and a seamless shopping experience from retailers. This is why the promise of a seamless shopping experience is significant in omni-channel management.

e. Efficiency

Industries have had to deal with lower performance efficiency resulting from rapid globalisation and fierce competition. The growing costs of labour, rental fees, raw materials, and energy are among the factors significantly impacting profitability. In an attempt to achieve product quality that meets customer quality expectations, retailers set forth standards for suppliers, steering them towards improvement and proper branding. In addition, organised retail eliminates certain inefficiencies thanks to bulk procurement and transportation operations.

Each industry is equally challenged by global conditions. Industries such as iron and steel, mining, construction materials, textiles, and aviation are more profitable, as opposed to the energy, pharmaceuticals and healthcare, tourism, banking, telecommunications, retail, and media industries.



In retail, profitability has dropped because the recent distracting proliferation of stores means each store receives lower levels of attention. Moreover, higher rental fees coupled with fluctuating exchange rates affect profitability.

Therefore, retailers need to identify the weaknesses in their profitability calculations in order to put more of an emphasis on methods to boost profitability, and must build their strategies around new models using technology efficiently. The first and foremost strategy retailers need to follow to boost profitability is broader implementation of technology to help with operational efficiency. Use of alternative and digital channels to reduce the costs incurred by physical stores should be a secondary strategy. A well-designed digital sales channel is a tested and established tool for increasing customer satisfaction.

Finally, target groups must be identified properly in order to carry out attractive campaigns and mitigate the burden that would otherwise arise from high-cost mass campaigns. Target-driven campaigns can address customer needs and boost revenues, while guaranteeing cost cuts and higher profitability at both ends.

In an era witnessing ever-tougher competition and ever-shrinking natural resources companies must develop future business models. Retailers can revise existing business plans in the light of new models that can be integrated with next-generation technologies. In planning their production, however, they must determine how to optimise efficient use of existing resources and project a timeframe for the deliverables from such resources.

Sustainability

Sustainability is a recent trend of companies to boost profitability. Bearing witness to how global companies in particular prioritise sustainability, firms of various sizes are becoming more aware in this regard. They have been convinced of the severity of global warming and are now heading towards sustainable savings in an attempt to mitigate risks. Some retailers have already adopted measures targeting energy savings and efficient use of resources. Environmental consciousness is not the sole motive encouraging reductions in carbon emissions and energy consumption. Companies also want to cut costs.

Certain players in the industry, for example, invest in renewable energies (e.g. wind and solar energy) to save on costs in the future. Some of these players have already achieved cost and energy savings of 40% by switching to LED technology to limit the use of electricity in stores and warehouses. Others have saved by using energy-saving freezers. IKEA, the giant furniture chain, claims to have saved more than 70 million USD since 2010 by investing in energy savings.

A significant expense item for retail is transport. To save on fuel expenses, companies are now more inclined to buy electric vehicles, thanks to which they reduce environmental damages and costs.

An important item on company to-do-lists to ensure efficiency and sustainability is the improvement of the supply chain. Most global firms have relocated their production lines to countries where the cost of labour is lower. Those countries, however, use fuels like coal that have higher carbon emission rates, which further trigger global warming. Some global firms have started investing in renewable energies in the regions where their production lines are located to increase the sustainability of their supply chains and save energy. Walmart, for

example, is striving to increase energy efficiency in its China-based supply chain. It currently supports contracted Chinese manufacturers in energy efficiency projects, thanks to which it expects to achieve significant savings across suppliers who engage in the project.

Operational efficiency

Tougher competition forces retailers to pursue alternative ways to cut costs. All in all, they need to keep costs under control while maintaining customer loyalty as part of a long-lasting and effective strategy. Therefore, they make the most of technology to achieve efficiency in each sales channel in which they operate.

Optimum supply chain management is one emerging goal for the industry. Identifying the drivers behind demand via use of data mining, and relying on the key takeaways from such data to plan supply based on location, product category, and suppliers helps retailers position products at the right time and place.

Other strategies retailers follow to boost operational efficiency include elimination of inefficient sales channels, focusing on customer satisfaction, optimisation of employee efficiency within sales channels, optimisation of stock management through data mining, and optimisation of supply chains.

f. Urbanisation

Demographic patterns are significant indicators when identifying needs and demands regarding education, government, and the business world, and developing strategies that can address these demands. By looking into demographic patterns, governments, educational institutions, and the business world can take the right steps to ensure the welfare of individuals and societies.

Urban professionals at the start of their careers prefer to stay in big cities that can offer powerful intellectual capital and technological infrastructure. Indeed, metropolitan cities offer one of the best antidotes to the ageing world population by addressing their needs and offering successful services. Some metropolitan cities put forth ambitious efforts to attract ageing populations. Services offered for older populations may turn out to be more compelling than the benefits an “uneventful” rural city can offer.

Demographic Changes

Birth rates are on a downward trend in 40% of the world population, which takes the average working age to higher levels and results in weakening abilities to do work and use new tools.

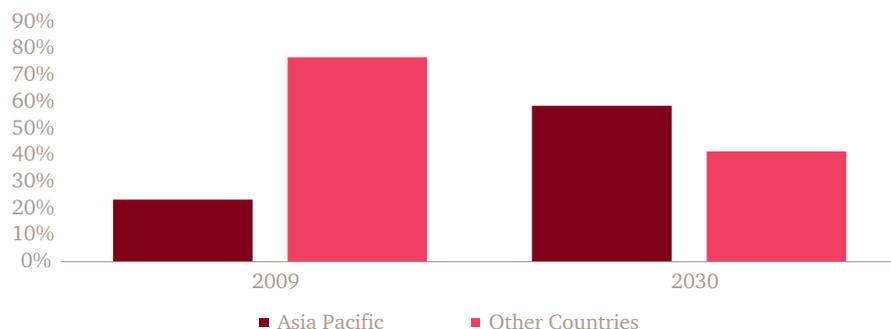
Rapidly increasing populations in some regions and slowing in other regions directly affects the balance of economic power, resource shortages, and social norms.

Demographic trends vary significantly from country to country. The labour markets in fast-ageing countries shrink, whereas young and developing economies see growing labour and consumer markets. A young and growing population’s need for food, housing, education, and work should be prioritised to ensure its potential to be productive materialises. Looking into distribution of spending by the middle-income population in 2009,

one can see that spending in Asia Pacific countries represents only 23% of overall spending, and is expected to reach around 60% by 2030 in parallel with demographic shifts.

Driven by social changes and investments in technological advances, the center of gravity of the global economy is shifting from west to east. As developing countries continue the trend of going global, they will have a defining role in rebalancing the global economy in the long run. Developing countries are shifting their same-old focus on labour and production towards consumption. Their emerging role as a skill and innovation exporters changes the global flow of capital.

Distribution of Spending by the Global Middle-Income Population



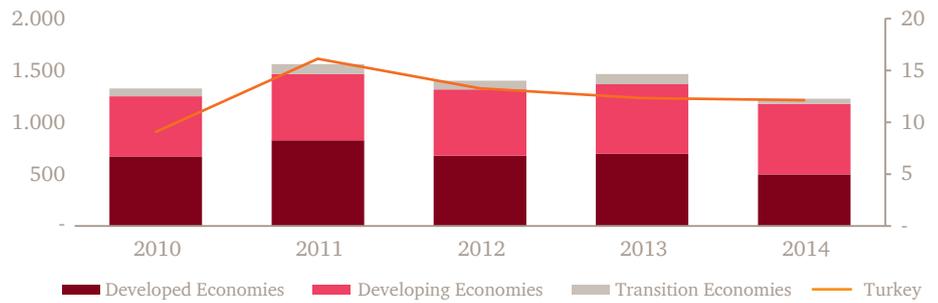
Source: OECD Development Center

g. Cross-border Investments

The *World Investment Report* of the United Nations Conference on Trade and Development shows that cross-border investments peaked at 1.6 trillion USD in 2011, followed by a 6% decline in 2013 which corresponds to 1.4 trillion USD. In 2015, they declined further to 1.2 trillion USD due to fluctuating macroeconomic conditions. In 2013, international direct investments (IDI) increased in all economies, but they faltered in 2014, a severe blow to economies in transition which has seen a 52% decrease. More than 50% of the top 25 investment-attracting countries are developing and transition economies.

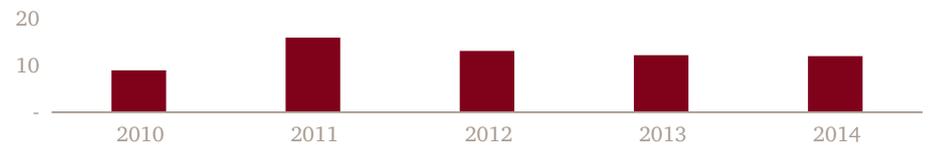
In line with the decline in global investments, from an average of 16 billion USD in 2011, Turkey encounter an average 8% decrease in international direct investments from 2013 to 2014. Having attracted 9.3 billion USD of IDI, it ranked 24th globally in 2014.

Annual IDI Influx (Billion USD)



Source: UNCTAD

FDI Influx in Turkey (Million USD)



Source: UNCTAD

The number of individuals who travel for shopping purposes has soared, as pointed out in the Global Shopping Report of the United Nations Tourism Organisation. How attractive a destination is matters greatly, in addition to product prices, when choosing a shopping destination. Turkey ranks among the top 10 shopping destinations, along with France, the US, China, and Italy.

h. Shopping Tourism

Shopping tourism is gradually turning into an established concept, driven by a further developing tourism industry and the growing appetite of consumers in developed and developing countries. Growing interest in shopping tourism has recently become a theme for politicians, executives, and academics.

Promising a “heaven”, a financial policy widely applied by national and local governments, is not necessarily a prerequisite for making shopping tourism more attractive. Indeed, people find it preferable when cities position the shopping experience as an extension of existing tourism activities and offer traditional marketplaces and shopping centers across the city.

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Turkey ranks among the top 10 shopping destinations, with France, the US, China, and Italy. The last 10 years saw a jump in the number of people who travel for shopping purposes and in the spending at arrival points.

Prevalent in Turkey, shopping tourism is a golden opportunity for reinforcing growth. Governmental bodies, company executives, and relevant associations have continued their efforts regarding shopping tourism, in order to attract more tourists and boost trade.

Turkey has always been a hotspot for trade. The Grand Bazaar in particular is estimated to receive around 300,000 visitors daily, lured by its historic atmosphere and size. Currently hosting more than 100 shopping centers, Istanbul has been “the” destination for shopping tourism, boasting a strong cultural and historic heritage. In an industry facing intense competition among cities, the existence of shopping centers for safe, high-quality, and comfortable shopping for tourists is an advantage. Also

necessary is the establishment of an infrastructure for shopping tourism so that certain cities can become centers of attraction and compete with other global cities. To conclude, Turkey’s great potential should be capitalised upon and turned into an opportunity for the country’s economy. Turkey must be made into a brand and be one of the first countries that comes to mind for shopping tourism. Organised on an annual basis since 2011, the Shopping Fest is a key example of efforts to boost shopping tourism.



6 Market Shares of the Turkish Retail Industry

According to current trade turnover data provided by Turkstat, traditional and organised retail segments account for 67% and 33% of the Turkish retail industry, respectively.

All the aforementioned data, combined with the fact that shopping centers span an area of around 7.3 million square metres of sales per month, are convincing evidence of the potential for organised retail to play a significant role in the years to come.

Organised retail's share of the total retail industry has expanded tremendously due to the flood of investments in new shopping centers and thanks to the growing

number of chain stores, while at the same time competition has intensified. On the other hand, although awareness of quality and hygiene has risen, Turkish consumers stick to their traditional shopping habits. Low-priced, open-air neighbourhood markets are widely visited for a large range of consumer products, such as fresh fruit and vegetables. Sales performed at neighbourhood groceries and open-air markets constitute approximately 48% of total retail (TFSCR).

In recent years the organised retail market saw rapid development (particularly in hypermarkets and discount stores), along with a striking increase in food sales.

Store Based Retail Sales By Sector (Million TRY)	2013	2014	2015
Food, Food & Beverages Service Retail	322,072	367,128	411,340
Food Retail	244,503	284,265	323,859
Food & Beverages Service Retail	77,569	82,863	87,481
Non- food	228,982	240,334	251,559
Furniture, Household Appliances, Home Care, Personal Care, Leisure and Culture	171,667	181,585	193,884
Clothing	57,315	58,749	57,675
Total	551,054	607,462	662,899

Source: TFSCR

a. Food Retail

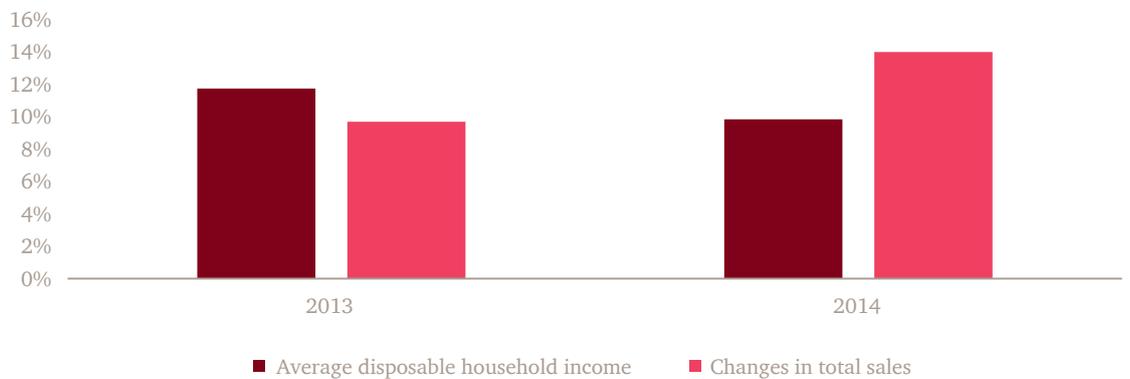
Food retail in Turkey grew by approximately 13% per annum from 2013 to 2015. Food retail in Turkey as of 2015 year-end expanded by 575 thousand square metres YoY, spanning a total of 5,181 square metres, and the total number of stores reached 15,000, an 18% hike (TFSCR). Food retail sales continued on this upward trend in parallel with an increase in disposable personal income.

Organised retail has been widening its share of overall food retail since the beginning of the 1990s.

In addition to price benefits organised retailers can offer thanks to their economies of scale, the fact they offer both food and non-food products has been a driver behind why those markets are becoming more preferred. Their growing attractiveness is also driven by their commitment, unlike non-organised channels, to quality and hygiene standards and higher customer satisfaction. Traditional retailers, who lag behind when it comes to optimised supply management and modern marketing

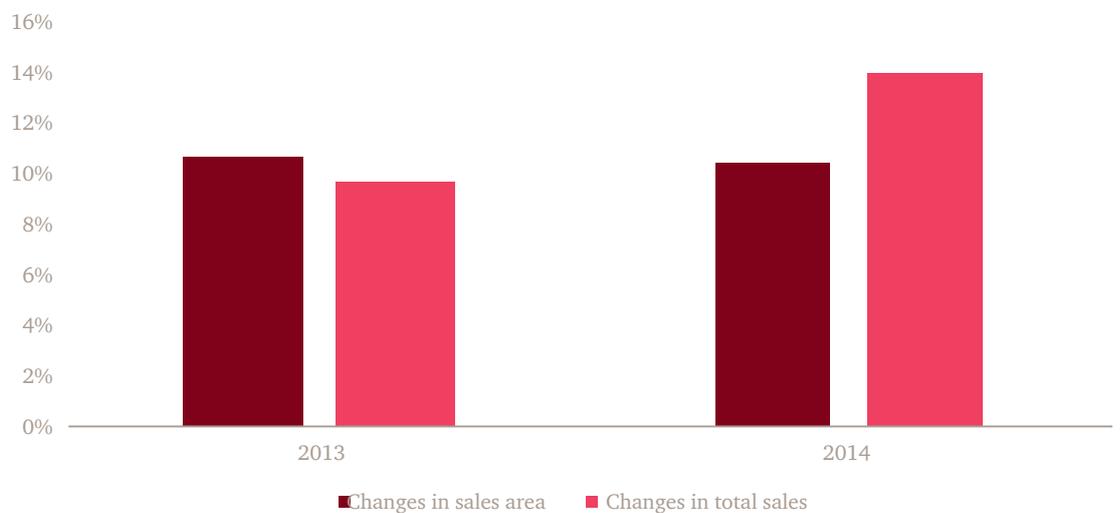
methods, carry out their operations with lower efficiency. Although the share of traditional channels is shrinking within the overall food retail industry, neighbourhood groceries, small and middle scale markets, kiosks, greengrocers, butchers, etc. still represent around 70% of the food retail market

Average disposable household income and changing retail turnover



Sources: TFSCR, Turkstat

Changes in total sales and sales area by year



Source: TFSCR

The growing total sales, area in food retail results from discount retailers which have been growing in number continuously, particularly since 2011. Spanning smaller areas than supermarkets, these markets pop up on every corner, serving as easily-accessible points of sale for consumers. Discount retailers raised their sales by around 25-30% on a YoY basis in 2014. What makes those markets quite successful are the smart ways they position themselves and the product range and prices they offer. Discount retailers make the products of giant brands available in their stores but they do place significant emphasis on offering private labels. The rise of discount stores has been supported by a variety of factors, including the way they address the needs of the middle and low-income populations and the fact that they open in rural or peripheral cities where no modern retail format is available.

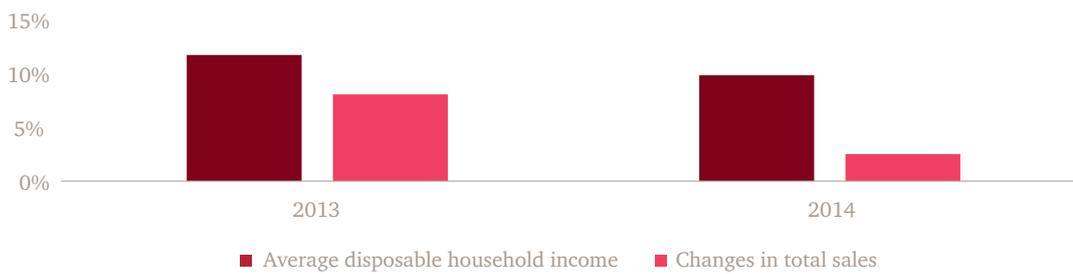
With consumers feeling the pressure of their ever-busy schedules, the time available to spend on shopping for food is limited, which makes retailer accessibility even more important in an era of rapid

urbanisation. Broader adoption of technology, on the other hand, encourages urban consumers to demand “anytime, anywhere” shopping as part of their lifestyles. In order to address the needs of wider customer groups, food retailers have already created multichannel store formats, including in their portfolios smaller neighbourhood markets in addition to large supermarket formats, as well as simplified access to healthy and fresh food at more convenient rates, and they have launched websites and applications that enable online and mobile shopping.

b. Clothing and Footwear Retailers

A higher disposable household income is the driving force behind clothing and footwear retail, and was the key reason for the jump in 2013 turnover. Once running relatively parallel to increasing disposable household income, sector sales in 2014 derailed and closed the year at 3% versus the 10% rise in disposable household income. In 2010, with dissipation of the negative effects of the financial crisis, optimism prevailed in sales, only to face a stumbling consumer index in 2014 which weakened growth.

Average Disposable Household Income and Changing Retail Turnover



Sources: TFSCR, Turkstat

One of the most important factor for clothing and footwear retailers was the decline in consumer confidence in 2014. Standing at 75 points in 2013, it deteriorated to 67.7 points at the end of 2014. This decline resulted in a drop in spending, further aggravated by price hikes and fluctuating exchange rates in 2014. Furthermore, the number of shopping centers matured in 2014, with fewer stores launched, all of which added to the slowdown.

However, various instalment options for credit card payments have made clothing and footwear shopping more attractive.

86% of clothing and footwear sales in Turkey are performed at local independent retail stores and chain stores. Chain stores outperform local

independent retail stores because they offer more compelling discounts and campaigns supported by high rates of sales and, consequently, high procurement and manufacturing volumes.

In the last four years the distribution of clothing and footwear sales by distribution channel reveals online sales have a larger share of total sales. Standing at 0.8% in 2009, online sales tripled in 2014, reaching 2.5%. Driving forces behind the jump were that there were a higher number of online firms and the fact that retailers selling in physical stores were forced to launch online sales as well.

Distribution of clothing and footwear sales by distribution channel - %	2009	2010	2011	2012	2013	2014
Sales in stores	99.2	99.0	98.5	97.9	97.6	97.5
Food retail	0.5	0.6	0.6	0.6	0.5	0.5
Non-food retail	96.6	96.3	95.7	95.1	94.8	94.7
Other	2.1	2.1	2.2	2.2	2.3	2.3
Out-of-store retail	0.8	1.0	1.5	2.1	2.4	2.5
Online sales	0.8	1.0	1.5	2.2	2.4	2.5
Total sales	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor

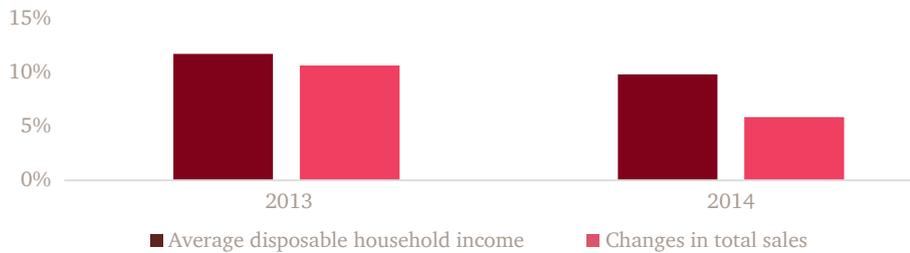
c. Technology

The sharp decline of the TRY against the USD and the EUR in 2015 put pressure on technology retail, the costs of which mostly arise due to exports. Facing tough competition among industry players, those technology retailers who were unable to reflect such cost pressure to their prices had to cope with declining profits in 2015.

On the other hand, the growing use of technology in recent years pushed online sales to grow, as they grabbed the shares of retailers specialised in consumer electronics. Growing online sales urged industry-leading firms to invest in this field.

Mobile phone and laptop sales in particular suffered a severe blow due to the BRSA regulation introduced in February 2014 in an attempt to limit the number of credit card instalments for telecommunication purchases.

Average disposable household income and changing retail turnover



Sources: TFSCR, Turkstat

Distribution of technology sales by distribution channel- %	2010	2011	2012	2013	2014	2015
Sales in stores	91.9	91.1	90.5	90.0	89.2	88.7
Food retail	13.1	13.7	13.8	12.7	11.8	11.3
Non-food retail	63.4	62.0	61.0	62.3	64.0	64.8
Other	15.4	15.4	15.7	15.0	13.4	12.6
Out-of-store retail	8.1	8.9	9.5	10.0	10.8	11.3
Online sales	8.1	8.9	9.5	10.0	10.8	11.3
Total sales	100	100	100	100	100	100

Source: Euromonitor

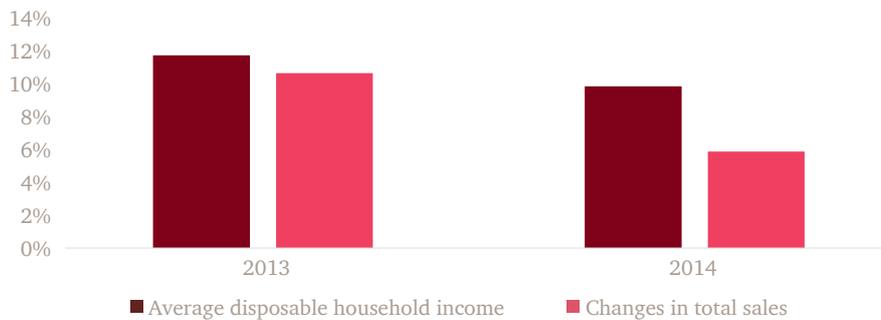
d. Furniture and Home Improvement

Recording average growth of 4% from 2013 to 2015, furniture and home improvement spending remained below the 9% average of the industry. Stalling growth in 2014 is linked to the regulation introduced in February 2014 that limited the number of available instalments to nine for purchases of furniture.

Home improvement and garden decoration retail is an industry where local independent retailers, national chain stores, and international chain stores must survive fierce competition. Local independent retailers are seen in every corner of Turkey, unlike chain

stores that are located in metropolitan cities like Istanbul, Ankara, and Izmir. Local independent retailers have a better national distribution and stores network, which is a strength in competing against chain stores. International chain stores, on the other hand, close the gap by offering relatively lower rates and convenient warranty and payment conditions.

Average disposable household income and changing retail turnover



Sources: TFSCR, Turkstat

7

Geographical Distribution of the Turkish Retail Industry

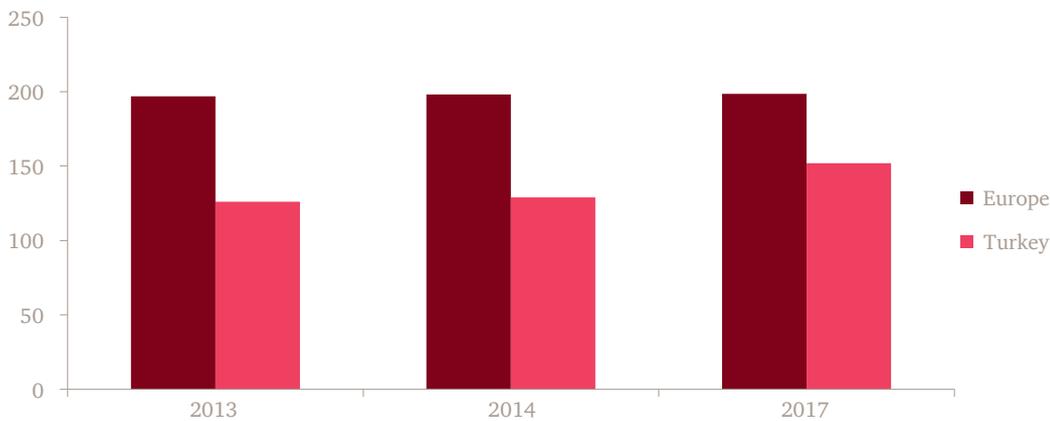
a. Geographical Distribution of Retail Stores

Rapid urbanisation in Turkey attracts local and foreign investors to Anatolian cities, including Izmir and Ankara. The Marmara region enjoys the largest share of retail shares by region, followed by the Aegean region and Central Anatolia. This distribution, without a doubt, is linked with the fact that Istanbul, Izmir, and Ankara are within the borders of these regions.

Research by Jones Lang LaSalle projects a total of 13 million square metres available by 2018. Average retail density, which was 126 square metres in 2013, climbed to 129 square metres, growing by 3 points in 2014. This is expected to reach 152 square metres by the end of 2017. Turkey's potential in this regard is more than obvious, given the European average density of 198 square metres

Gross available area for rent in Turkey expanded by 5.5%, approaching 10.5 billion square metres in 2015.

Retail Density (Square Metres per 1,000 People)



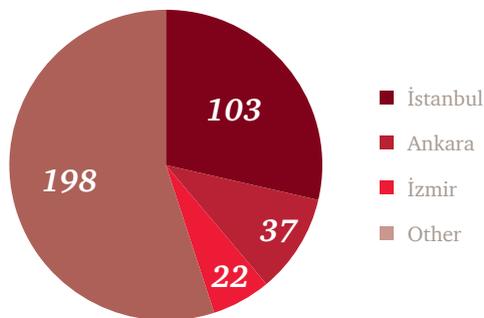
Source: Jones Lang LaSalle

b. Geographical Distribution of Shopping Centers

Shopping center projects, currently spanning an area of 10.5 billion square metres, have picked up pace exponentially and become one of the most important industries of the Turkish economy, according to data from the Shopping Centers and Investors Association (SCIA). Total available space for rent is expected to reach 13 million square metres thanks to the contribution of new shopping centers that will open by 2018.

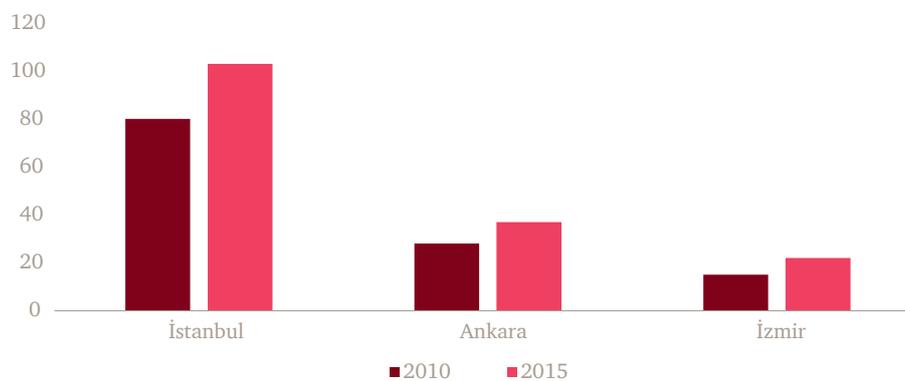
Anatolian cities have also started to see some portion of the shopping investments, thanks to rapid urbanisation and spread of investments across Anatolia. Upon examining shopping center distribution across the largest three cities from 2015 to 2010, Istanbul stands out as the fastest growing city.

Distribution of shopping centers by city



Source: AYD

Distribution of shopping centers by city



Source: SCIA

Communication

TFSCR

The **Turkish Federation of Shopping Centers And Retailers (TFSCR)** was founded as the umbrella organisation for five industry associations with the following aims: to inject momentum into the retail industry and the Turkish economy; to create the infrastructure for the sustainable development of the modern Turkish retail industry; to expand the industry's share of the national economy; to represent the industry nationally, internationally, and before law makers; and to strengthen the industry's presence in international platforms.

The most influential associations representing organised retail gathered under the umbrella of the Trade Council of Shopping Centers and Retailers to join forces in common fields and support their operations. They include **SCIA** (Shopping Centers and Investors Association), **UBA** (United Brands Association), **FRA** (Food Retailers Association), **CDA** (Chain Stores Association), and **TRIOA** (Tourism, Restaurant Investors and Operators Association).

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