Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 8/14/2002

GAIN Report #AJ2003

Azerbaijan, Republic of

Retail Food Sector

Report

2002

Approved by:
Robert Hanson, Acting Agricultural Counselor
U.S. Embassy, Ankara
Prepared by:
Rauf Mekhtiyev, Commercial Specialist
and Robert Hanson, Agricultural Attache

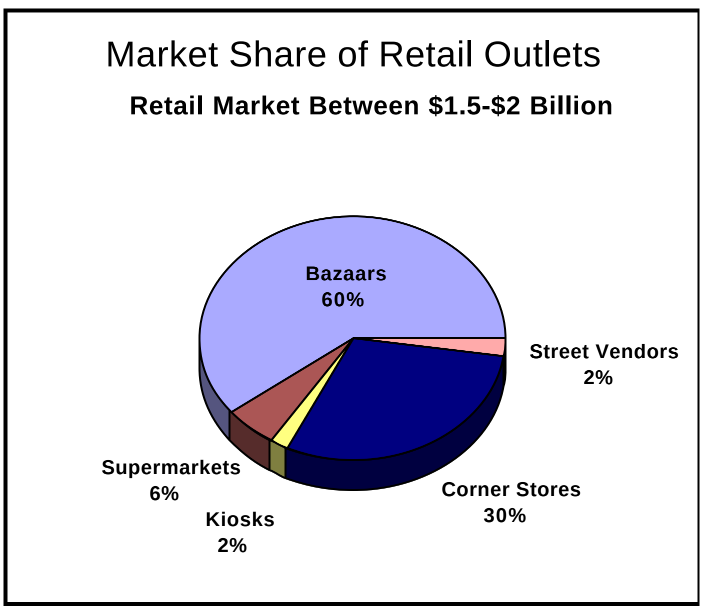
Report Highlights:
The size of the Azeri retail food market is estimated to be as large as $1.5 to $2 billion. While per capita income remains very low throughout the country, the capital city of Baku is home to a modest retail sector where a wide variety of high-value imported food products can be found. Traditional bazaars and numerous wholesale outlets (where imported foods are also available) dominate the retail sector with highly competitive pricing.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Ankara [TU1], AJ

I. Market Summary

The Azerbaijan food marketplace is centered around the traditional bazaar, where the merchants sell their fresh meats, produce and other products from six to ten running feet of frontage on the bazaar aisle, with their competitors hawking right alongside them. This is the traditional, central buying place in most Azeri cities, towns, and villages. Prices in the traditional bazaars are cheaper than in most other retail outlets, and everything from caviar to spoons to vacuum cleaner bags to one-quarter beef carcasses can be found. Products are available in wholesale and retail quantities - two factors that keep the customer coming. The HRI food service industry also purchases many of its food requirements from the traditional bazaars.

A number of wholesalers (alcohol & beverages, rice, sugar, butter, flour, & poultry) sell goods in retail quantities and provide consumers with another locale to procure food items relatively cheaply. Supermarkets exist, but they are limited in numbers and are mostly located in Baku, the capital city of Azerbaijan. Small groceries and convenience (corner) stores, along with a number of more permanent kiosks and itinerant street vendors, fill in the gaps and compete for impulse purchases. No firm statistics exist on the food retail sector, but industry sources estimate that the bazaar and wholesale segment has approximately 50 to 60 percent market share, supermarkets hold only 5 to 10 percent, corner stores control 30 percent, with the small remainder captured by kiosks and itinerant street vendors.



Azeris reportedly spend upwards of two-thirds of their incomes on food and alcohol, between $1.5 to $2 billion. Total retail sales volume of Azerbaijan is as high as $3 billion for all goods. Azeris prefer their food fresh, relatively unpackaged and have little demand for convenience yet. Years of influence of the Soviet system has left Azerbaijan with a food marketing system that has only recently been privatized. Newer supermarkets have appeared in Baku, and are eagerly awaiting the anticipated economic boom from the energy sector. With a very low per capita income, the average consumer wants food fresh and at the lowest possible cost. Azeris who can afford to, frequent one of the Ramstore chain's four supermarket locations or one of the other few competing supermarkets where they can find a full selection of fresh, processed and packaged products presented in modern, clean surroundings. The foreign community, which includes diplomats and employees in the gas and oil sector, also tends to shop at the larger supermarkets and supermarkets carrying a wide variety of imported foods, such as Citimart. Those who cannot afford to shop at these stores, (as most cannot), shop in the bazaar, conveniently supplementing their needs from the corner shops, kiosks or scattered groups of street vendors throughout the city.

The shedding of Soviet era systems and most importantly, attitudes, is an incomplete process. Infrastructure is underdeveloped (especially cold storage and food processing), credit is extremely scarce, and change is slow to come (even though agriculture is the most privatized economic sector). Retailers serve extremely price conscious customers. The Azeri market place is full of a variety of goods and food stuffs, but requires patience and persistence to enter.

The following is a summary of the advantages and challenges facing U.S. exporters entering the retail food sector in Turkey:

ADVANTAGES	CHALLENGES
Azeris appreciate and desire Western products.	Western products are too expensive for the average Azeri consumer to purchase.
Supermarkets have opened in the capital city and are preferred by those who can afford to shop there.	Supermarkets face difficulty competing with active wholesale markets, and at open bazaars or shops which are more conveniently located.
Food is a major expenditure for all Azeris (2/3 of income) and they are discriminating customers as a result.	Infrastructure is limited and very underdeveloped, with little change expected until the energy sector brings in the anticipated large revenues.
Imported processed food stuffs are the norm for Azeris, with little local production.	Azeris are most familiar with Russian, Turkish and other regional products, and prefer their familiar tastes. High transport costs make U.S. foods expensive.
Privatization and the expected energy boom would help bolster the middle class.	With limited revenues, the Azeri government is very aggressive in assessing duties and business taxes.
American oil industry's activities in the economy have introduced American food tastes into the HRI sector.	Azeri economy languishes, and personal incomes remain very low, so Azeri consumers must be very price conscious.

ADVANTAGES	CHALLENGES

II. Road Map for Market Entry

The Government of Azerbaijan (GOA) plays a critical role in the entry process. Complete import requirements are outlined in the exporter guide report for Azerbaijan (GAIN report AJ2004). Good contacts and strong local representation are key components to successfully export to this market. The local representative/importer should be able to provide market knowledge, information on current business practices and trade related laws, and documentation requirements.

A. Bazaar (traditional) and wholesaler markets:

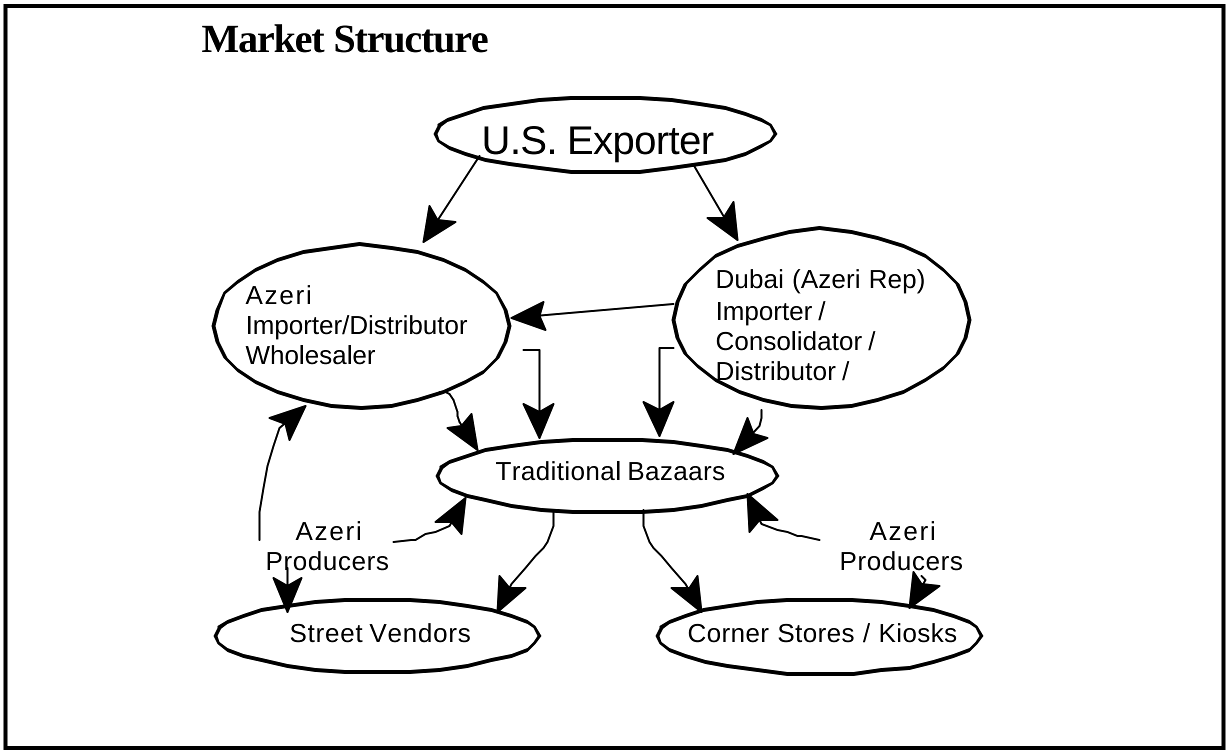
Bazaars are the traditional market place where most Azeris purchase their foods. Bazaars are generally cheaper than other retail outlets since little service or convenience is provided, overhead is low and fewer records are kept for tax purposes. Goods are almost always fresh, however, and that is the main priority for Azeri people, after price. There are currently sixteen bazaars in Baku city, one in the downtown city center and the rest in surrounding neighborhoods. The downtown bazaar provides fierce competition to supermarkets and corner-stores, which are conveniently located (most people do not have cars and public transport is limited.) Uptown bazaars enjoy high demand for the goods they sell. Bazaars primarily sell locally produced goods. Some American goods are available, particularly poultry products.

The sellers are generally the actual food producers, but during winter months, the number of intermediaries increases. The quantities of imported food products also increase in the winter, as locally produced fresh foods are unavailable. Although bazaars currently provide few shopping comforts, some are planning to modernize, improving the quality of service and sanitary standards and at least one has already started to implement these plans. In addition to retail consumers, a number of catering companies and hotels also shop at the bazaars.

Entry Strategy

Some wholesalers, who usually specialize in limited product lines, source bulk commodities directly from overseas suppliers - often via Dubai. Their sales are normally in larger quantities, and sold by the box. For example, American chicken leg quarters are sold by wholesalers in18 kilogram boxes, with a minimum of one box or more. In some wholesale shops leg quarters are also available to retail customers by the kilogram.

Otherwise, importer agents/representatives import products directly from U.S. suppliers or via Dubai distrubutors/consolidators and distribute products to wholesalers, retailers and other merchants. A list of these contacts can be obtained by contacting the Office of Agricultural Affairs at the U.S. Embassy in Ankara, Turkey or the Commercial Section at the U.S. Embassy in Baku, Azerbaijan. Complete contact information can be found at the end of this report.



- *Importers and distributors are the key to selling via this most important channel*
- *Large variety of items in very small spaces - fresh, chilled, & processed items, depending on sellers space*
- *Bazaars are the traditional outlet for Azeri food puruhases*
- *Between them, the bazaars, corner stores, kiosks & itinerant street sellers sell nearly 95 percent of food items purchased.*

B. Convenience (Corner) Stores, Kiosks and Street Vendors

Corner grocer and convenience stores, kiosks and itinerant street vendors make up the bulk of the retail outlets in Azerbaijan. The number of small corner grocer stores and kiosks declined sharply recently when the Baku Mayor imposed measures to improve the city's general condition. Many of the street side stands were closed. However, many street side snack stands and other aspiring retailers continue to "work their corner" until authorities arrive and move them along.

Azerbaijan has seen the opening of several gas station minimarts since 1999, all located on the main feeder roads into the city. The facilities are underutilized at the moment (customers aren't used to or comfortable leaving their cars after filling up), but the infrastructure is in place.

Entry Strategy
The entry strategy to supply to the numerous corner shops and neighborhood stores is similar to supplying the wholesalers as described above, with the exception that there are no direct imports. Importers and wholesalers supply to this market, thus it is key to work directly through them.

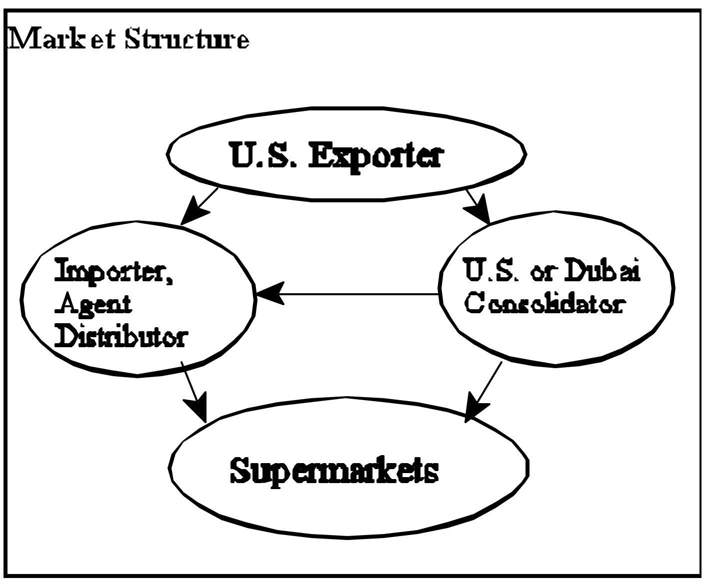
C. Supermarkets

Supermarket retailing remains a relatively new concept in Azerbaijan. The first western style supermarket (which was Ramstore, a Turkish supermarket chain) opened in Azerbaijan in 1995. While this market niche continued to expand, some of the initial supermarkets closed, because of competition and economic recession.

There are currently two groups of supermarkets: foreign-owned companies and locally-owned stores. Locally-owned supermarkets sell mostly locally produced goods – dairy products, meats, greens, fruits, vegetables etc. They target cost conscious middle and lower class buyers who are looking for products which approach international standards, but for whose prices below import parity. The foreign-owned supermarkets sell more western-oriented products and carry a wider variety of imported food and agricultural products, including American products. Supermarket managers find that many customers are home-country loyal, prefering foods they are most familiar with. Citimart, for example, caters to the expatriot community and will source products from around the world specifically to meet their needs.

Entry Strategy

The foreign-owned and largest supermarkets usually import their products directly (via Dubai), or from distribution representatives who are working in the country. Smaller supermarkets usually obtain their products from wholesalers, and importer distributors.



List of the largest foreign supermarkets:

Supermarkets	Local or Foreign Ownership	Annual Est. Sales ($mil.) For 1998 *	Number of Outlets	Location	Type of purchasing agents
Ramstore	Turkish (Koc Holding Group)	$18 million	Three/ plan to expand one more store**	Baku	Direct importers, local wholesalers and producers.
Citimart	Dubai	$.5-$1.5 million	One	Baku	80% direct imports from England, Spain, U.S., and India via Dubai
Continental	Azeri-German J.V.	$.5-$1.5 million	Two	Baku	Direct imports from Germany.
New World Center	Dubai (Grand Stores, of T. Choitram & Sons)	N/A	One	Baku	Imports from Gulf area countries.

* Newer data is not available

** Ramstore has closed two stores in Baku. And currently is planning to open the fourth store again.

List of other local supermarkets:

Supermarkets	Estimated Sales Volumes	Number of outlets	Location	Type of purchasing agents
Progress	$0.5 million	One	Baku	Local representatives of foreign producers and from local producers. Imports mostly from Russia.
Azermarket	N/A	One	Baku	Purchases through local representatives of foreign producers. Also from local farmers.
Tahir-97	$ 1.11 million	One	Baku	Local representatives - Douglas, Victory, Azersun.
ASP	N/A	One	Baku	Local brokers which import foodstuffs individually from Russia including U.S. Products and also other distributors (Victory).

Food Processing

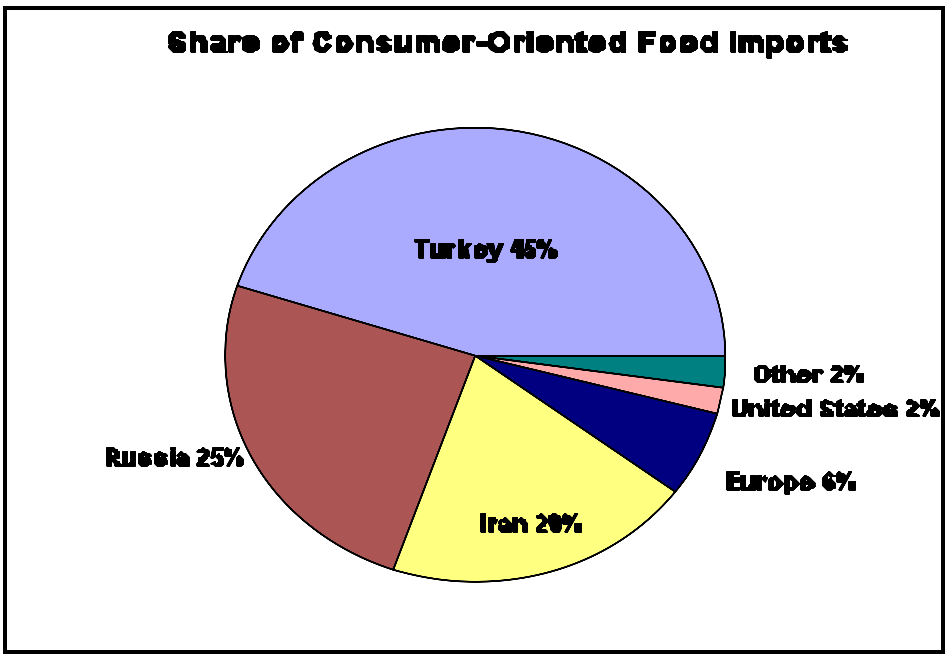
A wide variety of crops are grown in Azerbaijan such as fruits (apples, cherries, grapes, olives, lemons, persimmons, melon, raspberries, strawberries, currants, plums, peaches, pears, and pomegranates), vegetables (tomatoes, potatoes, carrots, beets, cabbage cucumbers and onions), grains (wheat, maize and barley), tea and various types of high quality exportable nuts. The dismantling of the Soviet empire left behind a highly disfunctional, inefficient food industry. Post-harvest losses are high due to the lack of a functioning processing and storage industry. There are 43 canning factories in Azerbaijan producing primarily tomato paste, natural fruit juices and apple concentrates. Practically all are idle or operating under capacity, technologically outdated, and in urgent need of working capital and investment. There are a few new joint-ventures in the food processing sector. "Nabran" is producing fruit juices under the brand name SAF and exports some of its products to markets as far away as California. However, "Nabran" is an exception, since most of other fruit and vegetable processing companies sell their products at open air markets.

There are several dairy processing companies equipped with new European equipment with substantial production capacity, but they are currently operating at only ten percent of their full capacity due to the low purchasing power of the general population. Fish processing has a promising future in Azerbaijan. A major fish processing company in the Azeri market is the Caspian Fishing Company which processes caviar; filleted, dried and smoked sturgeon; fish oil; and fishmeal, which enjoys a ready market as animal feed. The company can process 300 tons of fish per day.

Value added processing has a potential that is not yet fully realized. Some importers indicated that they are hoping to go into the processing business and replace imports with lower cost locally produced foods. Other producers are importing meat from foreign countries as far as Brazil for processing into sausage and other meat products .

III. Competition

Azerbaijan's 2,500 - 3,000 food markets feature Turkish, Russian, European (UK, German, & French), and Iranian items, with a limited number of U.S. products available (mostly sourced from Dubai area traders). Other than poultry, U.S. products have little penetration of the Azeri market place. European products are found in the supermarkets and are preferred by the elite. Turkish products have been making strong inroads in the last three or four years, aided by proximity, and are most widely available, covering the full range of luxury to staple items, and can be found in the most outlets. Russian products are losing their previously superior position (wide distribution and availability) due to their perceived inferior quality. Some Russian products remain popular to the Azeri population,



especially meat products like sausages. However, their poor packaging has contributed to a declining share. Russian and Polish types of hard candies are very popular. Inexpensive Polish processed meat products are also in the market. Low prices have helped Russian products stay in the Azeri market. Iranian products take up the bottom position in the market and are perceived as offering better value with their rock-bottom prices.

The Azeri diet includes large amounts of red meats and fish and local producers respond with traditional cuts of meat and fish. Locally produced poultry is preferred by consumers, and despite its smaller size sells at a premium to imported poultry. A lack of well-developed cold store chain facilities, together with limited per capita income, constrains the imports of meats other than poultry. It also limits the development of other frozen and chilled items. Opportunities do exist for increasing meat imports for the restaurant and catering sector in Baku.

Market promotions usually take the form of price discounts or extended payment terms. Advertising support is very limited and there is little in-store promotion, other than for alcoholic and other beverages. Turkish suppliers offer the most support, a complete package from credit to advertising. The U.S. Poultry and Egg Export Council also supports American exporters with billboard displays, in-store promotions, and other marketing tools.

IV. Best High Value Product Prospects

Rice
Beef and other meat products
Butter
Vegetable oils including corn oil
Poultry
Breakfast Cereals
Margarine
Pineapples
Avocado
Mango
Coffee substitutes containing caffeine
Milk
Ground nuts
Protein meal/feed grains
Sausage products
Sugar
Chocolate and other products containing cocoa

V. Post Contact Information

Foreign Agricultural Service
Embassy of the United States - Ankara
110 Ataturk Bulvari
Ankara, Turkey
Tel: (90-312) 455-5555 ext 2406
Fax: (90-312) 467-0056
Internet: agankara@fas.usda.gov
Homepage: www.fasturkey.org

United States Commercial Service
Embassy of the United States - Baku
83 Azadlig Prospect
Baku, Azerbaijan
Tel: (994-12) 980-335
Fax: (994-12) 986-117

For more information on high value food and other agricultural sector reports for Azerbaijan or other countries, pleast refer to the FAS Homepage at:
http://www.fas.usda.gov

VI. Local Contact Information

DISTRIBUTORS:

AzshargMarketing (distributor of Fazer-Finnish Confectioner) 12/13 M. Mushvig Str, Baku Azerbaijan
Contact Person : Elchin A. Jabiyev, Director. Tel/Fax (99412) 975 775 / 396 666

Nurgun Holding (Official Distributor of Julian and Mozart brands of confectionery).
Nurgun Group:
Contact Person: Ramiz Maharramov, Executive Director 2054th hood, M. Narimanov Str.
Tel (994 12) 47 96 49, 47 95 69,
Fax: (994 12) 96 66 31

RETAILERS:
SUPERMARKETS

Ramstore Supermarket
(Limited Liability Turkish Food Enterprise)
Hood (Mahalle) # 1129, Hatai district, Baku, Azerbaijan. Contact Person: Anar R. Mammadov,

Marketing Manager Telephone: (99412) 90 32 00, 90 24 11, 90 33 06
Fax: (994 12) 90 32 01,

Chinar
Ataturk Ave 2,
Phone: (99412) 90 67 49,

CityMart
19 Samed Vurgun St.,
Phone (994 12) 987338

Continental
68 Nizami Str., & 51 Inglab Str.,
Phone: (99412) 937541

New World Center
31 Inshaatchilar Ave.,
Phone: (99412) 381183

Progress
103 Azadlig Ave.,
Phone: (99412) 400316

World Market
135 Nizami Str, 370000
Tel: (994 12) 98 51 44

S market
136 Fatali khan Khoyski St., 370025
Phone: (994 12) 66 02 28

Anadolu
53 Fizuli St., 19 Huseyn Javid Ave.
Phones: (99412) 94 20 94, 39 02 44.

Rus
116 Azadlig Ave,
Phone: (994 12) 90-64-14