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Retail Food Sector

2003

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Report Highlights:
Market growth has been limited in the Israeli Retail Food Sector during the last couple of years due to the economic recession, but market opportunities still remain for competitive value added products which will gain tariff advantages under the U.S. - Israel Free Trade Agreement.

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Summary

The retail food market in Israel is estimated at $7.7 billion annually. Approximately 1.8 million households spend an average of $4,290 on food products of all kinds. Most of the food retail market is supplied by domestic sources: farmers and a developed food industry. Total imports of consumer ready products are estimated at about $780 million (C.I.F.) and represent an estimated market share of 20 to 25 percent. The United States share is about 18 percent of total consumer ready food imports.

The total retail market consists of between 6,000 and 8,000 outlets. The structure of the retail market is undergoing considerable changes including restructuring and growing competition from newcomers and ownership changes.

The retail market is composed of chain stores (50 percent of the retail food market), convenience stores, traditional open markets, local grocery stores and specialty stores. While three large retail groups dominate the market, open-air markets are still popular in lower income sectors.

Due to the current recession, there has been a reduction in overall consumer spending. As a result, supermarkets have reduced the range of imported product lines from western sources. At the same time, a few import lines from Russia, Ukraine, Turkey and the Far East have found their way into the country. The primary challenge to increased food imports is still the well-developed domestic, food industry: close to 3,000 new food products, locally produced, enter the market every year.

The American food exporter will find the Israeli market highly sophisticated and high quality oriented. The awareness of American brands is high and the Israeli marketing channels show an eagerness to have American products, as long as these products meet the Israeli food import regulations. The retail system is sophisticated and concentrated. The banking system is also sophisticated and considered reliable. American exporters can benefit from the U.S. – Israel Free Trade Agreement (ATAP) and from the strong Euro that makes imports from the EU more expensive.

Section I
Market Description

Retail Food Expenditures

Israel's retail food market is valued at about $7.7 billion. According to the 2001 national Survey of Household Expenditure, the 1.8 million households in Israel spent an average of $4,288 on food products.

Tracking surveys suggest that the overall retail food market in 2003 is essentially the same dollar value as in 2001, even while overall household consumption in Israel has fallen 5 percent since 2000. The food sector has been less sensitive to the overall continuing recession in the economy than others sectors, but retailers do note greater consumer sensitivity to prices. This sensitivity to pricing has also created some turbulence in the structure of the Israeli retail market.

Most of the retail market is supplied by Israel's farmers and its well-developed food manufacturing industry. Imports of consumer-ready foodstuffs are about $780 million at C.I.F. valuation and represent an estimated 20 -25 percent of the retail market. The domestic food industry is highly dependent on imported raw materials such as wheat, soya, sugar, beef, cocoa, etc. Several U.S. and international brands are represented in the market by Israeli manufacturers producing under license or in partnership with foreign concerns.

The U.S. share of total agricultural and food imports is about 30 percent, but the U.S. share of consumer ready foodstuff to the retail market is estimated at 17 percent. Several leading brands in the U.S. supply to Israel through affiliates outside of the U.S., e.g. Heinz beans from Canada, Green Giant corn from Pillsbury France, Kellogg's and Lipton Tea from the U.K. etc. The EU is the major source of imported retail food, but imports from Turkey, Russia, and Eastern European countries and the Far East have grown in recent years.

Consumer expenditure by food category appears in Table 1.

Table 1: Annual Household Expenditure on Food*

	Outlay Per Household in 2000 $ per year	Food as % of Total Household Expenditure	Outlay Per Household in 2001 $ per year	Food as % of Total Household Expenditure
Total Household Expenditure	28,694	15	28,064	15.3
Breakdown of Food Expenditure				
Total Food Expenditure:	**4,286**	100	4,281	100
Bread, Cereals, Pastry	693	16	681	16
Vegetable oils and margarine	106	2	82	2
Meat and poultry	752	18	764	18
Fish	155	4	162	4
Milk products and eggs	737	17	715	17
Sugar and sugar products	166	4	157	4
Soft drinks	219	5	233	5
Alcoholic beverages	82	2	88	2
Miscellaneous food products	400	9	393	9
Potatoes and sweet potatoes	59	1	60	1
Fresh vegetables	336	8	356	8
Preserved Vegetables	185	4	182	4
Fresh fruit	280	7	276	7
Preserved Fruit	116	3	120	3

**Excluding meals away from home*
Source: *Israel Central Bureau of Statistics 2001 Household Expenditure Survey*

Data collected for the first months of 2003 show a 6.5 percent decline in household expenditure on food compared to the same period in 2002 (Jan – June, 2002=$2,181). This is a clear indication to the deepening economic recession Israel is facing.

Retail Market Structure

The total retail market consists of 6,000 to 8,000 points of sale. While sales volume in this market appears to be stagnant, the structure of the retail market in Israel has been going through a period of considerable change, including chain repositioning, competition from newcomers, changes of ownership and management, and some changes in consumer habits. Table 2 below reflects the traditional categories well known in the Israeli market:

Table 2: Household Expenditure on Food by Type of Outlet - 2001
Percent of Total Outlay

Product Group	Local Grocery Stores	Traditional Open Markets	Chain Stores	Green Grocers	Butcher Shops	Specialty & other Stores	Others
Total Food	22.5	8.6	49.3	4.4	6.6	7.0	1.6
Bread, cereal & pastry	27.8	2.9	52.7	0.2	0.3	14.9	1.2
Meat & poultry	11.0	7.1	42.5	0.2	32.9	5.0	1.4
Fish	13.9	14.4	43.6	0.5	12.4	12.0	3.3
Milk, dairy products, eggs	36.5	2.3	57.3	0.3	6.1	2.7	0.8
Soft Drinks	36.7	2.2	53.2	0.4	0.2	5.5	1.9
Alcoholic beverages	24.0	2.2	56.9	0.3	0.1	12.4	4.1
Miscellaneous	24.5	2.5	59.7	0.4	0.4	9.4	3.0
Fresh fruit and beverages	9.8	29.7	32.4	25.8	0.1	1.5	0.6
Frozen & preserved vegetables	22.5	3.3	67.9	0.9	1.1	4.4	0.5
Dried Fruit & Nuts	20.2	14.9	41.1	2.4	0.0	17.6	3.6

Source: *Israel Central Bureau of Statistics 2000 Household Expenditure Survey*

Chain Stores

The “chain store” category is dominated by 3 large retail groups, Super-Sol, Blue Square, and Clubmarket, each of whom operate several sub-chains at different pricing levels. The category grew steadily through the 1990’s as Clubmarket consolidated several smaller chains, and all three opened new and larger stores at a rapid pace.

Some observers had expected the chains to continue to grow at the expense of independent stores despite the awareness that a point of saturation was being reached, especially in the center of the country. However, since 2001, the dominance of the major chains has leveled off at about 50 percent of the food market and several large independents and “mini chains” have regained market share. Since 2001, all three of the major chains have experienced some contraction in sales. As a consequence they closed some stores and fired a few thousand workers. Only one mini chain has grown during the last two years. This is “Tiv Taam” which is expected to grow by 50 percent during 2004 from 8 stores to 12 at the end of the year. This chain specializes in non-kosher imported foods.

Chain store sizes range from 4,000-6,000 sq. ft. for small, older neighborhood stores, to 20,000-40,000 sq. ft for stores in shopping malls, up to 110,000 sq. ft. superstores in suburban and edge-of-town locations. The largest independents are also in the 80,000-110,000 sq. ft. range.

Convenience Stores

Chains of “convenience stores” have also appeared in the market and will increase. The chains are primarily gas marts owned by the major gasoline companies. They run the scale from true road stores stocking mostly impulse items to a few small supermarkets in rural areas, with fresh produce and bakery. In mid-2003, the four convenience chains operated over 100 stores, but with less than 150,000 sq. ft. total, their estimated annual turnover is less than two percent of the retail market.

Traditional Open Markets

Open-air markets sell a wide variety of goods, but are especially known for their fresh fruit and vegetables, dried fruit, pickled vegetables, and fresh meat and fish. In the fresh fruit and vegetable trade, the open markets still account for over 30 percent of all sales, equal to the chain stores. There has been some decline in the market share of the open markets since 2001 as a result of consumers’ security concerns in large public areas. In any case, imported products cannot generally attract a full-value import price in the open air market.

Local Grocery Stores

Neighborhood grocery stores offer a variety of packaged goods and are important outlets for fresh dairy products and bread. Typical small grocers will offer a very limited selection of brands and will try to stock the most common names. As a result, imported goods tend to be minimal, but some imported sauces, spirits, cookies, or candies often are found. Many of the groceries survive because of their practice of giving unsecured credit to regular customers and their proximity to residential areas. In the economic downturn, they have an advantage in attracting low-income customers – as long as the merchants themselves can survive. While most local grocery stores are less than 2,500 sq ft., the grocery store category in Table 2 also includes up to 100 or so stores of large independent retailers and mini-chains with less than 10 stores. These stores tend to look like the chains and stock products like the chains.

Specialty Stores

In the cities and in some suburban areas, the number of specialty stores is growing: chocolates and sweets, fancy baked goods, liquor stores, and delicatessens. Some of the delicatessen stores strive to stock a very wide variety of imported products – sauces, preserves, caviar and fish specialties, baked goods, and snacks. Some of the stores specialize in non-Kosher products. Some of these stores serve specific clientele who have immigrated to Israel from other countries: South African products in Raanana, Russian brands in Ashdod, Nazareth Elite, and elsewhere, Far Eastern products in South Tel Aviv, U.S. brands available only in certain neighborhoods of Jerusalem. In some cases, the storeowners will import small quantities of specific products on their own or through specialist importers.

Retail Trends

Several crosscurrents are apparent in Israel food retailing. Until 2001, the three major chains based their growth and profitably on the opening of new stores. As the economy declined the major chains became convinced that Israeli consumers were desperately seeking lower prices. According to recent surveys, 80 percent of Israeli shoppers cite price as their major consideration in deciding where to shop. All the chains invested considerable effort to create brand identity as discounters for some of their sub-chains. Not all of the major chains were successful in creating the “low price image” they sought, nor in turning around their own expansion of stores. The two publicly traded chains have reported successive quarterly losses in 2003.

The large independents are now seen as the "dynamic market" and as a group are increasing their market share. According to the Israel retail data service StoreNext, this group of 30 large independents operates over 90 stores. The new competitors used several strategies to challenge the major retailers, but primarily succeeded in maintaining low central-management overheads, spending almost nothing on advertising, and thus were able to compete with the chains directly on price. The major suppliers have also made an effort to support the large independents.

Yet at the same time, both the traditional chains and the newcomers are investing considerable expense to maintain well-designed and modern looking stores. While some discount chains offer bare concrete floors and warehouse style display, the general trend is to look upscale, or at least, bright, clean and modern, even while offering reduced prices.

Competition between retail channels does not always give clear cut outcomes. Israeli shoppers tend to distribute their purchases, on average buying in 3 different outlets per month. Often, this means visiting a supermarket chain, an outdoor market, and the local grocer within the same month.

Providing additional merchandise and customer service is also a continuing trend. More and more outlets, including 6,000 sq. ft. stores and smaller convenience stores, offer in-store bakeries (often operated by subcontractors) and full deli service.

Larger stores also offer hot prepared meals, for take-out or eat-in-the store. Salad bars, and full service fish and butcher counters are the norm. Large superstores have extensive non-food items, from toiletries to textiles to TV sets. Some have full in-store pharmacies, and staffed or automated bank branches.

Delivery services have long been common in Israel's major supermarket chains, in essentially all urban and suburban areas. The most common type of delivery is for customers who come to the store (often on foot) to make the purchase, and then have the goods sent to their home.

Imports

While there has been an overall reduction in consumer spending in 2003, in most Israeli supermarkets there has also been a moderate but noticeable reduction in the range of imported brands and product lines available on the shelves. There are several explanations for this trend:

- Supermarkets trying to present a "low price image" may take out certain higher priced imported brands.

- Successful retail imports have been licensed, and replaced, by Israeli manufactures, or bulk imports. Examples include Star-Kist and Bumblebee

- Tuna, Doritos chips, Danone yogurts, some Knorr sauces, and recently, Ocean Spray juices.

- Some successful retail imports have spurred local manufactures to produce less expensive local equivalents. Imported Sweet-and-Low diet candies have been knocked off the shelves by a new line of diet candies from Elite, Israel's largest chocolate maker.

- A few U.S. brands have essentially removed themselves from the market as a result of marketing arrangements between the parent companies and their European partners. Some product lines that had been imported from the U.S. are more expensive when imported from Europe, some lines are produced Kosher in the U.S. but have no Kosher certification in Europe, some product varieties are simply not sold to the European market, but are in demand in Israel. Thus Ritz Crackers, Lifesaver Candies, and U.S.-made Oreo cookies are no longer available in Israel.

- The recession has been hard for some Israeli importers. Some smaller firms could not maintain large enough volume to keep up their distribution systems, and have closed down or consolidated.

At the same time, a few new import lines from Russia and the Ukraine, Turkey, and the Far East, have appeared on Israeli shelves. In some cases, the products themselves are familiar and demanded by specific populations in Israel. In other cases they appeal to Israelis' ever-widening gastronomic curiosity. And, in the case of canned fruits and vegetables from the Far East, the new import lines offer acceptable quality at low prices.

The primary challenge to increased food imports remains Israel's own food industry. The Association of Israeli Food Manufactures reports that Israeli producers launched over 3,000 new food products in the past year. Israeli food exports are in fact increasing in 2003 for the first time in many years. The local food industry, part of which is affiliated with major international firms, will fight to maintain its competitive position on its home turf.

The advantages and challenges of exporting food products to Israel are summarized in table 3.

Table 3 Trade Advantages and Challenges

Advantages	Challenges
Sophisticated and concentrated retail systems and logistics	Sophisticated and concentrated domestic manufactures
Israeli consumers and Israeli marketing channels are eager to adopt American products	Israeli manufactures are eager to cooperate with, or compete against, successful imported products
U.S. Israel Free Trade Agreement allows most U.S. products to compete on reasonable terms.	On products where U.S. has greatest competitive advantage, import restrictions apply
Strong Euro since 2002 makes EU imports expensive	Freight costs from U.S. cancel out some of the difference

Sabbath Opening

The issue of store opening on the Sabbath is a hot issue in Israeli retailing. The three major chains all maintain the policy of closing on Friday afternoon and remain closed until the end of the Jewish Sabbath after dark on Saturday evening. Technically, Israeli law requires Sabbath closing for most retail business, but the law is widely ignored by non-food stores in many areas. For the food chains however, opening on Sabbath would in effect make them “un-kosher” all week long in the eyes of religious customers. Reluctant to incur anger and not wanting to face an effective boycott from this substantial segment of the population, the major chains have kept their stores closed on Sabbath, even outlets in shopping centers which are open, (and very busy), on Saturday.

Some new competitors, first and foremost the Tiv Taam chain, have ignored the kosher considerations, and keep their stores open 364 days a year. Smaller convenience stores and most gas marts are also open Saturdays. These outlets have clearly taken market share away from the traditional retailers. There are continued reports in the news that the majors are considering moves to enter into the Saturday market. Several options are being considered to try and isolate the “kosher” parent company from the Sabbath violations of its new venture.

Anti-trust and Competition Issues

Israeli legal authorities have been active in recent years to preserve competition among the chains, and to keep a level playing field for chain stores and smaller operators. On the one hand, antitrust authorities prevented the purchase of smaller competitors by the largest chains: Supersol was prevented from buying Rami Levi-Shikma in 2001, and Blue Square’s bid for Haviv was also rejected. Yet in June 2003, authorities did approve the purchase of control of Blue Square by Alon Energy Group, which also owns the Super Alonit gas mart chain.

Also impacting the retail market has been anti-trust investigations that banned the practice of manufacturers directly restocking full categories in supermarkets. Authorities ruled that supermarkets cannot give to one manufacturer the right to arrange the shelf display for the whole category, i.e. “arrange” his competitors. The authorities did not ban per se the ongoing practice of manufacturer payments for shelf area.

Yet at the same time, the large retail chains, who often had been criticized by smaller manufactures for denying them shelf space and for “brutal” price demands, began themselves to resist some shelf space pressures from the major manufactures. Apparently, the retailers realized that it was in their own interest to avoid strangling small manufactures, lest they find themselves overly dependent on Israel’s largest manufactures. The issue is most noticeable in the dairy category where Israel has two dominant domestic producers, and several small operators and importers. But the issue also came up in a legal claim filed by the importer of Cadbury chocolate, against Elite, the major Israeli chocolate maker.

Another competition investigation also resulted in the end of discriminatory “gift coupons” issued by a consortium of two large food retailers and a department store chain. The coupons had been widely used by companies as holiday bonuses for employees.

Private Label

All three of Israel's major chains operate private labels. Blue Square Coop was the first to use its own private label. Since 2001 the chain cooperates with Leader Price, the private label unit of the French Casino chain. It uses the Leader Price buying office for imported goods, primarily from Europe, and uses the Leader Price name for a range of private label products it orders from Israeli producers. Leader Price accounts for over 10 percent of the chains sales and is growing. In the pasta category, the brand takes about 30 percent of sales.

The Clubmarket chain several years ago adopted the President's Choice line, which is the private label of the Canadian retailer Loblaws. A large range of products were imported with the PC brand, mostly of Canadian origin, but a substantial volume of Texas made ice cream, U.S. popcorn, and some sauces are sourced from the U.S. According to reports, the chain is not satisfied with the system, which represents only about 2 percent of total sales.

The Supersol chain continues to operate its private label "Super Class" on its own, sourcing over 800 products from both domestic and foreign suppliers. The brand today represents over 10 percent of total sales, and is growing.

Section II
Road Map for Entry Strategy

There are three basic strategies that should be considered by American manufacturers for entering the Israeli retail market:

Table 4 – Entry Strategies for U.S. Manufacturers

Strategy	Advantages	Disadvantages
Direct sales of a branded product to an Israeli importer	Good importers can push the brand to the entire market	Manufacturer may become dependent on the success of the importer
Sales to a chain's in-house importer, as manufacturer's brand or private label	Easy way to ensure sales in a portion of the market	Most in-house importers will not distribute outside of the chain
Cooperation, partnership, licensing or know-how agreements with an Israeli manufacturer	Local strength of the manufacturer, easier logistics	Dependent on good partnership arrangements, profitable for both sides

Cooperation

Manufacturers with specialized know-how, products which are not easily reproduced, or products which can be supplied profitably in bulk, may wish to consider cooperation agreements with Israeli producers. Israeli manufacturers are generally eager to consider such arrangements. It is essential that U.S. manufacturers fully understand the intentions and abilities of the potential partner. In many cases, cooperation arrangements include both local production as well as import and distribution of complementary products.

Many international brands have used this strategy produced domestically under license. Companies such as Coca Cola, Pepsi Cola, R.C. Cola, Carlsberg and Tuborg, Pillsbury, Nestle, Del Monte, Unilever/Bestfood, 3i, Knorr, Heinz/Star-Kist, Bumblebee, Philip Morris, Procter and Gamble, Ben and Jerry's, Danone, Yoplait, Ocean Spray, Heinz, and others all operate locally, either in partnerships or licensing agreements with Israeli manufacturers.

In-house Importers

All of the three largest chains plus the non-kosher Tiv Taam chain operate their own import units. Blue Square's Galaxy Trade looks for private label suppliers and imports some popular branded products on its own. Supersol also imports on its own, both private label and branded.

The Tiv Taam chain is becoming a major importer on its own for its own stores and in addition supplies as many as 1,000 independent retailers. Tiv Taam is positioning itself specifically as a world food emporium. While the three larger chains stock to a large extent the same Israeli and international brands, Tiv Taam offers imported products not available anywhere else. It purchases from general importers, but it imports many products on its own.

Since Tiv Taam imports need not be kosher certified, the firm has become a larger importer of shellfish. But it is also a major wine importer and retailer. As with other importers, Tiv Taam seeks exclusivity for a brand name in Israel. The firm points out that many manufacturers produce several brands. The manufacturer need not commit to Tiv Taam for all its products – but the chain does want an exclusive brand for its own stores.

For U.S. manufacturers, the simplest way to enter the Israeli market may be to contact the chain store import units directly. Since there are only four, it is a worthwhile initial step.

Food Importers

The food import business is a very dynamic sector in Israel, with over a hundred food importers listed by the Tel Aviv – Jaffa Chamber of Commerce.

Importers range from small 2-3 person sales operations that contract out distribution, to the larger companies who distribute with their own fleet of trucks and have their own employees who arrange products on supermarket shelves. There has been a trend toward consolidation among the food importers. Some in the trade contend that importers with annual turnover of under $50 million find it hard to provide the marketing and logistics needed for success.

As a result, there are about a dozen larger importers who are dominant in the retail market. Some, such as Diplomat and S. Schestowitz Ltd, are essentially distributors of fast moving consumer goods but do considerable business with selected food items. Others are best known for imports in specific sectors such as Sides and Son, and Leiman – Schlussel, for candy and sweets. Seyman Import handles of up-market food products from the U.S. and Europe. Maya Agency specializes in imports from the States. Malmud-Guri, Willi-Food and M. Prop are all well known importers. Many large Israeli food manufacturers are also large importers, not only of raw material, but of consumer products. The Nestle-owned Osem baked goods company imports Nestle chocolate and coffee, as well as pasta products. Carmel Wineries import European and California wine under its own “Carmel's Choice” label. Heinz is a partner with an Israeli baby food manufacturer and also operates a large import and distribution operation, Heinz-Foodline. Unilever’s Best Foods manufactures margarine and many other products under the name Israel Edible Products and Telma Brand, and also imports Best Food brands.

The largest retail food importer in Israel is the Meir Ezra group. The Meir Ezra group is unusual in that it has developed its own brand names for imported products from a variety of sources: Williger for canned goods, Tibon-Veal and Neto for meat, and Neto for fish. And while the company began and remains as a meat importer, it has now become a major producer and processor of meat, fish and poultry in Israel.

Because of the small size of the country, Israeli importers, particularly of newly introduced products, will all want exclusivity. The occasional exceptions are a few international firms that have their own marketing offices in Israel and choose to use multiple importers for distribution. Another exception is for products which are imported under tariff rate quotas. Since the authorities will not grant all of a TRQ to a sole importer, exclusivity is nearly impossible.

Many Israeli importers do believe that there is room for more American products in the Israeli market. They note that while European products have a longer history in the Israeli market, some U.S. companies have done well in recent years. Many of the leading U.S. brand names, who aggressively seek worldwide markets, are already represented in Israel by an exclusive importer or have established partnership arrangements with Israeli manufacturers. A few leading American brands have tried the Israeli market in past years and left the market without success. But importers point out that many of the second-tier and regional American brands are not seen in Israel.

Importers mention several common points for introducing products into Israel:

- Most importers seek an exclusive brand name that they can develop. It need not be an internationally advertised brand, nor a brand previously known in Israel.

- All want multi-year exclusivity on the brand line.

- They believe that promotion is essential for developing sales. Depending on the product, they use trade PR, in-store promotions, and general advertising for product introduction. They want manufacturer to share the costs of market promotion and development. Several cost-sharing systems are used.

For American producers seeking to enter the Israeli market, the selection of an exclusive Israeli importer is the most likely route. Active importers are well experienced in all of the regulatory, labeling, health certifications, logistic and sales issues of the Israeli market.

U.S. producers should realize that exports to the Israeli market will require adaptations, special arrangements, certifications, approvals, extra treatment, and extra costs. Independent importers, who share the primary goal of the manufacturer in bringing the product into the country, may be more willing than other operators to deal with all of these issues. Often, they seem more willing than the manufacturer to deal with these issues.

Company Profiles

Supermarket Chains

Over the last decade in Israel, the term supermarket chain essentially meant three large retail food chains. All are controlled by local owners, though Blue Square and Super Sol stock are traded in the U.S. Due to the continuous recession all main chains reported losses in 2002 and 2003 and went into a restructuring process, in which all of them cut staff and closed some of the losing stores.

Table 5 – The 3 Major Chains

Chain	No. of Stores In 2002	Commercial Area	Turnover in 2002	No. of stores in 2003
Super-Sol	165	4.0 million sq.ft.	$1.42 billion	148
Blue Square Coop	162	3.1 million sq.ft.	$1.29 billion	149
Clubmarket	130	2.5 million sq.ft.	Estimated $700 million	122
Group total	457	9.7 million sq.ft.	$3.40 billion	419

Each of the major groups operates several brands of neighborhood supermarkets, superstores, discount units and full price shops. While all three chains in all stores will only stock Kosher products, and while all are closed on Saturday, the Jewish Sabbath, all three chains also operate special “ultra kosher” discount chains, for the ultra-orthodox Jewish population.

Table 6 - Chain Stores Groups by Brand and Type

Store Type	Supersol Brands	Blue Square Brands	ClubMarket Brands
Neighborhood Stores 5000-15,000 sq. ft.	Super Sol	Super Coop	
Full Price Supermarkets 10,000 – 25,000 sq. ft.		Hyper Coop, Super Center City	
Discount Supermarkets 25,000-40,000 sq. ft.	Hypermeter	Super Center	ClubMarket
Discount / Hard Discount Superstores 50,000 -110,000 sq. ft.	Universe Club, Cosmos, Machsani Mazon	Mega, King Center	Jumbo, Hatzi Kupa
Special Kosher Stores (Discount)	Birchat Rachel	Shefa Mehadrin	Zol-Po

Source: BDI, Business Data Israel, “Food Store Chains”, January 2003

The multiplicity of store brands and the frequent conversions of store brands used by the same owners have been a common trend of all three chains in the past few years. The apparent explanation is that as the recession in Israel has lingering, each chain sought to reposition themselves as discounters. Thus each retail group has attempted to establish at least one chain brand as a “low price brand”. This has resulted in the renaming and redesign of existing stores and the appearance of new stores with new names (but the same owners).

Many analysts have contended that the name shifts have confused customers and eroded brand loyalty to any one-supermarket chain. In late 2003, it appears that the pendulum may be changing direction, and several plans are underway to merge sub-chains within each group.

“The Fourth Chain”

Over the last 5 years, and in the last two years in particular, several independent operators have opened “mini chains” (2 to 9 stores, so far) including large superstores reaching 110,000 sq feet. Several smaller chains have grown rapidly. These newcomers have been referred to collectively as “the forth chain” and numbered about 90-100 stores at the end of 2003. Several have announced expansions. The newcomers’ expansion is often into retail space vacated by the major chains.

The new stores have used a variety of strategies to compete with the majors, from deep discounting to seven day shopping to special product selections. It is clear that the three majors, two of which are reporting losses and loss of market share in 2003, are concerned about the new competition.

Table 7 – Some Newcomer Chains and Large Stores

Store	Number of Stores 2003	Number of stores planned	Type of Store	Saturday Opening?
Tiv Tam	9	20	Non-Kosher/International	Yes
Hatzi Hinam	4	?	Discount	No
Haviv	1		Discount	No
Rami Levi-Shikma	5		Discount	No
Madanei Manya	2	6	Non-Kosher/International	Yes
Falco	3		Frozen Meat Specialist	No
Victory	7			

The largest of the newcomers is Tiv Taam. Originally focused on the 1.3 million Russian immigrants to Israel that arrived in the 1990's, Tiv Taam from the beginning ignored the kosher segment of the market and sold Israeli pork products and non-kosher imports. In the last few years, the chain has expanded dramatically and with new and larger 50,000-80,000 sq. ft. stores opening, they have moved beyond the immigrant market into the mainstream of Israeli retailing.

In fact, there is an emphasis on exclusive imports, many ready-to-eat products, in-store cafes, and open-on-Saturday in the newest Tiv Taam branches. The chain will have 12 stores open by end of 2004, the largest 85,000 sq. ft. and 20 new stores by end of 2005.

Convenience Stores /Gas Marts

Table 8 - Convenience Store Chains

Store	Number of Stores 2003	Number of stores planned	Type of Store	Affiliation	Saturday Opening
Super Alonit	45	60+	Gas Mart and Grocery	Alon Energy, which recently bought control of Blue Square Coop	Yes
Yellow	47	94	Gas Mart and Grocery	Paz Gas	Yes
Menta	15		Gas Mart and Grocery	Delek Energy	Yes
Autototo	4		Gas Mart and Grocery	Sonol Energy	Yes
Stop Market	2	8	Large Convenience Store		Yes

Section III
Competition

For supermarket sales and all retail marketing, the American producer must be aware of the strong competition in the market from domestic, European and other suppliers. A wide variety of food products from around the world is available on Israeli supermarket shelves, and new products must fight for consumer acceptance to win shelf space and sales. Price competitiveness is important, but market penetration by U.S. brand name products is equally dependent on investment in sales promotion and market development.

Traders also note that the Israeli food market often demands more "special treatment" than other markets, beginning with kosher arrangements, Hebrew (and often additional language) labeling, health regulations etc. But even beyond these substantive issues, Israeli traders (and of course, manufacturers) flaunt their belief that Israeli tastes in food are quite unique, and that products popular in the United States are not necessarily popular in Israel. The list of food products that have been imported to Israel and have not been widely accepted by consumers is long.

However, once successful in finding a niche for their products, American suppliers who demonstrate consistent quality and reliability accompanied by responsiveness to importer needs, will find that the Israeli market will reward them with a high degree of loyalty and increasing consumer demand for their products.

Table 9: Competition by Category – $ million

<table>
<tr><th>HS</th><th>Description</th><th>Value of Comparable Retail Sector</th><th>World Imports 2002</th><th>World Imports 2001</th><th>USA 2001</th><th>US Share</th></tr>
<tr><td>02</td><td>Meat and Poultry</td><td>1,307</td><td>125.0</td><td>127.2</td><td>0.8</td><td>1 %</td></tr>
<tr><td colspan="7">Frozen beef imported primarily from South America is 50 percent of total beef market. All other meat and poultry is domestic. No non-kosher imports allowed.</td></tr>
<tr><td>03</td><td>Fresh and Frozen Fish</td><td rowspan="2">270</td><td>91.2</td><td>100.9</td><td>3.2</td><td>3%</td></tr>
<tr><td>16</td><td>Prepared Fish</td><td>35.9</td><td>35.8</td><td>6.4</td><td>18%</td></tr>
<tr><td colspan="7">Imports dominate the category. Norway, Portugal, Africa, U.S., Canada and Asian suppliers all compete for growing demand. U.S. tuna imported in bulks and canned here as Bumblebee and Star Kist. Despite its higher price, Rio tuna with spices has been introduced successfully,</td></tr>
<tr><td>04</td><td>Dairy</td><td>1,282</td><td>24.2</td><td>25.5</td><td>5.7</td><td>22%</td></tr>
<tr><td colspan="7">Domestic production is protected. Two large producers and over a dozen small producers market a wide variety of milk, cheese, and dairy specialties. Some cheese imports under tariff quotas, which will be increased in 2004. EU leads imports, but U.S. Philadelphia Cream Cheese is a market fixture.</td></tr>
<tr><td>07</td><td>Fresh and Frozen Vegetables</td><td>620</td><td>36.2</td><td>39.7</td><td>2.7</td><td>7%</td></tr>
<tr><td colspan="7">Minimal imports of fresh vegetables. Good quality frozen vegetables available, most locally grown but some imported in bulk by Israeli processors. A U.S. special kosher retail brand – Bodek - has caught on among religious sector. Also, retail private label imports from France.</td></tr>
<tr><td>08</td><td>Fresh and Dried Fruit and Nuts</td><td>690</td><td>73.2</td><td>85.0</td><td>40.7</td><td>48%</td></tr>
<tr><td colspan="7">Fresh U.S. apples and pears imports compete with Spanish supply for limited import needs of 8,000 to 12,000 tons, depending on local crop.
U.S. almonds account for almost $30 million of imports, and could be more if tariff quota were relaxed.
U.S. raisins and prunes also in demand, perceived as higher quality than local and Turkish competition. Tariff quota also restricts import growth.</td></tr>
</table>

HS	Description	Value of Comparable Retail Sector	World Imports 2002	World Imports 2001	USA 2001	US Share
09	Coffee, tea, mate and spices	150	41.2	48.1	6.1	13%
All raw materials imported. At retail, international brands compete with one dominant and several smaller domestic producers. Nestlé's Tasters Choice imported from U.S. is a leading brand, but Maxwell House brand is imported from France. Growing demand for specialty teas and exotic coffee blends.						

15	Margarine and vegetable oil	185		59		
U.S. supplies bulk soya and corn for Israeli crush, some low cost oil from South America. Plans to import U.S. margarine in retail packages during 2003 has not yet implemented.						

17	Sugar and sugar confectionery	289	156.8	168.5	5.5	3%
18	Cocoa and cocoa preparations	73	60.0	53.2	1.0	2%
European candy brands are prevalent, little from U.S. Mars and M&M ship to Israel from U.K. Nestle chocolate has captured market share with strong local partner for distribution strength. Repeated attempts to market Hershey have been unsuccessful. Wrigley's' Israeli office imports from France to compete with domestic Elite production. Bazooka produced here.						

19	Preparations of cereals, flour starch or milk; pastry products	1,204	81.5	82.0	16.3	20%
	Including:					
02	Noodles, Pasta	57		15.3	1.1	7%
04	Breakfast Cereals	84		21.5	8.9	41%
05	Cookies and Biscuits	138		24.3	3.1	13%
	Cakes, Frozen Pastry	206				

Pasta: Imported pasta is important on the market. Half of the imports from Italy, but growing imports from the far east. Leading domestic producer, Osem, is also largest importer from Italy. Breakfast Cereals: Imports are over half the market. EU and U.S. products compete with Israeli versions. All major international brands present in the market. Cakes: Several attempts to import fresh and frozen cakes from U.S. failed. Rich's and Pillsbury brands are produced here. Cookies: Several U.S. brands have disappeared from the market because of marketing policy with European partners. EU and Canada are strong in the market. Oreos imported from EU. Frozen Pastry: Growing domestic production of ethnic variety products, filo products, etc. Frozen pizza in demand, from local manufacture and imports.

HS	Description	Value of Comparable Retail Sector	World Imports 2002	World Imports 2001	USA 2001	US Share
20	Prepared fruits and vegetables	200	107.3	87.2	10.0	11%
Canned vegetable market valued at $320 million total. Imports are important. Canned Green Giant brand popular – corn produced locally and imported from France, peas from U.S. Heinz beans also popular - imported from Canada. Furman's beans imported from Pennsylvania. Canned fruit market dominated by Far East imports, with South Africa also appearing.						

21	Miscellaneous edible preparations		182.6	178.7	93.1	52%
Baby Food: Heinz-owned local producer Remedia captured 30 percent of the $89 million baby food market, until some defect in the production process was found recently. It's market share in vegetarian baby food has shrunk to zero. Other Remedia baby food dropped at the beginning to 0 and returned to between 6 to 7 percent. Some Gerber products from U.S. are imported regularly. Soya Products: In this $30 million market, two large Israeli firms produce and export a wide range of products. In soy milk, Belgium Alpro developed the market, and now several Israeli producers in the market, including Tnuva, the largest dairy and Strauss. Ready to Eat Meals: Several small and large Israeli firms produce instant noodle-based meals in cups, growing market for ready to eat frozen meals, casserole, quiches, pasta and meat, etc. Small scale imports.						

22	Alcoholic beverages	142	74.7	70.8	4.3	6%
Beer: Israeli brands plus Tuborg and Carlsberg are brewed locally. Increased imports from Europe, even Mexico. U.S. imports have small market share, can grow. Wine: Increased demand, increased Israeli production, increased inexpensive imports from EU, and South America. U.S. wines somewhat more expensive. Interest in Kosher and non-Kosher wines.						

Section IV
Best Product Prospects

Table 10: Category A: Products Present in the Market which Have Good Sales Potential

Category	Growth Prospects	Import Regime from U.S.	Opportunities/Constraints
Beer	Imports growing 3-4%	Free	Growing market/ local and import competition, requires marketing effort
Wine	Imports and local wine sales increasing 10-15%	TRQ for 200,000 liters	Growing market/ local and import competition, inexpensive wine from EU. Requires marketing effort
Pet Food	Stagnant Israeli Market	Free	U.S. dominates imports, new suppliers can compete
Cheese	Tariff Quota for Imports will increase to over 500 tons	Free within TRQ	Captive market within TRQ/ restrictive TRQ allocation, so far all the demand has been for one product: Kraft Philadelphia Cream Cheese. Israeli producers market a large range of low-fat cheeses: there may be room for quality low-fat imports.
Fish/Seafood	Israeli market growing. 20-25% Non-kosher seafood market expanding.	Most U.S. fish can enter free within TRQ	Growing Market/ Requires effort to develop importer chain and build reputation for U.S. fish. Competition from all other world suppliers
Cookies	Stagnant Israeli Market	Free	U.S. can compete on price against EU suppliers
Coffee/Teas	Market growing about 5% per year	Free	Growing taste for sophisticated blends, espresso, teas; Taster's Choice is only U.S. brand available here / Israeli consumers did not embrace Starbuck's effort here.

Table 11: Category B: Products Not Present in Significant Quantities, or Few Suppliers, which May Have Good Sales Potential

Category	**Growth Prospects**	**Import Regime from U.S.**	**Opportunities/Constraints**
Margarine		Free	One major manufacturer, owned by Unilever. U.S. imports expected by end 2003
Diet Products	Growing interest and market	Most Free	Some imports, few local products / still a small market; labeling and health claim issues may require considerable negotiation with authorities.
Organic and Health Food Products	Growing interest and market	Most Free	Small range of import, substantial local production / local competition, still a small market; labeling and health claim issues may require considerable negotiation with authorities. General Mills Israel is introducing a crunchy granola bar, developed for the Israeli market.
Ready to Eat Meals	Growing interest and market		Very little import of frozen meals, substantial local production of frozen dishes and dry meals in a cup opportunity for increasing the variety of products offers/ local competition, still a small market, Israeli tastes are selective

Table 12: Category C: Products Not Present Because of Import Barriers

Category	**Growth Prospects**	**Import Regime from U.S.**	**Opportunities/Constraints**
Non-kosher meat	Could be a market	Not allowed from any source	Some pressure for policy change
Kosher Beef	Could be a market	Free	Difficulty of Kosher certification of U.S. slaughter
Poultry	Could be a market	300 ton TQ, restrictive duty above TQ	Due to Kosher certification

Section V
Post Contacts and Further Information

Manufacturers interested in the kosher regulations for the Israeli market and other import regulations may refer to "Israel Kosher Foods - The World's Largest Kosher Market 2001", GAIN Report #IS1009. "Food and Agricultural Import Regulations and Standards". GAIN Report # 3007.

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Table 13: Appendix: Selected Retail Food Prices, August 2003

Bread, cereal and pastry		
Standard bread	750 G	0.58
White bread	750 G	0.59
Sabbath loaf, standard	500 G	0.68
Biscuits, petit-beurr	250 G	1.29
Regular white flour	1 Kg	0.60
Noodles	250 G	0.70
Macaroni	250 G	0.73
American rice (packed)	1 Kg	1.70
Beef, poultry and fish		
Fresh beef - breast	1 Kg	7.65
Fresh beef - ribs	1 Kg	10.00
Fresh beef - shoulder	1 Kg	11.12
Frozen beef - ribs	1 Kg	5.11
Liver, frozen	1 Kg	3.46
Poultry - fresh	1 Kg	3.15
Poultry - frozen, quality	1 Kg	2.74
Chicken - breast	1 Kg	5.83
Carps, live	1 Kg	4.20
Fish fillets	1 Kg	6.38
Canned tuna	170 G	1.15
Fats and margarine		
Soya oil, plastic bottles	1000 ml	1.49
Margarine	200 G	0.41
Margarine for spreading,	250 G	0.71
Milk and dairy products		
Milk pasteurized in bags	1 L	0.88
Yoghurt	200 Ml	0.47
Sour cream	200 Ml	0.44
Butter, local	100 G	0.59
Sour milk	200 Ml	0.29
White cheese, fat	250 G	1.05
Hard cheese of cow's milk	100 G	0.93
Eggs		
No. 2	12 Units	1.92
No. 3	12 Units	1.74
Sugar, jam &confectionery		
White sugar	1 Kg	0.57
Jam	900 g	2.27
Comfiture	330 G	2.63
Fruit toffee, packed	200 G	1.30
Milk chocolate, standard	100 G	1.11
Beverages		
Beer, ordinary	480 Ml	1.01
Carbonated drink	1.5 L	1.24
Citrus fruit beverages	2 L	8.78

Miscellaneous food products		
Tea, in bags (1 g)	100 Bags	3.86
Coffee, roasted and ground	100 G	1.38
Local instant coffee	200 G	5.29
Cocoa powder	150 G	1.58
Meals at restaurants and cafes		0.00
Hummus	1 Portion	2.86
Soup	1 Portion	3.96
Chicken with side-dish	1 Portion	8.27
Beefsteak with side-dish	1 Portion	9.47
Coffee	1 Cup	1.80
Vegetables (class a)		
Green beans	1 Kg	2.13
Carrots	1 Kg	0.94
Green peppers, dark	1 Kg	0.95
Green peppers, light	1 Kg	0.96
Tomatoes, flat	1 Kg	0.63
Tomatoes, round (sherry)	1 Kg	1.51
Cucumbers	1 Kg	0.71
Lettuce	Medium	0.83
Cabbage, white	1 Kg	0.57
Cauliflower	1 Kg	1.16
Eggplants	1 Kg	0.72
Vegetable marrows	1 Kg	1.31
Potatoes, fresh	1 Kg	0.85
Onions, dry	1 Kg	0.63
Fruit (class a)		0.00
Lemons	1 Kg	1.37
Table grapes - Sultanina	1 Kg	1.56
Table grapes - Muscat	1 Kg	1.57
Melons - Haogen	1 Kg	0.71
Apples - Grand Alexander	1 Kg	2.33
Apples - Jonathan	1 Kg	
Apples - Golden Delicious	1 Kg	1.99
Pears - Spadona	1 Kg	1.77
Peaches, white	1 Kg	1.58
Plums - Sageev	1 Kg	1.44
Plums - Santa Rosa	1 Kg	1.84
Apricots	1 Kg	
Water melons	1 Kg	0.45
Bananas	1 Kg	1.87
Avocadoes	1 Kg	
Persimmon	1 Kg	
Vegetable, fruit preserves,		
Peas, canned	550 g	1.16
Tomato puree	100 G	0.42
Olives, green, pickled	100 G	0.63
Eggplant salad	250 G	1.34

Hummous salad	250 G	1.54

Source: Israel Central Bureau of Statistics, Foreign Trade Annual Data

Table 14 - Imports, by HS Chapter, Million $

HS	Description	World Imports 2002	World Imports 2001	USA 2002	USA 2001	US Share 2002
01	Live animals	25.9	27.9	3.1	2.5	9%
02	Meat and edible meat offal	125.0	127.2	0.8	0.8	1%
03	Fish, crustaceans and mollusks	91.2	100.9	1.7	3.2	3%
04	Dairy produce; eggs, natural honey; edible products of animal origin	24.2	25.5	3.5	5.7	22%
05	Products of animal origin	2.5	2.6	0.4	0.4	17%
06	Live trees and other plants, bulbs, roots and other garden plants	7.6	6.7	0.0	0.0	0%
07	Edible vegetables, roots and tubers	36.2	39.7	2.5	2.7	7%
08	Edible fruits and nuts; peel of melons and other citrus fruit	73.2	85.0	36.3	40.7	48%
09	Coffee, tea, mate and spices	41.2	48.1	3.4	6.1	13%
10	Cereals	381.6	365.5	157.7	150.2	41%
11	Products of the milling industry; malt and starches; wheat gluten	42.8	43.5	15.1	15.1	35%
12	Oil seeds, grains, fruits, industrial and medical plants, straw and fodder	206.7	180.1	140.6	94.9	53%
13	Tree gum; resins, other vegetable saps and extracts	13.2	12.8	1.5	1.0	8%
14	Vegetable plaiting materials; vegetable products	4.6	7.8	2.3	2.7	35%
15	Animal or vegetable fats and oils; animal or vegetable waxes	57.8	59.1	5.8	9.0	15%
16	Preparation of meat, of fish, or of other aquatic invertebrates	35.9	35.8	6.0	6.4	18%
17	Sugar and sugar confectionery	156.8	168.5	3.7	5.5	3%
18	Cocoa and cocoa preparations	60.0	53.2	0.5	1.0	2%
19	Preparations of cereals, flour starch or milk; pastry products	81.5	82.0	10.2	16.3	20%
20	Preparations of vegetables, fruits, nuts and other plants	107.3	87.2	11.8	10.0	11%
21	Miscellaneous edible preparations	182.6	178.7	91.9	93.1	52%
22	Alcoholic beverages and vinegar	74.7	70.8	3.9	4.3	6%
23	Residues and waste from the food industries; prepared animal fodder	66.5	71.0	18.6	22.0	31%
24	Tobacco and tobacco substitutes	123.8	124.5	98.1	100.2	80%
	Chapter 1-24 Total	**2022.8**	**1960.6**	**619.6**	**594.0**	**30%**

Source: Israel Central Bureau of Statistics, Foreign Trade Annual Data