

# Breadtalk enters into turkeys market economics essay



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According to Alden, et al. (1999, p. 63) food and beverages are mostly viewed as a product category that is frequently consumed. As society grows demand of food increasingly raise the quantity and quality. The industry's market potential is extremely large. Seeing the needs and potential market BreadTalk Group Limited was founded and has been extremely successful in many countries.

Founded as an F&B operator in Singapore in 2000 and listed on the SGX in 2003, the BreadTalk Group Limited has rapidly expanded to become a distinctive household brand owner that has established its mark on the world stage with its bakery, restaurant and food atrium footprints.

Currently, BreadTalk has a network of over 500 bakery outlets in 16 countries and more than 6000 employees. BreadTalk is market leader, higher economies of scale, continual and successful innovation, segment diversification, strong Franchise partnerships (Business overview, 2012). But in the next few years, challenges of BreadTalk are huge because of intense competition, market saturation, no direct control over overseas operations. Moreover the revenue of BreadTalk only two countries (Singapore and China) is the revenue drivers.

#### Graph 1: Geographical Breakdown of Revenue

Source: BreadTalk, 2011 Looking at the chart we can see that China is currently one of its key markets outside of Singapore. This is not only the advantages but also potential risks such as: depend on the China market, only invest in the China market and ignore other potential market.

To maintain a competitive advantage and continue to lead the market, BreadTalk must have appropriate strategies: continues to lead the China market and seeking potential market as Turkey. In this paper, mainly focus on analyzing the environment of Turkey market in terms of Political, Economic, Social, Technological, Environment and Legal which is known as PESTEL to enter Turkey market.

## **1. 2 Turkey Overview**

World-renowned strategist Professor Michael Porter has said that the Turkish economy has been superb improvement in competitiveness in recent years and proven its potential as a magnet for international investors. Turkey, strategically located in the Eurasia region as a gateway between Europe, Middle East and Central Asia, is a dynamic country with a robust economy and a young population, often described as the “ China of Europe”. Turkey is the world’s 17th largest economy and a member of both the G20 and the OECD. With 73 million inhabitants, it is the second most populous nation in Europe, after Germany, generating a greater demand for product consumption. With the current potential it will be an inspiration to BreadTalk penetrated market.

## **2. Turkey environment analysis**

### **2. 1 The Political Environment**

Turkey political is element that BreadTalk couldn’t control. Altogether, the general political of Turkey is stable. That is a positive factor for foreign investors and BreadTalk who intend to entry into Turkey market. We’ll analyze political factors to finding opportunities and challenges in Turkey.

## **2. 1. 1 Change of Government**

The change of government political environment in Turkey affects the business environment through the legislation and different regulations. Turkey has successfully carried out the structural reforms after the severe economic recession in 1999 - 2001. The reforms include market liberalization to promote foreign investment, privatization, agricultural reform, strengthen the banking system and fiscal discipline, monetary tightening policies to reduce inflation and a floating currency rates. Turkish government is creating new legislation to help the industry and different companies to grow and foreign investment to improve and make it better for Turkey as a national advantage.

With the advantages of free trade and investment policy, many economists said that while the money withdrawn from the major economies, investors are pouring money into Turkey-fastest growing economy in Europe. This will create the favorable condition for BreadTalk activity in Turkey market. Because, BreadTalk will be support of government and feel safety when doing business here.

## **2. 1. 2 Corruption**

Corruption is one of the major factors that affect investment environment and hampers the investment attraction. In Turkish political system the existence of corruption as a pervasive, entrenched, and enduring problem has long been an "open secret". These positive trends are reflected by the World Bank's worldwide governance indicators, with Turkey scoring 57, 9 on a 0 to 100 scale in terms of control of corruption compared to 42, 9 in 2000 (World Bank, 2010a). However, despite these positive developments, other <https://assignbuster.com/breadtalk-enters-into-turkeys-market-economics-essay/>

indicators suggest that the country remains confronted to challenges of rampant corruption, and weak enforcement of anti-corruption policies. Turkey performs below average in Transparency International's 2011 Corruption Perceptions Index, with a score of 4, 2 on a 0 (highly corrupt) to 10 (highly clean) scale, indicating relatively high levels of public sector corruption (Transparency International, 2011).

Turkey's Extent of corruption shows potential risks if BreadTalk entry into this market. BreadTalk can encounter excessive bureaucracy, a slow judicial system, weaknesses in corporate governance, unpredictable decisions made at the local government level, and frequent changes in the legal and regulatory environment. As such, even investors who brave the reports of corruption and attempt to establish businesses in Turkey may still find their efforts thwarted. Fortunately, Turkish politicians have been vocal about fighting corruption in recent years. In February 2010, Turkey adopted a national anti-corruption strategy 2010-2014

## **2. 1. 3 Terrorism**

The Republic of Turkey is one of the many countries that have been struggling with terrorism for decades. The risk of loss due to acts of political violence remains a prominent worry for investors as well as foreign firms. In Turkey the current political challenges is the series of violent terrorist attacks that have happened in the country due to Islamic extremist, Kurdish radicals, Turkish militants that may have link with Al-Qaeda. This is a disadvantage for host country and investor\_ Breadtalk. An understanding of terrorism will help BreadTalk has been prepared to limit risks.

## **2. 1. 4 Relationship between Singapore and Turkey**

Relationship between Singapore and Turkey has been continuing unabated despite negative effects of the global economic crisis. Total trade volume between Turkey and Singapore has maintained a steady level of 1 billion USD. As of 2010, exports to Singapore reached 567. 9 million USD, whereas our imports were at the level of 341. 5 million USD. At present, there are 49 Singaporean companies operating in Turkey. (Relationship between Singapore and Turkey, 2011)

In 2012, Turkish Deputy Prime Minister Ali Babacan visited Singapore where he met with Singapore President Tony Tan, Deputy Prime Minister Tharman Shanmugaratnam, Minister of Foreign Affairs K. Shanmugam and Minister for Trade and Industry Lim Hng Kiang (Julia Ng, 2012). The two leaders agreed to further deepen bilateral cooperation across different sectors including trade, investments and finance. So Turkey and Singapore is now enjoying warm relation. That is a positive factor for BreadTalk who intend to go into Turkey market.

To look back on political panorama of Turkey we can conclude that Turkey is one of the investors with the ratio between the risk and the most profitable in the world. In addition, the intervention of Turkey in Syria, the delay to join the European Union and the country's corruption was also disturbing.

## **2. 2 Economic**

Turkey's economic is risen from the financial crisis in 2000-2001, which became the fastest growing economy among the countries in the Organization for economic co-operation and development (OECD), the

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second fastest of the G20 group to grow 9% in 2010 and 8.5 percent in 2011 (CNBC/VOA, 2011). Turkey became a destination for investors. The market size and market share of BreadTalk may be affected by so many elements of the economy. In this part, we'll analysis factors such as GDP, recession, inflation, income and unemployment rate to finding opportunity for BreadTalk in Turkey.

## **2.2.1 GDP growth rate and GDP per capitaC: UsersInspironDesktopindexmundi\_ex66. jpgC: UsersInspironDesktopindexmundi\_ex67. jpg**

Graph 2: GDP – per capita (PPP) (US\$) Graph 3: GDP – real growth rate (%)

Source: CIA World Factbook, 2011

The Turkish economy has shown remarkable performance with its steady growth over the last nine years. The structural reforms, hastened by Turkey's EU accession process, have paved the way for comprehensive changes in a number of areas. The economy grew with an average annual real GDP growth rate of 5.2 percent over the past nine years between 2002 and 2011 (CIA World Factbook, 2011). Together with stable economic growth, GDP per capita in Turkey increased steadily rising from about USD 7,000 in 2000 to USD 17,000 in 2011 (CIA World Factbook, 2011). This means that the index has more than doubled in nine years. Significant improvements in such a short period of time have registered Turkey on the world economic scale as an exceptional emerging economy, the 17th largest economy in the world and the 5th largest economy when compared with the EU countries, according to GDP figures in 2011 (IMF World Economic Outlook,

2012). While many economies have been unable to recover from the recent global financial recession, the Turkish economy expanded by 9.2 percent in 2010, and 8.5 percent in 2011, thus standing out as the fastest growing economy in Europe, and one of the fastest growing economies in the world. Moreover, according to the OECD, Turkey is expected to be the fastest growing economy of the OECD members during 2011-2017, with an annual average growth rate of 6.7 percent (OECD Economic Outlook No: 86, 2011). Clearly, the economic scenario of Turkey is somewhat optimistic and bright for the future if BreadTalk entry into Turkey.

## **2. 2. 2 Recession**

Many experts have said that is clearly facing a major crisis in the world economy, the Turkish economy is showing extraordinary performance. In commentary in The Wall Street, Turkey's economic performance was compared to that of the Asian Tigers (Etyen, 2011). Turkey's unemployment rate has decreased strongly. In other words, the Turkish economy has created jobs for the idle labor force by increasing industrial labor.

Graph 4: Unemployment rate (%)

### **Source: CIA World Factbook, 2011**

The current account deficit (CAD), the only problem in the Turkish economy, has shown a tendency towards stability and will cease to be a problem when the growth rate declines. In addition, it should be noted that although the deficit is currently rising, the rate of the country's total amount of debt as compared to gross domestic product (GDP) has declined. So even though the CAD has increased, external savings have played a role to clear the debts.

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Furthermore, exports grew significantly despite rising currency exchange rates. We can show that the global recession will have a limited impact on Turkey economy. However, the analysis of the advantages and disadvantages is necessary if BreadTalk penetrated the market when the global economy is difficult.

Disadvantages during recession time

Advantages during recession time

- Reduced profits due to escalating cost and declining income.
- The unpredictable behavior of customers also affects the sales revenue.
- The competition becomes fiercer.
- The worse is the bankruptcy and new company like BreadTalk is not an exception.
- Recession also includes the stock markets and property markets to fall dramatically. BreadTalk can invest when price of stock and property are low and wait until the economy goes back to the boom cycle and then the investments will be worth quite a lot more.
- A lot of support from the government if BreadTalk penetrated at this time.
- A part of the company can be creating for people.

Table 1: Disadvantages and Advantages during recession time in Turkey

## 2. 2. 3 Inflation

The inflation rate is also crucial for marketers to look deeper that could influence the sales volume of products and bring in profits.

In the past nine years, Turkey has experienced remarkable disinflation (from an average of 70.4% in the period of 1993-2002 to single-digit rates) as well as a marked decline in the volatility of inflation. Turkey's inflation rate, measured by the consumer price index, declined from an average of 70.4% in the period of 1993-2002 to 6.4% at the end of 2010, the lowest reading in over four decades. During the course of 2011, the CPI inflation rate increased from 6.4% in December 2010 to 10.45% in December 2011. (CIA World Factbook, 2011)<http://www.hazine.org.tr/en2/economy/inflation2011.gif>

Although, their inflation rates have decreased in Turkey but tend to rise up again. The main causes leading to a strong increase of inflation is due to the rising price of energy, commodities and food. This will affect the UK operations of BreadTalk in Turkey. For the case of BreadTalk, the leaders should consider some disadvantages below:

High inflation will affect purchasing power of customers. Buyers are afraid of the price increases. Since then, the company's profit will be affected.

High inflation also affects the disposable incomes of different group of people. As the price of goods keeps increasing, the living expenditure also rises. As a result, Buyers will conservative in spending and corporate profits decreased significantly.

High inflation lead to management costs such as raw material costs, marketing costs and employees' salary also escalate.

High inflation will discourage the investment from international companies like BreadTalk. Because the Government must have the policy to cope with inflation and the willingness of government to attract foreign investment.

To look back on economical panorama of Turkey we can conclude that a sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms in effect since 2002 has integrated the Turkish economy into the globalized world, become the 167th largest economy in the world and the 5th largest economy when compared with the EU countries (IMF World Economic Outlook, 2012). And when BreadTalk is setting objectives and strategy for the future in Turkey market, economic growth is a positive factor to consider.

## **2. 3 Social**

Analysis social and cultural aspects of Turkey will give BreadTalk a wider view on choosing the right products, the appropriate advertisements and marketing approaches.

### **2. 3. 1 Population**

Turkey's social strength that the Turkish have a growing proportion of young population which the Turkish government can use to create new job by encouraging and training them up to have new skills and qualified to work in different sectors and this will be a national advantage for having a very skill-

full workforce. Turkey was already one of the most populous and young people nations in Europe. C: Users\InspironDesktop\indexmundi\_ex21. jpg

Graph 6: Age structure in Turkey Graph 7: Population growth in Turkey

### **Source: CIA World Factbook, 2012**

More than half of its population is under the age 25. The country's population has grown from 65. 7 million in 2000 to over 79. 6 million in 2012. Over 2012-2020, Turkey's population is projected to expand by 8. 3% , according to mid-year statistics, overtaking Germany to become the most populated nation in Western Europe (Turkey's Population Young and Rapidly Expanding, 2012). There are obvious opportunities for BreadTalk when the company entry into Turkey such as:

With a market size more than 78 million people, Turkey becomes a very potential market for many global companies. And with BreadTalk, their main market in Turkey will should be Istanbul area.

With its young population, food and beverage consumption and production are both increasing in Turkey

Population growth rate will create a dynamic consumer market and a potential market for BreadTalk to penetrate.

The young population offers a responsive workforce.

### **2. 3. 2 Culture**

Cultural differences may be the most important problem to developing globally accepted marketing strategies (H. Lee, et al., 2007). So, learning

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about cultural of life and food influence how the business strategy of BreadTalk in Turkey.

The Turkish culture is very rich. It is influenced by the ancient history of Anatolia, the Mediterranean, the Middle East, the Caucasus, Eastern Europe, and Aegean culture. Today, this heritage also determines the cultural life of Turkey. The culture of tolerance for all religions and languages living together in peace, spread from Istanbul to Anatolia. This tradition of tolerance is one of the most important inheritances that Turkey can share with the world.

In Business Culture, Turkish business culture is built on trust and familiarity; it is important to take the time to establish personal relationships with your Turkish contacts in order to succeed in business there. Since most Turks are devout Muslims, meetings should be scheduled around the five daily Islamic prayer times. Be sure to arrive on time, as Turks place high importance on punctuality. Business is often discussed over restaurant dinners in Turkey.

In Cultural food, Turkish cuisine includes many different stews of vegetables and meat (lamb and beef primarily); borek, kebab, and dolma dishes; and a sourdough bread eaten with almost every meal. Borek is a pastry made of many thin layers of dough interspersed with cheese, spinach, and/or ground meat. Kebab is the common word for meat roasted in pieces or slices on a skewer or as meatballs on a grill. Dolma is the generic name for dishes made of vegetables (tomatoes and peppers) and leaves (grape, cabbage, and eggplant) that are stuffed with or wrapped around rice or bulgur pilaf. The Turkey has habit of eating bread. Both bread and water are considered holy.

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Bread is a source of energy. It is the most inexpensive source of calories needed by the human body. This would be advantageous for BreadTalk however it also means that the market has a lot of competitors. Turkish beverages include tea, coffee, ayran (buttermilk), boza (a fermented bulgur drink taken in the winter), and rakî (an aniseed-flavored brandy usually mixed with water). Carbonated drinks have become popular with young people, and beer gardens in major cities have become hangouts for men. The major food taboo in Turkey is pork, which is forbidden to Muslims.

Cultural analysis gives an overview of social Turkey. Thereby, BreadTalk has to consider this for their marketing plan in Turkey:

A highly effective way of expanding a business of BreadTalk in Turkey is through television commercials and newspaper, word of mouth

The company should be aware of Islamic traditions and sensitivities

With the turkey, meat and bread make an inseparable combination. Because BreadTalk should make products that fit and avoid combined with pork.

If BreadTalk open system restaurants chain in Turkey is a potential because people have a habit of going to a restaurant on the weekends and business is often discussed over restaurant dinners.

### **2. 3. 3 Consumption Patterns**

The food industry and beverage of Turkey has received a steady growth in recent years, with the Turkish consumers becoming more demanding, driven by the multitude of choices provided by the mass grocery retail. Besides,

Turkey has become one of the largest markets for its goods baked with bread – a key element of the Turkish diet – leading to leading to some of the highest rates of per capita consumption in the world. It provides opportunities for profitable investment BreadTalk.

Turkey has traditional eating habits that remain stable in the majority of the population. Turkey is one of the largest markets, with rising incomes, packaged bread consumption presents an increase and at the same time, demand for different bread varieties, such as high-fibre and specialty artisan breads offer an opportunity for this high profit market.

## **2. 4 Technological**

Technological progress has contributed to the economic development of the country and has an important factor in their competition. In the future as well, scientific and technological progress is expected to follow the destination provided by economic policies and competitive strategies.

Turkey has well-developed infrastructure throughout much of the country that is capable of supporting significant development. Turkey has made many reforms to its infrastructure sector. Besides, the development of the internet is also seen as an effective factor in the business environment of BreadTalk. The number of Internet users has been rising rapidly in Turkey and standing at 15th place around the world, according to CIA, the World Factbook (2011)

Graph 8: Internet users in TurkeyC: UsersInspironDesktopindexmundi\_ex118.jpg

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Source: CIA World Factbook, 2011

The development of the Internet in the social life of the Turkey will support BreadTalk greatly:

Internet will become a tool to promote the brand, and an introduction to the business. This will help save advertising costs.

BreadTalk can take this as a distribution channel in the form of online business with customers buying large quantities

## **2. 5 Environmental**

One of the environmental strength's in Turkey is the prosperous biodiversity they have. Turkey has a very affluent natural resource base and has ranked ninth on biodiversity in the European countries. Examples of the type of biodiversity they have are not only a range of wild species but important domestic species such as wheat, lentils, chickpeas, pears, apple, chestnut and pistachios. The biodiversity has a very great potential for the development for Turkey and this is an advantage for BreadTalk because it will provide abundant and cheap raw materials. However, challenges of the current environmental in Turkey are the high pollution levels and need protect.

### **2. 5. 1 Pollution**

Turkey's economic development has brought with it fears of increased environmental degradation.

Graph 9: 2010 Pollution Indexes in Turkey

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Source: <http://www.clrsearch.com>, 2010

The chart shows that the level of pollution of Turkey is alarming. Most of the air pollution is caused by household heating, traffic, industrial sites, the discharge of pollutants by neighboring countries has contaminated the Black Sea... So, today government of Turkey has many activities to protect the environment as environmental Pollution Fines. BreadTalk should know the environment situation of Turkey to not be infringed. In addition, the company should also be the same with the government to protect environment to build brand image with the consumers.

## **2. 5. 2 Environmental protection**

Environment protection is very critical right now in Turkey. Business has to strictly follow the rule that imposed by host country government. However, there are also some other motives for BreadTalk when entering Turkey to environment protection such as:

BreadTalk will also carry out some program for going green in their Turkey stores such as reduce paper using, switch off the light, limited plastic bags and encourage the staff to use public transportation. This brings beautiful images for BreadTalk in the minds of employees, customers and government.

Environment protection achieve comparative advantage terms of cost saving, offering more benefits to consumers and being friendly with the environment.

BreadTalk could take advantage of environment protection campaign and attend some environmental awards of the government to keep in touch with them. This will help company dealing with governmental issues.

Environment protection as a way of branding to make BreadTalk familiar and deep in mind of customers

## **2. 6 Legal**

### **2. 6. 1 Law**

The legal strength's in Turkey is the comprehensive legal structure they have. The judicial system is made up of general courts which deal with domestic cases, heavy penal courts which deal with more serious case, military courts which will deal with the military cases and the Constitutional Court which is the highest level of courts that will deal with many different cases which is essential in the Turkish government such as war crimes. This is an advantage for BreadTalk as this shows that the Turkish government are strict on the law and will enforce the law if need be, it will allow the company to have a fair trial.

Another legal advantage in Turkey would be the robust framework for the business entities, as the company who are looking to invest into Turkey will not need to go through a very long and lengthy business registration process as there is a freedom to start, operate and close a business by the Turkish regulatory environment. so for example in Turkey, it will take on average 6 day to starting up a business compared to 43 days in the other world countries which is a much longer time and could be beneficial for the type of

market the company is involved with. This is advantage for BreadTalk when company entry into Turkey because BreadTalk will not lose many time.

BreadTalk is food and beverages company because the company pay attention to the Food Safety regulation. The HACCP quality assurance system was introduced in 1995 in Turkey and since 2008 according to the Regulation on Inspection and Control of Food Safety and Quality all food manufacturers must apply HACCP as compulsory (Food quality assurance schemes in Turkey, 2011). To protect customers and increase the prestige of the brand, BreadTalk should be combined with organization and obey the law.

## **2. 6. 2 Tax**

One of reasons that BreadTalk should invest in Turkey is low taxes and incentives:

Corporate Income Tax reduced from 30 percent to 20 percent

Individual Income Tax varies from 15 percent to 35 percent

Tax benefits and incentives in Technology Development Zones, Industrial Zones and Free Zones could include total or partial exemption from Corporate Income Tax, up to 80 percent grant on employer's social security share, as well as land allocation.

New R&D and Innovation Support Law

Region and sector-based incentive system

### **3. Conclusion**

Analyzing PESTEL for the business environment of Turkey gives BreadTalk a wider and deeper view on Turkey to come up with the decision to enter Turkey market. Turkey can best withstand before the global financial crisis. In addition, Turkey attracts investors by young labor force, capable, modern infrastructure, large domestic market, a number of free trade agreement, investment environment free... Besides, one of the current challenges of BreadTalk is the high rate of inflation, corruption, terrorism.