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Jamaica & Dep

HRI Food Service Sector

Report

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Report Highlights:

The United States continues to account for the largest proportion of Jamaica's tourist arrivals. Total consumption in the tourist market is expected to increase with the recovery of the industry during 2003. The hotels and resorts sub-sector is expected to remain the fastest growth area in the Jamaican HRI sector and will continue to present increasing opportunity for food and beverage consumption.

Includes PSD changes: No
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Santo Domingo [DR1], JM

I. Market Summary

Over the last 10 years, mean per capita consumption in Jamaica's non-tourism market increased, in real terms, by an average of 5 percent per year. At current prices, Jamaica's mean per capita consumption expenditure stood at US\$1,784 during 2001. Modest growth (3- 4 percent per year) in the Jamaican economy and increasing remittances from Jamaicans overseas are expected to continue fueling increased consumption in Jamaica's non-tourism market.

While food and beverage continues to account for the largest proportion of Jamaica's mean per capita consumption expenditure, its relative contribution has consistently declining over the last five years from a high of 54.7 percent during 1995 to 43.5 percent during 2001. Total consumption of food and beverage in Jamaica's non-tourism market segment was estimated at US\$2.03 billion during 2001, an 11.3 percent increase over 2000. Following the present consumption trend, which is expected to last for at least 3 years, Jamaica's total consumption of food and beverages is projected to increase to US\$2.17 and US\$2.27 billion during 2002 and 2003, respectively.

Over the past decade, the largest proportion of Jamaica's food and beverage expenditure has been on meals-away-from-home, 27 percent during 2000 and 2001, translating into absolute values, at current prices, of US\$547 million. The consistent increase in the relative proportion of total food expenditure on meals-away-from-home from 24.3 percent during 1996 to 31 percent during 1999, and the subsequent decline and leveling-off at 27 percent during 2000 and 2001, signals a corresponding leveling-off of Jamaican consumer preference for fast food, characterizing the early stage of a mature market segment. The planned expansion of two U.S. fast food franchises into unserved geographic segments in the northeastern provinces of Jamaica is expected to generate modest growth in fast food consumption over the next two to three years. The tendency for Jamaicans to have meals away from home is associated with the proliferation of U.S. fast food franchises in larger cities and rural towns across the country, changing lifestyles of Jamaican consumers resulting from exposure to North American culture through electronic media and travel, and an increasing number of mature students and single-member households. Within the restaurant sub-sector, fast food chains are the largest growth area and will continue to provide a substantial market for food consumption.

As the goods-producing sector of the Jamaican economy continues to languish under changing international trading environment, the services sector, and, particularly, the tourism industry, will remain the impetus to Jamaica's economic growth. Despite the negative impact of the September 11 terrorist attacks, the softening of the U.S. economy and the general down turn in global travel, Jamaica tourism industry remained a significant contributor to GDP.

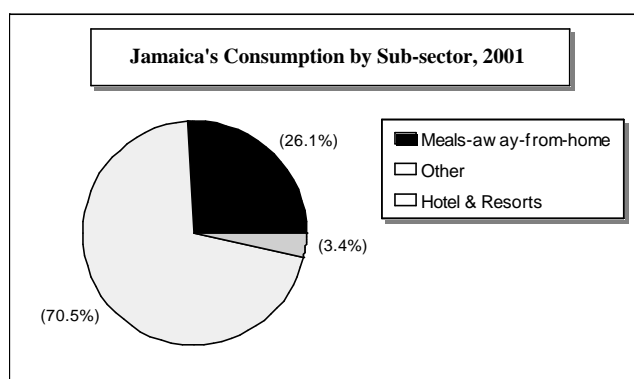
During 2001, total tourist arrivals to Jamaica declined by 5.1 percent to 2.12 million persons, of which stop-over visitors were 1.28 million and cruise ship passengers 840,000, reflecting a 3.5 and 7.4 percent decline in stopover and cruise ship passenger arrivals, respectively. Subsequent to the September 11 terrorist attacks in the United States, tourist arrivals to Jamaica plummeted to its lowest, declining by 13 percent per month for the first four months of 2002. The sector commenced slow but steady recovery during mid 2002, with arrivals increasing by 4.2 and 4.9 percent during July and August, respectively. As of August 2002, total tourist arrivals to Jamaica were 890,401 persons, down 6.7 percent from 2001. Total tourist arrivals for 2002 is expected to

be approximately 2.01 million persons. The expected full recovery of Jamaica's tourist industry during 2003 will largely depend on the preservation of stable U.S.-Iraqi relations, and improvement in Jamaica's image as a safe, civilized destination.

The United States continues to account for the largest proportion of Jamaica's tourist arrivals, increasing from 71.8 percent during 2000 to 74.6 percent during 2002. The United Kingdom and Canada followed with contributions of 9 and 7.7 percent, respectively.

Total tourist expenditure and expenditure on food and beverages declined by 7.5 and 15.3 percent during 2001, from US\$1.3 billion to US\$1.2 billion and US\$85 million to US\$72 million, respectively. The more-than-proportionate decline in food expenditure is due largely to the 9.38 percent decline in the average expenditure of stopover visitors on food and beverages and the influence of all inclusive hotels. During 2001, all-inclusive hotels, offering massively discount rates, operated at an average occupancy level of 69.4 percent compared to 35.1 percent for non all-inclusive properties. Notwithstanding the decline in tourist expenditure, total consumption of food and beverages in Jamaica's HRI sector increased from US\$576 million to US\$619 million during 2001. Total consumption in the tourist market is expected to increase with the recovery of the industry during 2003. The hotels and resorts sub-sector is expected to remain the fastest growth area in the Jamaican HRI sector and will continue to present increasing opportunity for food and beverage consumption.

Foods consumed in public institutions (hospitals, infirmaries, schools and prisons) are mostly supplied through government contracts with domestic producers, including the Jamaica Dairy Farmers Federation, the Beef Farmers Association and other local farming groups. Government institutions is not an attractive market segment for U.S. suppliers, as they provide almost exclusive support to domestic production.



Macro economic factors that affect consumption patterns are as follows:

Macro Economic Recovery - Following four consecutive years of contractions, the Jamaican economy returned to a growth path during 2001. The Economic authorities have projected the economy to grow at a modest three to four percent per year for the next three years. As the economy grows, the associated increase in per capita income and employment is expected to generate increasing demand for consumer goods, including food and beverages. Ongoing structural shift in the economy from the productive sector to the service sector will increase

Jamaica's dependence on imported products.

Smaller Households - More than 43 percent of households in Jamaica has one or two persons. Almost half (44%) of the two wealthiest quintals of the population are single member households and 46.5 percent of households in the wealthiest 40 percent of the population are single male households. This continues to help fueling the demand for meals away from home.

Increasing remittances and per capita disposable income. - Increasing real per capita consumption expenditures, influenced in part by remittances and the informal sector, will continue to create opportunities for imported food products in Jamaica's non-tourism market. Total remittances to Jamaica increased steadily over the last 5 years, reaching US\$960 million during 2001. Remittances from Jamaicans overseas contributes significantly to household income in Jamaica.

Fiscal debt burden - Jamaica has one of the largest debt burdens in the world, with public debt at 146.9 percent of GDP during 2001, compared to 111.1 percent of GDP during 2000. The central government runs a fiscal deficit of J\$20.1 billion. It is widely speculated that, in order to reduce the fiscal deficit, Jamaican consumers will face additional transfer payments to the national treasury during 2003. This could nullify any increase in consumer income. Debt financing will continue to restrict public expenditure to the provision of the most basic necessities.

Advantages and Challenges for U.S. products in the Jamaica Market

Advantages

- U.S. visitors account for the overwhelming majority of Jamaica's annual tourist arrivals, creating demand for U.S. products (fruits and vegetables, wines, beef).
- U.S. fast food franchises already dominate Jamaica's restaurant segment and continue to enter the market.
- The proximity of Jamaica to the U.S., the prevalence of U.S. cable television, and travel has created a distinct preference for U.S. foods and other consumer goods.
- Seasonality of domestic production and inconsistent quantity and quality of local products give imported products advantage in the HRI sector during certain periods.
- The growth of the tourism industry and the services sector in general fuels greater demand for imported products.
- Increasing direct importation by large hotel chains and fast food franchises.

Disadvantages

- High tariff barriers, strict sanitary and phytosanitary requirements, burdensome labeling and other standards, and strong government support for domestic agriculture have caused most fast food franchises to revert to certain local products - beef, fruits and vegetables, chicken and fish.
- High prices for U.S. products (Eg., wines, beers and frozen french fries) have caused U.S. products to lose market share to cheaper products from Canada, Chile, Italy, New Zealand and domestic production.
- Inefficient customs procedure and inadequate refrigeration facilities at the port of entry have reduced the quality of imported perishable products and increased final prices to consumers.
- Green Globe Certification causes hotels to favor local food and beverages.
- Advances in CARICOM negotiations will allow cheaper products (breakfast cereals, bakery products, fish and rice) from other CARICOM countries to dominate the Jamaican market.

II Road Map For Market Entry

L. Entry Strategy

The best way to enter the hotel and traditional/fine dining restaurants segments of the Jamaican HRI food service sector is through an institutional-type local representative. Most independent hotels either do not import or import smaller quantities of specialty products that would not be economical for a local distributor to focus on. Direct sales to local hotel chains can be successful, since in some cases the local purchasing department acts on behalf of branches in other parts of the Caribbean.

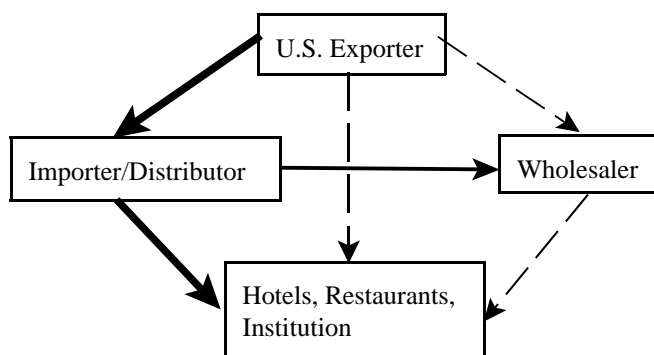
Most traditional restaurants procure a wide variety of imported products from local intermediaries at frequent intervals, due to the small quantities demanded. In addition to careful pricing strategies and follow-up product support on the part of the U.S. exporter, the success of imported products in the HRI sector is highly dependent on the intermediary's knowledge of institutional distribution.

Most fast food restaurants, are involved in direct import and, as such, the best way to enter the fast food segment is direct sales.

M. Market Structure

The market structure of Jamaica's HRI food service sector has changed slightly over the past three years, but has remained very straight forward.

HRI Food Service Distribution



The three major changes in the structure of the HRI sector -- the increasing direct importation by larger hotels, increased proportion of all-inclusive hotels in the total hotel stock, and the increased emphasis on environmental/eco-tourism -- result from three major factors:

- i. Market liberalization and increasing price competition from all-inclusive hotels.
- ii. The continuous aggressive expansion, promotion and positioning of the all/super-inclusive concept by Jamaica's two largest hotel chains - Sandals and Couples Resorts- and the increasing demand for these products/services by North American visitors.
- iii. The introduction of Green Globe Certification as a marketing tool in the tourism industry.

Since the late 1990's, all-inclusive hotels have outgrown other hotels, 4.25 percent compared to 2.3 percent, respectively. The growth in the number of all-inclusive hotels has exerted pressure on the entire hotel sector to reduce overall cost, and particularly the cost of food and beverages, to consumers. To achieve cost competitiveness, approximately 30 percent of the larger hotels, a few with elaborate storage facilities, have started direct importation of consolidated containers of less perishable food products and specialty items that are not available from local intermediaries. Large chain hotels, some with a Caribbean network, import products directly through a central purchasing department. Most hotels still rely on local importers, due to the lack of adequate storage facilities, low quantities demanded of individual products and lack of specialized skills to effectively handle import procedures and logistics.

In the Jamaican tourism industry, the highly desired Green Globe Certification, an eco-tourism thrust, has been changing all aspects of hotel's operations, from architectural design, equipment and furnishings, food and beverage procurement to sporting activities. The certification is based fundamentally on an holistic approach to environmental preservation. Under Green Globe

Certification, hotels are encouraged to, *inter alia*, maximize the use of local products, particularly food and beverages. This has sparked an increased propensity by certified hotels to procure products of domestic origins. Five of Jamaica's larger hotels are Green Globe certified and several others are modifying operations to fulfill the certification criteria. The Green Globe concept is widely embraced as an effective tool in targeting the European market.

Local products are typically procured from large highly integrated food processing companies in the case of meat and fisheries products and frozen and canned products. Fresh fruits and vegetables are procured through agricultural marketing agencies, Eg., the Jamaica Agricultural Society and Rural Agricultural Development Authority. Fast food restaurants acquire local products from food processors and local intermediaries.

C. Sub Sector Profile

Hotels and Resorts

During 2001, hotels accounted for 69 percent of Jamaica's total tourist accommodation, resort villas 15.5 percent, guest houses 10.86 percent, and apartments 4.35 percent. Total hotel rooms during 2001 were 16,569, with all-inclusive and non all-inclusive accounting for 59.84 and 40.16 percent, respectively. Total room capacity is expected to expand significantly during 2003, particularly due to the planned addition of a new 360 room all-inclusive resort on Jamaica's south coast. Local hotel chains have been expanding into other Caribbean markets, such as the Bahamas, Cuba, and the Eastern Caribbean. Most existing properties have reported continued renovation and expansion. Despite the 5.1 percent decline in tourist arrivals during 2001, the tourism sector, backed by concerted private and public sector support, is expected to remain a primary growth area in the Jamaican economy, presenting enormous opportunities for the consumption of high-value imported products. In addition to private investment in the tourism sector, public sector efforts to develop Jamaica's south coast into a main tourism area, as a central plank in the economic development model, will greatly accelerate growth in the industry. International business and leisure travel drives overall growth in the tourism sector and food and beverage consumption. With U.S. visitors accounting for the overwhelming majority of tourist arrivals to Jamaica, total consumption of food and beverage in the hotel/resort sub-sector will continue to be skewed in favor of U.S. products.

Company profile

Name of Hotel/ Resort	Location	Number of Hotels	Total Rooms	Purchasing Agent
Jamaica Grande	Ocho Rios	1	720	Direct / Importer
Halfmoon	Montego Bay	1	419	Direct / Importer
FDR	Runaway Bay / Trelawny	2	172	Importer
Holiday Inn	Montego Bay	1	500	Importer
SuperClubs:			1,496	Direct / Importer
Grand Lido	Negril / Ocho Rios / Trelawny	3	582	N/A
Hedonism	Negril / Runaway bay	2	514	N/A
Breezes	Montego Bay / Runaway Bay	2	400	N/A
Wyndham	Montego Bay	1	487	Importer
Sandals and Beaches Resorts	Ocho Rios/ Montego Bay/	N/A	2,315	Direct / Importer
Couples Resorts	Negril / Ocho Rios	3	577	Importer

Restaurants

Company profile

Name of Restaurant	Type	Location	Number of outlets	Purchasing Agents
Wendys	Fast Food	Kingston	2	Importer
Kentucky Fried Chicken	Fast Food	Island wide	22	Direct / Importer
Pizza Hut	Fast Food	Kingston	4	Direct / Importer
McDonalds	Fast Food	Kingston/ Montego Bay / St. Catherine	11	Direct / Importer
Island Grill	Fast Food	Island wide	10	Importer
Norma's	Traditional Family Type	Kingston	2	Direct / Importer
Rib cage	Steak House	Kingston	2	Direct / importer

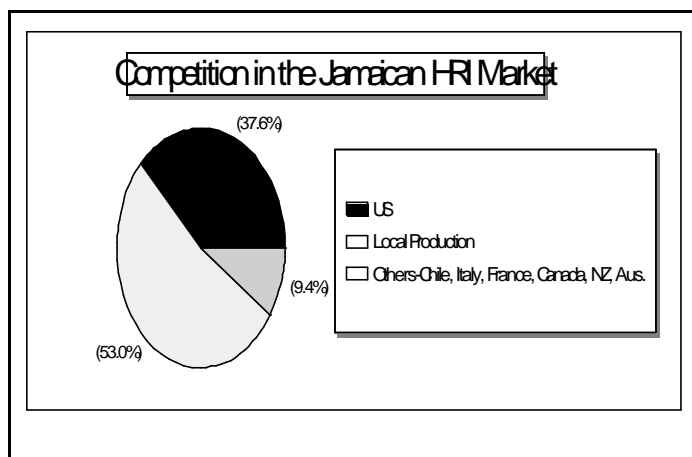
Fast food restaurants are the single largest segment of the restaurants sub-sector and provide excellent marketing opportunities for U.S. high-value food products. Fast food restaurants account for an estimated 48 percent of total expenditure on meals away from home, amounting to US\$263 million during 2001. For some U.S. franchises, demand customarily exceeds supply during peak hours, limiting the availability of certain augmented services, such as home delivery. In Jamaica, fast food restaurants, with relatively less expensive products, provide a convenient and cost effective alternative to certain types of traditional restaurants. The concept also provides an opportunity for low to middle income consumers who desire meals-away-from-home. As Jamaican consumers continue to embrace North American culture, fast food franchises are expected to remain strong in the Jamaican food service market.

Over the last five years more than 30 restaurants have being added to the stock of fast food restaurants in Jamaica and a further 35 restaurants are projected to be added within the next two to three years. During 2001, another U.S. franchise, Churches Chicken, entered the Jamaica market while Taco Bell exited the market. Only a small, uneconomical portion of Jamaican consumers developed a preference for Taco Bell's products. U.S. fast food franchises are well represented in Jamaica, including Wendy's, Burger King, Popeye's, Kenny Rogers, Kentucky Fried Chicken, Pizza Hut, Domino's Pizza, Churches Chicken, Subway and McDonald's. One of the most successful local fast food chains, Island Grill, has experienced enormous success and expansion, doubling its total outlets from 5 to 10 restaurants during 2001 and is now competing directly with the major U.S. franchises. Other local brands have recently entered the market and are capturing market share by virtue of their delivery services. **Most U.S. franchises have modified their menu to meet Jamaican consumers' taste preferences.**

It is the general belief by fast food operators, that, while certain segments of the market in the corporate and resort areas are maturing, there are still underserved market segments, particularly in the eastern and western provinces and certain corporate areas that are usually ignored because of social instability.

While mid-level restaurants are losing market share to fast food franchises, fine dining restaurants are thriving on the country's income disparity and the demographic profile (youthfulness) of the employed labor force. Two of Jamaica's top fine-dining restaurants are expanding from the cooperate area into the western provinces.

Fast food franchises use between 10-50 percent U.S. products. The major local products that are used by fast food franchises are beef, chicken, fruit juices, vegetables, eggs and pork products. The



The major imported products are potatoes, french fries, oil, ketchup, sauces, bakery products, chicken fillet and cheeses. High duties and questionable sanitary/phytosanitary regulations have created a preference for local meats, dairy products, fruits and vegetables and eggs in the restaurants sub-sector.

Institutions

The institutions segment of the Jamaican HRI food service sector does not present substantial opportunities for U.S. exports. The demand by institutions is generally met from local production.

II Competition

In general, the primary competition to U.S. products in the HRI food service sector is from local production. Most hotels and fast food franchises source beef, chicken, pork, fruits and vegetables from the domestic market. However, local products could easily lose market share to imports, due to inconsistent quantity and quality. High-priced U.S. wines have captured only a small share of the estimated US\$21 million market for wines and other alcoholic beverages in the hotels sub-sector. The major competitors to U.S. wines are Chile, Italy, France and Spain. In addition to local production, high-end U.S. beef, lamb and specialty dairy products face competition from Australia and New Zealand. Guyana is the major competitor for U.S. seafood. French fries and whole potatoes from the U.S. have been losing substantial market share to price-competitive products from Canada and the Netherlands. Most sauces, salad dressings, some fruits, vegetables, bakery products and nuts are imported from the U.S. As U.S. products become more expensive, their overall share of the Jamaican HRI food service market could decrease in the medium term. Price and quality are the main variables in the purchase decisions, particularly for all-inclusive hotels.

Imported food and beverages in the hotels sub-sector varies between 40 and 60 percent of total food and beverage consumption, with the U.S. presently accounting for approximately 82 percent of total imported products. The relative size of the restaurants sub-sector and its high consumption of local products have drastically reduced the position of U.S. products in the overall HRI food service sector.

IV Best Product Prospects

A. Products present in the market with good sales potential

In the Jamaican hotel and restaurant sub-sectors, there is high demand for wine, lamb, seafood (fish, lobster, shrimp), special cut beef and veal, pork products, pasta, nuts, cheeses, french fries, potatoes, bakery products, sauces, vegetables and fruits (especially apples, grapes, peaches, pears). Hotels

are targeting particular groups that will create seasonal demand for certain products, such as kosher.

Products not present in significant quantity but which have good sales potential.

All sub-sectors of the Jamaican HRI sector have unmet demand for pork products. However, the presence of Pseudo rabies in the U.S. precludes the export of U.S. pork products to Jamaica unless they are hermetically sealed. Specialty cheeses are not available in sufficient quantities to hotels. The demand for seafood and kosher products is greater than supply.

V. Post Contact and Further Information

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Other Sector Report

View the Jamaican Retail Food Sector Report (2002) at <http://www.fas.usda.gov>