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# Guatemala

## Retail Food Sector

### Report

### 2003

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**Report Highlights:**

Guatemala's supermarket sector has grown tremendously in the last few years. Presently there has been some consolidation of the main players and Royal Ahold, a Dutch company, has purchased the largest supermarket chain.

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Includes PSD Changes: No  
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Annual Report  
Guatemala [GT1]  
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## I. MARKET OVERVIEW

### A. ECONOMIC CONDITION

Guatemala's economy grew at over 4% per year during the 1990's. However, since 2000 the economy has been in the doldrums and has not been able to grow more than 2.2% a year. Many contribute this to the GOG's populist government, which allegedly has been involved in huge corruption scandals. This has diminished the desire of the private sector to invest. In addition, the GOG has taken on a very anti-business attitude and has been in constant conflict with the business community. Guatemala's GDP for 2002 was a little over \$21 billion.

Guatemala is one of the participants in the Free Trade Agreement being negotiated between the U.S. and Central America. This agreement is to be signed in December of 2003. This is going to offer U.S. exporters tremendous opportunities in the near future.

Other issues that have affected the economy are:

- Low international prices for sugar and coffee, which are major exports for Guatemala;
- Uncertainty created by the GOG constantly changing the rules affecting business, and creating a negative environment for investment. Many firms are taking a wait and see attitude before they invest in any form of production;
- High interest rates on loans made in local currency.

Despite these negative factors, U.S. agricultural exports to Guatemala have continued to grow during the last few years.

- Total U.S. agricultural exports grew from \$237 million in 1997 to \$352 million in 2002.
- Bulk commodities had varied little during 1997-2001, but in 2002 climbed to a record \$137 million, a 45% increase over the previous year. This is mostly a result of higher prices, and not higher volumes.
- Intermediate agricultural products grew from \$82.5 million in 1997 to a record \$103 million in 2002.
- Consumer-oriented products increased from \$53.2 in 1997 to \$102 million in 2002.

## B. INCOME DISTRIBUTION

Despite the slower economy, demand for U.S. products continues to grow, and opportunities exist in many sectors. However, it is important to understand the income distribution of the country, in order to properly target markets. Of a population of 12 million, income is concentrated in the upper class, with 63% of income in the hands of the top 20% of the population. The polarity in income distribution determines a particular pattern of consumption, where the majority of the population consumes merely for subsistence.

Therefore, luxury goods can only be targeted to a significantly small portion of society. However, U.S. food products are very competitively priced and are sought out by both high-income and middle-income consumers. Many U.S. food products, such as grains, poultry, dairy and pork are cheaper than domestically produced products.

Guatemalan households spend relatively more money on food than education and health. Food and non-alcoholic beverages account for 37.1% of the basic basket. Consequently, Guatemalan consumers are extremely sensitive to price changes in food items.

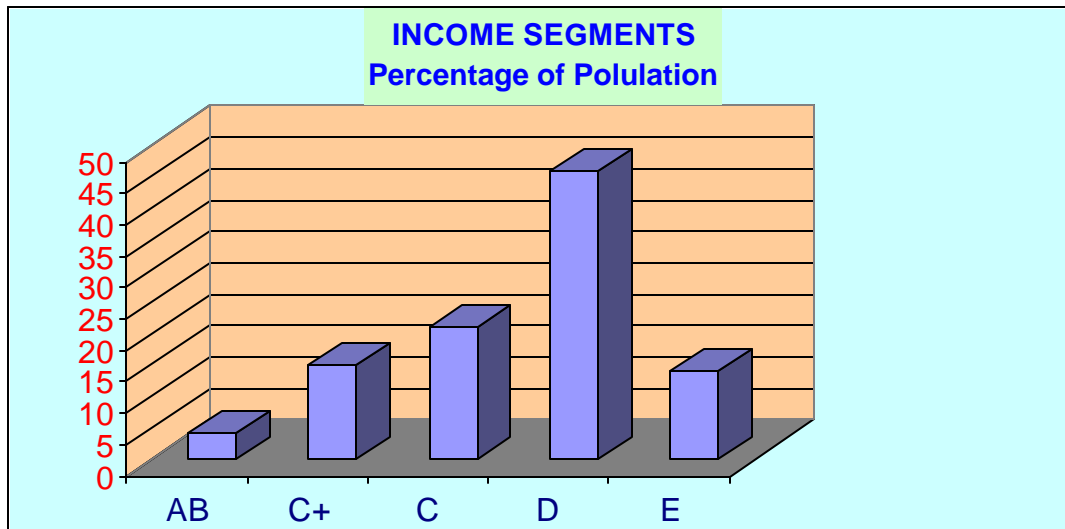
There is also a big difference between rural and urban populations. The urban population spends 31.6% of its income on food purchases, while the poorer rural population spends 46.9%. Furthermore, looking at Guatemala City, the picture changes even more. Only 28.8% of expenditures in the metropolitan area are on food purchases. Realizing where the wealth is, the supermarkets have expanded first in the metropolitan area, and then in larger cities, leaving the smaller towns without any units. This also explains why most distributors only cater to the metropolitan market and have ignored the interior of the country. However, there are ample opportunities in the interior for U.S. products, especially those products that are priced for low- income and middle-income markets. Furthermore, the concentration of urban populations and the increasing middle class offer relative potential in the interior of the country for U.S. firms interested in forming alliances with smaller distribution companies that cater to the markets in the interior of the country, and use route systems to get products to the "mom & pop" stores in the smaller cities and towns.

- The urban population is estimated at 4.7 million, with an annual growth rate of 3.2%.
- The middle class is estimated at 3.8 million with an annual growth rate of 1.6%.

### *Guatemalan Household Expenditures*

ITEM	%
Food & Non-Alcoholic Beverage	37.1
Shoes & Clothing	7.0
Rent, Electricity and Water	21.6
Furniture & Household Goods	6.7
Health	7.3
Transportation & Communication	7.7
Recreation	4.6
Education	3.3
Other	4.6

*Source: Ministry of Economy*



Source: Advertisement Agencies

- AB - is the top 4% of the population that can afford anything; the only difference between A and B is that A's own their own planes. They are the jet setters.
- C+ - is the upscale middle class that can afford most food products; they tend to be professionals with family incomes over \$2500 a month.
- C - this is the general middle class that must watch how they spend their income; they have some savings ability but very little.
- D - this is the lower class that is just surviving. They are subsistence buyers, and can only afford the basics.
- E - this group eats when it can; it has no purchasing power and is below poverty.

### C. MARKET SIZE

Guatemala in 2002:

- Total food expenditures of more than \$2 billion.
- Total consumer-oriented and edible fisheries' market estimated at \$1 billion.
- Total agricultural imports were \$897 million.
- U.S. share of total agricultural imports was 39%.
- Total consumer-ready imports were \$443 million.
- U.S. share of consumer-ready imports was 23%.

Guatemala's economy is the largest in Central America with a GDP of over \$21 billion.

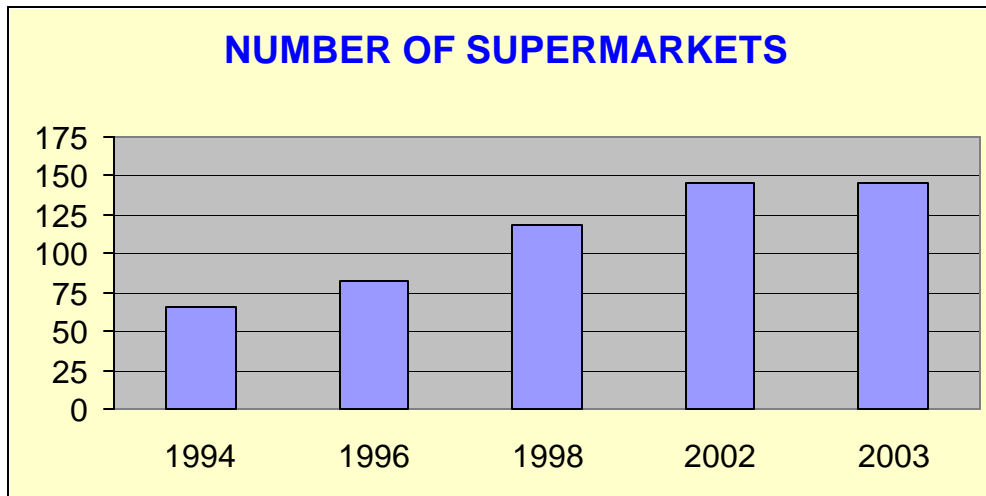
**D. ADVANTAGES & CHALLENGES**

Advantages	Challenges
Of the 12 million Guatemalans 500,000 are in a position to afford <b>any</b> imported goods, and an additional 4 million can afford <b>competitive</b> U.S. food products.	The economic condition of the country limits imports, especially the constant weakening of the local currency.
Guatemalans view U.S. products as of higher quality and safer than national products.	There is a lack of brand awareness among importers, retailers and especially consumers.
The expanding retail industry and the growing demand for new and better products by consumers create an exceptional opportunity for new imported goods.	Some imports cost much more than nationally produced products, and purchasing power for many consumers is lacking.
Importers generally favor trading with U.S. exporters because of reliability.	Imports must go through a complicated bureaucratic process, and there are high tariffs and quotas on various items.
The growing food processing industry is looking for new and better food ingredients.	There is limited infrastructure and distribution, especially on perishable products.
Effective market promotion can overcome price sensitivity, and retailers are open to this and will readily participate.	Regional competition is strong, especially from Mexico, El Salvador and Chile.

**E. RETAIL MARKET**

Over the last seven years the supermarket sector has been growing rapidly, more than quadrupling in sales from \$128 million in 1995 to \$650 million in 2002. This increase is due to the increase in the number of outlets, the changing purchasing habits among consumers, who now are going to a supermarket more than before, and the increase in brand awareness. Retail outlet sales have grown tremendously in the last few years. In 1994, under 15% of food sales were at supermarket-type retail outlets; the rest was at traditional wet markets and corner stores. However, by 2002 the percentage had increased to 36%.

The number of supermarkets has grown in the last six years. In 1994 there were only 66 units, by 1998 there were 116, and this year there are 146.



Source: FAS Analysis

In September 2001, the second and third largest supermarket chains in Guatemala merged. La Torre and Econosuper now have 22 units combined. The reason for their joining forces was to compete better against the La Fragua group, which dominates the market with their three concepts, Hiperpaiz, Tiendas Paiz and La Despensa Familiar. Because of the stores' locations, La Torre will cater to the more affluent consumer, while Econosuper will service the lower income consumer. Imported products will make up 30% of La Torre's product mix, while Econosuper will have less than 15%.

**II. ROAD MAP TO ENTRY**

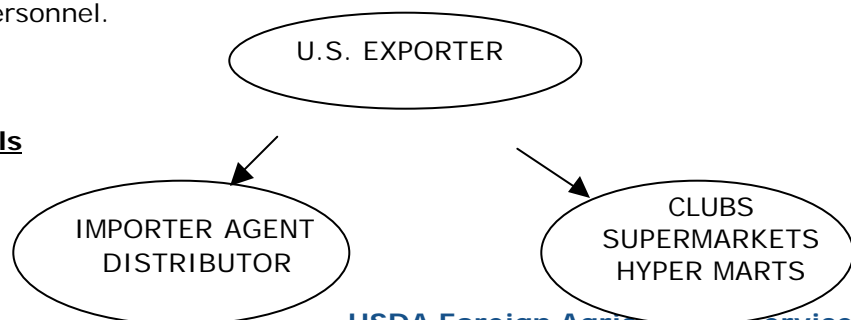
**A. SUPERMARKETS, HYPER MARTS & WAREHOUSE CLUB OUTLETS**

**Entry strategy**

Success in introducing your product in the market depends on local representation and personal contact. Selecting a distributor is the easiest and fastest way to enter the market. In particular, it is best if this distributor is already supplying the supermarkets, in order to benefit from their existing customer base. The local representative or distributor should be able to provide market knowledge and guidance on business practices and trade-related laws, as well as sales contacts. In many cases the local representative or distributor is also the importer. The FAS office in Guatemala maintains listings of companies that represent or distribute U.S. products in Guatemala. The office also has ongoing activities that provide opportunities to meet the Guatemala n trade.

In order to improve the odds of success in entering the market, U.S. suppliers should provide labeling or re-labeling services, competitive pricing, credit, catalogs, printed material and samples to importers/distributors. Firms should also consider providing support to importers in order to develop sales, by way of shared advertising costs of new brands, as well as training programs for sales personnel.

**Distribution Channels**



- Normally, an importer or agent, who may also be the wholesaler and/or the distributor, imports products.
- Products represented by agents tend to be better promoted.
- Most major supermarkets directly import some of their products.
- Most importers work directly with brokers out of Miami.

**Company Profiles**

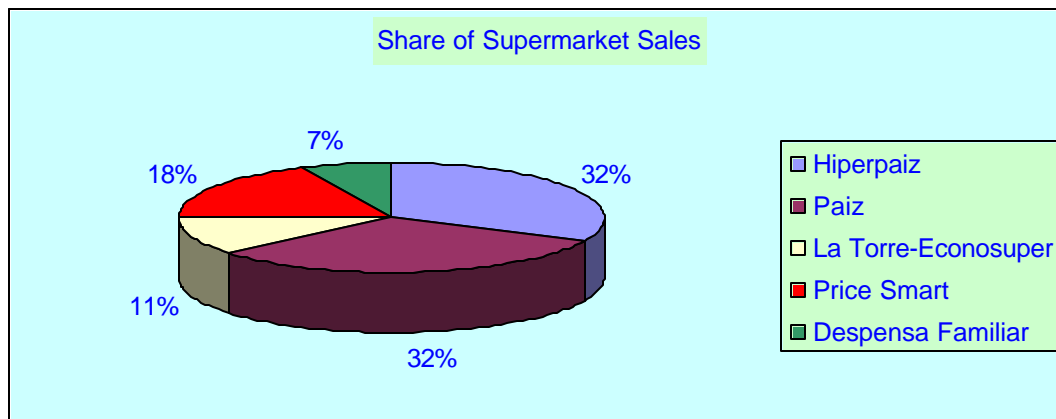
**Yearly Food Sales in U.S. Dollars**

**A** = Under 5 million                      **B** = 5-20 million  
**C** = 21- 50 million                      **D** = Over 50 million

Retailer	Ownership	Sales	Outlets	Location	Purchase Type
Hiperpaiz * Hypermart	Local, Ahold	D	6	Guatemala City	Direct, Distributor
Paiz * Supermarket	Local Ahold	D	26	Nation Wide	Direct, Distributor
Despensa Familiar* Supermarket	Local, Ahold	C	56	Nation Wide	Distributor
La Torre Supermarket	Local	B	12	Guatemala, Esquintla	Direct, Distributor
Econosuper Supermarket	Local	A	10	Guatemala City	Direct, Distributor
Price Smart Warehouse	Local, U.S.	D	2	Guatemala City	Direct, Distributor

\* These stores are all part of the La Fragua Group, and the Dutch firm Royal Ahold owns 50% of the stock.

La Fragua, which had 90% of the market during the 1990's, now only represents 71% of the market. Price Smart has been able to capture 18% of the market in three years.





### Trends & Highlights

- There has been a consolidation process among supermarket chains, not just in Guatemala, but also in El Salvador and Honduras. La Fragua has added 26 units in El Salvador in the last three years and opened the first HiperPaiz in 2002 in El Salvador and one in Honduras.
- Supermarkets are starting to look at markets in the interior of the country and are expanding in that direction. Most of the units added in the last three years have been in the interior.
- Supermarket sales continue to grow and take sales away from wet markets.
- Imported products are capturing a larger share of the shelf space, going from 38% in 1999, to 45% in 2002.
- Convenience and partially prepared foods are gaining ground as consumers try to lower time spent preparing foods.
- Overall, frozen prepared foods are now accounting for 6% of imported food sales, up from 2% in 1999.
- The membership discount club and bulk purchase concept has gained acceptance among consumers, as many find wholesale clubs much more suited for one-stop shopping.
- Food sales account for 20-25% of gross sales at wholesale clubs.
- Multimart, a four-store chain, went bankrupt in 2002. It had only represented 2% of retail sales in 2001.

### **B. CONVENIENCE STORES**

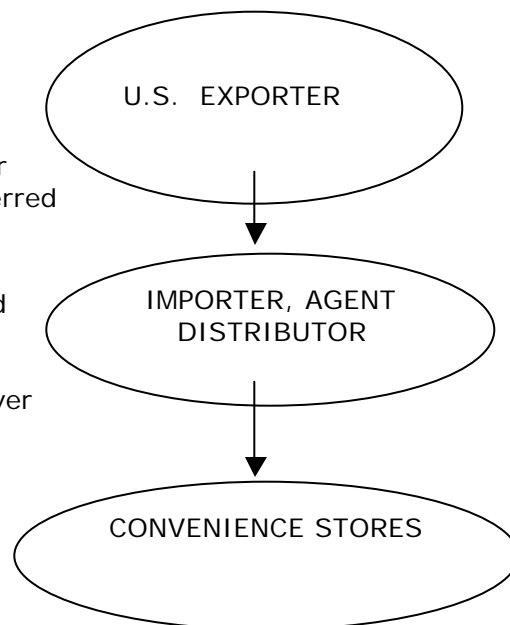
Since their purchasing power is smaller, most convenience relies on agents, importers and/or distributors for their product. The same companies that supply the supermarkets also supply the convenience stores.

#### Entry Strategy

Entry is very similar to the supermarkets, hypermarkets and clubs. Please refer to page five of this report. However, there is one important difference that must be considered. The selected partner must have national distribution, or he won't be able to service all the convenience stores spread out all over the country.

**Distribution Channels**

- Normally, an importer or agent, who may also be the wholesaler and/or the distributor, imports products.
- Importers can sell to convenience stores through their central distribution centers; however, this is not preferred by the chains and may limit sales.
- Direct distribution to the units is the preferred method of distribution and the best way to maximize sales. This allows the distributor/agent to monitor store inventories more closely, and make sure units are never out of product.



**Company Profiles**

***Annual Food Sales in Millions of U.S. Dollars***

- A** = 5-10 million
- B** = 10 - 20 million
- C** = Over 20 million

RETAILER	OWNERSHIP	SALES	OUTLETS	LOCATION	PURCHASE TYPE
Essomart	Local & US	C	34	National	Distributors
Star Mart	Local & US	C	17	National	Distributors
Super 24	Local	C	19	National	Distributors
Select	Local & US	B	13	National	Distributors
Express	Local	A	12	National	Distributors

**Trends & Highlights**

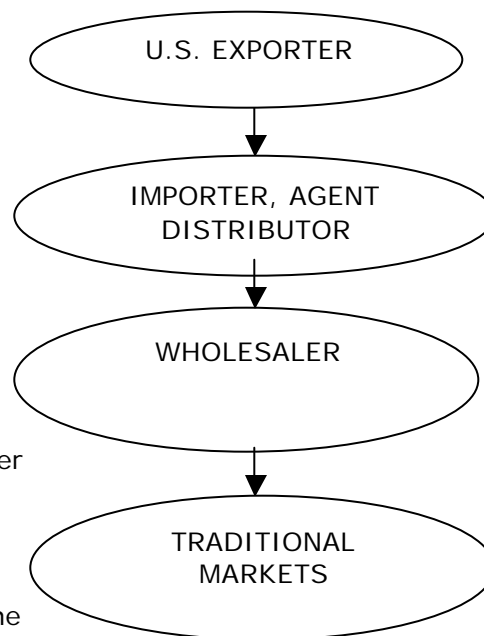
- The convenience stores are the only business that offers 24-hour service besides pharmacies.
- Most convenience stores are found along main boulevards and busy avenues, as well as on the three national roads.
- They are also found in some of the major cities; however, the majority of the stores are located within Guatemala City limits.
- More than 70% of the products in the convenience stores are imported, with most from the U.S. In fact, many of the POS materials are written in English.
- 30% of their sales are prepared foods, which include hot dogs, sandwiches, soups, fried chicken and pizza.

- Over 90% of their non-gasoline sales are food items, including beer and liquor.
- Average sales per unit are roughly \$1 million a year.
- Total Sector grew 9% in 2002, and 5% of that growth was in prepared foods.
- Growth for 2003 is expected to be only 5-7%, due to the slow economy.
- The main players are Essomart, Tigermart, Starmart Select and Super 24. All of them, except Super 24, also sell gasoline, and are operated by gasoline companies. All stores sell fast food, mostly hot dogs and sandwiches.
  - Esso operates Essomart and Tigermart.
  - Texaco operates Starmart.
  - Shell operates Select and Express.
  - The country's largest conglomerate, the Castillo Hermanos group, which also owns the national beer company, operates Super 24.

### C. TRADITIONAL MARKETS

#### Entry Strategies

There are two types of traditional markets in Guatemala. One is the open-air market. This is where the local farmers sell their products. It is set up similar to a farmer's market. Each person has a stand and sells their product every day, and at the end of the day takes home whatever is left. These markets sell a lot of fresh produce. The second are the corner stores, which are "mom and pop" operations. The number of these corner stores is too large to count. It is estimated that there are two of these per every city block in Guatemala City alone. They are very small, on average 30 square feet, and carry an inventory on average of \$500. Again, the way to enter this market is through importers, distributors, and wholesalers. Most of the companies that supply this sector are the same that supply the other two. This sector accounts for very little of the imported food sales. The only imported product from the U.S. that sells well in this sector is cup-a-noodle soup.



#### Distribution Channels

- The distributor is the same who supplies supermarkets and convenience stores.
- The main difference is the inclusion of at least one wholesaler, sometimes more than one for products sold in the interior of the country.

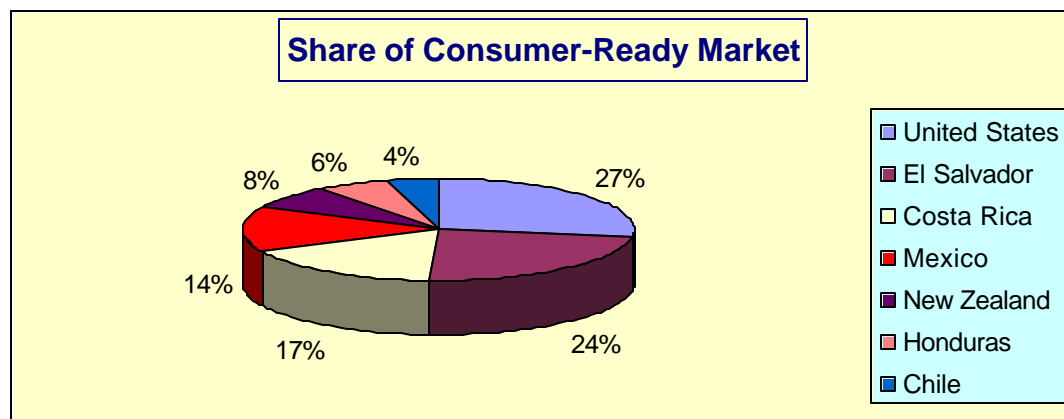
- This wholesaler gets the product to his customer base by route system, going store to store on a daily basis.
- They do not work on the basis of a purchase order, but carry sufficient inventory to supply the entire route.

### Trends & Highlights

- Products entering the open-air markets should be low cost and handled through a wholesaler.
- Products entering the mom and pop stores must be relatively non-perishable and low-cost items.
- Traditional markets pull much of their product from farmers and small wholesalers.
- Guatemala's underdeveloped infrastructure limits the size of these wholesalers.
- About 64% of retail food sales are still made through traditional markets.
- There has been a move away from open-air markets due to their unsanitary practices.
- Small corner stores have a higher price per unit than supermarkets.

### III. COMPETITION

The Central American countries, Mexico and Chile are the main competitors for the Guatemalan import food market. The existence of a free trade agreement between the Central American countries provides a great opportunity for constant exchange of products. Mexico has been expanding into the Guatemalan market and recently signed a free trade agreement with the northern triad of Central America. This new agreement has helped Mexico expand its market size, and become a more serious competitor of the U.S. Mexico already has a large presence in the bread, snacks, fresh produce and other consumer-oriented markets. Chile has also been gaining ground and is also negotiating a free trade agreement. Chile is very prominent in the fruit and wine markets.



El Salvador has traditionally been Guatemala's main trading partner and still continues to be an important partner, increasing its share of the Guatemalan market from 19.4% in 1999, to 24% in 2002. U.S. share has recovered a little from 24% in 2001 to 27% in 2002. Chilean fruits have been gaining market share, at the expense of the U.S.

#### IV. BEST PROSPECTS

##### A. PRODUCTS PRESENT IN THE MARKET WITH GOOD SALES POTENTIAL

Recent data show that U.S. exports of processed fruits and vegetables, meats, and poultry have significantly increased. These products recently accounted for 55% of the U.S. consumer-oriented exports to Guatemala. FAS Guatemala believes there will continue to be growth in these sectors.

Other products with great market potential are:

- Wheat Flour                                      Baked Snacks and Candies
- Cheese    Frozen Foods
- Deli Meats                                        Processed fruits and vegetables

Guatemala has completed its tariff reduction commitments. All food products without tariff rate quotas have a tariff of 0%, 5%, 10%, or 15%.

##### B. PRODUCTS NOT PRESENT DUE TO TRADE BARRIERS

There are no products that are banned in the market. There are quotas on many items, including wheat, corn, rice, and apples. For a complete explanation and a review of how to export food products to Guatemala, please read this office's Exporter Guide 2002 at [www.fas.usda.gov/scripts/attacherep/defaults.asp](http://www.fas.usda.gov/scripts/attacherep/defaults.asp).

#### V. POST INFORMATION CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to Guatemala, please contact the U.S. Foreign Agricultural Affairs office at the address listed below.

Office of Agricultural Affairs, U.S. Embassy  
Avenida Reforma 7-01 Zona 10  
Guatemala, Ciudad 01010  
Tel: (502) 332-4030  
Fax: (502) 331-8293  
E-mail [AgGuatemala@fas.usda.gov](mailto:AgGuatemala@fas.usda.gov)

For more information on exporting U.S. agricultural products to Guatemala and other countries please visit the Foreign Agricultural Service home page <http://www.fas.usda.gov>