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Jamaica & Dep

Retail Food Sector Report

2003

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Report Highlights:
Despite modest contraction during 2003, the Jamaican retail food sector remains attractive for imported high-value products.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Santo Domingo [DR1]
[JM]

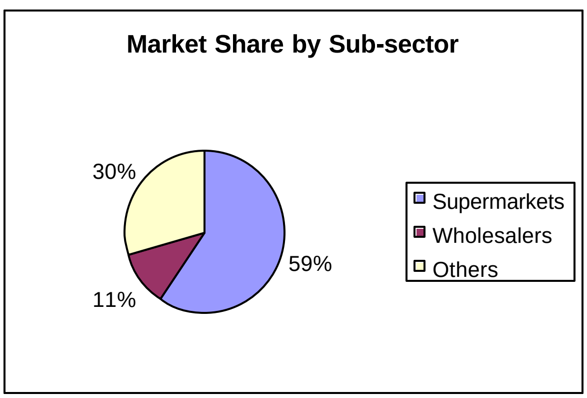
RETAIL FOOD SECTOR REPORT

I. MARKET OVERVIEW

Businesses within the Jamaican retail food sector are differentiated on the bases of service, quality, price and convenience, giving rise to a retail sector structurally composed of: upscale and conventional chain and independent supermarkets, wholesalers, independent grocers, small convenience stores (mini-marts) and gas marts. Supermarkets and wholesalers collectively account for approximately 71 percent of total food and beverage sales in the Jamaican retail food sector. Gas marts, the most recent addition to the Jamaican retail food sector, carry a limited number of snack products, pastries, dairy products, juices, drinks and other ready-to-eat products. They account for only a minuscule portion of total sales in the food retail market. Small independent grocers are mostly located in rural towns and less attractive segments of urban areas.

Modest growth in the Jamaican economy over the last three years (2001 – 2002), increasing remittances from abroad and increases in personal consumption credits have contributed to an average annul four percent growth in the food retail sector over the last three years. These factors are expected to continue fueling moderate growth in the sector over the medium-term. There are approximately 1,486 retail and 162 wholesale outlets in the Jamaican food and beverage distributive sub-sector, collectively accounting for a total sales of approximately US$800 million during 2002. Sales by retailers decreased by a substantial 8.5 percent during 2002, sharply contrast the 7.9 percent expansion in sales by wholesalers. The decline in retail sales, which account for approximately 62 percent of total food and beverage sales, resulted in a 2.2 percent decline in total food distributive sales during 2002. With aggressive repositioning of major local supermarket chains and the entry of foreign chains, sales by retailers are expected to rebound during 2003.

Despite modest growth, competition in Jamaica's food retail sector among retailers and between retailers and wholesalers is expected to remain strong. The characteristic negative correlation between wholesale and retail sales is largely explained by the influence of short-term reactive marketing tactics by retailers and wholesalers.



The Jamaican retail food sector has experienced significant structural changes over the last five years, resulting primarily from domestic competition, macroeconomic constraints, changing consumer lifestyles and adoption of new technologies. The main changes in the sector are:

i. The increasing direct importation by wholesalers and large independent and chain supermarkets.
ii. The forming of strategic alliances among local food retailers and between local and foreign retail chains.
iii. Large supermarket chains are differentiating and positioning according to consumer lifestyle and purchasing power.
iv. The adding of complementary strategic business units (SBUs) to core food retail operations.
v. Application of electronic payment and inventory management systems.

Large and medium supermarkets and wholesalers have commenced aggressive direct importation to avoid distributor's margin and offer more price-competitive products in the price-sensitive Jamaican consumer market. Brand recognition has become secondary to perceived value (price-quality relationship) in the majority of Jamaican consumers buying decisions. Adherence to international food safety standards is also gaining importance in purchase decisions. To remain competitive, most retail outlets are offering products at wholesale prices to increase volume. To protect market share, wholesalers have retaliated by targeting end (retail) consumers, blurring the distinction between retail and wholesale operations. The entry of PriceSmart into the Jamaican retail market with a 50,000 Square-foot superstore and the expansion of other major supermarket chains are interpreted as a signal of increasing price competition in the retail market.

Faced with heavy competition and increasing economies of scale within the retail market, independent supermarkets are either collaborating to promote, procure and improve management, or are expanding the number and size of stores in order to remain competitive. Supermarkets are expanding into rural towns and previously "unserved" geographic segments of the corporate and resort areas. Seven of Jamaica's independent supermarkets, with a complement of fourteen stores, have formed alliance to strengthen their competitive position in the retail food sector - particularly to compete with the largest and rapidly expanding supermarket chains, HiLo and SuperPlus Food Stores.

Larger supermarkets are adding independent strategic business units to their core food retail operations to either diversify their business portfolio, retain/increase customer base, or offer improved customer service and convenience. Several supermarkets have or plan to include one or more of the following: haberdasheries, gift shops, restaurants, delicatessens, bakeries and pharmacies as part of their retail operations. Electronic bill payment and money transfer outlets, and automatic banking machines are strategically located adjacent to or inside supermarkets. The recently computerized Jamaican postal service is seeking alliance with supermarkets to include mailing services as part of regular supermarket augmentations. Almost all supermarkets and convenience stores in Jamaica offer electronic payment services through the electronic "multi-link" banking network. The major supermarket chains and gas marts are equipped with bar code reading devices to improve inventory management and efficiency. As personal consumption credit continues to be by way of credit cards, supermarkets are expected to increase market share at the expense of smaller independent grocers (mom and pops) and remain the primary means of food distribution to end consumers.

Jamaican supermarket chains are increasingly interested in forming alliances with foreign retail chains. Two of Jamaica's largest retail chains have formed alliances with Lablaws, Canada's largest food retail chain, and Tesco from the United Kingdom, for the exclusive distribution of a number of brands, such as: President's Choice, No Name and Too Good To Be True. PriceSmart has entered the Jamaican market in partnership with the proprietors of a major U.S. fast food franchise. Other supermarkets are interested in alliance with U.S. food retail stores.

Ongoing liberalization in the domestic economy, the maintenance of a relatively stable exchange rate and domestic supply shocks have encouraged many firms in the food and beverage retail sector to increase the imported content of their aggregate merchandise, including; fresh fruits and vegetables, grocery products, meats and processed products.

Value of Imported and Domestic Food Production

Years	Food & Beverage (US$ Million)		
	Imports*	Domestic production**	Manufactured***
2001	450	795	371
2000	425	774	355
1999	440	803	353
1998	472	835	345
1997	433	843	349

* Excluding Tobacco, live animals for food, sugar & preparations, hides & Skins, and feedstuff for animals
**Excluding export agriculture (sugar cane & other main exports); about 11% of total production
***Exclude sugar, molasses & rum, about 8.5% of manufactured foods.

Over the last five years Jamaica's total production of food (excluding primary export crops) declined by 5.7 percent from US$843 million during 1997 to US$795 million during 2001. Simultaneously, consumption increased by an average annual 7.6 percent over the corresponding period. Manufactured (processed) food and beverage has consistently increased its relative contribution to total food production (net of primary export crops), moving from 41 percent during 1997 to 47 percent during 2001. Using the ratio of net imports (imports less re-exports) to domestic food production (excluding primary export crops) as a proxy for the relationship between imported and domestic food consumption, Jamaica continues to fulfill a greater proportion of its consumption demand from imported products. During 2001, imported food and beverage constituted an estimated 56.6 percent of Jamaica's total food and beverage consumption, an increase of 5.2 percentage points from 51.4 percent during 1997. The United States is the primary supplier of food and beverage to Jamaica, accounting for approximately 49 percent of total food and beverage imported into Jamaica. As the policy-driven structural shift in the Jamaican economy from the productive to the service sector continues into the short to medium-term, imported products are expected to continue accounting for an increasing proportion of Jamaica's total food consumption.

Some of the advantages and challenges facing U.S. products in the Jamaican market are summarized below.

Advantages	Challenges
The proliferation of internet and cable television has increased the impact (in the Jamaican market) of U.S. product advertised through these media. Changing Jamaican consumer lifestyles have created demand for ready-to- eat products that are not readily available from domestic production. Declining employment of women in the workforce could increase retail sales at the expense of meals -away-from-home. Increased direct importation by wholesalers and large chain supermarkets creates the opportunity for alliances between U.S. and Jamaican retail chains. Jamaica's relatively sophisticated retail system is equipped to effectively handle frozen processed and ready-to-eat products, fruits and vegetable and other highly perishable products. Ongoing modernization of Jamaica Customs Department and upgrading of the food regulatory system will increase market access for U.S. high-value products in the medium-term.	Eroding consumer disposable income and a relatively stagnant retail sector restrict demand for high-value imported specialty products. Onerous sanitary / phytosanitary, labeling and other standards, frustrate the importation of food products. High import duties and inefficient customs procedures reduce the price competitiveness of imported products. Duty free entry of grocery products from other CARICOM countries and low priced products from Europe and Canada are eroding U.S. market share. Strategic alliances between Jamaican outlets and European and Canadian retail firms, bolstered Canada's and Europe's position in the Jamaican retail food market.

II. ROAD MAP FOR MARKET ENTRY

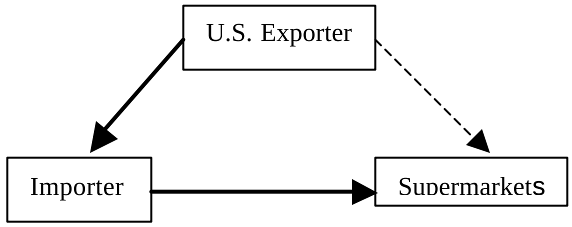
A. SUPERMARKETS

Entry Strategy

Despite increasing direct importation by medium and large supermarket chains, the best way to enter the Jamaican retail market is still through a local distributor. Most supermarkets lack adequate storage facilities to handle high volume purchases and typically purchase lower volumes at more frequent intervals. The relative proportion of direct imports to total imported merchandise in supermarkets is less than five percent. In addition, no single supermarket chain captures more than a 15 percent share of Jamaica's retail food market. To gain maximum penetration of the overall retail market it is best to use a local distributor. Exclusive distributorship arrangements and collaborative product promotion can give U.S. products a distinct advantage in the Jamaican retail food sector. There is also the opportunity for U.S. retail chains with branded products to form alliances with Jamaican supermarkets. Stringent sanitary / phytosanitary and other regulations which frequently frustrate the import process will be drastically reduced by the

Government's thrust to modernize and improve efficiency in its food safety and inspection system. This will encourage more supermarkets and wholesalers to engage in direct importation.

Market Structure



The structure of Jamaica's retail food sector is relatively simple. Supermarkets procure majority of merchandise (approximately 97 percent of imports) from local import distributors. Domestic products are sourced from local food processors and independent farmers. Importers of fresh produce and grocery products also supply local, and private labeled products. Supermarkets typically do not procure products from wholesalers.

Company profile: Supermarkets

Retail name & Outlet Type	Ownership	Sales	No. of Outlets	Locations (city / region)	Purchasing Agent Type
Progressive Grocers	Jamaican	N/A	14	Kingston, Montego Bay, Mandeville	Direct, Importer
HiLo Food Stores	Jamaican	N/A	9	Kingston, Mandeville, Montego Bay	Direct, Importer
Lee's Food Fair	Jamaican	N/A	3	Kingston	Importer
Family Pride	Jamaican	N/A	1	Kingston	Direct, Importer
SuperPlus Food stores	Jamaican	N/A	Over 23	Island wide	Direct Importer

B. CONVENIENCE STORES. GAS MARTS, KIOSKS

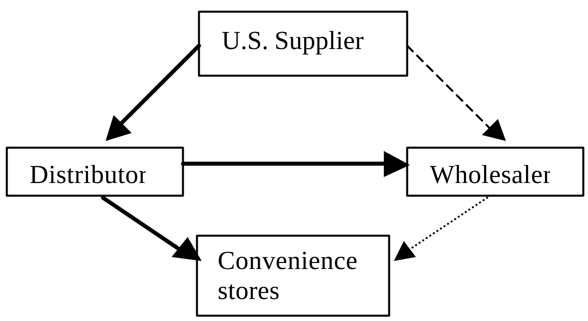
In the Jamaican retail sector, gas marts and mini-marts function as convenience stores, retaining their position by virtue of location and time of operation.

Entry Strategy

The best way to introduce products to convenience stores, including gas marts, is through a local distributor. Logistical procedures and purchase volume preclude convenience stores from engaging in direct importation.

Market Structure

Gas marts are located in Esso, Shell, National and Texaco service stations in corporate and resort areas, rural towns and along highways. They stock an array of snack foods, dairy products, pizza, juices and drinks, and other ready-to-eat products. They operate on a 24-hours basis and are equipped with bar code reading devices and electronic payment systems, consistent with their service differentiation. National gas station, through its alliance with Churches Chicken, has begun to offer the franchise's products at its service stations. Mini-marts are typically located in close proximity to middle income residential neighborhoods. They operate very late hours and on public holidays. They know their customers very well, build individual relationships and offer friendly, personalized service (eg. telephone orders and home delivery). Mini-marts stock a wide array of products in very small quantities. With the exception of gas marts, convenience stores do not operate as chains. Convenience stores procure products from large distributors, informal commercial importers and, to a lesser extent, large wholesalers. Convenience stores account for an estimated two percent of total retail sales.



Company Profile: Convenience stores

Name of Retailer	Ownership	Sales	No. of Outlets	Locations	Purchasing agent
Esso Tiger Markets	Local	N/A	7	Island wide	Distributor
Texaco Star Marts	Local	N/A	15	Island wide	Distributor
Shell Gas Mart	Local	N/A	4	Island wide	Distributor
Vanda's	Local	N/A	1	Kingston	Distributor
Daley Mini-mart	Local	N/A	1	Westmoreland	Distributor / Wholesaler

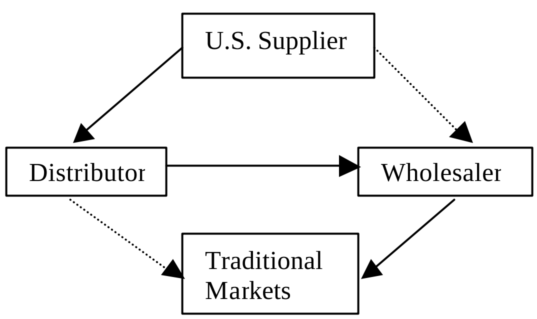
C. TRADITIONAL MARKETS - "MOM AND POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

Entry Strategy

As with supermarkets and convenience stores, new products are best introduced to independent grocery stores through a local distributor. While local importing wholesalers and informal commercial importers (ICI's) supply most of the traditional market segment, individual wholesalers and ICI's lack the necessary distribution networks and storage capacity to effectively serve a wide cross section of the market. In addition, wholesalers are not involved in building brand identity and loyalty. Small independent grocers typically make bulk purchases from wholesalers who in turn pull the demand from local distributors and exporters. Conversely, established distributors are inclined to build brand image/loyalty among end consumer and facilitate pulling-pushing demand through the retail chain.

Market structure.

The market structure for the traditional markets segment (small independent grocers) is identical to that of convenience stores, except that the proportion of merchandise procured from, and relationship with, wholesalers is much greater. Small independent groceries, which operate mostly in rural areas and socially unstable sections of the corporate areas (Kingston, St. Andrew and Spanish Town), have been the hardest hit by changes in the retail sectors. As competition intensifies in the retail food sector, large supermarket chains continue to expand into rural towns and other "unserved" geographical areas eroding the market share of independent grocers. In addition, as Jamaican consumers continue to demand better service, rely on consumption credits and remittances, small independent groceries, which typically does not have alliance with remittance companies and lack the capacity to use electronic payment systems, will continue to lose market share to supermarkets, becoming less relevant in the retail food sector. The traditional system is expected to be substantially displaced by supermarkets in the medium to long-term.

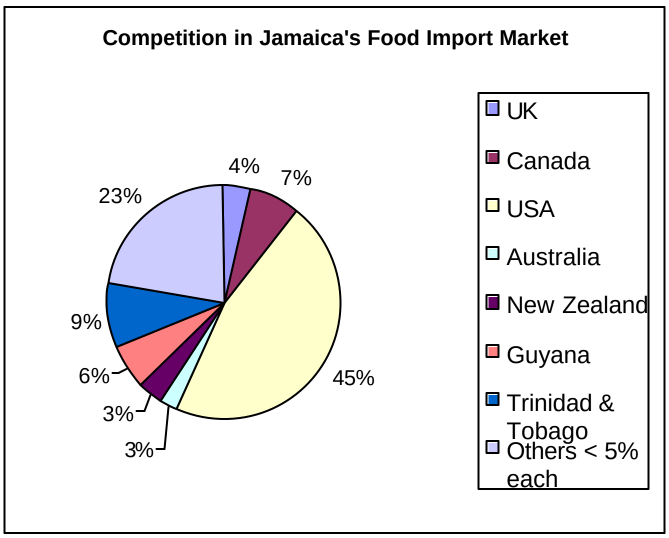


III. COMPETITION

CARICOM countries, particularly Trinidad and Tobago and Guyana, continue to increase their relative share of the Jamaican food retail market. Under the CARICOM Agreement, member states have duty free access to markets in the CARICOM free trade area. Australia and New

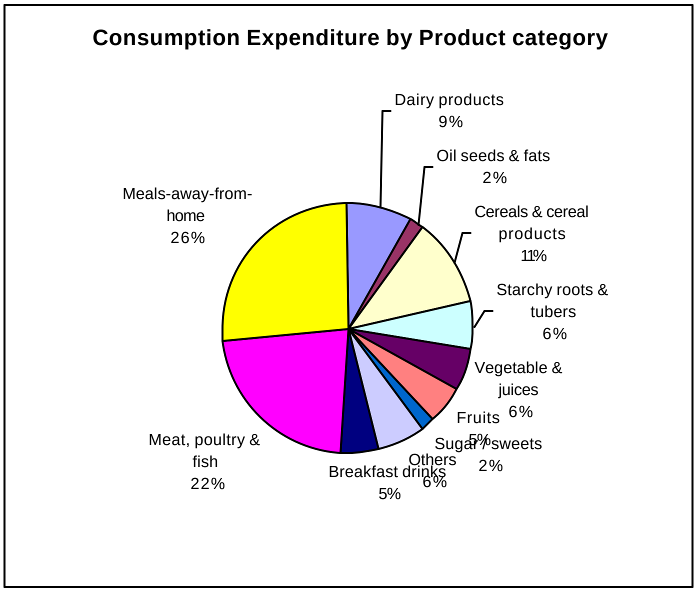
Zealand are the major competitors to U.S. beef, lamb and dairy products. Chile, France, Italy and Spain are the major competitors for U.S. wines. French fries from the U.S. have lost market share to price competitive products from Canada and the Netherlands. Domestic products are the major competitor for U.S. fruits and vegetables.

Between 1998 and 2000, U.S. share of imported food and beverages slid by two percentage points from 48% to 46%. At the same time, as a result of duty free entry, Jamaica's major CARICOM trading partners (Guyana and Trinidad and Tobago) increased their relative contributions of CARICOM export to Jamaica by 26 and 6 percentage points, respectively. With the market becoming more price sensitive and brand loyalty becoming less relevant to purchase decisions, U.S. suppliers will have to revise their pricing and promotion strategies to compete with products from Canada, Europe, Chile and CARICOM.



IV. BEST PRODUCTS PROSPECTS

The Jamaican food retail sector presents good marketing opportunities for U.S. meat products, including mutton and seafood; breakfast cereals and cereal products; juices and drinks; fruits and vegetables; vegetable oils; snack foods, bakery products, frozen products including French fries and other ready-to-eat products such as pizzas, hamburgers and soups, wines, dairy products, health foods (including soy products and nutritional supplements).



During 2001, Jamaica imported US$111 million worth of cereals and cereal preparations, a slight increase from US$109 million during 2000. Imported vegetable oils and fats amounted to US$17 million. Jamaica has a market potential for pastas and bakery products of approximately 850,000 and 1.2 million kilograms per year, respectively. The demand for fruits and vegetable juices and drinks will continue to expand. As the recent national policy initiative to educate consumers on health and nutrition intensifies across Jamaica, consumption of health foods is expected to increase astronomically in the short to medium-term. Despite high import duties, fruits and vegetables will continue to have good market potential in Jamaica due to short, uncoordinated local growing periods and a local climate unsuitable for some varieties (apples, grapes, etc.).

Products Not Present because they Face Significant Barriers

The presence of Pseudorabies in the U.S. prohibits the entry of U.S. pork products into Jamaica unless they are hermetically sealed. Apart from products that require sanitary / phytosanitary permits, there are no barriers to the Jamaican market. However, high import duties (as high as 260%) render some products uncompetitive in the market.

V. POST CONTACT AND FURTHER INFORMATION

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Fax: (876) 920 - 2580

email: agkingston@usda.gov

Other reports on the Jamaican market are located at www.fas.usda.gov. including; the “Exporter’s Guide" and "HRI Food Service Sector".

APPENDIX I

MAJOR FOOD AND BEVERAGE IMPORTERS/DISTRIBUTORS IN JAMAICA

Bram Stroot Managing Director Amalgamated Commo dities Ltd. 4 Fourth Street Newport West Kingston 15 Tel: (876) 968-2740 Fax: (876) 901 8125 Paul Morgan Managing Director Beal Industries Ltd. 2 Bell Road Kingston 11 Tel: (876) 923-6513 Fax: (876) 759-9057 Gordon Stewart General Manager. Facey Commodity 61 Newport Boulevard Kingston 11 Tel: (876) 923 9221/5 Fax:(876) 923 9322 Anthony Chang Managing Director Falcon Corp 111 Red Hills Road Kingston 19 Tel:(876) 924 1151-3 Fax:(876) 925 2649 E-mail: avcfal@infochan.com Charles W. Lym Managing Director Hand Arnold (Ja.) Ltd. 154 Marcus Garvey Drive Kingston 11 Tel:(876) 923 8637-9 Fax:(876) 937 1925	Mark Dabdoub Managing Director Amalgamated Distributors Ltd. 194 Spanish Town Road Kingston 11 Tel:(876) 937 0251/3889 Fax: (876) 937 3321 Shelly-Ann Josephs Managing Director Caribbean Producers Ja. Ltd. 1 Guinep Way Montego Bay Freeport Montego Bay, ST. James Tel:(876) 979 8725 Fax:(876) 979 8161 E-mail: info@caribbbeanproducers.com Raymond Silvera General Manager Chas E. Ramson Ltd. 449 Spanish Town Road Kingston 11 Tel: (876) 923-7247/ 5051-4 Fax:(876) 923- 5055 E-mail: silvera@ramsonsja.com Michael Rangling General Manager Grace Kennedy & Co. Ltd. 73 Harbor Street Kingston Tel:(876) 922 3440-9 SL:(876) 922 3419 Fax:(876) 967-3784

Wayne kirkpatrick General Manager Lascelles Merchandise Ltd. 49-57 Second Street Newport West Kingston 11 Tel:(876) 923 9231-3 Fax:(876) 901 3550 / 923 4336	David Phillips Managing Director National Meats Distributors Ltd. 1 National Way Ocho Rios P.O. St. Ann Tel:(876) 973 1616 / 973 1223 Fax:(876) 794-0705 E-mail: natmeats@colis.com
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