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El Salvador

Retail Food Sector

Report

2003

Approved by:

Stephen Huete, Ag. Counselor
U.S. Embassy

Prepared by:

Miguel Herrera, Ag. Specialist
Ana Iglesias, Marketing Asst.

Report Highlights:

In 2002, El Salvador's retail food sector continued to grow, however at a slower pace than in earlier years. The main reasons are an economic slowdown caused by low coffee prices and lower exports caused by a global recession. Growth in the Supermarket Industry continues to fuel retail sales of consumer-oriented products. There are 132 supermarkets located nationwide handling approximately 39 % of the retail food market. In CY2002, El Salvador imported approximately \$375 million in consumer foods.

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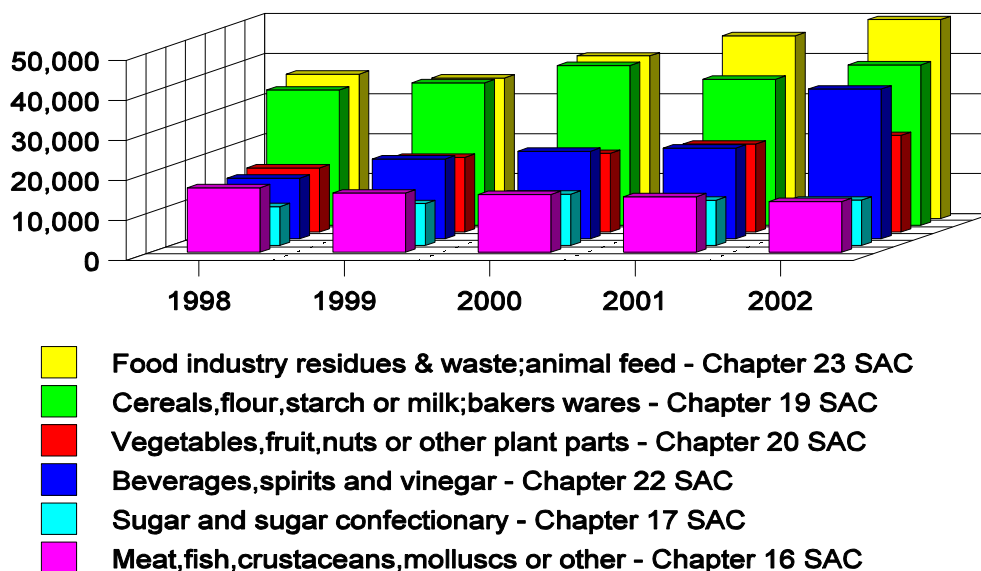
I. MARKET SUMMARY

- ! El Salvador's macroeconomic scenario for 2003 is more promising than in 2002. The Government of El Salvador (GOES) is forecasting a 3 percent GDP growth in 2003, up from the 2.1 percent posted in 2002.
- ! The inflation rate for 2003 is projected at 3 percent by the Salvadoran Central Bank (BCR).
- ! Other positive business climate features include a dollarized economy, low debt burden, continued tariff reductions, rising international reserves, streamlined customs procedures, and completion of the GOE's program to privatize telecommunications, energy distribution, and the administration of pension funds.
- ! The construction of a container port in the Gulf of Fonseca with assistance from Japan is also expected to increase foreign trade.
- ! El Salvador imported approximately \$ 375 million in consumer foods in 2002.
- ! The U.S. accounted for 21 percent of 2002 total consumer product imports.
- ! Per capita food expenditures were \$ 942 in 2002. This includes imports of U.S. products that are transhipped into El Salvador through Guatemala.
- ! Approximately 1.2 million consumers regularly purchase consumer ready products.
- ! In 2002, supermarket industry reported sales of \$ 430 million.
- ! Convenience stores reported sales of \$ 59 million in 2002.
- ! In general, the major commercial exporters to El Salvador in 2002 were in rank order: the United States, Guatemala, Mexico, Costa Rica, Panama, Honduras and Nicaragua.
- ! There are 132 supermarkets located nationwide that handle approximately 39% of the food retail market. There are 91 convenience stores located all over the country that are managed by the 3 main gasoline distributors: Shell, Esso(Exxon) and Texaco.
- ! Markets in San Salvador, Santa Ana and San Miguel sell 75% of the imported consumer-ready foods.
- ! Salvadoran consumers have become accustomed to higher quality consumer-ready products.
- ! Supermarkets continue to open branches in populated working class areas.
- ! There is a 13% value added tax (VAT) for food products.
- ! About 65% of products sold in supermarkets are imported, mainly from the U.S. and Central American neighbors.
- ! U.S. exports of consumer-oriented agricultural products to El Salvador reached \$ 33.1 million in 2002.

EL SALVADOR'S IMPORTS OF PREPARED FOODSTUFF FROM 1998 TO 2002

IN THOUSAND DOLLARS ACCORDING TO THE CENTRAL AMERICA HARMONIZED TARIFF SCHEDULE (SAC)

In 2002, imports of prepared foodstuffs have increased approximately 15.3 % compared to 2000. The largest import increases were: cat and dog food, breakfast cereals, pancake mixes, fruit beverages, beer, stone fruits and candies. Growth in beer and wine imports has been fueled mainly by an upward trend in consumption by the Hotel, Restaurant, Institutional (HRI) sector. In addition, many new varieties of liquors have been introduced to the market, for instance wine coolers and bourbon.



Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
Many Salvadorans have studied, traveled and worked in the United States, and thus have developed a taste for U.S. food products.	The U.S. supplies products that compete in quality but not in price with similar products from other countries such as Mexico, Chile, and Central America which enjoy free trade access to the market.
U.S. products in general are considered of higher quality and safer to consume.	Some consumers can pay for U.S. quality, but for the majority, price is the major consideration in purchasing decisions.
In the 3 most populated cities, San Salvador, San Miguel and Santa Ana, the majority of employees and workers eat lunch out, and can take advantage of ready-to-eat products in supermarkets and convenience stores.	In general, the introduction of ready-to-eat products into supermarkets and convenience stores needs to be done through a local distributor.

Advantages	Challenges
Growth in the supermarket industry continues to fuel demand for consumer-ready products.	Product familiarity is very important; therefore, if it is not a well known U.S. brand, sampling is a must.
Importers and retailers have knowledge and are well trained in purchasing and merchandising U.S. food products.	Access by sea is limited to the Pacific, roads to Central America are not safe and in bad condition, and air cargo is expensive.
Distributors generally consider U.S. exporters reliable and trustworthy.	Sanitary and Phytosanitary (SPS) regulations are a constraint, especially product registration and laboratory analysis at the Ministry of Health.
Franchises of ready-to-eat products from the U.S. have expanded over the last decade. Fast foods such as hamburgers, pizza, subs, chicken etc. are very popular. Salvadoran investors are interested in obtaining more information about franchising opportunities.	The Government continues to protect domestic producers of certain sensitive products, such as poultry, dairy, sugar, pork and rice.
U.S. products such as wine, nuts, liquors, and gourmet products are not locally produced.	

II. ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS, SUPERSTORES, HYPER MARKETS, CLUB AND WAREHOUSE OUTLETS

El Salvador has three supermarket chains that operate nationwide (Selectos, Despensa de Don Juan and Europa), a hyper market chain with two stores (Hyper Paiz), several smaller hyper markets and two club warehouse outlets (PriceSmart) in the capital city.

Distribution Channels

Products are usually imported by local distributors from the U.S. and other suppliers. Local distributors also carry locally made products. Local distributors have their own distribution warehouses and sort out products from there to supermarkets, superstores, hypermarkets, club and warehouse outlets. Some imports are done directly by retailers from direct exporters in the U.S. and other exporting countries.

- ! Most food products (local and imported) are purchased by supermarkets through local distributors.
- ! 98 percent of red meat or cattle imports come directly from Nicaragua.
- ! Some supermarkets, in addition to retail sales, also sell in large quantities to companies, cooperatives and to small stores (tiendas), that are mostly located in rural areas.
- ! Purchasing managers buy U.S. food products mostly from local distributors, although a few products are imported directly, specially liquors and wines.
- ! Fruits and vegetables are purchased from local producers and imported mostly from the

Central American region.

- ! Grapes, apples and stone fruit are supplied by the U.S. and Chile. However, at this time Chilean products have an advantage over U.S. products, because Chile enjoys a zero percent duty.

Entry Strategy:

- ! Although some supermarkets import directly, most food items are purchased from distributors that are appointed by U.S. or other countries' exporters. According to supermarket purchasing managers, it is more convenient for them to purchase from local distributors and save the storage costs of keeping a large warehouse.
- ! For a U.S. firm aiming to enter the Salvadoran market it is recommended to appoint a local distributor.
 - . To appoint a local distributor a U.S. firm has to:
 - Make sure that the local distributor has a good credit standing (the U.S. Department of Commerce offers a Gold Key service that provides information on local importers).
 - Sign a contract with a local lawyer.
- ! Introduce product with Point of Purchase (POP) displays.
- ! To introduce a new product to the Salvadoran market, purchasing managers suggest doing a promotion that includes not only product information, but sampling as well. There have been experiences where even well known U.S. food brands have not sold because customers were unfamiliar with the product. The same is true for frozen products which are just beginning to appeal to the Salvadoran consumer and are viewed by some marketing experts as an area to be developed.
- ! Attend food trade shows to meet Salvadoran buyers. Marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce to this market.
- ! Point of Sale (POS) material is very important to promote food products in this market. In addition, advertising through newspapers, radio and television is recommended.

Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Although a number did provide information, they requested it be kept confidential. Therefore, sales have been categorized as follows:

- A: Less than \$10 million
- B: \$11-\$25 million
- C: \$26-\$75 million
- D: \$76- \$100 million
- E: \$101-\$150 million
- F: More than \$150 million

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Europa, supermarkets and one hypermarket	Local	C	4	Capital City, San Salvador	Direct Imports, Local Distributors
La Despensa de Don Juan, supermarkets	Foreign Guatemala (La Fragua Group/Ahold)	E	31	23 in San Salvador, 8 nationwide	Direct Imports, Local Distributors
Selectos, supermarkets, hypermarkets ¹	Local	F	55	18 in San Salvador, 37 nationwide	Direct Imports, Local Distributors
Price Smart, Club Warehouse	Foreign U.S.	C ²	2	San Salvador	Direct Imports, Local Distributors
De Todo	Local	B	14	Nationwide	Direct Imports, Local Distributors
Despensas Familiares	Foreign Guatemala (La Fragua Group/Ahold)	C	24	Near open markets, nationwide	Direct Imports, Local Distributors
Hyper Paiz, hypermarket	Foreign Guatemala (La Fragua Group/Ahold)	C ³	2	Soyapango & San Salvador	Direct Imports, Local Distributors

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by FAS, San Salvador.

¹ Selectos purchased El Sol and La Tapachulteca supermarkets in 1999.

² Began operations in August 1999.

³ Began operations in October 1999.

- ! The Supermarket industry is very competitive in El Salvador. Many traditional chains have been forced out of the market or have been bought by stronger supermarket chains.
- ! The industry is focusing on highly populated areas in the capital city of San Salvador and has started a rapid expansion in the smaller towns scattered throughout the country.
- ! Grupo La Fragua (Paiz, Despensa de Don Juan and Despensas Familiares owners) have merged with Royal Ahold from the Netherlands and Corporacion de Mercados Unidos (CSU) from Costa Rica to create the Central American Retail Holding Company (CARHCO). Their idea is to expand their presence throughout the Central American region.
- ! La Fragua operates 96 stores in Guatemala, 57 in El Salvador and 10 in Honduras. CSU operates 94 stores in Costa Rica, 19 in Nicaragua and 14 in Honduras. Royal Ahold operates more than 8,500 outlets in 25 countries.
- ! La Fragua Group/Royal Ahold operating under Operadora del Sur purchased local supermarket chain La Despensa de Don Juan's 31 stores in 2003.
- ! Price Smart offers the innovations of frozen specialty products that are not available in other supermarkets. For example, it offers a cafeteria type service that includes all you can drink sodas.
- ! PriceSmart has opened its second outlet in a large growing working class neighborhood.
- ! Todo Por Menos, previously owned by Mas Por Menos Group of Costa Rica, was bought by Selectos and has been renamed De Todo.
- ! Hyper Paiz, a hypermarket owned by Guatemalan Grupo La Fragua and Dutch Royal Ahold, opened its second outlet in 2003.
- ! Supermarkets offer special sales every week during which various food products are featured. Other attractions such as music, sampling and raffles are also part of the merchandising strategy to lure new customers.
- ! There is a growing demand for ready to eat products. Supermarkets have taken advantage by opening cafeterias in their outlets which are available in 75% of the supermarkets. These places are very popular for lunch and after working hours.
- ! In addition, supermarkets offer other incentives to consumers such as banking services, film developing, printing and courier services.

B. CONVENIENCE STORES, GAS MARTS

There are three chains of convenience stores: Select Market, Tiger Market and Starmart-Food Marts, which belong to the Shell, Esso (Exxon) and Texaco.

Distribution Channels

- ! Distribution is mainly through local distributors, direct imports are minimal.

Entry Strategy:

- ! New products have to be presented to the purchase manager of each chain and a local distributor must be appointed.
- ! Purchasing managers should be invited to U.S. fairs and food products exhibitions.

- ! Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling.
- ! Esso convenience stores belong to the Convenience Store Association, thus, products can be introduced to Esso (Exxon) through this Association.

Sub-Sector Profile:

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. Of Outlets	Locations (city/region)	Purchasing Agent Type
Select Market	Shell 40% U.K. 60% Netherlands	C	20	Nationwide	Local Distributors
Tiger Market/On the Run	Esso (Exxon) U.S.	C	39	Nationwide	Local Distributors
Starmart, Food Marts	Texaco U.S.	B	32	7 in San Salvador, 25 nationwide	Local Distributors

Source: Information provided by gas distributors. Due to requests for confidentiality, sales information is provided according to categories outlined under "Supermarkets".

- ! Products also come from Canada, Central America, Colombia, Argentina, Chile, Uruguay and Europe.
- ! 85% of beer sales are domestic product, 5% from the U.S., 8% from Mexico and the rest from Europe.
- ! Major U.S. products sold are chocolates and candies. They comprise 80% of total sales for this category.
- ! 75% of total sales come from locally produced products or from the Central American region; these are mostly fast foods, cigarettes and soft drinks.
- ! Most convenience stores located in the metropolitan area have additional services such as bank tellers. Some also have movie rentals, dry cleaning, car wash and tune-up services.
- ! Store sizes vary, the largest is approximately 1400 square feet, the smallest 430 square feet.
- ! Some convenience stores have started offering ready-to-eat meals such as pizza, hot dogs and fried chicken to eat in or take out.

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

- ! Traditionally, the public markets have been the main suppliers of fruits, red meat, vegetables, poultry, eggs, pork and fish.
- ! There are seven public markets in San Salvador and at least one in each town.

- ! Security has become an important issue when determining where to make their food purchases. Supermarkets offer a more secure environment for shopping than public markets.
- ! In the last two decades there has been a tendency to purchase in supermarkets, especially for the upper and middle classes. Lately there has been a substantial increase of supermarket customers from the working class and supermarkets are being opened in lower income areas.
- ! Only a few U.S. food products are sold in these markets. Apples and grapes are very popular.
- ! The majority of food products sold are locally produced or come from other Central American countries.
- ! The number of small independent grocery stores in each neighborhood varies from 10 to 100 depending on the size of the neighborhood. These are not designed for the customer to easily see the product and select what they need. Sales are made mostly by product name or category, therefore, it is not recommended to develop a strategy to enter this market. The same applies to the rest of the markets reviewed in this section.

III. COMPETITION, CONSUMER-READY PRODUCTS

- ! In 2002, the U.S. share of the consumer-ready market reached 21%. Guatemala had 27%, Mexico 10%, Nicaragua 11%, Honduras 8% and Costa Rica 7%. It is important to note that many countries also have food processing plants locally which may increase their respective market share. Central American countries also enjoy zero percent duty.
- ! Powdered milk is mostly imported from New Zealand, the Netherlands and Australia. In addition the New Zealand Dairy Board has built a distribution and packaging facility at a cost of approximately \$5.0 million. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT long-life packaging. There are also donations of powdered milk for the poor which mainly come from the European Union (EU).
- ! El Salvador is a signatory to the Agreement on Central American Tariffs and Duties and a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. In addition, El Salvador has recently signed a free trade agreement with Mexico, Chile and the Dominican Republic; and is negotiating with Canada, the U.S. and Panama.
- ! Even though many food products from Mexico and other nations that have signed free trade agreements with El Salvador will not have immediate duty-free access, their products will begin a gradual tariff reduction that is expected to bring them to zero duty in a period of eight years. This will undoubtedly make products from those nations much more competitive than U.S. food and beverage products.
- ! Mexican companies like Sabritas snacks and Bimbo bakery products have either distribution centers or manufacturing facilities in El Salvador. Other companies like DelValle juices have signed exclusive distribution agreements with the largest Salvadoran drinking water company to enable them access to a wide consumer base.

IV. BEST PRODUCT PROSPECTS

- ! There are many Salvadorans who have studied and/or worked in the U. S. and who have developed a taste for U.S. products.
- ! Traditionally U.S. products are considered of a better quality than products produced locally or which come from another country.
- ! Disposable income is an important factor when making a purchasing decision. Lower priced products fare better in this market.
- ! Salvadorans who live in the U.S. bring American food products to their relatives as gifts i.e. candies, chocolates, therefore, developing a taste in the local population.

A. Products in the market, which have good sales potential:

- ! Breakfast cereals
- ! Apples and grapes all year around
- ! Wine
- ! Dog and cat food
- ! Ramen noodle soups
- ! Non-dairy coffee creamers
- ! Canned fruits and vegetables
- ! Turkey/Chicken franks
- ! Snacks
- ! Pancake and Dessert Mixes
- ! Ketchup and other tomato sauces
- ! Fresh potatoes
- ! Stone fruits
- ! Salad dressings
- ! Ready to eat

B. Products not present in significant quantities, but which have good sales potential:

- ! Frozen foods are growing in demand, and are expected to continue an upward trend
- ! Low fat, low cholesterol
- ! Pork ribs
- ! Mozzarella cheese
- ! Dairy products
- ! Pre-cooked poultry
- ! Deli meats
- ! Beef. While high-end hotels offer an opportunity, beef imports are dominated by Nicaragua which provides good quality and good prices. The U.S. Meat Export Federation with assistance from FAS/San Salvador is actively promoting U.S. beef in this market.

C. Products that will not do well or cannot be used in the market:

- ! Beer is present in low quantities because the only local beer manufacturer has a

monopoly. This company also has distribution rights for Budweiser, Miller, Corona and Guinness.

- ! Tropical fruits, i.e. oranges. They are cheaper in Central American countries.
- ! Microwave products.
- ! Fresh or frozen pork, beef, and poultry. The government has imposed very strict zoosanitary requirements for poultry and high tariffs for pork and beef.
- ! According to some supermarket owners, products that do not sell much are: canned beans and soups, cheese filled crackers and t.v. dinners.

V. POST CONTACT AND FURTHER INFORMATION

- ! Office of Agricultural Affairs
U.S. Embassy El Salvador
Contact: Miguel F. Herrera
Agricultural Specialist
Phone: (503) 279-0569/278-4444, Ext. 1412/1414; Fax (503) 278-3351
E-Mail: miguel.herrera@usda.gov
Address: Blvd. Santa Elena y Calle Conchagua
Antiguo Cuscatlan, La Libertad; El Salvador
- ! Supermercados Selectos (Calleja S.A. de C.V.)
Contact: Lic. Herber Tobar
Executive Director
Phone: (503) 298-1927, Fax: (503) 298-1943, E-Mail: htobar@superselectos.com.sv
Address: Avenida Olimpica, Prolongación 59 Av. Sur, San Salvador, El Salvador.
- ! Supermercados Europa
Contact: Lic. Jaime Orlando Saca
Owner
Phone: (503) 298-8000 Fax: (503) 298-8244, E-Mail: europa@quik.elsv.com
Address: Oficinas Hiper Europa, Avenida Manuel Enrique Araujo, entre Calle Nueva 1 y 2, Colonia Escalón, San Salvador, El Salvador.
- ! Price Smart
Contact: Mr. Ricardo Castro
Country Director
Phone: (503) 247-7409 Ext. 247, Fax: (503) 247-7414, E-Mail: psmtelsalvador@saltel.net
Address: Boulevard Sur, Calle Cortez Blanco, Avenida El Pepeto, Urbanización Madre Selva, Antiguo Cuscatlán, El Salvador.
- ! Operadora del Sur, S. A. De C. V. (Supermercados La Despensa de Don Juan, Hiper Paiz and Despensas Familiares)
Contact: Hector Aroldo Portillo

Vice-President

Phone: (503) 272-3622, Fax: (503) 236-7224, E-Mail: ivish@lafragua.com.gt

Address: Oficinas Administrativas, Hipermall Las Cascadas, entre Calle Chiltiupán y Carretera a Santa Tecl, El Salvador.

- ! Esso Standard Oil, Tiger Markets Convenience Stores
Contact: Lic. Yolanda Puente
Convenience Store Marketing Manager
Phone: (503) 278-0477, Fax: (503) 289-0733,
Address: Kilometro 91/2 Carretera a La Libertad, Santa Tecla, La Libertad, El Salvador.

- ! Shell, Select Market Convenience Stores
Contact: Lic. Sonia Morales de Revelo/ Lic. Rosa Elena de Siliezar
Convenience Stores Supervisors
Phone: (503) 241-5500 Ext. 5541/5410 (503) 278-8200
Address: Blvd. Santa Elena y Calle Apaneca Oriente, Urbanización Santa Elena, Antiguo Cuscatlán

- ! Texaco, Starmarts, Foodmarts Convenience Stores
Contact: Lic. Javier Esquivel, Marketing Manager
Phone: (503) 244-5500, Fax: (503) 244-5598
Address: Km. 10 ½, Carretera a La Libertad, Santa Tecla, La Libertad, El Salvador.

- ! Salvadoran Distributors Association (ADES)
Contact: Lic. Sonia Cecilia Jule, Executive Director
Phone/Fax: (503) 223-6574, 245-3359, E-Mail: soniajule@yahoo.com
Address: Plaza Suiza, 3a. Planta Local C-5, San Salvador, El Salvador.