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Honduras

Market Development Reports

Retail Food Sector

2003

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Report Highlights:

In Honduras, there is strong preference for U.S. products, and opportunities exist for sales of properly priced U.S. products. The retail food sector is growing, and the increase number of franchises and supermarkets is on the rise. Especially attractive are products that are new and different from what has been available in this market.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Tegucigalpa [HO1], HO

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I. MARKET SUMMARY

- ! Honduras' total imports in 2002 for consumer products were \$268 million. Imports from the U.S. were \$69 million, U.S. market share was 26 percent.
- ! Total imports in 2002 for Edible Fishery Products were \$8 million. U.S. market share was 10 percent.
- ! Urban population is 3.1 million with an annual growth rate of 3.8%. Approximately 1 million consumers are categorized as middle class.
- ! Gross Domestic product per capita income in 2002 was \$1,067.
- ! In rural areas an estimated 65% of income goes to buy food while in urban areas it is closer to 50%.
- ! There are eleven cities with population in excess of 100,000 in which the demand for supermarkets is on the rise.
- ! Supermarket and wholesale club sales reached approximately \$256 million in 2002.
- ! There are a small number of imported foods distributors. The main distributor imports a monthly average of \$50,000-\$100,000 of U.S. products.
- ! A well-established supermarket receives 1 million visits per year.
- ! Convenience stores reported approximate sales of \$25.1 million in 2002.
- ! Small stores represent approximately 45 to 50 percent of food sales at retail, and over 65 percent of non-alcoholic and beer sales.

<i>Advantages</i>	<i>Challenges</i>
The quality, convenience and wholesomeness of U.S. products have traditionally been preferred by Hondurans.	Direct competition from other Central American countries, Mexico and Chile.
Acquired taste for U.S. products are likely to continue growing since many Hondurans who travel to the United States were introduced to them by their families and friends.	Some imported U.S. food items cost more than local or regional products.
Rapidly developing retail sector and demand for consumer ready products. Retail industry is looking for new imported food products.	U.S. brand awareness and sampling is necessary.
Strong presence and expansion of U.S. fast food outlets and casual dining restaurants. There are opportunities for more franchises.	Registration process of new products is slow.
Importers prefer trading with U.S. exporters because of reliability and quality of service.	Market size is small in comparison to neighboring countries. Direct imports are mostly to distributors.
Improved infrastructure allows for year-round availability of U.S. fresh fruits, vegetables, and frozen products.	The U.S. can be more competitive with the Free Trade Agreement with Central America and the FTAA.
Changing consumer habits and effective market promotion are likely to continue increasing demand for U.S. food products.	Imports go through unclear and occasionally restrictive zoo and phytosanitary import requirements.

II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

- ! Success in introducing products in the market depends on local representation and personal contact. Selecting a distributor is the easiest and fastest way to enter the market.
- ! Appoint a distributor that has a wide customer base, and that can provide extensive penetration and distribution support for your products. It is best if the distributor has previous experience in supplying supermarkets and retail outlets.
- ! Meet and get to know the operations of potential distributors prior to establishing commercial agreements. The local representative or distributor should be able to provide market knowledge, and guidance in local business practices and trade laws, as well as sales contacts. In many cases, the local representative or distributor will also be the importer.
- ! Seek formal legal representation, as some food products require proper registration with the Honduran Health Ministry, as well as proper labeling codes according to local food safety regulations. The FAS and FCS offices in the U.S. Embassy in Tegucigalpa maintain listings

of companies and lawyers to help guide U.S. firms through this process.

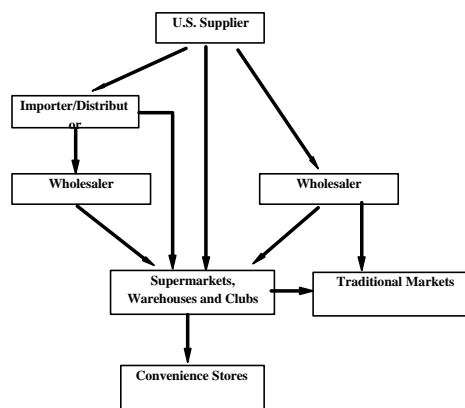
- ! Provide labeling or re-labeling services, competitive pricing, credit, catalogs, printed material and samples to importers/distributors. Firms should also consider providing support to importers in order to develop sales, by way of shared advertising costs for new brands.
- ! Convenience stores are exclusively operated by gas stations all over the country. Major petroleum transnational firms have established a strong niche in this food retail segment.
- ! The procedure for entering the convenience store market is much the same as for supermarkets. Success in introducing a product depends on local representation and personal contact. It is best to appoint a distributor in Honduras that can provide sound penetration and distribution support to your product.
- ! Although these stores purchase imported goods through local suppliers, the majority of goods are subjected to brand and space management policies set by gas companies.
- ! Penetration to the mom & pop type stores can be achieved by selling to an established local importer. Access requires direct delivery, 60-90 day credit terms, first position and shelf-space incentives, displays and promotions. Point of sale material is often used and promoted by suppliers in these type of outlets. Reliable distribution logistics is the key to grow market share in this store segment.

Market Structure

- ! The Honduran distribution channel follows a typical supplier, wholesaler and retailer chain. The bulk of imported products move from U.S. suppliers to local importers/distributors and finally to retailers.
- ! In most cases, U.S. suppliers are wholesalers, which consolidate less-than-truck-load cargo volumes for Honduran importers. A typical 40-foot container imported to Honduras will carry 20 to 40 different food items. Nearly 80 to 85% of U.S. food imports are bought from large suppliers in Miami, Florida. However, some U.S. suppliers are able to sell directly to local wholesale outlets and supermarkets. Major club outlets outsource selected food items through their corporate purchasing operations, and are able to bypass the local distribution chain.
- ! Local importer/distributor firms will carry a wide stock of brands and products at the same time, although some firms hold exclusive distribution permits for selected brands. Some supermarkets import exclusive food lines and use them as private label brands in their stores. U.S. firms seeking to enter into distribution services should exercise caution with local exclusivity laws and regulations.

! Typically, expect importers/distributors to take responsibility of clearing customs, merchandising, marketing and, in some cases, transporting products to retailers. There are four food distributors with capacity to supply both Tegucigalpa and San Pedro Sula markets: DIAPA, CODIS, Distribuidora Solis and DIMERC.

! The target population is concentrated in the capital city of Tegucigalpa and in the industrial hub of San Pedro Sula. Together, the population of these cities consume roughly 80 percent of food imports. As U.S. products enjoy a high quality image, there is a growing demand in cities such as El Progreso, La Ceiba, Choluteca, Comayagua, Danlí, and the Bay Islands, among others.



! Honduras' retail food sector is by far the largest market for imported food. Urban consumers shop at open markets, American-style supermarkets, mini-markets, specialty stores, convenience stores, and local “mom & pop” stores (known locally as ‘pulperias’). Retail sales of imported consumer-oriented products are conducted mostly by supermarkets, mini-markets and convenience stores. However, pulperias in Tegucigalpa and San Pedro Sula also sell imported products, mostly snacks.

A. SUPERSTORES, SUPERMARKETS, HYPERMARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

Company Profiles

Retailer Name and Outlet Type	Ownership	Sales (\$Mil)	No. of Outlets	Locations (City/region)	Purchasing Agent Type
La Colonia, supermarket	Local	\$ 63	11	Tegucigalpa	Direct Distributor
Junior, supermarket	Local	\$ 46	1	San Pedro Sula	Direct Distributor
Price Smart, wholesale club	U.S.	\$ 48	2	Tegucigalpa San Pedro Sula	Direct Distributor
Despensa Familiar, supermarket	Foreign Guatemala (La Fragua Group/Ahold)	\$ 25	22	Tegucigalpa San Pedro Sula Comayagua Choluteca	Direct Distributor

Comisariato Los Andes, supermarket	Local	\$ 20	1	San Pedro Sula	Direct Distributor
Paiz, supermarket	Foreign Guatemala (La Fragua Group/Ahold)	\$ 14	5	Tegucigalpa San Pedro Sula	Direct Distributor
Stock, wholesale club	Local	\$ 12	3	Tegucigalpa	Direct Distributor
Mas x Menos, supermarket	Local	\$ 10	2	Tegucigalpa Choluteca	Direct Distributor
YIP, supermarket	Local	\$ 9	1	Tegucigalpa	Direct Distributor
Colonial, supermarket	Local	\$ 9	1	San Pedro Sula	Direct Distributor
La Económica, supermarket	Local	\$ 9	1	San Pedro Sula	Direct Distributor
ELDON, supermarket	Local	\$ 2	1	Roatán	Direct Distributor

Note: Sales figures are estimates obtained from industry sources.

- ! The supermarket retailing industry is expanding. Supermarket chains have opened stores in various urban locations and most of the population, with a regular job, take advantage of promotions and buy their food purchases at these supermarkets. Virtually all the supermarket chains are expanding, remodeling, and modernizing. Larger chains in neighboring countries have also formed strategic alliances with chains in Honduras.
- ! The entry of wholesale clubs has forced supermarkets to conduct more aggressive advertising and price discounting. Promotions for U.S. products are periodically held by supermarkets. The weekly supermarket sales advertised in nationwide newspapers always include U.S. products.
- ! Urban consumers routinely buy groceries in a supermarket. There is recognition for quality bought, wholesomeness and variety. In addition, price incentives, sales and lottery of cars, TVs or domestic appliances - when certain products are bought - attract more customers.
- ! The total number of supermarket units increased to 51 in 2003. There have been many new supermarkets built at areas of high population in Tegucigalpa and San Pedro Sula.
- ! Supermarkets and wholesale clubs carry a larger and more varied inventory of imported food products on a consistent basis, thus accounting for the largest volume of sales of consumer-ready (canned, preserved, processed, frozen and chilled) food products.

- ! There is a strong preference for U.S. food products and increasing demand for supermarkets and mini-markets. Opportunities exist for increased sales of properly priced U.S. products, especially products that are new and different from what has been available in the Honduran market.
- ! The supermarket sector is still in flux, and gravitating heavily towards consolidation. Two major chains have bought out smaller competitors or ailing supermarkets, while others are adding new stores throughout the country.
- ! Sales of fresh fruits and vegetables continue to rise, as increased investments in the cold chain allow for longer shelf life of perishable items. More agile import logistics allow consumers to purchase fresher fruits and vegetables at the retail stand. Two major supermarkets receive up to two shipments of fresh fruits and vegetables per week. Apples, pears and grapes are now available all-year round, since supermarkets can import them from the U.S. or Chile.
- ! Imported sausages, hams and other deli meat products have taken a strong foothold, as prices have become extremely competitive compared to local deli products. Pork cuts are also on the rise, especially smoked pork and ribs.
- ! Refrigerated ready-to-eat foods and desserts continue to post mixed results. Slow demand growth and high costs for these products restrict retailers from buying full truck loads. Individual retailers complain that it is logistically impossible for them to consolidate refrigerated and dry food items aboard one container. Hence, retailers rely on local specialized importers to purchase frozen food items.
- ! Christmas gift baskets are also increasingly popular. In recent years, it has become common to include a high percentage of U.S. products in the basket. Most commonly included are traditional favorites such as wines, whiskey, candy and nuts. Easter, besides being a religious holiday, could also be defined as summer vacation time for the vast majority of Hondurans. This vacation period begins well before and extends well beyond the religious holiday. Other than the Christmas season, Easter is the main peak for retail sales. In addition, in June of every year the government and private sector provide a bonus to their employees. This bonus is equivalent to a month's salary. Many families make special purchases at this time. Substantial opportunities exist for U.S. suppliers willing to promote their products during those times and gear their promotional campaigns toward this end.
- ! A long-distance shopping tool has been developed for the 400,000 Hondurans in the U.S. who send remittances to their families. Honduran immigrants can buy a consumption voucher in the U.S. for their families to shop at a local Honduran supermarket. This is done through a company in Honduras that provides the voucher to the person, which can take it to the supermarket, where it is cashed for groceries. An additional example is a poultry company from Honduras, which has an arrangement in the U.S. for a person to buy an order of poultry and his/her family can claim it at a local supermarket.
- ! One of the leading distributors to supermarkets and convenience stores is DIAPA, which has operated with local capital since 1966. DIAPA purchases a monthly average of \$50- to \$100,000 in U.S. products, which are distributed to 1,961 outlets, such as: 91 supermarkets and mini-markets, 660 wholesalers, 49 convenience stores, 121 Drugstores,

among others.

- ! Local wholesale outlets and warehouses clubs have taken a strong foothold on the Honduran market, as the number of warehouse outlets and the variety of items has increased. Furthermore, people from rural areas travel to buy at wholesale stores.
- ! The membership discount club and bulk purchasing concept has gained acceptance among consumers, as many find wholesale clubs much more suited for a one-stop-shopping experience, from food to electronic consumer goods. Food sales account for 25 to 30% of gross sales in wholesale clubs, with non-food products rapidly establishing a niche.
- ! Hypermarkets are not present in the market, although Price Smart has introduced small satellite service stores inside their showroom. Also, Price Smart offers U.S. policies applied to Honduras regarding guarantees.

B. CONVENIENCE STORES, GAS MARTS AND KIOSKS

Company Profiles

<i>Retailer Name & Market Type</i>	<i>Ownership</i>	<i>Sales (\$ Mil)</i>	<i>No. of Outlets</i>	<i>Locations (city/region)</i>	<i>Purchasing Agent Type</i>
Star Mart	Texaco	10.1	22	Nationwide	Importer Distributor
Food Mart	Texaco	9.0	26	Nationwide	Importer Distributor
Select	Royal Dutch Shell	2.4	6	Tegucigalpa San Pedro Sula La Ceiba, Siguatepeque	Importer Distributor
Tiger Market	Esso	4.0	14	Tegucigalpa San Pedro Sula La Ceiba, Choluteca Comayagua	Importer Distributor
On the Run	Esso	2.5	6	Tegucigalpa San Pedro Sula	Importer Distributor
Super 7	DIPPSA Local	3.5	13	Tegucigalpa San Pedro Sula La Ceiba	Importer Distributor
Eco Mart	COPENA Local	1.1	12	San Pedro Sula, Tela, La Ceiba, Cortés, Utila	Importer Distributor
Petrosum	Local	0.5	2	Roatán	Importer Distributor

Note: Sales figures are estimates obtained from industry sources.

- ! Convenience stores specialize in fast foods, hotdogs, sandwiches, chicken and pizza, but also carry high-quality imported goods such as snacks, cookies, assorted candy, chocolates, ice cream, sodas, beer, deli meats and groceries. Around 70-75% of these products are imported from the U.S.
- ! Proceeds from convenience stores represent around 10 percent of the total sales for gas stations. Many of the same companies that supply supermarkets also supply the convenience stores.
- ! Pricing strategies vary among store chains, typically ranging from 20 to 40% above supermarket level prices, to those competing with supermarket pricing on basic food items and beverages.
- ! TEXACO owns the largest chain of convenience stores, with 47% share of the market, offering gas station owners the choice of setting up a franchised higher-end store (Star Mart) or a privately-owned lower-end one (Food Mart).
- ! Some of Texaco imports are directly from the U.S. and for such purposes they have a warehouse to supply all Texaco stores. Since October 2001, Texaco Caribbean Inc. is a subsidiary of CHEVRON-TEXACO.
- ! The number of convenience store outlets increased by 114%, up 54 outlets from 47 in 1999, to 101 in the year 2003.
- ! Food sales through convenience stores are estimated to have increased by at least 55%, mainly as a result of higher number of outlets in the market, and new store formats designed to attract new customer segments and more customer traffic.
- ! Larger convenience store chains now lease space to fast-food restaurants, such as Pizza Hut, Wendy's and Pollo Campero to set up drive-thru and carry-out services.
- ! Increasing competition has lead stores to reduce profit-margins by as much as 10%, however, still remaining 20 to 40% above supermarket price levels.
- ! Super 7 stores are locally owned and one person manages business negotiations for the whole group. Super 7 does not lease space for restaurants. They are operating "Chicken on the Run" restaurants with Ballantyne of Omaha.
- ! Samples of innovations in the convenience stores are baby-chairs, serve kid meals, have automated carwash or internet stations.
- ! Stores carry a greater variety of basic groceries, such as fluid milk, cheese, eggs and bread, and ready-made dinner items, in an effort to appeal to working parents with limited time to cook meals at night.
- ! Convenience stores could stock more varied products. However, distributors carry limited varieties and fail to introduce new products.

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

Sub-Sector Profile

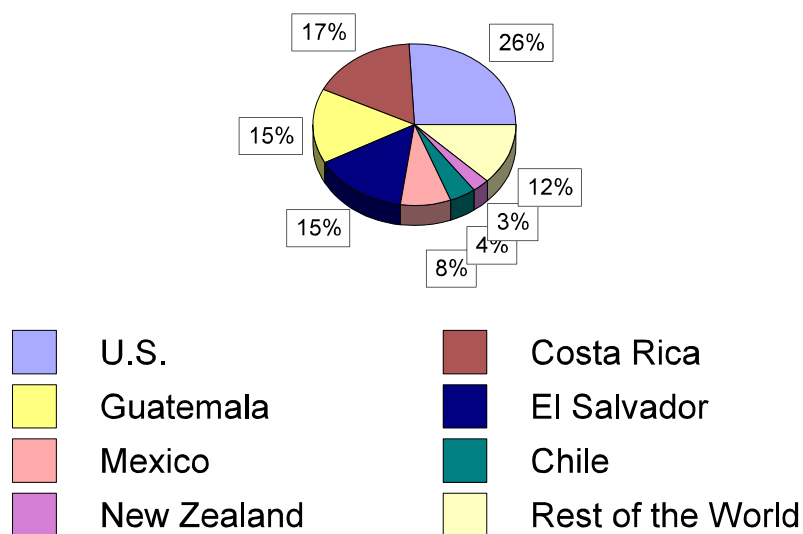
- ! There are two types of traditional markets in Honduras. One is the open-air farmer's market, where growers and intermediaries sell their products directly to consumers. These markets primarily concentrate on local produce and farm fresh goods such as fruits and vegetables, staple grains, red meat, pork, poultry, eggs and fish.
- ! Each town has at least one open-air market. Tegucigalpa has six, each of which has a large variety of products, and San Pedro Sula has four. Most open-air markets operate daily, while some are open only on Friday and Saturday.
- ! Major distributors of processed products such as breakfast cereals, canned tuna, ketchup, mayonnaise, cookies, and UHT milk also sell their products at open-air markets. Prices are much lower than in supermarkets.
- ! US products with a low price are found at these open markets. It has also become popular to find apples and grapes for sale at these markets.
- ! Even though people buy at the open markets, they also go to supermarkets to take advantage of sales, buy products to participate in raffles or buy what they can not find at those markets.
- ! The second type are the small "mom & pop" stores (known as pulperias). The number of these stores is huge, with about 16,000 in Tegucigalpa, and 8,000 in San Pedro Sula.
- ! Products sold at the mom & pop stores are basic foods such as bottled drinks, bread, milk, juice and a wide selection of snacks. Among the snacks found lately are chocolates and individually wrapped cookies.
- ! Wholesalers distribute products to the mom & pop stores at least twice a week. They have developed a route system to get products to all the stores. Even small villages of only 100-200 people are likely to have a mom & pop store.
- ! Prices for the customer are usually higher at these stores than at the supermarket. However, most of the population buys at them since poor consumers can often only afford to buy small quantities, individually packaged.

III. COMPETITION

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>Snack foods</p> <p>Imports from the world \$19 million</p> <p>Imports from the U.S. \$ 4 million</p>	<p>Mexico, Guatemala and El Salvador</p> <p>U.S.A. - 20% market share</p>	<p>The Free Trade Agreement between Mexico and the northern triad of Central America (Guatemala, El Salvador and Honduras) has allowed Mexican imports to increase presence in the market.</p> <p>Price is competitive.</p> <p>Package is small.</p>	<p>Honduras produces plantain and potato based snacks and is fairly new entrant into this snack market segment</p>
<p>Dairy</p> <p>Imports from the world \$ 41 million</p> <p>Imports from the U.S. \$6 million</p>	<p>New Zealand and The Netherlands</p> <p>U.S.A. - 14% market share</p>	<p>These countries supply powdered and instant milk and dehydrated milk-based products. They have developed a long standing reputation in the market.</p> <p>New Zealand investment in dairy processing plants in El Salvador are likely to bolster the presence of their products</p>	<p>Local suppliers are increasing domestic production. The installation of a local dehydrated milk plant and increase in tariffs for imported dairy products are creating conditions to improve local production.</p>
<p>Fresh Fruit</p> <p>Imports from the world \$9 million</p> <p>Imports from the U.S. \$6 million</p>	<p>Chile</p> <p>U.S.A. - 67% market share</p>	<p>Chilean apples and grapes are gaining ground in the Honduran market.</p>	<p>Honduras does not produce apples and grapes in a commercial amount.</p>

<p>Fresh and frozen vegetables</p> <p>Imports from the world \$ 5 million</p> <p>Imports from the U.S. \$ 1 million</p>	<p>Canada</p> <p>U.S.A. - 22% market share</p>	<p>Canada is gaining ground providing frozen potato products, mainly to the food service market.</p> <p>Price is competitive.</p> <p>Guatemala provides fresh vegetables to Honduras such as carrots, broccoli, lettuce</p>	<p>Honduras does not produce frozen vegetables</p>
<p>Wine and beer</p> <p>Imports from the world \$ 5 million</p> <p>Imports from the U.S. \$ 4 million</p>	<p>Chile</p> <p>U.S.A. - 70% market share</p>	<p>Chile has developed a long standing reputation for its wines in the market</p>	<p>Honduras does not produce wine in commercial amounts.</p>

Honduran Agricultural Imports*
by Country of Origin
Market Share of Honduras Imports



* Data refers to consumer-oriented agricultural products

- C In the aggregate, U.S. market share of consumer-oriented agricultural imports is estimated at 26%, with several individual food categories, like like pet foods, tree nuts, red meats, wine and beer, fresh fruit, cheese and processed fruits and vegetables.
- C Costa Rica, Guatemala, El Salvador and Mexico are the U.S.' main competitors for the Honduran import food market.
- C European and South American competitors face more difficulty in competing with the U.S. due to its proximity to Honduras, the high perception of American products in the local market, and long-standing commercial ties with Honduras.
- C Major suppliers of consumer-oriented foods to Honduras in 2002, were in rank order: United States, Costa Rica, Guatemala, El Salvador, Mexico, Chile and New Zealand.
- C Major suppliers of edible fishery products to Honduras in 2002, were in rank order: Nicaragua, Panama, Thailand, United States, Costa Rica, Mexico.

IV. BEST PRODUCTS PROSPECTS

A. Products present in the Market which have Good Sales Potential

- C Dog and cat foods (dry type)
- C Red meat, chilled or frozen (especially prime pork and beef cuts)
- C Fresh fruit (especially apples, grapes, pears and plums)
- C Red meat, preserved/prepared (especially sausages and deli-meats)
- C Processed Fruit and Vegetables Juices
- C Tree nuts
- C Wine and beer

B. Products not present in the Market, because of significant barriers or that will not do well.

- C Given the low per capita income in Honduras, food items that carry a high price tag will usually sell sluggishly, especially if lower price substitutes are available in the market. Some high-end wines and gourmet foods may fit this category.
- C Other imports are banned or hampered by labeling, sanitary and/or product registration requirements. Best examples of these products are fresh, frozen poultry meat and eggs.
- C There are import quotas on other items, such as corn and rice. For a complete explanation and review on how to export food to Honduras, please refer to our Exporter Guide 2002 at www.fas.usda.gov/scripts/default.asp

V. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report, or need assistance exporting to Honduras, please contact the Office of Agricultural Affairs at the address listed below:

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