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## Ecuador

# Retail Food Sector Report

## 1999

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**Report Highlights:** Total sales in the retail food sector surpassed \$1.2 billion in 1998. The retail outlets market share is divided into supermarkets and commissaries 35%, wholesale warehouse 35%, convenience stores 20%, with delicatessen, retail warehouse and min-marts each taking up 5% of the market.

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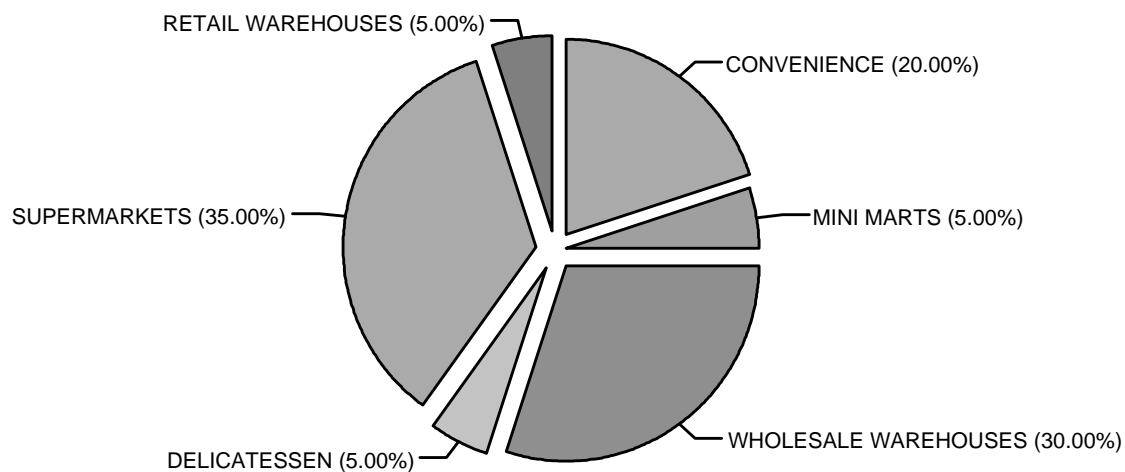
## I. Market Summary

- The food sector in Ecuador grew 2.8% in the last decade. In 1995, the Chilean supermarket chain Santa Isabel came into the Guayaquil market.
- The most important cities according to goods and services sales levels (including food) are Guayaquil with 48.5%, Quito with 43.7% and Cuenca with 3.5%.
- In these urban centers, consumers spend an average of 40% of their revenue for buying food.
- Between February and April (1999), Ecuador experienced a severe financial and economic crisis, marked by illiquidity, bank failures, a high fiscal deficit and a sharp devaluation of the sucre against the dollar. The result was a contraction in consumption, especially of imported goods, prices of which rose due to fluctuations in the exchange rate. Imports fell 15%.
- Total sales in the retail food sector surpassed \$1.2 billion in 1998. The retail outlets market share is divided into supermarkets and commissaries 35%, wholesale warehouse 35%, convenience stores 20%, with delicatessen, retail warehouse and min-marts each taking up 5% of the market.
- Convenience stores have considerable sales volume (60% of the products are of primary necessity<sup>1</sup>) because (1) the buyer buys small quantities of items, (2) the credit offered to buyers, and (3) the large number of establishments. However consumers show a growing tendency to buy foods in establishments like commissaries because although they need a high budget for monthly shopping, and the unit price of items is less than in convenience stores, many consumers prefer the convenience of self-service and the variety of products.
- The remaining 20% of consumers buy processed food, fruit, vegetables and meat in establishments like supermarkets and delicatessens. About 80% of the population buys in wet markets, exclusively fruits and vegetables; processed food of primary necessity are usually acquired in retail outlets.

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<sup>1</sup> Products of primary necessity: rice, sugar, oil, salt, flour, noodles, tuna. The remaining 12% of these products are sold in wholesale warehouses 20% in supermarkets and commissaries, and 8% in other types of establishments

## RETAIL OUTLET SHARE OF MARKET



Total retail sales \$1.2 billion (1998)

- In medium to high economic groups, consumers buy 70% of the food products in supermarkets, and 30% in delicatessens and food prepared outside the home.
- The population with medium revenue mainly buys 60% in food in commissaries or supermarkets; they also use local stores and occasionally retail warehouses.
- The segment of the population with low economic revenue buys processed food in local stores, wholesale and retail warehouses.
- All segments of the population occasionally buy food in establishments like convenience stores or mini-marts on gas stations due to the easy access.
- In 1998, 9,112 mini-marts were registered in Guayaquil (convenience stores and mini-marts) and 8,700 in Quito. 50 supermarkets in Quito (including commissaries), 57 in Guayaquil. In Cuenca there were

approximately 600 local stores and 4 supermarkets. Also there were important wholesale warehouses in Santo Domingo and Machala.

- The two biggest chains of supermarkets in Ecuador have been established for over 20 years in the market and have grown steadily, increasing in the last two years their number of branches, placing them strategically in shopping centers (malls) in the most important cities. They offer an excellent service for the buyer and possess the largest segment of the market, which consumes imported food and beverages.
- A substantial growth of sales on supermarkets is projected. Shortly Supermaxi will open a series of branches of smaller size with national coverage aimed at medium and low revenue sectors, the population food consumption increases in these kind of outlets.
- The wholesale warehouses and convenience stores focus their sales on products of first necessity, although they possess an extensive line of processed products ready for consumption, these sectors and the delicatessen, mini-marts and retail warehouses sectors, will have a media increase on their sales, between 2% to 5% at the end of the year 2000.
- Supermarkets are importers, have producer-distributors<sup>2</sup> or importer-distributors<sup>3</sup>. Commissaries are supplied by distributors-producers or distributors-importers, while local stores have a great number of suppliers such as sub-distributors<sup>4</sup>.
- Mini-marts on gas stations appeared 2 years ago and have had an interesting experience because of their easy access, offering a variety of products that includes imported goods. They are supplied by national distributors, the majority of these shops belong to the principle shareholder of the gas station; 130 shops in the country belong to 4 chains of gasoline suppliers. The number of these shops is expected to rise 10% by the end of 2000.
- In 1998, the size of the processed food market reached \$2.3 billion while domestic sales of processed food reached \$3.6 billion.
- A fundamental requirement to import is the obtaining of a Sanitary Permit for the product. For this, a U.S. company must send the necessary samples of the product together with an authorization of the Ministry of Health and a DUI (Documento Unico de Importación–Unique Import Document) to the importer who will act as broker in Ecuador.

Advantages	Challenges
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<sup>2</sup> Producer-distributors: chain of distributions at a national level, directly from food industry

<sup>3</sup> Importer-distributors: importers that also have a chain of distributions at a national level

<sup>4</sup> Sub-distributors: small firms that distributes products to retail outlets

Imported products in general have great acceptance for a determined segment of the population (20%)	High import tariffs on U.S. products compared with competitors such as Chile.
Excellent perception of U.S. products and preference for acquiring them.	The consumption of imported products is limited to the segment of the population with high economic revenues.
High income consumers of imported products don't reduce consumption even though prices rise.	Imported products are considered as a luxury so that demand doesn't increase rapidly.
Tendency of the consumer to buy food ready for consumption in self-service establishments.	Consumers or clients look for a combination of high quality and low prices.
Supermarkets are located in strategic sites, favoring the consumption of imported products.	Importers prefer to buy in small volumes.
The product promotional activities increase by 25% the level of sales in supermarkets and commissaries. Depending on the product the sales rate can rise by 200% during the time of promotion.	Awareness of U.S. brands such as Kraft.
	Obtaining a sanitary registration is time consuming.

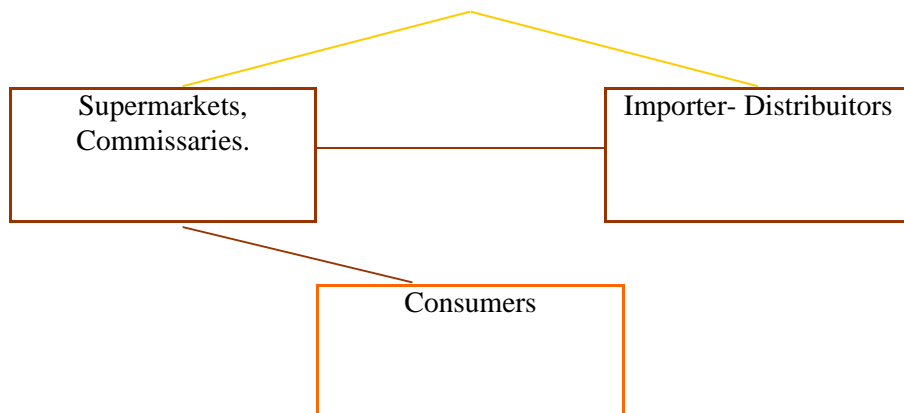
## II. Road Map for Market Entry

### A. Supermarkets and Commissaries

- The biggest chains of supermarkets are 1) Mi Comisariato (El Rosado) with 22 branches: 15 in Guayaquil, 4 in Quito, 1 in Salinas, 1 in Manta, and 1 in Machala. 2) Supermaxi (La Favorita) with 25 branches: 6 in Guayaquil, 15 in Quito, 2 in Cuenca, 1 in Ambato and 1 in Ibarra.
- They are characterized by self-service, a variety of food products, and complete infrastructure. Of their products up, to 25% are imported.
- Between 20% and 25% of the total volume of food and beverages is imported directly, and the remaining purchase is from distributors and large firms that import products from different countries (importer–distributors).

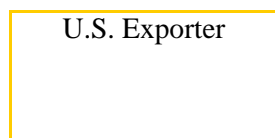
#### Supermarkets Distribution Channels



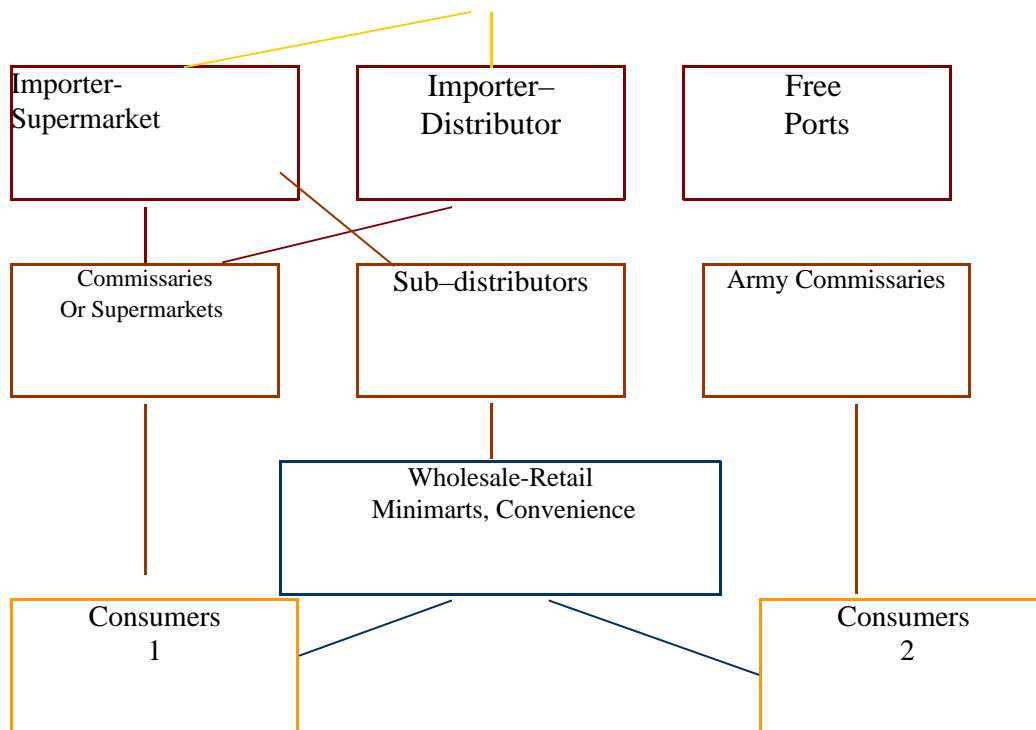


- To enter American products in the two largest chains of supermarkets it is best to contact them directly. If consumers accept the product, the price and promotion of the products will be key to reaching on import agreements.
- Another way to enter into the market is to contact importer/distributors of processed foods and beverages which are the main suppliers for supermarkets. They are:
  - Proesa: food products, Kraft from Colombia (80%) and the US (20%), alcoholic beverages.
  - Nestle: a variety of snacks, pet food.
  - Nabec: canned products.
  - Eljuri, Alpacific, Dispacif, Cordovez, Andina de Licores: alcoholic and non-alcoholic beverages.
  - Mercantil Garzosi: ice-cream and frozen food.
  - Proalco: processed soups, alcoholic beverages.
  - Fralga: chocolate and snacks.
  - Dibeal: oil and sauces.
  - Pydaco: oils, and processed food.
  - Otelo, Ortiz & Jácome (Cuenca): variety of processed foods.
  - Industrial Molinera: non-alcoholic beverages.
  - Quifatex: candies, chocolates.
  - Importadora Bacus and Corporación Noboa: all types of processed foods, including frozen foods

#### Market Structure (Commissaries<sup>5</sup> and other retail sectors)



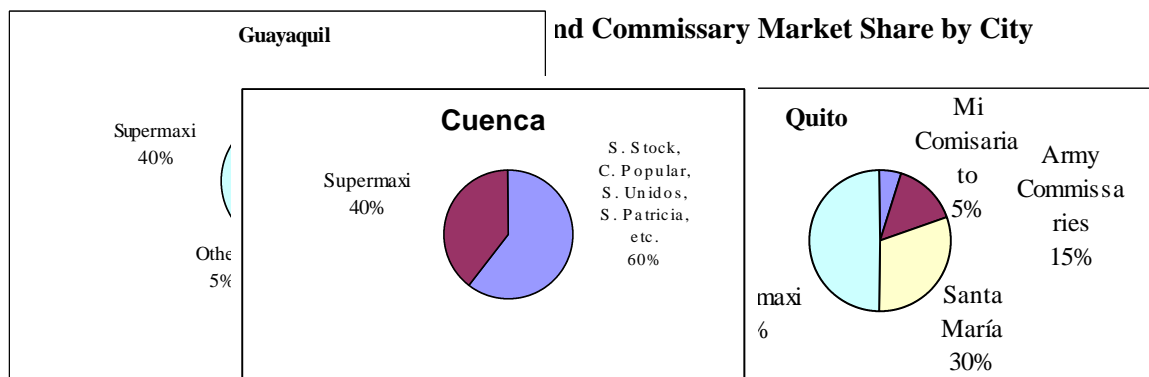
<sup>5</sup> Supermarkets controlled by government/or public institutions.



- Fresh products like vegetables and fruits are delivered directly by producers' associations and fruit importers. But an interesting channel for importing products is to contact big importers directly like Salinas and Transmariner.

Commissaries are supplied by national producer-distributors that represent a large percentage of the sales, while imported goods are bought through distributors that import directly (importer-distributors).

A special case of commissaries that have a high level of sales is the chain of the Army Commissaries. It has a wide range of imported food and beverages and can make use of its tax exempt status from imports to bring in 100% of its imported merchandise directly from free ports like Panama. These commissaries serve a specific sector of consumers, general related to the military sector.





- ! In Quito, supermarkets and commissaries account for total sales in the following way: Supermaxi 50%, Santa Maria 30%, Army 15%, Mi Comisariato 5%.
- In Guayaquil, supermarket sales are taken up principally by Supermaxi (40%) and Mi Comisariato (40%) with a similar value of sales. But they differ in that Supermaxi has a high segment of consumers who pay greater prices while the second chain sells greater volume but of products for consumers from the medium to low class.
- In Cuenca the main chain is Supermaxi with 2 stores (40%) and the rest are small, with a low sales volume. There are however a lot of them: the main ones are Super Stock, Comisariato Popular, Supermercados Unidos, Supermercado Patricia, Tía, and others (60%).

### Major Establishments Profile

Name of retailer and type of outlet	Ownership (local or foreign)	Food Sales 1998 (\$ million)	No. Of outlets	Location	Type of purchasing agent
Supermaxi (Supermarket)	Ecuador	80	25	Nationwide	Importer, supplied by importer-distributors
Mi Comisariato El Rosado,	Ecuador	70	22	Nationwide	Importer, supplied by importers/distributors.

(Supermarket)					
Santa María (Commissarie)	Ecuador	30	4	Quito	Supplied by importer-distributors
Army Commissaries	Ecuador	16.8 34	2 4	Quito Guayaquil	Importer, supplied by importer-distributors
Santa Isabel (Supermarket)	Ecuador	18	2	Guayaquil	Importer, supplied by importer-distributors
El Conquistador (Supermarket)	Ecuador	2	3	Guayaquil	Supplied by importer-distributors
Tiendas Tía (Supermarket)	Ecuador	2.5	14	Nationwide	Supplied by importer-distributors
Fybeca (Minimart)	Ecuador	0.720	60	Nationwide	Importer, supplied by importer-distributors
El Español (Delicatessen)	Ecuador	0.576	7	Quito y Guayaquil	Importer, supplied by importer-distributors

## B. Convenience Stores, Gas Markets and Other Small Retail Outlets

### Mini-marts and Convenience

- Some mini marts are located at the main chains of gas stations such as Mobil, Texaco, Shell, Repsol, Puma, P&S.
- These gas stations came to the country 2 years ago and began to offer the service of small shops. The chains have shops of their own, the majority are administrated by national owners . The number of shops in the gas stations are the following: Puma 40, Texaco 40, Repsol 40, Shell 30, Mobil 20. In these stores, the sales of food and beverages are 80%, the rest are baby goods.
- Convenience stores have quite low sales turnover. They are dispersed throughout the city and the value of sales varies between \$50 and \$200 daily in the small stores (approximately 90% of convenience stores) and the stores of greater sales turnover are between \$400 and \$600 (\$200,000 annually at the most).
- Fybeca is a chain of drug stores that offers sweets on a small scale. From total sales, 5% are food products, of which 50% is imported directly (products such as chewing gum, sweets, Italian and Spanish cookies)

## C. Traditional Stores

### Delicatessens

- El Español (5 branches in Quito, 2 in Guayaquil) and El Griego (4 in Quito). Their turnover of imported goods makes up 70% of total sales, with imports coming from Europe and the US. El Español imports 40% of its goods directly.

## Retail warehouses

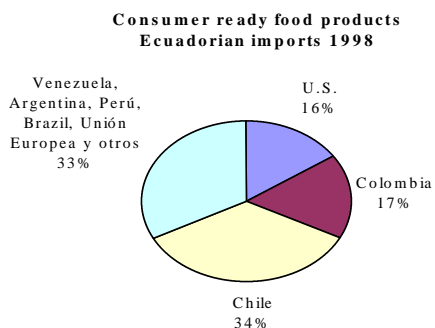
- A very important market is the retail warehouses markets of Iñaquito and Santa Clara in Quito and La Bahía in Guayaquil. These are exclusively imported products retail outlets (96% of the items). More than 60% of the products are supplied by illegal channels of distribution through Guayaquil's port, the rest by importer-distributors and sub-distributors.
- The sales of this informal sector have diminished since new customs rules have reduced tax evasion, which has reduced imports of these products by 70%.

## Market Entry Strategy

The two ways US products can enter the Ecuadorian retail food sector: (1) through supermarket chain importers and (2) through those importers who distribute to retail establishments and sub-distributors. With that in mind, a U.S. exporter should take into account the following points:

- Contact the two sources of sale and distribution of products, directly or through an agent, send list of prices and samples.
- Supermarkets require a test shipment to establish the level of acceptance of the product and its potential.
- Contact the main importer-distributors, they can be your broker or representative.
- To break into new market segments its recommendable the products are of good quality and are reasonably priced.
- New products should arrive at the market with a publicity strategy based in price promotions, tasting of the product in the stores and through communication media under the responsibility of the supermarket and financed by the exporter.
- For new products it is necessary to carry out market studies which would be the basis for negotiation with supermarkets or importers.

• Tra:



## III. Con

- Ecuador imported \$254 million of consumer ready food products in 1998, representing a growth of 20% compared to 1997.
- The major competitors to U.S. products are Chile and Colombia. In 1998, the U.S. had a share of 15.5% Ecuadorian imports, Chile 34.9% because of tariff preferences (lower prices), and Colombia 16.9%. This last country exports confectionery products and snacks to Ecuador.
- Popcorn is principally imported from Argentina and the US along with potatoes chips and other savory snacks. Sweet snacks are imported from the US, Colombia, Venezuela and Chile. 90% of candies are imported from Colombia and 10% from Chile. 1,885 metric tons of cookies and 1,817 metric tons of savory snacks are imported from Colombia. The total of sweet snacks that includes candies is 7,065 metric tons and US 15.24 million, in 1998.
- Chile is the main exporter to the Ecuadorian meat industry, as is to a lesser extent Argentina. Meanwhile, processed meat and poultry are basically imported from the US.
- An important dairy product is ice cream: Venezuela exports to Ecuador 3 times more than the US.
- In fruits, for 1998 there was a substantial increase in citrus fruits. Citrus fruit imported from the US reached more than 1,000 metric tons. In the fruit season oranges and lemons are imported from Colombia (1,500 metric tons).

Ecuadorian Imports 1998 (metric tons)

	Grapes	Apples	Pears	Peaches
Chile	4,644.4	37,218	2,206	300
U.S.	983	1,934	105	200

- In juices the main competitor is Mexico (70%), Colombia and Chile. Of imported refrigerated juices the leader is the US which exports twice as much as Brazil and four times more than Colombia.
- The U.S. leads, however, in nuts with a proportion of 220 to 100 metric tons compared to Chile. For mixed nuts the ratio is 60 to 5 metric tons and in raisins Chile is ahead with 1,096 metric tons, Peru with 290 metric tons and the US with 39 metric tons.
- U.S. products are well recognized because of its high quality over national products and other competitors. Although, Andean countries' products have similar quality than U.S. products, their prices are lower because of tariff preferences, such is the case of Chilean products (fruits, nuts, wine).

#### **IV. Best Product Prospects**

##### **A. Products present in the market which have good sales potential include:**

- Snacks
- Ice Creams
- Seasoned noodles
- Powder soups
- Puree
- Dairy products
- Dog foods
- Baby foods
- Vitamins and sweeteners

All of the above products enjoy high turnover in the Supermarkets. We have reasonable believes that they will grow in the future.

##### **B. Products not present in significant quantities but which have good sales potential include:**

- Concentrate Juices
- Beverages
- Liquors
- Frozen food ready to eat

Currently, most of these products have been provided by Chilean and other third markets, however, given the strong preference to U.S. products that we refer earlier, as well as a reliable quality supplies, we believe that the U.S. exports could expand their presence in Ecuador for this products.

**C. Products not present because they face significant barriers include:**

- Wheat flour
- Powder milk
- Whole chicken and parts

**V. Further Contacts**

If you have any questions or comments regarding this report or need further assistance regarding exporting to Ecuador, please contact the U.S. Agricultural Office in Quito at the following address:

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