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Ecuador

HRI Food Service Sector Report

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Report Highlights:

Although Ecuador is a small country, big hotel enterprises such as Hilton, Marriott, Swiss Hotel can be found, as well as many high-standing restaurants which offer national or international meals.

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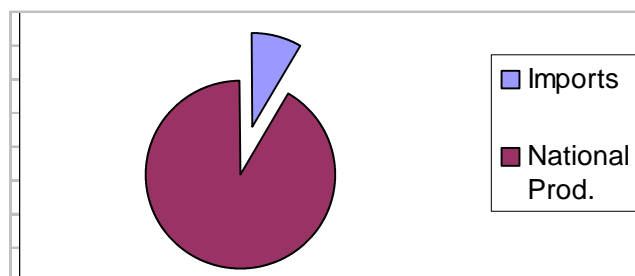
I. Market Summary

Although Ecuador is a small country, big hotel enterprises can be found, such as: Hilton, Marriott, Sheraton, Oro Verde, Swiss Hotel and others. The most important cities in Ecuador (Quito, Guayaquil, Cuenca, Machala and Manta) have luxury hotels with an important gastronomic variety (American, French, Italian, traditional, etc.).

There are also many high-standing restaurants, which offer national or international meals, such as “TGI Fridays”, “Cantonés”, “Rincón La Ronda” and others. Among the most important fast-food restaurants there are: Burger King, Mc. Donald's, KFC, Pizza Hut, Domino's Pizza, Taco Bell and Subway. The institutional food service sector is still beginning and is the one with the highest growing rates.

The food and beverage market in Ecuador is monopolized by national products. In 1998, foreign products share of the total product in this sector were only 8.7%. It is expected that this share will decrease to 7.5% in 1999, due to the general economic slump in Ecuador's economy this year. However, this number is expected to grow again once the economic situation improves.

Imports vs. National Production in 1998



Source: Banco Central del Ecuador (BCE)

The following chart profiles the annual growth of these sectors during the last five years:

Sales of food and beverages of the three HRI sectors (in million dollars)

Sub-sectors	Sales 1994	S a l e s 1995	Sales 1996	Sales 1997	Sales 1998	AAGR
Hotels	85	89	112	122	136	15%
Restaurants	224	231	277	296	311	10%
Institutions	31	35	43	52	55	19%
Total	340	355	432	470	502	12%

AAGR = Annual Average Growing Rate

Source: Instituto de Estadísticas y Censos (INEC)

The annual average growing rate overall for the HRI sector is 12%, which is a very significant number if we consider that the Ecuadorian GNP (Gross National Product) grew only up to 4% in the same period of time. Nevertheless, the actual crisis of the country will promote a sales decrease of 25% in 1999; it is expected

that in the year 2000 they will return to their usual growing rhythm and that they will get close to 600 million dollars in 2003.

As is shown in the chart above, the institutional sector growing rate is the highest (19%), hotels also have a high annual growing rate (15%). Although the restaurant sector grows on a relative minor rate (10%), it is the biggest (almost 62% of the market).

The following chart profiles the official classification of the food, beverage and lodging establishments (Quito, Guayaquil and Cuenca are the most important cities in Ecuador):

Category	Quito	Guay.	Cuenca	Ecuador
Luxury	20	13	6	46
First	258	134	52	769
Second	314	254	98	1495
Third	971	1060	274	4871
Fourth	135	72	1	597
Total	1698	1533	431	7778

Source: Ministerio de Turismo del Ecuador

The establishments with more potential for international dealers are the luxury ones of which there are 815 in Ecuador

The global behavior of the sector is explained by the growing rate of the population, which, between 1993 and 1998, was 2.1%, to reach 12 million inhabitants in 1998. Another one of the relevant factors that influenced on the demand of imported food is the growing number of women who work out of home: in 1982 only 23% of the women worked out of home, this percentage increased up to 31% in 1997, and it is expected that it will grow up to 33% in the year 2000.

The number of foreigners coming to Ecuador has also risen. 347,463 people arrived in 1998; in 1999, there were 493,727 visitors, and in the year 2000 over 500,000 visitors are expected.

Advantages and Challenges facing U.S. Products in Ecuador

Advantages	Challenges
The popularity of American culture brings along a strong demand of the lifestyle and products of that country.	Corruption in customs turns difficult the normal entry of imported products.
American food service enterprises are very popular in Ecuador, particularly in high and middle-high economic levels.	The economic crisis of Ecuador will probably cause a decrease in the demand of all products in 1999.
Ecuadorian consumers consider American products to be high-quality and safe products.	American products become much more expensive than national products because of the depreciation of the sucre.
The growing rate of Ecuadorian population is high and constant.	The tendency among the population is to choose national products according to the

	severity of the economic crisis
The number of visitors coming to Ecuador increases considerably.	Delinquency, which is a consequence of the economic crisis, discourages tourism.

II. Road Map for Market Entry

A. Entry Strategy

The first step for American dealers would be to learn which are the most requested products, as well as the principal competitive countries (see Section IV of this report).

After investigating the market, it would be useful to contact the most representative HRI if the American dealer wants to provide the sector directly (see the post contact list at the end of this report).

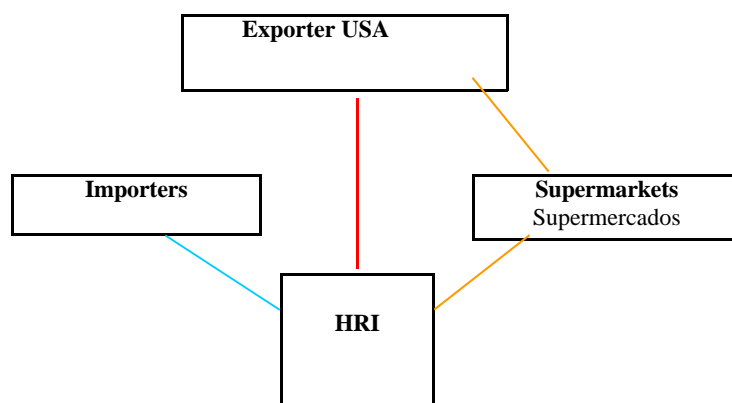
It would also be very wise to contact big supermarkets (such as Supermaxi), the most representative dealers of imported products (such as Eljuri) and the most important producers-dealers (such as Nestlé). Further information concerning this fact can be found in the Retail and Food Processing Sector Reports.

Additionally, it is very important to have a well trained marketing staff, with sufficient knowledge of the evolution of Ecuador's market, Ecuadorian laws and regulations.

B. Market Structure

There are three basic ways by which the products coming from foreign exporters can reach the HRI. First: they can be directly imported by the HRI; second: they can be sent to a direct importer and then pass to the HRI; and third: they can be sent to a direct importer, then to big supermarkets or "delicatessen" and finally to the HRI.

Only a few large hotels, restaurants and franchisees import directly. The majority of restaurants usually use the second way and the small establishments the third one. There is no difference concerning the distribution channels for imported products for the each of the sub-sectors of the HRI.



C. Sub-sectors Profiles

1. Hotels and Resorts

Company Profiles

Name of Hotel/Resort	Market Share	Food Sales (year)	Locations	Number of Hotels/Resort	Purchasing Agent
Hilton	+ 6% (1998)	+ 8 Million (1998)	Quito and Guayaquil	2	D i r e c t Importer
Oro Verde	+ 6% (1998)	+ 8 Million (1998)	Guayaquil (2), Cuenca, Machala and Manta	5	D i r e c t Importer
Swiss hotel	+ 6% (1998)	+ 8 Million (1998)	Quito	1	D i r e c t Importer
Apartec	+ 3% (1998)	+ 4 Million (1998)	Quito, Cuenca, Salcedo, Paute, Riobamba, Bahía de Caráquez and Amaguana	7	To importers
Continental	+ 3% (1998)	+ 4 Million (1998)	Guayaquil	1	D i r e c t Importer

Other important hotel enterprises have recently started working in Ecuador: **Marriott** operates in Quito (since July, 1999), **Sheraton** also operates in Quito and it is building its place in Guayaquil. Other important hotels shall be considered as well: **Gran Hotel Guayaquil, Radisson Royal, Crown Plaza, Akros, Dann Carlton, Ramada and Sol de Oriente.**

In 1997, 2,064 lodging establishments were registered in Ecuador, but only approximately 56% (1,116 establishments) provide food and beverage service.

In the last five years, this sub-sector has grown with an annual average rate of 15% regarding food and beverage sales, passing 85 million dollars in 1994 to 136 million dollars in 1998. It is estimated that after the difficult year of 1999, it will recover its growth in the year 2000. According to estimates (which are difficult due to the situation of Ecuador) in the year 2003 the sales of this sub-sector will reach almost 178 million dollars.

Approximately 10% of the purchases of an average hotel correspond to foreign products, the rest is national. Nevertheless, there are some hotel restaurants which do not follow these patterns for they have a specialization on a certain type of international food.

2. Restaurants

Family Style Company Profiles

Company Name	Sales (year)	Locations	Purchasing Agent
TGI Fridays	+ 0.5 Million	Quito	Direct Importer
Cantónés	+ 0.5 Million	Guayaquil	To importers
Rincón La Ronda	+ 0.3 Million	Quito	Direct Importers and to importers
La Pozada de las Garzas	+ 0.2 Million	Guayaquil	To importers
Rincón de Francia	+ 0.2 Million	Quito	To importers

It is estimated that sales of familiar restaurants in 1998 reached almost **193** million dollars, and in 1994 only 139 million. So, this sub-sector has grown at an annual average rate of 10%. Projections announce that, in 2003, sales will reach approximately 211 million dollars.

Ecuador, does not have many large chain restaurant with numerous of branches.

The establishments mentioned on the chart below are a sample of the high-standing restaurants existing in this country. There are many others of well-known quality, such as: San Telmo, Tratoria de Enrico, El Jardin, Almanara, La Querencia, Casanova, Shorton Grill Steak House, La Canoa, El Toro Partido, Pavarotti: and these are only a small part of the 260 luxury and first-category restaurants in the country.

In a common familiar restaurant, approximately 10% of its sales correspond to foreign products. Nevertheless, certain products are almost totally covered by imports, as for instance: whisky, nuts, liquors, sweets and many others (see Section IV).

Fast Food Company Profiles

Company Name	Market Share	Sales (year)	Number of Outlets	Nationality	Purchasing Agent
Burger King	+ 4%	+ 2 Million (1998)	12	UK	Direct Importer
Mc. Donald's	+ 2%	+ 1 Million * (1999)	5	USA	Direct Importer
KFC	+ 4%	+ 2 Million (1998)	20	USA	To importers
Taco Bell	+ 2%	+ 1 Million (1998)	7	USA	Direct Importer
Subway	+ 0.4%	+ 0.2 Million (1998)	2	USA	Direct Importer

Mc. Donald's is winning market and building new places. At the beginning of 1999 it had only one place in Quito and now it has already three. Its sales for 1999 are a projection. KFC is also increasing its number of branches

In 1998, the sales of this sub-sector were almost 47 million dollars. If Ecuador's economy stabilizes strong grow in this sector (25% per year) is expected.

Burger King, Mc. Donald's and Taco Bell imports practically 100% of their products, while KFC and

Subway import a much smaller percentage.

3. Institutional

Company Profiles

Company Name	Market Share	Sales (year)	Nationality	Purchasing Agent
Catering Service	+ 7%	+ 4 Million (1998)	National	Direct Importer
Le Chalet	+ 0.5%	+ 0.3 Million (1998)	Quito	To importers

In 1994, the food and beverage market of the institutional sector enjoyed 31 million dollars in sales. In 1998 it increased to 55 million. Although it only represents 11% of the sales of the HRI, its growth rate is very high. In the year 2003, its market is forecast to increase to 94 million dollars.

Catering Service is the biggest enterprise of this kind in the country. Le Chalet is a restaurant of classical banquets that gives service to certain private and public institutions. There are other big catering enterprises such as Azul and Delvi, which also have a few foreign products. It is estimated that only 5% of the sales of this sector consist of imported products.

The consumption of foreign products in military institutions, hospitals, ministries, and prisons is very low; however, certain military institutions do have foreign products brought from the Army Commissaries, which get their provisions in the duty-free ports.

III. Competition

The major competition for American dealers is domestic production. In 1995, the food and beverage imports were 10% of the national production and in 1998, it is estimated that this percentage reached 8,7%. This reduction is due mainly to the quick depreciation of the sucre. Nevertheless, it is expected that this tendency will change in the opposite direction when the country recovers its economic stability.

The following chart profiles Ecuador's main food and beverage providers in 1998:

Countries	% Market
USA	25%
Colombia	20%
Chile	14%
Argentina	11%
Canada	7%

Peru	3%
Uruguay	3%
Others	17%

Source: Banco Central del Ecuador (BCE)

As is seen, USA and Colombia lead the imports. They both handle almost half of the market. It is expected that Peru will deeply increase its commercial exchange with Ecuador since both signed a peace agreement together.

It is important to consider that Ecuador belongs to the Comunidad Andina de Naciones (Andean Nations Community - CAN), and for this reason the imports with Colombia, Venezuela, Peru and Bolivia pay less taxes. This country also has bilateral agreements with other nations such as Chile, which helps the exchange.

IV. Best Products Prospects

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

1. Meat from chicken, duck, goose and turkey (poultry)

The principal providing countries are: U.S. (80%), Chile (11%) and Peru (5%). American exportations to Ecuador in 1998 were \$1.8 million, while the rest of the countries of the world exported to Ecuador the same year \$0.4 million. National chicken industry covers the largest percentage of the market, but as demand is so big, it is still a considerable import concept. On the other side, imported duck, goose and turkey cover a significant percentage of the market. It is recommended to import turkey, specially in Christmas season.

2. Beer

Colombia (51%), U.S. (26%) and Mexico (13%). This market is over 4.9 million dollars, of which 1.3 of it was covered by American exporters. Canned beer is dominated by importers who supply medium-high category establishments. Domestic production is of very good quality. Although this product has high taxes, the market grows up at a sustainable level.

3. Frozen Potatoes

U.S. (67%), Canada (22%) and the Netherlands (11%). The size of the market is over \$1.1 million. Frozen Potatoes ready to be fried have great acceptance, specially among fast-food franchisees; besides, some restaurants also request them. Their demand increases as fast as the demand for fast-food

4. Nuts, almonds and hazel-nuts

U.S. (55%), Chile (34%) and Italy (7%). Exportations from U.S. to Ecuador in 1998 were \$0.7 million, while the rest of the countries of the world exportations to Ecuador were \$0.5 million. Foreign production supplies the entire market. These products are a must in high quality dessert elaboration at first class HRI.

5. Condiments and seasonings

Colombia (48%), U.S. (43%) and Chile (4%). The market has a \$0.9 million value. Certain franchisees (like KFC), hotels and restaurants need these products in order to elaborate special recipes.

6. Bovine meat

Panama (35%), U.S. (24%), India (16%) and Argentina (14%). Ecuadorian importations of cattle meat in 1998 were \$2.2 million. Although foreign production is losing market because of domestic production, there is a high level of importation from Ecuador. Foreign bovine meat is demanded at certain first class hotels and restaurants. The rest of establishments prefer local meat because of prices.

7. Whisky

United Kingdom (77%) and USA (22%). The market is over \$1.5 million. All the Whisky consumed in Ecuador is imported. Its high price and quality permits its sale on high-standing places.

B. Products not Present in Significant Quantities but Which Have Good Sales Potential

In this group there are: olive oil; olives; prunes; cherries; vodka, cognac, brandy and similar; cumin-seed; salmon, mushrooms; anise, cinnamon, pasta and wine. The amount of import in the majority of these products did not overpass \$0.2 million in 1998, but they are very popular in HRI. Besides, the national production of these products is very small.

There are also: sausages; mayonnaise, ketchup; chocolates, candies and other sweets; sweet cookies, waffles; cheese; apples, grapes and pears. These products face a greater national competition, but foreign exportations are also well accepted in HRI.

C. Products not Present because They Face Significant Barriers

The Ecuadorian Government has neither banned nor restricted any product with significantly high tariffs or extremely tough sanitary regulations. The most important barrier for U.S. products in Ecuador is the size of the market.

Therefore, there are certain products that maybe will not do well in the market:

Vegetables of any kind, because domestic production satisfies the local demand, it has a large variety (carrots, tomatoes, broccoli, cucumber) and it profits the competitive advantages of the Ecuadorian agricultural sector

V. Post Contact and Further Information

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

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