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Honduras

Market Development Reports

Retail Food Sector

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Report Highlights:

The growth rate of 3.3 percent of urban population in Honduras, is increasing the demand for supermarkets and mini-markets. There is strong preference for U.S. products in Honduras and rising demand for quality and wholesomeness products. Opportunities exist for increased sales of properly priced U.S. products. Especially attractive are products that are new and different from what has been available in this market.

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I. MARKET SUMMARY

- C Honduras total imports in 2000 for consumer-oriented products were \$277 million. Imports from the U.S. accounted for 34 percent of the total import market.
- C Total imports in 2000 for Edible Fishery Products were \$14 million. U.S. market share was 45 percent.
- C Growth in U.S. exports of consumer-oriented products from 1997 to 2001, increased by 84 percent, from \$31 to \$57 million.
- C Urban population is 2.9 million with a growth rate of 3.3%. Approximately 1 million consumers are categorized as middle class, with household incomes between \$484 and \$969.
- C There are eleven metropolitan cities with population in excess of 100,000 in which the demand for supermarkets is on the rise.
- C A well establish supermarket receives 1 million visits per year.
- C Average annual per capita income in 2001 was \$922. In rural areas an estimated 65% goes to buy food while in urban areas it is closer to 50%.
- C Industry sources estimate that in 2001, supermarket and wholesale clubs sales reached approximately \$270 million.
- C There is a small, but strong number of Imported Foods Distributors. One of them imports a monthly average of \$50,000-\$100,000 in U.S. products.
- C Convenience stores reported approximate sales of \$25.1 million in 2001.
- C Small stores represent approximately 45 to 50 percent of food sales at retail, and over 65 percent of non-alcoholic and beer sales.
- C Major suppliers of consumer-oriented foods to Honduras in 2000, were in rank order: United States, El Salvador, Guatemala, Mexico, Costa Rica and New Zealand.
- C Major suppliers of edible fishery products to Honduras in 2000, were in rank order: United States, Panama, Thailand, Norway, Colombia and Costa Rica.
- C Supermarkets and wholesale clubs share of retail sales at the national level has increased to about 43 percent up by one percent in the last year. The remaining 58 percent of the food retail sales is allotted to convenience outlets, small stores, and traditional markets.

Advantages and Challenges of Selling U.S. products in Honduras

<i>Advantages</i>	<i>Challenges</i>
The quality, convenience and wholesome of U.S. products has traditionally been of preference for 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 that have traveled to the United States, introduced it to their families and friends.	Some imported U.S. food items cost more than local or regional product substitutes.
Rapidly developing retail sector and demand for consumer ready products.	U.S. brand awareness and sampling is necessary.
Strong presence and expansion of U.S. fast food outlets and casual dining restaurants	Opportunities to learn about more franchise investment is needed.
Importers prefer trading with U.S. exporters because of reliability and quality of service.	Overall size of the market in comparison to neighboring countries. This restricts direct imports 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.	Unclear and occasionally restrictive zoo and phytosanitary import requirements.

II. ROAD MAP FOR MARKET ENTRY

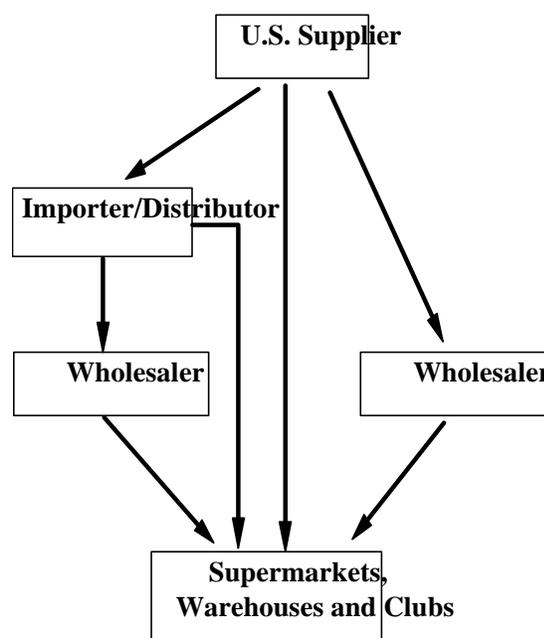
A. SUPERMARKETS, HYPERMARKETS, CLUB AND WAREHOUSE OUTLETS

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.

Distribution Channels

C 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.

C 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 out source selected food items through their corporate purchasing operations, and are able to bypass the local distribution chain.



C 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.

C 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.

Entry Strategy

C 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.

C Appoint a distributor that has a wide customer base, and that can provide extensive penetration and distribution support to your products. It is best if the distributor has previous experience in supplying supermarkets and retail outlets.

C 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 distribution will also be the importer.

- C 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.
- C 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.

Company Profiles

- C The 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.
- C Supermarkets account for approximately 35% of food sales. Retail sales of imported consumer-oriented products are conducted mostly by supermarkets, even though smaller stores also sell imported products.
- C The supermarket retailing industry is expanding. Supermarkets have opened stores in various locations of urban centers 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. Local wholesale outlets and warehouse clubs have been increasing in popularity lately. PriceSmart, a U.S.-Based warehouse club, opened a store in San Pedro Sula in 1999 and another in Tegucigalpa in 2000.
Christmas gift baskets are also increasingly popular. In recent years, it has become common
- C 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 two-day 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 its employees. This bonus is equivalent to a month salary. Many families made special purchases or buy quality products at that time. Substantial opportunities exist for U.S. suppliers willing to promote their products during those times and gear their promotional campaigns toward this end.
- C A distant shopping tool has been developed in light of the 400,000 Hondurans in the U.S. who send remittances to their families. Honduran immigrants can buy a consumption bonus 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 bonus coupon to the person, which can be taken to the Supermarket, where it is cashed for groceries consumption. An additional example is a poultry company from Honduras, who 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.

- C Small 'mom & pop' stores (known as pulperias) and traditional mini-markets total approximately 5,700 in Tegucigalpa, and 3,900 in San Pedro Sula. Both cities combined account for 55 percent of the total number of small stores in the country.
- C 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.
- C Purchasing habits among consumers continue changing towards imported food 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.
- C The membership discount club and bulk purchasing concepts have taken a strong foothold on the Honduran market, as the number of warehouse outlets and variety of items has increased. Furthermore, people from main cities in the rural areas travel to buy at this wholesale stores.
- C 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.

<i>Name & Outlet Type</i>	<i>Ownership</i>	<i>Sales & Millions</i>	<i>Outlets</i>	<i>Location</i>	<i>Purchasing Agent Type</i>
La Colonia Supermarket	Honduras	63	9	Tegucigalpa	Direct Importer Distributors
PALI Supermarket	Costa Rica	15.9	10	Tegucigalpa San Pedro Sula	Direct Importer Distributors
PriceSmart Wholesale Club	U.S.A	48	2	Tegucigalpa San Pedro Sula	Direct Importer Distributors
MAXI Supermarket	Costa Rica	14.3	5	Tegucigalpa	Direct Importer Distributors
STOCK Wholesale Club	Honduras	12	2	Tegucigalpa	Direct Importer Distributors
Junior Supermarket	Honduras	45	1	San Pedro Sula	Direct Importer Distributors
Mas x Menos Supermarket	Honduras	10	2	Tegucigalpa Choluteca	Direct Importer Distributors

Comisariato Los Andes Supermarket	Honduras	20	1	San Pedro Sula	Direct Importer Distributors
YIP Supermarket	Honduras	9.5	1	Tegucigalpa	Direct Importer Distributors
Colonial Supermarket	Honduras	12	1	San Pedro Sula	Direct Importer Distributors
La Economica Supermarket	Honduras	15	2	San Pedro Sula El Progreso	Direct Importer Distributors
El Centro Supermarket	Honduras	3.3	1	San Pedro Sula	Direct Importer Distributors
ELDON Supermarket	U.S	1.9	1	Roatan	Direct Importer Distributors

Note: Sales figures are estimates obtained from industry sources

Trends and Highlights

- C Total number of units increased from 37 in 2001, to 38 in 2002. At least three more Supermarkets are under construction.
- C Supermarkets continue to account for approximately 60-70% of food sales and 15-20% of beverage sales at retail. However, 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.
- C Retailers continue to demand high-volume discount prices regardless of their purchasing volumes.
- C 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.
- C One of the leading Distributor to supermarkets and convenience stores is DIAPA, who since 1966 is operating with local capital. 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.
- C 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.
- C 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

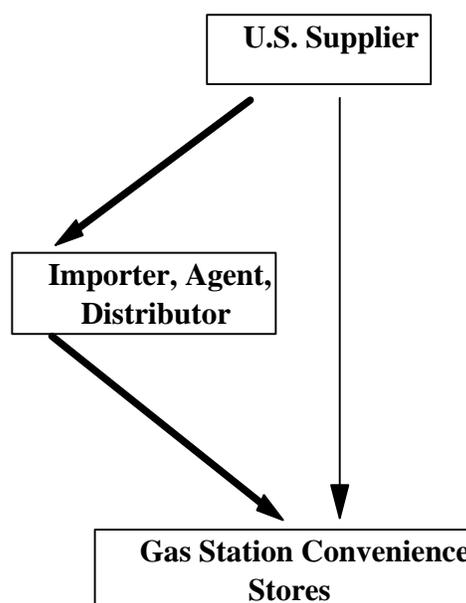
to Honduras regarding guarantee of the products.

- C A Paiz Super Store opened in San Pedro Sula October of 2001. This store is owned by the Guatemalan Paiz chain, which is part of Royal Ahold from the Netherlands.
- C 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.
- C 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.
- C Growth potential for dairy products such as fresh and cultured cheese, especially those of well-known brands such as Dorman, Land O'Lakes, Kraft and Borden.
- C 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.

B. CONVENIENCE STORES, MARTS AND KIOSKS

Distribution Channel

- C 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.
- C 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.
- C Convenience stores specialize in fast foods, hotdogs, sandwiches 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. 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.



Entry Strategy

- C 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.
- C Although these stores purchase imported goods through local suppliers, the majority of goods are subjected to brand and space management policies set by the gas companies. It is recommended that U.S. firms try to establish direct contact with gas company executives, in order to pitch new products into company-managed convenience stores. However, sellers should also be prepared to negotiate with individual dealers and assume some credit risk for privately-operated stores.

<i>Retailer</i>	<i>Ownership</i>	<i>Sales (\$ in Millions)</i>	<i>No. of Outlets</i>	<i>Locations</i>	<i>Purchasing Agent Type</i>
Start Mart	Texaco	10.6	22	Nationwide	Importer Distributor
Food Mart	Texaco	9.4	26	Nationwide	Importer Distributor
Select	Royal Shell	2.4	10	Tegucigalpa San Pedro Sula La Ceiba	Importer Distributor
Super 7	DIPPSA Local	2.2	12	Tegucigalpa San Pedro Sula La Ceiba	Importer Distributor
Petrosum	Local	0.5	2	Roatan	Importer Distributor
Eco Mart	COPENA Local	n/a	3	San Pedro Sula La Ceiba Copan	Importer Distributor

Note: Sales figures are estimates obtained from industry sources

Trends and Highlights

- C TEXACO owns the largest chain of convenience stores, with 43% 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).
- C Some of Texaco imports are directly from the U.S. and for such purposes they have a warehouse to supply all Texaco stores. As from October 2001, Texaco Caribbean Inc. is a subsidiary of CHEVRON-TEXACO.

- C Texaco has move from cold to fast food markets by managing two installations of Jerry's, a franchise for pizza, chicken and subs. They also rent space to known franchises such as Wendy's and Campero. Texaco is following the "Part of Home-Away from Home" theme.
- C The number of convenience store outlets increased by 59%, up 28 outlets from 47 in 1999, to 75 in the year 2002. Largest increases have been posted by Super 7 (up to 4 stores).
- C 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.
- C 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.
- C Increasing competition has lead stores to reduce profit-margins by as much as 10%, however, still remaining 20 to 40% above supermarket price levels.
- C Super 7 stores have the advantage that is locally owned and the negotiation is with one person for a whole group. Super 7 do not lease space for restaurant, since they are partners. Through the QSRs (Quick Service Restaurants) with U.S. companies such as Ballantyne of Omaha, they are operating "Chicken on the Run".
- C Samples of innovations such as the Super 7 stores are in providing baby-chairs, serve kid meals and recently inaugurated an automated Carwash with a touchless system. During the thirty minutes that the car is washed, the customer can have a meal, buy some products, watch TV or the washing process of his/her car. Another innovation will be to have internet stations at their stores, so when a customer buys a meal can have certain amount of time to use the connection.
- C 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.
- C Nearly 70-75% of all food products sold are imported from the US, indirectly, through local distributors.
- C The convenience stores could have more products to sell. The obstacles they found is that Distributors have limited varieties to provide them and there is a lack of introduction of new products.

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

Market Structure and Sub-Sector Profile

- C 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, basic staple grains and poultry). The second is the corner store, known as 'pulperia', which is typically a mom & pop type operation. The number of these stores is huge, with some 5,700 in Tegucigalpa, and 3,900 in San Pedro Sula. Both cities combined account for 55% of the total number of small stores in the country.

Entry Strategy

- C 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.

III. COMPETITION

- C In the aggregate, U.S. market share of consumer-oriented agricultural imports is estimated at 41%, with several individual food categories, like fresh fruit, tree nuts, wine and beer, cornering more than 60% of the local market.
- C Guatemala, El Salvador and Mexico are the U.S. main competitors for the Honduran import food market.
- C European and South American suppliers face more difficulty in competing with U.S. counterparts, due to proximity, high perception of American products in the local market, and long-standing commercial ties with Honduras.
- C The recent signing of a 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. Presently, Mexican imports have 8.3% of the market, an increase of 2.6% over the previous year, when their market share was 5.7%. Mexico has gained this market share by increasing its presence in the bread and snacks categories, with brands such as Sabritas, Bimbo and Marinela cornering as much as 15% of all Mexican food imports to Honduras. These imports include the distribution of U.S. licensed products to Sabritas, such as the Frito Lay brand.
- C Guatemala and El Salvador, combined, account for roughly 31% of the market share of food imports. This share is held primarily by brands such as Diana & Bocadeli (sweet snacks and candy from El Salvador), Kerns, Royal & Del Monte (canned products and gelatins from Guatemala).
- C New Zealand and the Netherlands are important suppliers of powdered and instant milk, accounting for roughly 6% of the market for consumer-oriented products, but more than 65% of dehydrated milk-based products. Increasing New Zealander investment in dairy processing plants in El Salvador are likely to bolster the presence of their products in Honduras.

- C Chilean imports continue to gain ground, especially in the wine and fresh fruit (grapes) categories, however their presence account for less than 2.4% of total food imports.

IV BEST PRODUCTS PROSPECTS

A. Products present in the Market with Good Sales Potential

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

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 2001 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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