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Colombia

Retail Food Sector

Annual

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Report Highlights:

Colombia is our largest export market in Central and South America for food and agricultural products. In 2003, U.S. supplied 29 percent, \$543.2 million, of the total food and agricultural Colombian Imports. Colombian economy is recovering and domestic demand and household consumption is projected to increase by 3.3 percent in 2004. The supermarket sector is expanding, and a wider offer of imported value added food products are been displayed. The U.S. - Colombia free trade agreement, currently in negotiations, will increase bilateral trade.

Includes PSD Changes: No
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Bogota [CO1]
[CO]

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Executive Summary

In 2003, total Colombian food and agricultural imports were \$1.87 billion of which the United States accounted for 29 percent or \$543.2 million of the total, making Colombia our largest export market in Central and South America. The 2004 economic outlook appears brighter now than during previous years. The GDP target is a 4.2% growth rate for 2004, and 4.5% for 2005. Domestic demand and household consumption are projected to increase by 3.3 and 2.8 percent, respectively, in 2004 and to continue rising. The remarkably young population, 70 percent of which lives in urban areas, has new tastes and preferences and is more health-conscious and selective. With rising participation of women in the workforce and greater use of fast food restaurants, demand for new high-value products is increasing. Economic realities and current consumer trends indicate that buying decisions are increasingly based on quality and price. There is a general perception that U.S. products are of good quality and value. Also, Colombia is considered a gateway to much of South America, increasing its importance as a market for U.S. consumer food products. The importance of Colombia as a market will expand even more under the bilateral free trade agreement currently being negotiated.

The supermarket sector in Colombia is one of the most modern in Latin America, with preliminary sales estimates of \$7.1 billion in 2003, of which \$4.9 billion were food products. Despite significant growth, fierce competition characterized Colombia's retail sector in 2003, causing a shrinkage in profits. Consumers have benefited from the "price war" among competitors. The sector is consolidating a massive structural change initiated in recent years. Strategic alliances, such as Carulla-Vivero, took place in a frantic effort to modernize and capture market share. World-class hypermarkets, such as Makro and Carrefour, made their first incursions into the country in 1998 and continue to expand. Carrefour's marketing strategies led it to a larger market share and a strong position in the industry. In 2003 Carrefour purchased 35% of the stocks held by the Grupo Santodomingo and 10% of those owned by the Spanish company Sigla, ending up with a 100% ownership of the chain in Colombia. Other significant acquisitions, such as the purchase of 28 percent of Carulla by the U.S.-based New Bridge, and of 28.6% of Exito by Casino (a French enterprise) have reshaped the sector. Exito had previously bought out the Cadenalco group, one of its largest rivals, and in 2003 acquired the Comfamiliar chain; Olimpica in turn, purchased the Febor chain (former Central Bank employees Fund). Furthermore, the arrival of French giant Carrefour and Holland retailer Makro in Colombia, as well as the sustained strength of local players such as Exito, Carulla, Alkosto, Olimpica, Colsubsisio and Cafam, have unleashed a wave of concentration in 50 percent of the retail market. On the other hand, convenience stores are a new sales venue and are expanding in the form of GasMarts. As a result, supply channels have been rapidly streamlined, and end-users are increasingly establishing contacts abroad. Colombian importers are constantly seeking alternatives to reduce high costs. The new retail market structure in Colombia and the production-consumer chain has forced distributors/suppliers to switch from being passive to active agents.

Despite rapid modernization in the retail sector, traditional Mom 'n Pop stores continued to consolidate as one of the most important distribution channels in the country. They have regained the near 50 percent of the market share they had in the past, at the expense of the market tigers and have been extremely resilient in the face of massive modernization in the sector. This is because the hyper/supermarkets, do not offer services, such as credit, small-quantity sales of bulk products, and a proximity that appeals to the vast number of middle and lower-income consumers. Likewise, they are expanding in a format of minimarkets that are effectively competing with supermarkets.

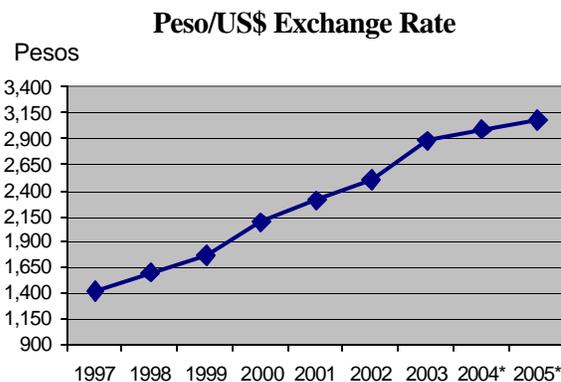
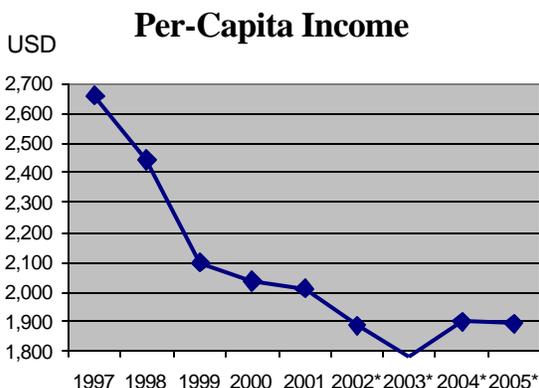
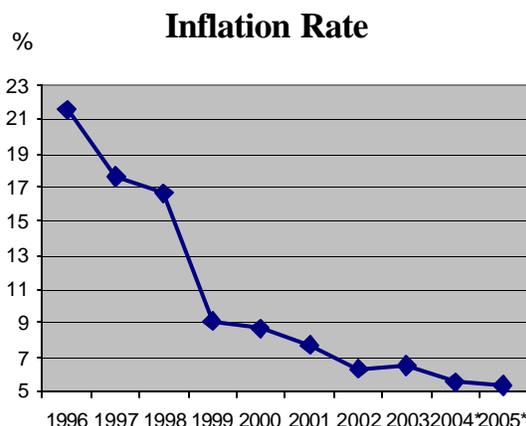
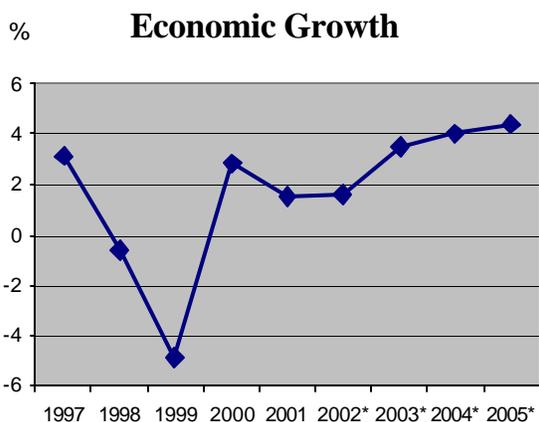
Several factors produce a negative impact on the market: 1. As a member of the Andean Community, Colombia imposes a variable import duty system on more than 140 product categories, resulting in high and unpredictable duties. 2. Restrictive import licensing and

domestic procurement requirements hinder or block imports of a number of U.S. products such as dairy products and beef products. 3. Despite GOC efforts, artificially low-priced contraband produces unfair competition and disrupts sales of legally imported products, and 4. Internal conflict continues hindering economic growth.

However, the outlook for 2004 is excellent. Additional factors are expected to contribute to further expansion of the retail food market: market leaders are investing in construction of new modern shopping centers in which super/hypermarkets and cinemas are the cardinal points; sales areas of between 6,000 and 12,000 sq meters, offer a complete range of products and fulfill the increasing demand for one-stop shopping. Investment also includes state of the art technology, tailored logistics to save consumers time and money, remodeling and improvement of service areas. Total investment will be nearly USD 172 million reinforcing the growth of the sector in the last three years. The target now is to reach low-income consumers: the aggregate of low income population has quite a large budget to spend in massive consumption products, which are less sensitive to family earning declines.

Colombia and the United States will start negotiations for a bilateral free trade agreement in the second quarter of 2004, which could enter into force by 2006. It will promote equitable & sustainable economic growth for Colombia and foster greater access for US food products.

Economic Outlook

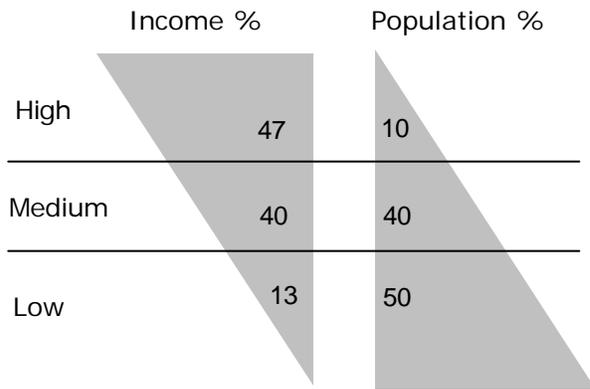


*Projections

- Colombia is regaining economic growth and stability. GDP growth was 3.6 % in 2003 as compared to 11.6 in 2002, surpassing all expectations. The target for 2004 is a 4 % growth rate and 4.5% for 2005.
- Both domestic demand and household consumption are expected to increase by 4.4% although still withered by high unemployment.
- The Colombian peso stabilized after an accelerated depreciation of 25.0% in 2002 but during 2003 switched to a revaluation of around 3%. The peso had continued to strengthen in 2004.
- The 2004 one-digit inflation target has been set at 5-5.5%, lower than the 6.5% in 2003.
- Unemployment rate fell from 15% to 14.5% but continues to hinder faster economic recovery.
- Security has improved but remains a major concern for investors and businessmen.

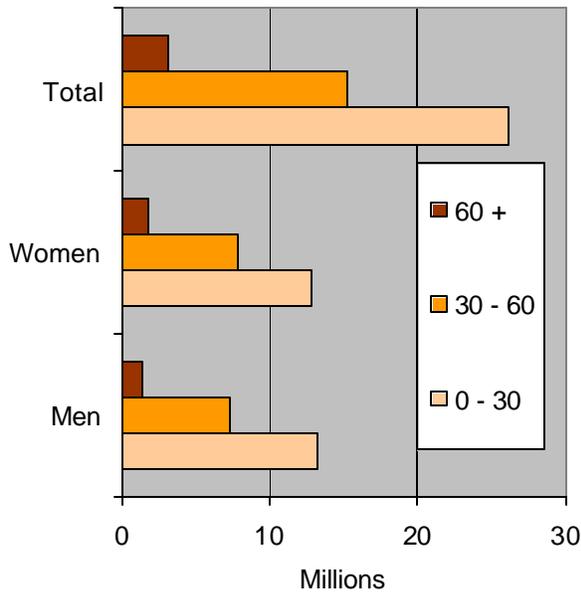
Market Overview

Income Distribution



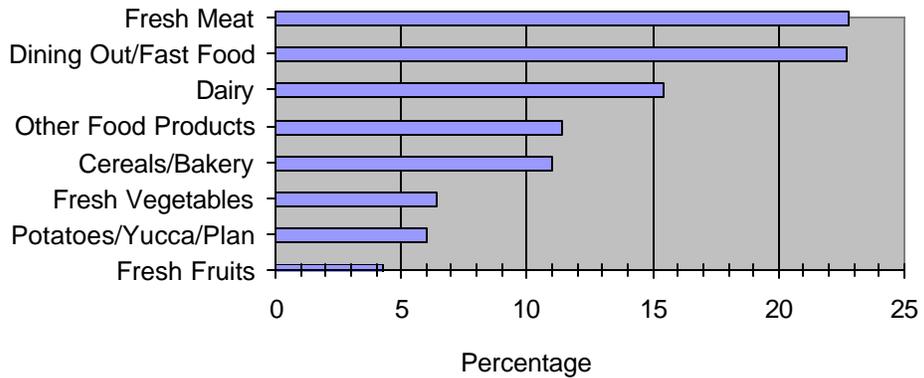
- Colombia is a growing market of 42 million.
- Monthly food expenditures by income group are:
 High \$400 - 700
 Middle \$150 - 400
 Low less than \$120
- Medium- to high-income groups are an attractive market for U.S. products.
- The medium income group is driving demand for high-value-added products.

Population by Age

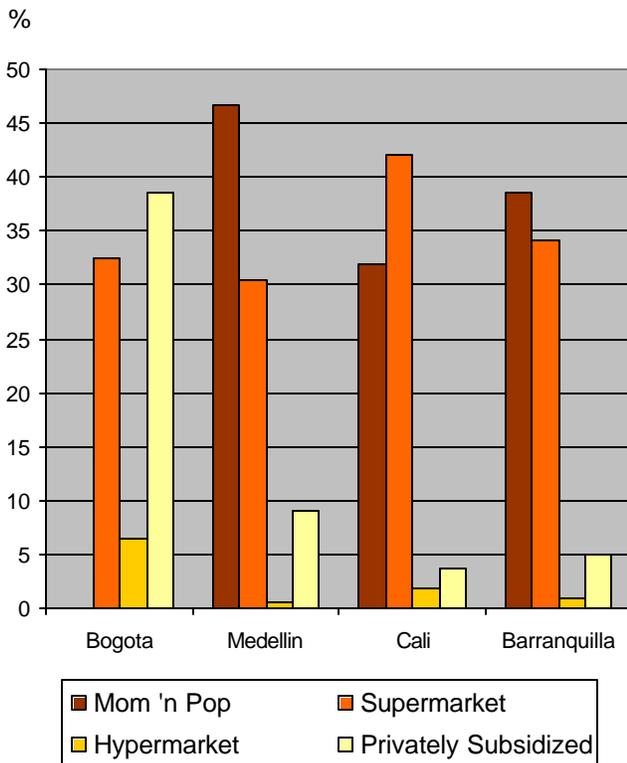


- ? The rise in female participation in the labor force (38%) will continue to stimulate demand for consumer-ready products.
- ? 79% of the population is concentrated in 39 large and medium-sized cities, all with modern supermarkets.
- ? 58.7% of the population is younger than 30 years. Lifestyles are changing rapidly.
- ? The middle class represents 38.7% of Bogota's population. Upper middle 22.2% and the upper class just 6.6%.
- ? Rural areas are a new market niche for food products.
- ? Rural consumers that represent nearly 28% of Colombian population are now generating 25% of mass consumption products.

Distribution of Family Food Spending - 2003



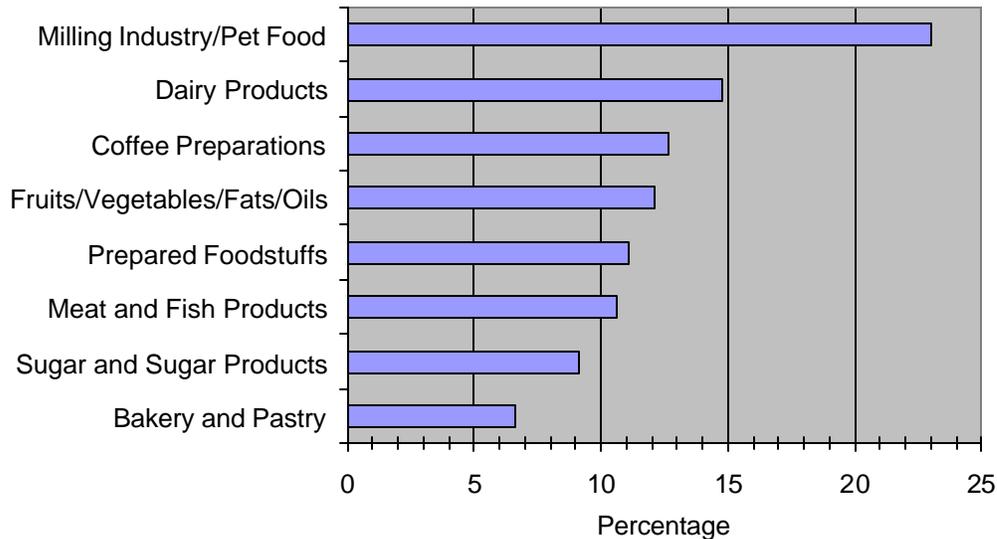
Where Colombians Buy Dry Food



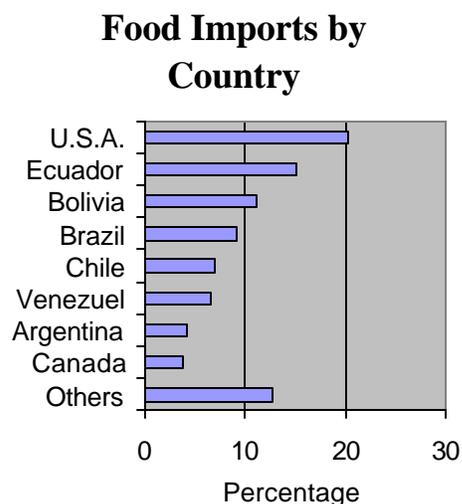
- Colombians spend 34% of total family income on food.
- Average family income has been falling but the GOC continues to pursue strategies for higher salaries and employment.
- Middle-income families are developing a taste for new and more sophisticated products.
- Food safety and value are consumers' new watchwords when buying food.
- Demand for food products is highly sensitive to price fluctuations.
- Upscale and middle-income families are dining out at least once a month. Fast food restaurants stand out as winners in 2002/2003.

Colombian Food Production

Food Industry by Sector



- ? The food industry is one of the largest and most vital sectors in the economy, accounting for 21.8% of industrial production, and 28.6% if beverages are including. It generates 17 percent of industrial employment.
- ? The food industry contributes with 7% of GDP.
- ? Industrial output recovered in 2000, rising by 9.9%, but weakened in 2001 and 2002 to a 0.7% and 1.1% growth, respectively. However, in 2003 posted a 4.2 percent growth.
- ? Industrial output is expected to rise by 5.0% in 2004 and 5.5% in 2005
- ? The industry has state-of-the-art technology and modern communications.
- ? Colombia is a major producer in many intermediate and consumer-ready categories, such as sauces and spices, dairy products, breakfast cereals, confectioneries, baked goods, poultry feed, pet food, oils and margarines.
- ? Foreign food processing affiliates account for a large portion of processed food output. Some of them import their brand products from other affiliates abroad.
- ? Store-brand products are increasing very rapidly. Supermarkets currently have more than 2,000 of this products, although they contribute with less than 3% of total sales.
- ? Colombia and Argentina are the countries with the fastest growth in the store-brand products category (30%) in Latin America.
- ? Store-brand products have strong presence in food and pet food categories.
- ? The food-processing sector depends heavily on imports of ingredients like spices, dry mixes for sauces, modifiers, preservatives, enhancers, flavorings and thickeners.



- ? Colombia is the largest market for U.S. food and agricultural products in Central and South America, and serves as a gateway to many Latin American markets.
- ? In 2003, total food and agricultural imports were valued at \$1.87 billion, equivalent to 13.5% of total imports.
- ? Colombia imported \$543.2 million in food and agricultural products from the U.S. in 2003, including \$46.4 million in consumer-oriented products.
- ? Imported food products account for 13.5% of national consumption.
- ? 2004 total import growth is forecast at 10%.
- ? Colombia exports over US\$ 900 million in food products.

2002-2003 Food and Agricultural Imports from USA

PRODUCT	2002	2003	PRODUCT	2002	2003
	US\$ MILLION			US\$ MILLION	
Meat and Edible Meat Offals	7.9	4.2	Gums, Resins, Other Vegetable Saps/ Extracts	5.4	6.6
Fish, Shellfish, Mollusks	0.7	0.4	Vegetable Planting Materials	0.4	0.5
Dairy Products, Eggs, Honey	1.0	1.2	Animal or Vegetable Fats and Oils	16.9	16.3
Products of Animal Origin and other Animal Products	3.1	2.8	Preparations of Meat and Fish	12.1	12.8
Live Trees and Plants, Bulbs, Roots	3.6	3.0	Sugars and Confectionery Products	3.5	3.0
Edible Vegetables and Tubers	1.7	1.6	Cocoa and Cocoa Preparations	2.5	1.9
Edible Fruits and Nuts, Citrus Fruits	8.0	7.9	Cereal Preparations, Flour, Starches, Milk, Bakery products.	12.9	2.8
Coffee, Tea, and Spices	0.1	0.2	Preparations of Vegetables, Fruits	5.9	3.7
Grains	327.0	323.6	Miscellaneous Edible Preparations	16.0	15.6
Milling Industry Products, Malt, Starches	0.3	0.3	Beverages, Spirits and Vinegar	1.0	0.6
Oilseeds, Other Grains	53.9	35.9	Residues and Waste from Food Industries /Prepared By-Products	32.9	40.1

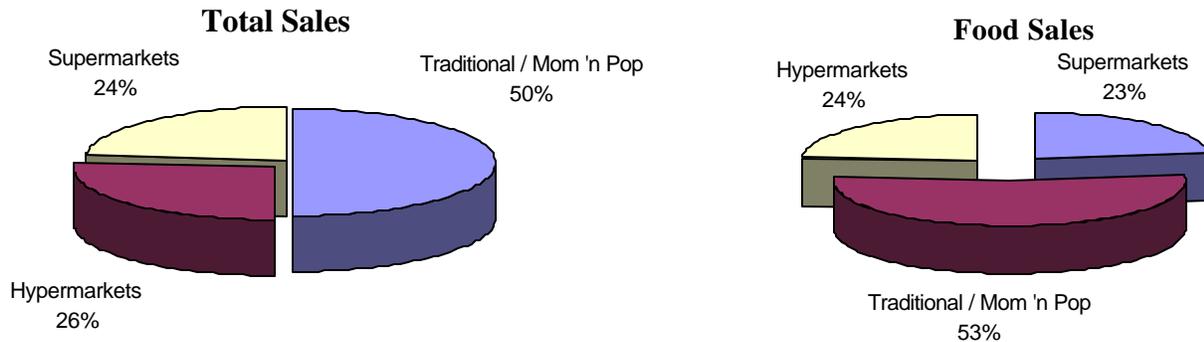
Source: DIAN (Revenue and Customs Agency).

Main U.S. Food Products Imported

Products	US\$ Millions
Fresh fruits (apples, pears, plums, oats, peaches)	28.5
Mechanically deboned chicken	13.1
Denaturalized tallow	10.5
Chocolate in blocks, slabs or bar	9.1
Miscellaneous food preparations	7.4
Sweet biscuits	5.8
Brewing or distilling dregs& waste	4.7
Other pork meat	4.7
Enhancers for bakery products	4.4
Dog and cat food	4.2
Vegetable saps & extracts of hops	4.2
Food preparation protein concentrated	4.1
Poultry cuts and offal, frozen	3.1
Mixture of juices	2.9
Other fish, prepared, preserved, frozen fillets	2.7
Other edible offal of pork	2.1
Glucose	1.8
Bovine edible flours and meals of meat/meat offal's	1.4
Mixed condiments and mixed seasonings	0.9
Lactose	0.9
Breakfast cereals	0.8
Hog guts for sausage casings	0.7
Sunflower oil	0.7
Milk preparations for infant use	0.6
Chewing gum	0.6
Milk and cream	0.5
Frozen crabs	0.5
Sparkling wine	0.5
Mayonnaise	0.4
Dry onions	0.4
Other vegetable preparations	0.4
Nuts, peanuts, preserved, prepared	0.3
Sweet corn, prepared.	0.3
Other dry vegetables	0.3
Mustard	0.1
Ketchup and tomato sauces	0.1
Cheeses	0.2
Turkey meat, prepared , preserved	0.2

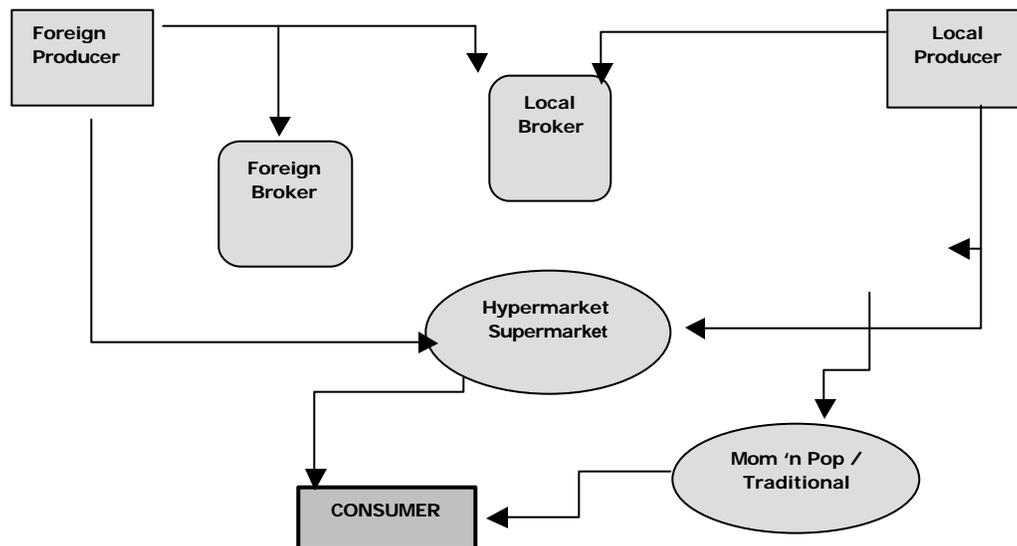
Source: Ministry of Industry, Foreign Trade and Tourism

Market Situation for Retail Food Products



- ? Despite the noticeable fluctuations in sales, the food retail market ended with positive results in 2003. According to a FAS/Bogota survey, retailers recorded sales of \$7.1 billion, of which \$4.9 billion were in food products.
- ? Sales expectations are for a real growth rate of 8 to 10% in 2004.
- ? Hyper/supermarket share of the market has fallen to 50 percent. Strong competition from traditional Mom 'n Pop stores is beating market leaders. Fierce competition continued to characterize Colombia's retail sector in 2003.
- ? At present, hyper/supermarket target is the low-medium income bracket consumer.
- ? The "mall construction fever" in well-populated neighborhoods (2000,000 dwellers) is part of the hyper/supermarket strategy not to leave consumers unattended. There are 32 new mall construction projects nation wide.
- ? Marketing strategies have been led by aggressive discount and promotional campaigns. Delivery value is a key factor to attract customers.
- ? Innovative strategies are a must in marketing new products.
- ? Product presentation and custom-packaged items are responding to customers' needs.

Distribution Channels



Market structural changes in the retail sector

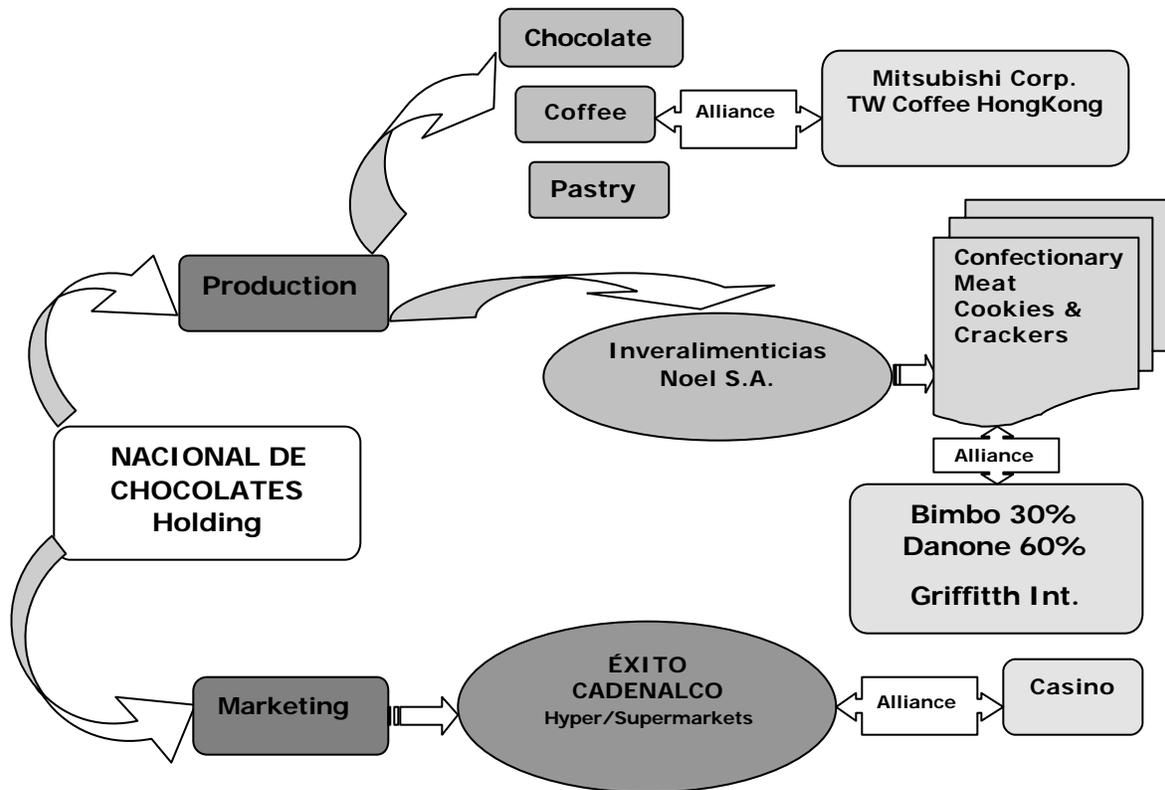
Structural changes and consolidation are occurring rapidly	Arrival of international competitors. Alliances, mergers and acquisitions. New business paradigms. Changing consumer lifestyles.
International competitors have shaken the market	Hypermarkets Makro and Carrefour have brought in new formats, forcing the local market to adjust and become more competitive and creative. Competition among big retail players is cutthroat.
Foreign alliances are reshaping the market	Alliances such as Carulla-New Bridge, Crunch-Frito Lay, Unilever-Varela- Disa-Best Foods, Noel-Bimbo-Danone, Exito Cadenalco-Casino, among others, have given new dimensions to major players, i.e., know-how, power negotiation, market distribution network and capital leverage.
In-house alliances, mergers and acquisitions to become more competitive	Chain stores have strengthened their negotiating and market-position leverage through strong vertical integration.
New paradigms for businesses	Core businesses, category management and private labels. Internet, telemarketing and supermarket home-delivery. Direct purchases a must. GasMarts making their presence felt in the market.
Changing shopping habits and patterns	Better-informed and more demanding consumers. Consumers expanding their food consumption experience. Consumers choose hypermarkets for precooked, pre-packaged, and frozen products. More consumers shop at supermarkets, and less at wet markets. One to three visits per month to the supermarket for a wide variety of high-quality and safe food products at low prices, supplemented by several trips to mom'n pop and specialty shops for daily products.
Geographical expansion	Concept of exclusive regional influence has been eliminated.
New markets niche	Rural areas are being explored as a new market niche for mass consumption products. The goal is to move markets closer to rural consumers and open rural-to-urban direct marketing as an alternative to traditional channels.

The Economic Groups in the Food Industry

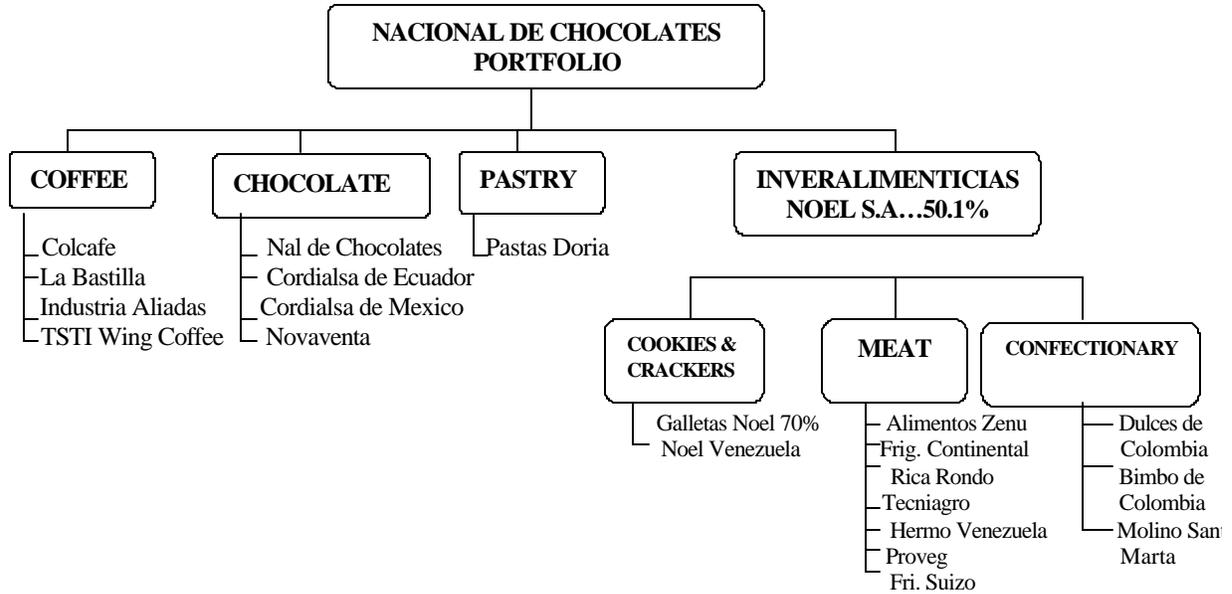
- ? As in most Latin American countries, Colombia has a relatively high industrial concentration in a few large conglomerates.
- ? Conglomerates are redefining their core businesses to strengthen market positions.
- ? These key players are powerful, participating in the decision making process for formulating the country's economic policy, thus preserving their own economic interests.

Antioqueño Holding Food processing and Retail	Superior Holding Fast food and poultry	Ardila Lulle Holding Soft drinks Beer and juices	Santodomingo Holding Beer, Soft Drinks and Juices
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Successful Alliances, Mergers and Acquisitions
The "Antioqueno Conglomerate" Example



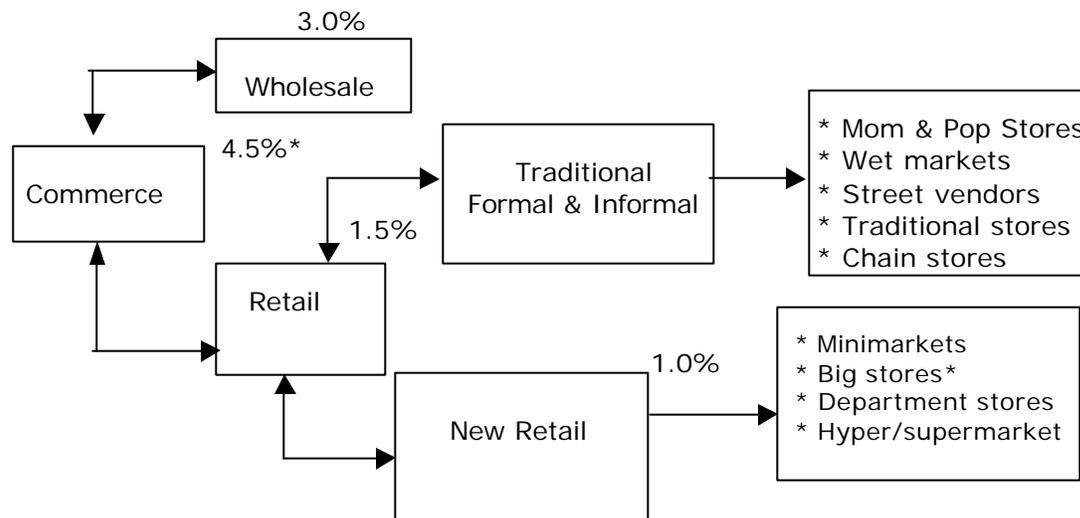
Nacional de Chocolates Total portfolio amounts to USD 440.4 million of which 74% (USD 325.9 million) is concentrated in the Food Industry



Advantages for U.S. Companies and Products

The Colombian supermarket industry is one of the most modern and sophisticated in Latin America.
Colombia ranks third in the list of 11 emerging countries included in the index of "Global Development Retail sales". Among others are Chile, Mexico, Russia, Venezuela and China
Total imports From the U.S., historically Colombia's number-one supplier, account for 29% (\$543 Million) of food and agricultural products.
Locally established multinational firms are taking advantage of their brand names to position new imported products.
There is a general perception that U.S. products are of good quality and value. Many Colombians have traveled and studied abroad and have developed a taste for U.S. products.
The readjustment of the retail market is paving the way for the " new retail market structure" in Colombia. The minimarket format is a new and strong competitor of "Mon and Pop" stores and hyper/supermarkets.
Major retailers have had a great expansion in the last few years. The trend is to continue geographical expansion. They are now present in major Colombian cities. The market share of hyper/supermarkets is 50%. They have lost some ground but continue to grow in number and square meters. They are increasingly offering imported food products.
Hyper/supermarkets continue to consolidate as one of the most important distribution channels in the country. Many chains have gained greater negotiation power with manufacturers, giving them access to continuous price promotions and marketing activities.
GasMart stores are readjusting their line of products. Besides snack foods, candy, soft drinks, ready-to-heat and ready-to-eat products, dairy products and cereals, they are focusing on fast food sales. Good market potential for new products. Imported products represent less than 10% of total products.
Nearly 60% of the Colombian population is under 30 years of age and has been exposed to changing lifestyles. The remarkably young population, 70 percent of which lives in urban areas, has new tastes and preferences and is more health-conscious. With rising female participation in the workforce and more fast food outlets, demand for new high-value products is increasing.
Upscale and middle-income Colombian families are eating out more frequently, at least twice a month, devoting 24% of food spending for meals away from home. Fast food restaurants stand out as winners in the last three years.
Information and technology have become strong tools for food marketing. The uniform Product Code and scanners at point of sales have been fundamental to collaborative planning, forecasting and replenishment aimed at increasing profitability and stock control.
On line services are becoming popular. Retail leaders have renewed the online sales service with last e-business technology. This service is offered both domestically and abroad and covers around 90 percent of Colombian municipalities. Nearly 30 percent of customers are foreigners.
A Voluntary Good Conduct Business Code was signed by industrial associations, suppliers, producers, hyper/supermarkets and other retailers, aimed at establishing fair and well-defined trading rules. It is a self-regulatory code that tends to avoid all existing complaints about unfair purchasing/ advertising/pricing practices and, discriminatory policies.

New Retail Market in Colombia



Challenges to U.S. Companies and Products

Consumption of processed food is low, according to international standards and highly sensitive to price. A relatively new trend in Colombia is an increasingly strong demand for gourmet products and a growing popularity of wine which reflects a change in lifestyle.
Importers demand competitive prices, good quality and consistent supply availability.
Category management practices by stores, including charging slotting fees for products, are overhead costs to be expected. Probably 60% of price discounts are absorbed by the supplier.
The shift from essential to high-quality foods is continuing. But faced with economic difficulties, a good number of consumers opt to trade down to less expensive options of basic products. Consequently, manufacturers have made great efforts in launching low-priced products and offering price promotions for well-known products. A surplus of ordinary low-priced food products coexists with a shortage of high-quality food products. Colombians are now selective shoppers.
Consumer prices for food and beverage have declined more than total consumer price index. "Price War" among retailers has become a permanent tool to maintain market share and increase sales.
Colombian consumers are now either time-constraint consumers who seek good quality and essential products, or "cherry pickers" who are after sales and discount products. The excesses of the "price war" have become a burden to suppliers.
U.S. products will have to assure high quality, reasonable price and good service to meet increasing competition from other foreign products. Category management practices by stores, including charging slotting fees for products, are overhead costs to be expected.
Alliances with European chains stores, such as Casino and Danone, have intensified competition. The presence of Makro and Carrefour has brought in a wide selection of high-quality, competitively priced foreign products to the market.
Investment in new outlets continues as part of the effort to penetrate regional markets and attract unattended consumers. During the 1968-2002 period, the top four hypermarkets

invested more than US\$ 800 million.
In 2004 total investment will be near USD 172. Market leaders are investing in construction of modern shopping centers in which super/hypermarkets and cinemas are the cardinal points. Investment also includes state of the art technology, logistics, remodeling and improving service areas. Olimpica will be at "Centro Portal de la 80" in Bogota, Colsubsidio at "Unicentro de Occidente" and Almacenes Exito" at "Cuidad Victoria" in Pereira.
Private brands are expanding rapidly though still incipient and limited. They represent 2.5% of total sales. Private brand margins are higher than other brand margins (20.4%). Similarly, private brand prices are 25.6% lower than third party prices. Colombia and Argentina are the countries with the fastest growth in the store-brand products category (30%) in Latin America.
Wholesalers usually work with a markup varying from 15 to 20 percent. Profits margins for consumer goods may reach 20 to 30 percent. However these margins have been fallen.
The limited cold storage transportation network is still a limiting factor for the future development of the food sector. Total cold storage capacity owned by the public and private sectors is estimated at 175,000 cubic feet.
Besides the basic duty, the Andean community assesses a variable duty on 13 basic commodity groups and related products. This system results in high and varying duties for a number of products, including pet food, poultry and cheese.
Other non-tariff barriers to imported products are import licensing and sanitary and phytosanitary certification (poultry).
Some trade agreements with U.S. competitors make several U.S. products less competitive, such as zero import duties on wine and apples from Chile and soybeans from Paraguay.
The Colombian government has changed investment policy to attract new foreign investors. Joint ventures, franchising and licensing agreements are increasing in number and value.
The import process still has many layers. However, the GOC has introduced key modifications to simplify the paperwork significantly. Furthermore, as of June 2004, the import declaration form will be eliminated but other requirements remain. Import/export procedures and customs clearances have become almost virtual. Documents are to be presented through electronic or magnetic media.
Nonetheless, registration of new products with INVIMA can sometimes take a long time.
Despite GOC efforts, artificially low-priced contraband products still produce a climate of unfair competition and disrupt sales of legally imported products.

Illustrative Import Duties for Food Products

Products	Basic Duty %	Basic Plus Variable %*
Chicken Parts, Frozen Turkey Parts/Duck/Goose	20	66
Pet Food	20	5
Powdered Milk/Cheese	20	20
Wine/Beer	20	none
Fruits/Vegetables	15	none
Raw Coffee, Tea and Spices	10	none

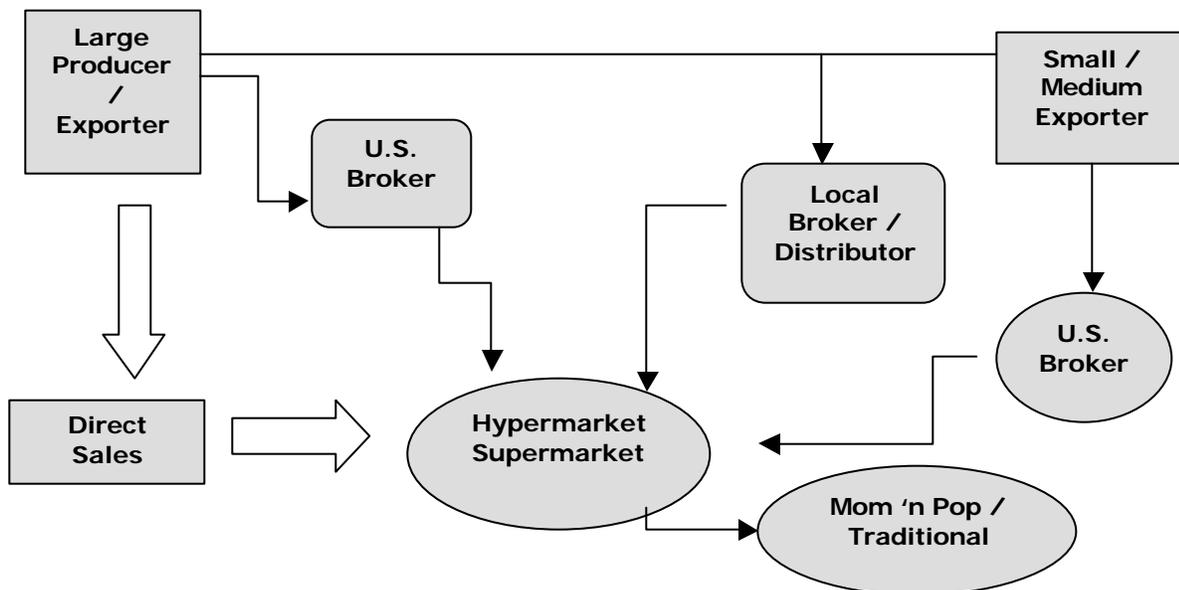
*As of May 31st, 2004

Market Entry Strategy

General guidance to access the Colombian food market, enhance competitive sales position of food products in Colombia and introduce new products:

- Calculate your competitive position on the equation of high quality, moderate price and good service to meet increasing foreign competition.
- Consider innovative marketing strategies when introducing new products. Social marketing strategy is a new approach. Sales generate funding for social programs. Leading supermarkets are deeply involved in social programs with customers’ direct participation and alliances with NGOs. Exito has the “Children’s program”. Carulla customers are encouraged to donate small change for housing and educational plans.
- Provide guarantee of consistent supply of products to large stores, hotel chains and institutional markets. Marketing strategies must meet the specific needs of the Colombian market.
- Reinforce activities, such as trade exhibits, product sampling, advertising and campaigns.
- Keep in mind that Category managers are key people. They are in a position of being able to offer a service that is unlikely to be matched in-house
- Be aware that Hyper/Supermarkets condition shelf space acceptance to discounts, promotions and/or additional cost.
- Establish direct relations with leading companies to develop a low cost, direct sales approach and to offer products and services.
- Develop a relationship with top executives, i.e., marketing directors, purchasing managers, and expose them to U.S. business practices. Take advantage of domestic food fairs and exhibitions.
- Include after-sales service and customer support, which are decisive purchasing factors.
- Prepare Spanish-language marketing and communication materials that highlight products and services available. Communication media have a great impact.

Market Entry Strategy



Importers and Distributors

- Colombia is considered a natural market for U.S. products and technology, because of its proximity and the upcoming bilateral free trade agreement. The bulk of purchases from the U.S. are made through well-established local importers and distributors.
- Competition in food retailing has intensified; hence supply channels have been streamlined
- Suppliers have lost control of the market share that they controlled in the past.
- Direct purchases by hyper/supermarkets are increasing substantially, offering very attractive prices to consumers.
- There are now a few large players with strong negotiating and purchasing power. Large numbers of end-users are purchasing directly from suppliers and/or manufacturers abroad, avoiding local representatives.
- Only large importers and distributors with a broad knowledge of U.S.-Colombian market practices will remain in the market.
- Small importers and distributors will find it more difficult to compete, except in product categories that are not attractive to large importers.
- Import overhead is around 30-40% of the total product value after duties.

Illustrative List of Main Importers and Distributors

Importer	Product	Importer	Product
Effem Colombia	Pet food, confectionary	Quala	Meat, vegetables
Provyser	Processed inputs for fast food	Frito Lay	Food preparations, seasonings, cereals
Frutcom S.A.	Fresh fruits	Ancla y Viento	Seafood
Burns Philp Colombia	Bakery enhancers	Procaps	Juices, vegetables, vegetable oils
Bazaar International	Walnuts, anchovies, olives, sauces, olive oil	Congruppo	Pop corn, sauces, cheeses, vinager
Pacific Seafood	Fish fillets, crustaceans Ginger.	Rica Rondo	Sausages, meat/poultry offal
Insualim	Spices, dry onions, walnut	Nabisco Royal, Inc.	Peanuts, sweets, biscuits, pastry
Pesquera Jaramillo	Seafood	Fedco	Line of processed food products
DISNACO	Beer (Budweiser), Gatorade	Productos Naturales de Cajica	Juices
Comercializadora Nacional de Alimentos	Fresh and frozen vegetables	Graffith de Colombia	Broths, vegetables, spices
Agrodex	Cheese, poultry/turkey preparations, spices,	Colanta	Juices, frozen meat
Franchise Systems de Colombia	Cheese, sweet, ham, juices, dry vegetables	Frigorifico Suizo	Pork/chicken meat
Promesa de Colombia	Breakfast cereals	Comestibles Dan	Pork and poultry meat, frozen
Guinness UDV Colombia	Wine, liquor	Compania de Galletas Noel	Frozen meat

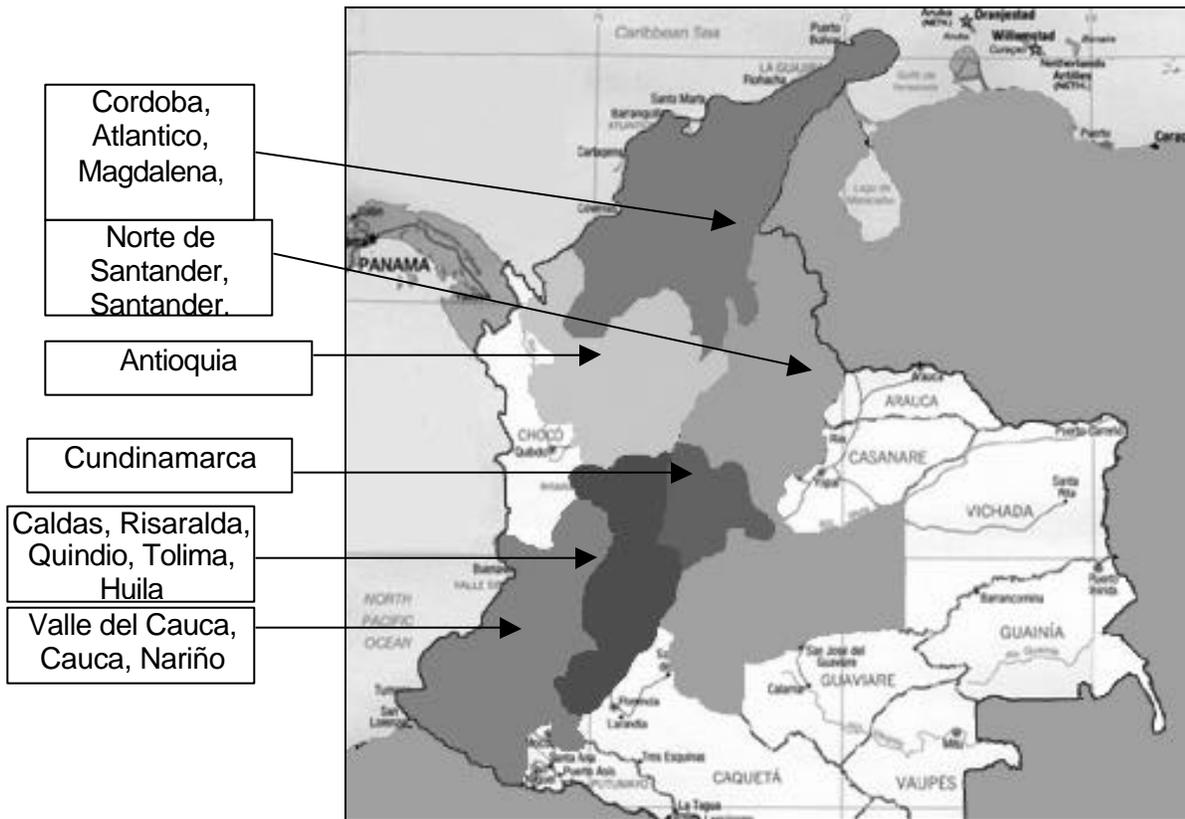
Market structure and sub-sector profile

- Hypermarkets are a recent format in Colombia and are well positioned in the market. They are expanding rapidly, despite the strong competition from the Mom 'n pop and minimarket format.
- Hyper/supermarkets are striving to provide customers with excellent service and quality products at competitive prices.
- Hyper/supermarkets are increasing in number and in sales volume but profits have shrunk due to fierce "price war" competition.
- Ranked by sales, Exito (2), Carulla/Vivero(9) Olimpica (11), Alkosto (24) Carrefour (25),and Cacharrería la 14 ((30) are among the top 50 Colombian companies.
- Despite considerable expansion, hyper/supermarkets are far from reaching the average of one store per 8,000 people in developed countries. Colombian average is 1/25,000.
- Supermarkets are prospering in Colombia. There are five main chains with around 400 outlets
- More than 10 hyper/supermarkets will be open in the medium term.
- The Colombian traditional Mom 'n Pop stores continue to consolidate as one of the most important distribution channels in the country. There are around 350,000 stores scattered around the country. Minimarkets as new format are becoming a strong competitor.
- Colombian food processing and marketing systems, wholesaling and retailing, continue to consolidate into bigger firms and increase vertical integration.

Hypermarkets and Supermarkets

Name of Retailer / Type of Retail Outlet	Ownership	# of Outlets	Location	Type of Purchasing Agent(s)
Hypermarkets				
Carrefour	100 % France In 2003 Santo Domingo Group sold 35% and Sigla 10% of their shares*.	12	Bogotá, Cali, Pereira, Medellín	Importer/ direct / local
Alkosto	100% Local	7	Bogotá, Villavicencio, Pasto, Ipiales	Importer/ direct / local / producers / distributors
Makro of Colombia	57% Holland 43% Antioqueno Group	8	Bogota, Cali Pereira, Medellín, Barranquilla	Importer/ direct / local / producers / distributors
Almacenes Éxito* Hypermarkets 23 Supermarkets 71 (Ley.Pomona)	28.6 % Casino – France 4% JP Morgan 11% GDR/ADR Giant Fonciere France	94	Medellin, Bogota, Cali, Other Main Cities	Importer/ direct / local / producers / distributors
Supermarkets				
Carulla-Vivero	28% New Bridge-USA 13% Bank of New York	137	Main Cities	Importer/ direct / Local / producers / distributors
Olimpica	100% Local	150	Main/Middle Cities	Importer/local producers / distributors
Cacharrería La 14	100% Local	15	Cali, regional small cities	Importer/ direct / local / producers / distributors
Colsubsidio1/Privately subsidized	100% Local	20	Regional Bogota	Local producers/distributors
Cafam/ Privately subsidized	100% Local	42	Regional Bogotá	Local producers/distributors

Hyper/Supermarkets Food Sales and Population by Region



Region	Food Sales % Share	Supermarkets Volume Sales % Share	Traditional Volume Sales % Share	Population (1,000)
Central Colombia	30.2	31.4	25.3	9,036
Northern Atlantic Coast	18.6	13.4	26.5	9,409
Southwestern Coast	16.7	16.9	17.2	7,369
Northern Antioquia	13.9	15.9	12.1	5,570
Eastern Region	11.6	12.8	10.5	5,574
Central Coffee Region	9	9.7	8.3	4,981

Hypermarkets

- Hypermarkets account for 26 of total retail sales and 23% of total food sales.
- Ranked by sales among top 100 Colombian non-financial companies, Exito ranks 2nd, Alkosto 24th, Carrefour 25th and Makro 70th.
- Almacenes EXITO S.A, with nearly U.S. \$1.3 billion in annual sales, is the largest retailer in Colombia, holding 30 % of the hyper/supermarket sales pie. Carrefour, the big winner in terms of growth, has 10 %, Alkosto follows with 7.5 % and Makro with 4.3%., all selling a wide variety of consumer goods, perishables, and textiles.
- All have opened new outlets and project to open more in 2004-2005.
- All attract mainly upscale and middle-income shoppers. However, the low-income group is taking advantage of low price campaigns and premiums offered by large stores.
- All offer a wide variety of high-quality imported products at reasonable prices.
- Shoppers mainly buy pre-cooked, pre-packaged and frozen products, beverages & wine.
- Carrefour along with supermarkets Carulla -Vivero have gained recognition in the market for their appealing new products, including gourmet products and wines.
- Regional exclusivity is no longer in place. All chains have opened outlets in main cities. The coffee zone is particularly appealing because of tax privileges and large population.

Hypermarket / Supermarket Sales

US\$ Millions

Store	Total Sales	Food Sales
HYPERMARKETS		
Almacenes Éxito S.A.	1,065	686
Carrefour	347	226
Makro of Colombia	150	102
Alkosto/Corbeta	140	56
SUPERMARKETS		
Carulla -Vivero	539	419
Olimpica	487	346
Cacharrería La 14	313	218
Colsubsidio	131	55
Cafam	168	95
Surtimax	68	34
TOTAL	4,701	2,960

Supermarkets

- Supermarkets are prospering in Colombia. They are increasing in number and in sales volume but have felt shrinkage in profits.
- These stores account for 24 of total retail sales. Carrulla accounts for 15%, Olimpica 14%, La 14, 9%.
- Carulla/Vivero ranks 9th among top 100 companies, Olimpica 11th, Cacharrería La 14 30th, Cafam 39th, Colsubsidio 85th.
- Makro continues focusing on the institutional market while Alkosto in household electrical supplies.
- Carulla/Vivero, leading supermarket, is expanding very rapidly with presence in most Colombian large cities.
- Olimpica has purchased the Febor chain to strengthen its position in Bogota.
- Shoppers belong mainly to high- and middle-income families.
- Consumers choose supermarkets for packaged, frozen and precooked products.
- Supermarkets, such as Pomona and Carulla, offer exclusive gourmet products.
- Specialty stores also offering similar gourmet products.

Mom'n Pop / Traditional Markets

- The Mom'n Pop store concept is still alive and well in Colombia. These stores are scattered throughout all neighborhoods.
- They are small in size (20 to 200 square meters) but large in number (350,000 in Colombia), offer a limited variety of products, and have a small inventory.
- Most products are perishable: milk, eggs, fruits, vegetables, potatoes, some processed foods. Also offer various household and first-aid items.
- The average number of inhabitants in each store area is 150. Nevertheless, the future of Mom'n Pop stores lies in their ability to continue to meet needs of low and middle-class groups that are not met by supermarkets and modern convenience stores.

- The Colombian Mom'n Pop stores have regained their market share and are still strong and competing. They account for almost 50% of total market sales and over 50% of food sales.
- Estimates of Mom'n Pop/Traditional store food sales were around \$3.5 billion in 2003.
- Special consumer services, such as small-unit sales, short-term credit to lower-income consumers, and proximity have been the foundation of their success.
- Mon'nPop stores have developed a good natural market strategy to appeal to the low-income bracket that as an aggregate has a considerable budget to purchase massive consumption goods. In general these groups are less responsive to income declines.
- This market is increasingly important to domestic wholesaler/distributors. Producers and distributors are adjusting to Mom'n Pop market needs with new and customized products. Wholesale/distributor channels must be used to reach these stores. They are the battle arena for suppliers.
- Government and private institutions have organized and implemented marketing improvement programs, including credit sources, institutional framework, legal requirements and technical and managerial training aimed at fostering efficiency in the distribution of food and price reduction.
- Minimarkets (superetes) , a blend between Mon'nPop stores and supermarkets, are consolidating. In an area of 100 square meters, these better-equipped self-service stores offer basic staples, frozen products, fresh fruit and vegetables, beverages and cleaning products. There are approximately 1,800 minimarkets in Colombia.

Where Bogota Residents do their shopping

Market Place	1992		2003	
	Dry goods	Fruits/Vegetables	Dry Goods	Fruits/Vegetables
Mom'n Pop	18.5	22.7	19.1	31.7
Privately Subsidized Stores	35.6	13.4	37.4	18.5
Supermarket/Hypermarket	36.5	17	39.3	24.5
Wet Markets	7	41.7	3.2	20.0
Others	2.4	5.2	1.0	5.3
TOTAL	100	100	100	100

Gas Marts

- Colombian convenience stores attached to gas stations are a new sales venue for fast food, snacks, ready-to-eat, hot and cold beverages and other food staples. They complement the Mom 'n pop/Traditional stores, and have ATMs.
- However, 2003 sales growth was disappointing and forced companies to focus more on neighborhood consumers rather than drive-in clients. Also, domestically produced food products have replaced some imported products.
- There are currently four chains with 62 stores. However, Shell plans to close 9 stores and Esso-Mobil has closed 4. Nevertheless, future expansion is feasible. There are more than 2,300 gas stations in Colombia.
- Reported sales neared US\$ 10.5 million. Average monthly sales dropped from USD20,000 to US\$ 15,000.
- Sales are not significant yet but have a great potential for growth, once this format is finally adjusted to Colombian consumer behavior.
- Imported products represent less than 6% of total products.
- Fast food generates 60% of total sales. Beverages 30%.
- Shoppers are young professionals, students and single people who either drive or walk to the store. Recent findings show that 75% of consumers belong to the neighborhood.
- Gas Marts have had good impact on the market and have taken positive steps to ensure significant growth in the long term, particularly after alliances with fast food chains: Kokoriko and El Corral.

Typical Product Lines

- Pre-cooked foods: Cup ramen soup, noodles (Union Food US), tacos, and dips (Pillsbury US).
- Fast foods: Hamburgers, hot dogs, sandwiches.
- Drinks: Hot chocolate (Cadbury's England), soft drinks, milk.
- Snacks and Cereals: Snacks (Pepperidge Farm US), (Kellogg's)
- Sweets: Nestle (Switzerland), chocolates (Cadbury's England)
- Pasta: Spaghetti (Lensi Italy)
- Baby foods
- Pet foods
- Canned foods: fruits and vegetables
- Liquor and beer to go

Colombian Gas Marts

	Bogotá	Duitama	Cali	Medellin	Cartagena
Tiger Market – ESSO*	17		3	4	1
On the Run – MOBIL*	2				
Select - SHELL	14	1			
Star Mart - TEXACO	17		2	1	

*Merged in 2001

Wet Markets

These are part of Colombian traditional markets.

- Each small town possesses its own wet market, supplied by local and regional small-scale production.
- Sales of 5,000 tons per day of fruits, vegetables and grains represent 130 million dollars per year.
- Future crop sales, elimination of intermediaries and a massive campaign promoting consumption of seasonal products are proposed strategies to maintain market share.
- Fresh perishable foods, (seasonal fruits, potatoes vegetable), live animals and homemade dairy products are offered at these "once a week markets".
- Low-priced, bargaining markets, also provide food products for Mom'n pop stores.
- Number of wet markets estimated at 1,120 is declining slowly in larger cities but large investments are taking place to modernize them. Bogotá authorities are implementing mechanisms for them to become self-sustaining.
- A successful food marketing development program was implemented by a pool of official and private entities including the authorities of Bogotá, Colombian capital.
- Program focused on CORABASTOS, the major wholesale food center in Colombia and Bogotá and its surroundings including a wide range of activities such as commodities and functional aspects of marketing: upgrading of physical facilities, improving efficiency in the wholesale/retail distribution system, supervised credit training, technical assistance, storage services, information service and urban wholesale market development.
- The wholesale market reform program intends to eliminate intermediaries, pass laws forbidding speculation and institute price controls.
- The same program is being applied by town halls and other major food distribution centers in major cities such as Medellín, Cali and others.

- CORABASTOS located in Bogota, handles approximately 2,500 million tons of food per year valued at near USD 1,460 million annually.
- Acts as a price indicator for food products and functions as a spot market.
- 6,500 wholesalers meet daily to trade food products directly from producers and sell them to another 6,000 retailers. Food auctions take place among 4,500 agriculture growers or farmers.
- 1,700 tons of processed products are also traded.
- Supplies food for nearly 9 million inhabitants.

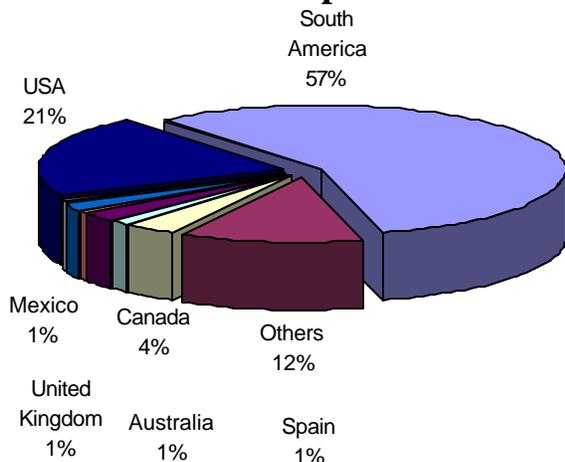
COMPETITION, CONSUMER- READY FOOD

Colombia is a strong competitor in the production of:

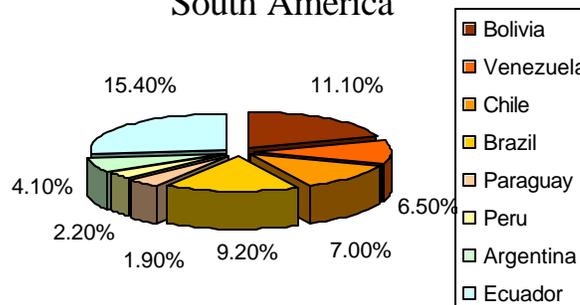
Product	Company
Dairy Products	Nestle, Colanta, Alpina, Parmalat, Purace
Breakfast Cereals	Kellogg's, Nestle, Quaker
Snacks	Frito Lay- Margarita, Savoy Brands, Yupi, Kraft Foods, Nabisco Royal
Baked Foods	Levapan, Bimbo, Ramo, Comapan
Confectionery	Nacional de Chocolates, Colombina, Noel, Chicle Adams, Comestibles Italo, Dulces de Colombia
Oils and Margarines	Grasas S.A., Unilever, Lloreda, Acegrasas, Gravetal
Dry Mixes for Sauces, Mayonnaise, Ketchup, Mustard, Jellies, and Condiments	Unilever-Disa-Best Foods, California, La Constancia, El Rey, Productora de jugos, Frutos del campo, La Coruña
Poultry feed Products and Pet Food	Solla, Ralston Purina, Finca, Contegral, Italcol, Nestle Pet care.

- Colombia grants preferential treatment to imported products from fellow members of the Andean Community. Also, bilateral agreements provide preferential import duties to countries such as Chile, Mexico, Brazil and Argentina.
- Private labels are becoming very important. Store brands are included in nearly 30% of food product categories sold at supermarkets and hypermarkets.
- Profit margins are being squeezed by the current price war, by realities such as a few large players with strong negotiating and purchasing power, by a reduction in the intermediary supply chain, and to some extent by artificially low-priced contraband.

U.S. Competitors



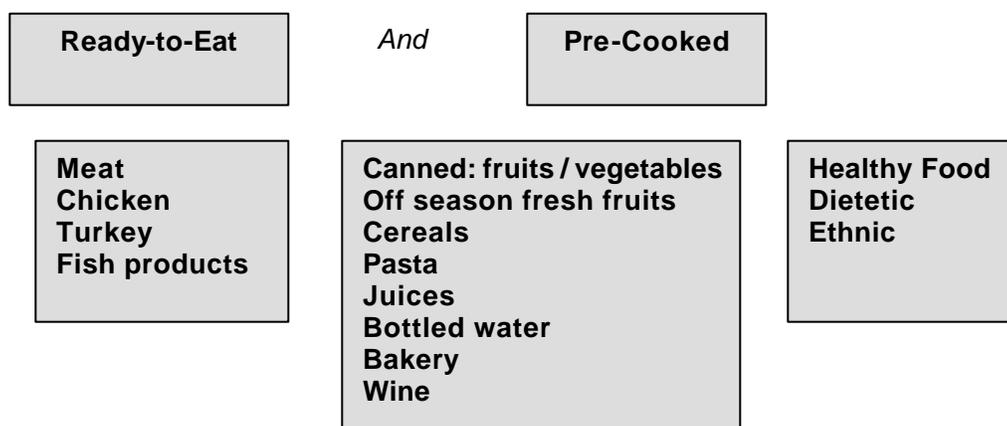
South America



Best Product Prospects

- Colombia is a growing market for value-added food products. Economic recovery will be a driving force that will foster demand for new products at reasonable prices.
- Healthy and ethnic food categories are new and fast growing.
- Gourmet products are penetrating the market with excellent results.
- Wine consumption has been increasing, with the growing popularity of wine among Colombians. Import tax reductions have favored importation of wines from all over the world. Imports of premium liquors increased 162% in 2003.
- Surveyed retailers and producers feel there is significant potential for new products in almost all food product categories.

There is significant space for new alternatives in ...



Food Products Ranked by Sales

1. Snacks	12. Chocolate	23. Mayonnaise
2 Milk drinks	13 Pastry	25. Beer
3. Cooking oils	14. Cake	26 Jellies
4. Biscuits / cookies	15. Powdered drinks	27. Pet food
5. Long shelf-life milk	16. Margarine	28. Precooked foods
6. Packaged bread	17. Pureed baby food	29. Flavored milks
7. Candies	18. Desserts	30. Cream of milk
8. Cheese	19. Broths	31. Frozen products
9. Powdered milk	20. Tomato sauce	32. Milk modifiers
10. Bubble gum	21. Precooked corn powdered	33. Coffee
11. Sugar	22. Milk modifiers	34 Juices

Related Reports

Other Related Reports

Report No.	Report Name	Date
CO3002	Grain and Feed Annual	03-10-03
CO3040	Sugar Annual Report	04-04-03
CO3005	Coffee Annual Report	05-14-03
CO3007	Livestock's & Products: Tariff increase for beef and beef offal	06-06-03
CO3009	FAIRS	08-04-03
CO3011	USA Food festival and Chef training	09-17-03
CO3012	American Café-Agroexpo	01-10-03
CO3014	Dairy and Products	10-29-03
CO3018	Exporter Guide	12-10-03
CO3019	Pet Food Report	12-22-03

For further information, visit the FAS home page at www.fas.usda.gov

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