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Retail Food Sector

Annual

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Report Highlights:

The retail sector in Guatemala is dominated by three supermarket chains. These supermarkets mainly target middle and high income consumers; however, there are still ample opportunities in the retail sector since only 40 percent of food sales are made through supermarkets. The rest of the consumers still rely on open-air markets and mom and pop stores.

The Central American countries, Mexico and Chile are the main competitors to the United States for the Guatemalan imported food market. However, after the implementation of the Central America Free Trade Agreement with the United States and the Dominican Republic (CAFTA-DR), results have shown a positive effect on bilateral trade and CAFTA-DR is expected to add between 0.4 and 0.5 percentage points per year to Guatemala's gross domestic product (GDP).

Includes PSD Changes: No
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I. MARKET OVERVIEW

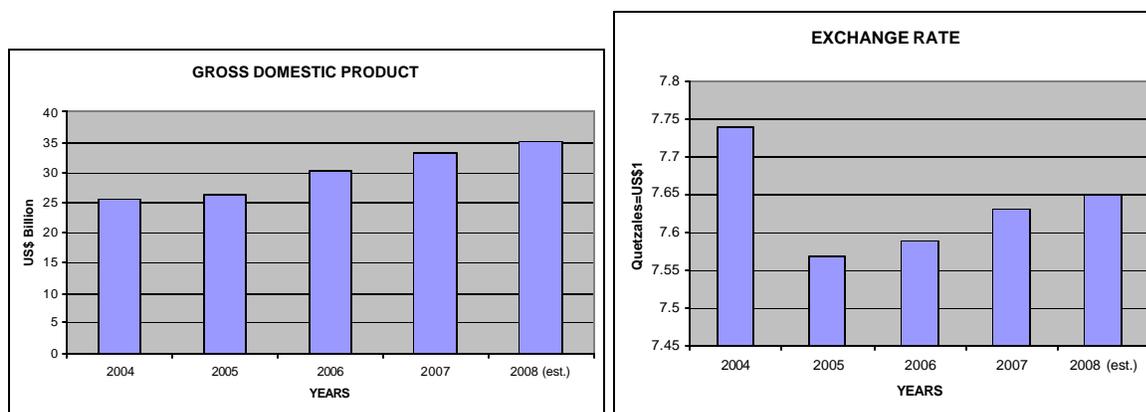
a) The Economic Situation

Guatemala's total population is estimated at 13.34 million people. Guatemala City with its surrounding seven cities totals three million inhabitants from which most families spend 47 percent of their total income to purchase food followed by 17 percent of their income to pay for housing. Guatemala, as in many other Latin American countries, has high indices of social and economic inequality. Income distribution is concentrated in the upper class and poverty is severe among the rural and indigenous populations. Approximately, 63 percent of total income is in the hands of the top 20 percent of the population. Despite this economic inequality, many of the United States food products, such as grains, poultry, and food ingredients are cheaper than domestically produced products.

Agriculture continues to play a major role in Guatemala's economy, contributing 13.3 percent to the gross domestic product (GDP) and accounts for 41 percent of exports. Roughly half of the working population is involved in agriculture and food production. The local food processing industry has become one of the fastest growing sectors in Guatemala, offering consumers a wide variety of products for local consumption. This industry also offers U.S. food exporters opportunities to capture some market share by supplying raw materials. Most businesses in the food processing industry import their ingredients directly; others rely on importers and distributors to get their raw materials; while others buy their inputs from the local market.

Guatemala has Central America's largest economy, accounting for almost one-third of the region's gross domestic product (GDP). According to the Central Bank (BANGUAT), in 2007, Guatemala's gross domestic product (GDP) was estimated at US\$33.3 billion, representing the largest yearly increase of the last three decades.

The exchange rate has fluctuated little over the last four years and presently it is Q7.65 per US\$1.00 (Q=quetzal) According to the Bank of Guatemala it is estimated that the exchange rate will remain steady in 2009.



The retail sector in Guatemala is dominated by three supermarket chains: Pricesmart, Wal-Mart (Paiz/La Fragua) and Unisuper (La Torre/Econosuper.) These supermarkets target middle and high income customers; however, there are still ample opportunities in the retail sector, since only 40 percent of food sales are made through supermarkets.

Supermarket sales are expected to continue to grow by at least 10 percent a year for the next few years. The rest of the consumers still rely on open-air markets and mom and pop stores.

More than 70 percent of supermarket stores are located in Guatemala City but supermarkets are expanding and paying more attention to the needs of the consumers in the interior of the country. The majority of the new stores opened in Guatemala City are in the areas where housing construction is growing such as Mixco, Villa Nueva, and San Jose Pinula. Most of the supermarkets added in the last three years have been in the interior of the country and their sales continue growing, taking sales away from open-air markets.

Around 70 percent of grocery items are sold in open-air markets also known as “mercados” where local farmers sell fresh local produce. Additionally, imported fruits such as grapes, apples, pears, nectarines, and tangerines are sold year round in these markets and in larger amounts during the Christmas season.

Another component of the informal market are mom and pop stores, also known as “tiendas de barrio”, these are small stores, on average 30 square feet, and carry an inventory of approximately US\$500.

b) Advantages and Challenges for U.S. Exporters in Guatemala

Advantages	Challenges
Of the 13 million Guatemalans, one-half million are in a position to afford many imported goods, and an additional 4 million can afford competitive U.S. food products.	The economic condition of the country (such as poverty, poor road transportation infrastructure, low wages and limited ports capacity) limits imports.
Guatemalans view U.S. products as high quality and safer than local products.	Low education level and extreme poverty of the majority of the population minimizes the opportunities for value-added products.
Importers are eager to take full advantage of CAFTA-DR and favor trading with U.S. exporters.	Free Trade Agreements (FTA's) with various countries, including potentially one with the European Union (EU) is forcing the U.S. to be more competitive
Imported products have more opportunities while the supermarket sector continues growing. In 2004, Guatemala had only 132 supermarkets nationwide, in 2008 there are a total of 202 supermarkets nationwide.	Regional competition is strong, especially from Central American countries, Mexico, and Chile.
The Guatemalan Government (GOG) maintains an open trading policy (first country to open market for U.S. poultry and live animals for beef and milk production)	Lack of a civil service within the GOG, creates a fragile regulatory structure and makes it difficult to comply with international standards.
Every year more supermarkets are opening in the interior of the country.	Cold chain management continues to be a challenge for distributors into the interior of the country.

II. ROAD MAP FOR MARKET ENTRY

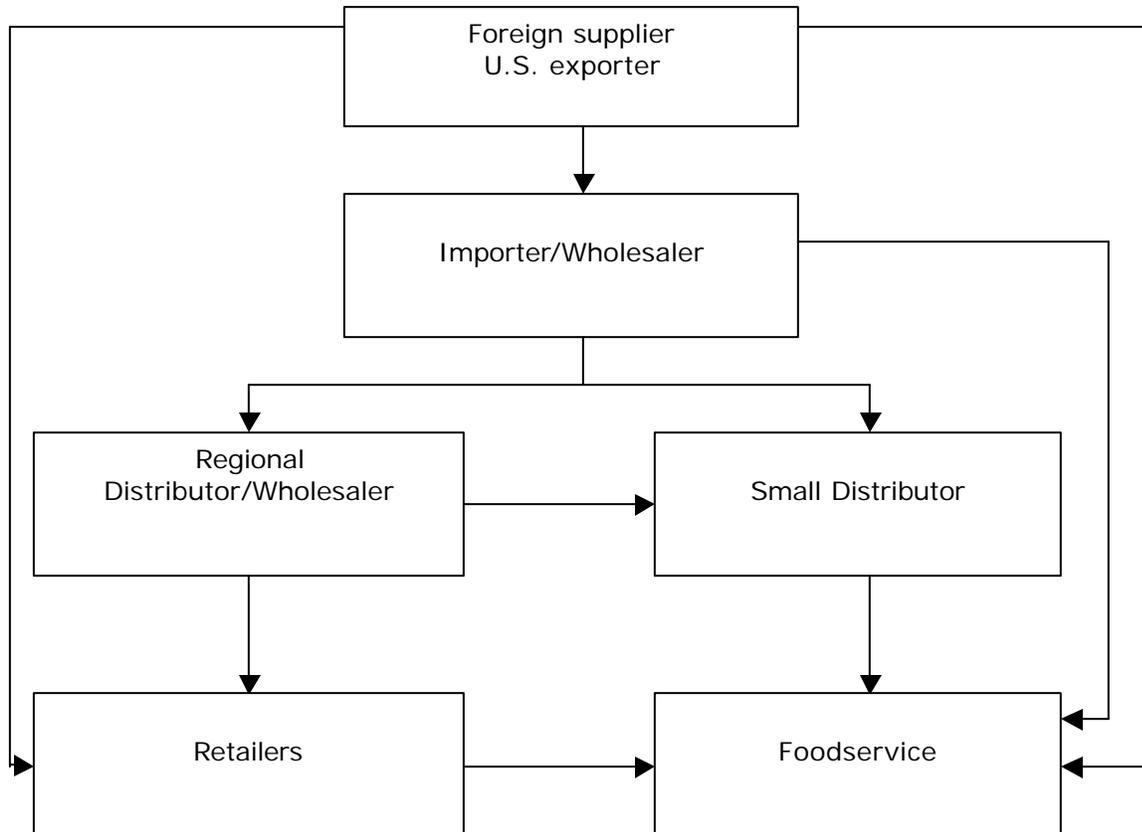
A. Super Stores and Supermarkets

Entry Strategy

Success in introducing an imported product in the Guatemalan market depends on local representation and personal contact. Hiring a distributor is the easiest and fastest way to enter the market. In particular, it is best if this distributor is already supplying the supermarkets. The local representative or distributor should be able to provide sales contacts as well as market knowledge and guidance on business practices and trade related laws. In many cases the local representative or distributor is also the importer. The Foreign Agricultural Service (FAS) office in Guatemala maintains a list of companies that represent or distribute U.S. products in Guatemala. The office also has ongoing activities that provide opportunities to meet the Guatemalan trade. Presently, U.S. food products are very competitively priced and are sought out by both high-income and middle-income consumers. Guatemalan households spend relatively more money on food than education and health. Food and non-alcoholic beverages account for 37.1 percent of the basic basket. Consequently, Guatemalan consumers are extremely sensitive to price changes in food items.

In order to improve the odds of success in entering the market, U.S. suppliers should 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 by sharing advertisement costs of new brands, as well as to support to train sales personnel.

Distribution Channels



Market Structure

- ❖ Typically, imported products are introduced into the country by a local importer, agent or distributor.
- ❖ The three biggest supermarket chains in Guatemala have a holding group that imports/distributes products within their stores in Central America.
- ❖ Importers work directly with brokers and to lower the costs of transportation and prefer brokers located in Miami.
- ❖ In the past (before Wal-Mart was present in the country), supermarkets relied on local importers to display imported products; now, supermarkets prefer to import directly but through their holding groups, especially during peak seasons.
- ❖ Wal-Mart Guatemala offers support to small local farmers by offering funds, technical support and market information to help them grow high quality, competitively-priced produce that can be sold to Wal-Mart stores and other retailers in the formal marketplace.

Company Profiles

Name of Retailer	Ownership	No. of Outlets	Locations	Purchasing Agent Type
Hiperpaiz / Hypermart	Local / Wal-Mart Central America Group	6	Guatemala City, Quetzaltenango	Direct importer, wholesaler & distributor
Paiz / Supermarket	Local / Wal-Mart Central America Group	29	Guatemala City, Huehuetenango, Cobán, Coatequeque & Chiquimula	Direct importer, wholesaler & distributor
Despensa Familiar / Supermarket	Local / Wal-Mart Central America Group	103	Guatemala City, Baja Verapaz, Alta Verapaz, San Marcos, Coban, Sacatequepez, Suchitepequez, Escuintla, Santa Rosa, Jalapa, Chimaltenango, Totonicapán, Quetzaltenango, El Progreso, Peten, Solola, Zacapa, Izabal, Retahuleu, Jutiapa, El Quiche	Direct importer, wholesaler & distributor
Unisuper / La Torre*	Local	22	Guatemala City, Escuintla, Quetzaltenango	Direct importer & distributor
Unisuper / Econosuper*	Local	18	Guatemala City	Distributor
Pricesmart Warehouse	Local / U.S.	3	Guatemala City	Direct importer & distributor
Maxi Bodega	Local / Wal-Mart Central America Group	14	Guatemala City Retahuleu, Chimaltenango, Huehuetenango, Escuintla, Peten	Direct importer, wholesaler & distributor
Club Co	Local / Wal-Mart Central America Group	2	Guatemala City	Direct importer, wholesaler & distributor

* In September 2001, La Torre and Econosuper supermarkets merged forming one company under the name of UNISUPER.

Trends and Highlights

- Supermarkets are starting to look at markets in the interior of the country and expanding in that direction. Most of the units added in the last three years have been in the interior.
- Supermarket sales continue to grow and take sales away from wet markets and corner stores. Business people that live in residential areas outside the city limits have no option but to go to a supermarket close to their homes for smaller purchases during the week.
- The membership discount club and bulk purchase concept has gained acceptance among consumers, as many find wholesale clubs much more suited for one-stop shopping.
- During weekends, going to the supermarkets is becoming a family activity. Many new products are sampled during peak hours to motivate and attract consumers to purchase new brands.
- In the three major supermarkets in Guatemala, convenience and prepared foods are gaining ground as consumers try to lower time spent preparing foods at home. Also, among business people, who do not want to spend money on fast-food restaurants for lunch, look for prepared meals inside the supermarkets. A wide variety is found from typical foods to a roasted turkey. Most products are already cooked and served inside the supermarket.
- Overall, frozen prepared foods account for 10 percent of imported food sales. The product variety is very small and few frozen vegetables are found.
- There is a trend to eat healthy food low in calories and cholesterol. Most supermarkets have a diversity of dry, frozen and ready-to-eat products. Also, sugar-free products are expanding their shelf share and grow every year. These products include items such as candies, jams, cookies and crackers.
- Supermarkets now offer a variety of services under the same roof, from bill payment services, coffee and deli services to dry cleaning services.
- Wal-Mart stores now offer to high-end consumers on-line grocery sales and home delivery.

B. Convenience Stores, Gas Marts

Entry Strategy

Because their purchasing power is small, most convenience stores rely on agents (importers and/or distributors) to supply their products. The same companies that supply the supermarkets also supply the convenience stores. Entry into the market is very similar to the supermarkets, hypermarkets and clubs. However, there is one important difference that must be considered. The selected partner must have national distribution, or the distributor won't be able to service all the convenience stores spread throughout the country.

Direct distribution to the units is the preferred method of distribution and the best way to maximize sales. This allows the distributor/agent to monitor store inventories more closely, and make sure units are never out of product.

Company Profiles

Name of Retailer	Ownership (Local/Foreign)	Number of Outlets 2007	Location	Purchasing Agent
On the Run (Esso)	Local & US	23	Guatemala City and nearby cities	Distributors
Select (Shell)	Local & US	39	Guatemala City and nearby cities	Distributors
Star Mart (Texaco)	Local & US	9	Guatemala City and nearby cities	Distributors
Super 24	Local	20+	Guatemala City and nearby cities	Distributors

Trends and Highlights

- Other than pharmacies, convenience stores are the only business that offers 24-hour service.
- Most convenience stores are found along main boulevards and busy avenues, as well as on the three national roads. These stores are smaller than the convenience stores found in the United States and they serve mostly fast food items such as hot dogs, nachos, sandwiches, soups, and beverages.
- They are also found in some of the major cities; however, the majority of the stores are located within the Guatemala City metropolitan area.
- Over 90percent of their non-gasoline sales are food items, including beer and liquor.
- Food sales have slightly dropped due to a new and stricter liquor law. In the past consumers almost always bought food when buying liquor. However, the new law restricts liquor purchases at convenience stores.
- Main players are Esso on the Run; Select; Star Mart, and Super 24. Only Super 24 is owned and operated by the largest national beer company, Cerveceria Centroamericana.

C. Traditional Markets

Entry Strategy

There are two types of traditional markets in Guatemala. One is the open-air market, also known as "mercados", where the local farmers sell their products. These markets account for a large portion of national sales. Almost 90 percent of the produce sold in these markets is produced domestically.

Inside the open-air markets, there are 3 x3 mts. stands that sell grocery items from bulk grains to instant soups. Grocery items are sold in smaller presentations (130 grams) and 95 percent of these products are produced locally. Very few imported grocery items such as cookies, snacks, instant soups, candies and chocolates are sold in these markets.

The other type of traditional market is the mom and pop stores which are also called "tiendas de barrios". According to the last estimate, there are approximately 100,000 mom and pop stores in Guatemala. It is estimated that there are two of these stores per every city block in Guatemala City alone. They are very small, on average 30 square feet, and carry an inventory on average of \$500. Again, the way to enter these markets is through importers, distributors, and wholesalers. This sector accounts for very little of the imported food sales. These stores are commonly located in the medium and lower class neighborhoods to satisfy the demands of the household wives that need to buy a grocery items but live too far away from a supermarket.

Distributors for these two groups are the same that supply products to the supermarkets and convenience stores. The main difference is the inclusion of at least one wholesaler, sometimes more than one for products sold in the interior of the country.

The wholesaler gets the product to the open-air markets and the mom and pop stores traveling store to store on a daily route. These stores do not use purchase orders and wholesalers carry sufficient inventory to supply the entire route.

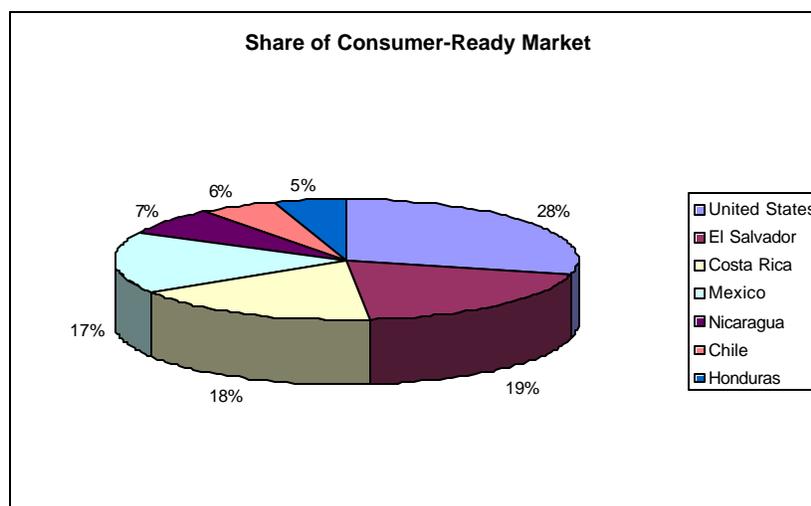
Trends and Highlights

- Products entering the open-air markets should be low cost and handled through a wholesaler.
- Products entering the mom-and-pop stores must be relatively non-perishable and low-cost items.
- Traditional markets pull much of their product from farmers and small wholesalers.
- Guatemala's underdeveloped infrastructure limits the size of these wholesalers.
- Small mom and pop stores have a higher price per unit than supermarkets.

III. COMPETITION

In 2007, total agricultural exports in Guatemala increased by 28 percent rising in value from US\$2.2 billion in 2006 to US\$2.8 billion in 2007. Guatemala's total agricultural imports grew from US\$1.4 billion in 2006 to US\$1.7 billion in 2007. Guatemala is a net importer in world trade with the United States being Guatemala's largest trading partner, receiving 36 percent of Guatemala's exports and representing 44 percent of its imports.

According to the data from the U.S. Trade Statistics, 28 percent of consumer-ready products imported in Guatemala are imported from the United States, followed by El Salvador with 19 percent; Costa Rica 18 percent and Mexico 17 percent. In 2007, Guatemala imported US\$773 million from the world and US\$160 million from the United States.



The Central American countries, Mexico and Chile are the main competitors with the U.S. for the Guatemalan import food market. The existence of a free trade agreement between the Central American countries provides a great opportunity for a constant exchange of products. Since the signing of a free trade agreement a few years ago with Guatemala, El Salvador and Honduras, Mexico has been expanding into the Guatemalan market. This agreement helped Mexico to expand its market size, and become a more serious competitor of the United States. Mexico already had a large presence in the bread, snacks, fresh produce and other consumer-oriented markets.

Chile has been gaining ground and is still negotiating a free trade agreement with Guatemala. Chile is very prominent in the fruit and wine markets. Before the implementation of the Central America Free Trade Agreement with the United States and Dominican Republic (CAFTA-DR), Chilean fruits were gaining market share, at the expense of the United States; however, after the CAFTA-DR implementation, the United States became the number one supplier of fresh fruits (apples, grapes and pears) for Guatemala.

On 2006, Guatemala implemented the CAFTA-DR and to date it has had a positive effect on bilateral trade. The agreement is expected to add between 0.4 and 0.5 percentage points per year to Guatemala's gross domestic product (GDP).

Guatemalan agricultural exports to the United States increased from \$962 million in 2006 to \$1.1 billion in 2007, an increase of 14 percent. The products with high sales growth in 2007 were: soybeans (77 percent); poultry (59 percent); red-meats (48 percent); coarse grains (25 percent); soybean meal (13 percent); wheat (8 percent). The exports with major increases in value were: bananas (34 percent); coffee (41 percent); fresh fruits, dried and frozen (45 percent) and fresh vegetables (37 percent). The National Bank and the National Statistics Institute as well as the Ministry of Economy attribute this record growth to CAFTA-DR. However, many of these commodities also enjoyed an increase in international prices.

IV. BEST PRODUCT PROSPECTS

A. Products present in the market that have good sales potential

The following is a list of product categories with the best export potential for U.S. suppliers.

Product Category	2007 Market Size (Metric Tons)	2007 Imports (U.S.\$ in thousands)	4-Yr. Avg. Annual Import Growth (percent)	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S. products
Read Meat, Fresh/Chilled/Frozen	10,525	14,880	2.79	Immediate duty-free access for "prime" and "choice" cuts. Other cuts phased-out over 15 years. Duties on other products, including offal's phased-out over 5-10 years.	Competition from Nicaragua, Costa Rica and Canada	Of the 13 million Guatemalans, one-half million are in a position to afford imported goods, and an additional 4 million can afford competitive U.S. food products.
Snack Foods	71,215	10,550	9.87	All snacks are tariff free.	Competition from Mexico, Costa Rica and El Salvador	
Poultry Meat	64,352	58,796	0.06	All Central American tariffs on poultry and poultry products will be eliminated within 18 years. Chicken leg quarters are at 0 percent within quota.	Competition from: local production, Central American countries and Panama	Guatemalans view U.S. products as of higher quality and safer than local products. The GOG maintains an open trading policy (first country to open market for U.S. poultry and live animals for beef and milk production)
Fresh Fruit	42,933	17,035	19.69	Almost all U.S. fresh fruits are tariff free, except for oranges (10 yrs)	Competition from: Chile, Honduras, Ecuador and Mexico	
Processed Fruit & Vegetables	59,699	12,308	8.45	All U.S. vegetables are tariff free, except the following: Frozen Vegetables (10 yrs); Mixed Vegetables (5 yrs).	Competition from: Chile and Canada	
Dairy	99,565	12,946	2.75	TRQ's for nearly 6,000 MT, growing at 5 percent annually. Tariff phase-out over 20 years. Tariff cuts back loaded. Safeguards.	Competition from: Costa Rica, New Zealand, Nicaragua	

B. Trade Barriers/Tariff-Rate Quotas (TRQs)

Presently, there are no banned products in the market. Guatemala is in full compliance with its commitments to food and agricultural products under the CAFTA-DR. Most fruits, nuts, processed foods, vegetables and feeds have been granted immediate duty-free access. The majority of other agricultural products will have their duties eliminated in five or ten years.

Guatemala fully complies with its World Trade Organization (WTO) tariff bindings. Tariffs of 0, 5, 10, and 15 percent are applied to food and agricultural products. Tariffs and tariff rate quotas (TRQs) for 2008 were officially published in Diario de Centro America on December 14, 2007.

CAFTA-DR set TRQs on 12 products and product categories. The Ministry of Economy implemented a well functioning system for distributing quota and reporting on quota allocation. The International Commerce Administrative Directorate (DACE) of the Ministry of Economy has a website (<http://www.mineco.gob.gt/mineco/cafta/cafta.htm>) with updated information on quota allocation procedures, advisory committee meetings, and quota utilization status by commodity.

Even though CAFTA-DR allows Guatemala to set the out of quota tariff for chicken leg quarters at 164.4 percent, which Honduras, El Salvador and Nicaragua also did the GOG retained the previous 15 percent tariff since its implementation.

The process for allocating certificates for the chicken leg quarter quota was handled again by The Central America Poultry Export Quota (CA-PEQ); the entire process went smoothly, in a timely manner.

Quota fill for red meats in 2007 was very low, just as in 2006, mainly because there was an over supply of local meat. Only one historical importer requested a quota for beef. (Note: The beef quota excludes high quality cuts.) Pork imports under the TRQ doubled in 2007 as historical importers managed their requirements in a timely manner, and new importers requested a TRQ.

The milk TRQ in 2007 was three times as high as in 2006. Failure to fill the dairy product quotas is mainly due to the non-competitive prices of U.S. products compared to regional prices. Small Guatemalan dairy importers have tried without success to find price competitive products from the United States.

A problem across the board continues to be the number of importers failing to request a Certificate of Free Sales and Origin from their U.S. suppliers. The Guatemalan - American Chamber of Commerce and local Customs' authorities (Superintendencia de Administración Tributaria – SAT) are training importers on this.

For a complete explanation and a review of how to export food products to Guatemala, please read this office's Exporter Guide 2008 at www.fas.usda.gov/scripts/attacherep/defaults.asp

V. POST CONTACT AND FURTHER INFORMATION

For questions or comments regarding this report or assistance on exporting to Guatemala, please contact the U.S. Agricultural Affairs Office at the following address:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: <http://www.fas.usda.gov>