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Spain

HRI Food Service Sector

Report

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Report Highlights:

Economic stability, increased employment, more women in the labor force, and a growing tourist industry have all contributed to increased demand in the HRI sector. Most products are locally produced or obtained from other EU countries, but there are opportunities for some U.S. products.

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

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Table of Contents

I. Market Summary

According to preliminary information from the Ministry of Agriculture, Fisheries and Food, during 2000, Spanish consumers spent around 9.4 trillion pesetas on food and beverage purchases. This represents an increase of 6.9% over purchases in 1999, although volume increased 1.2% and prices increased 5.6 %. In-home consumption expenses represent 73.6 percent of total food purchases. The HRI sector absorbs about 26.4 percent of the total food consumed in Spain, with about 2.6 trillion pesetas (442,000 M. Euros), of which 2.3 trillion pesetas are consumed in hotels and restaurants and 0.15 trillion pesetas in institutions. This sector experienced an increase of 6.3 percent in 2000, and further increases are expected in the near future.

The Spanish HRI sector is very complex and diverse. The food service is divided into commercial (with an estimated of about 16,287 hotels and hostels , around 48,500 restaurants, over 134,000 cafeterias and 24,000 discos and bars) and social food service (with about 16,680 institutions, such as company cafeterias, schools, universities, hospitals, prisons and the army). There is an average of one outlet per 173 people. Although further growth of this sector is expected, the number of outlets is decreasing. Further, trade reports indicate that the growth is slowing, as the sector has reached a more mature level.

HRI has expanded significantly during the last 20 years. This growth was more rapid after 1994 as a consequence of an economic recovery and a further stability, as well as due to the following domestic social changes:

- Smaller household sizes
- Older population
- More women in the labor force
- A decrease in unemployment
- An increase of the urban population
- Longer distances from home to the work place or school

Another factor that boosts demand for meals in the HRI sector is the growing number of tourists, both foreign and domestic. In 2000, 74.4 million foreign visitors came to Spain, of which 48.2 million were tourists, representing an increase of 3 percent from a year earlier. In addition, during the first 9 months of 2000, Spaniards made 38 million trips within the country.

Market access is frequently a challenge, as U.S. products have to comply with EU regulations. Many products have restricted access to Spain. Additionally they have to compete with similar products from Spain and other EU countries, often at lower prices.

There are also about 380,000 vending machines in Spain, with a volume of sales in 1998 of 258,000 million pesetas. This sub-sector is also expanding, growing by nine percent in 1999. While most vending machines are dedicated to sales of tobacco, those carrying food products grew by 30.2

percent in 1999.

HRI Outlets in Spain

	1997	1998	1999	2000
Restaurants	46,277	46,762	47,830	48,539
Bars/Cafeterias	133,073	134,147	134,471	134,019
Disco/Bars-Night Clubs	22,724	23,200	23,532	23,962
Institutions	18,527	18,199	17,565	16,681
TOTAL	220,601	222,308	223,398	223,201

Total number of outlets decreased slightly in 2000, with the greatest losses in bars and cafeterias (the smallest type of outlet) and in institutions.

About 3,500 million meals were served in the HRI sector in 2000, of which 2,450 million were in commercial food service and 965 million were in institutions.

Advantages and Challenges Facing U.S. Products in Spain

Advantages	Challenges
Fast-food chains are boosting the demand for U.S. products	EU barriers against many imported goods from third countries
Ethnic food restaurants are becoming popular, especially Tex-Mex and Oriental restaurants	Higher prices for U.S. food products relative to local market products
The tourist industry is demanding more international foods	Complex distribution system
U.S. culture is very popular among the young generation	U.S. exporters are not aware of the potential Spain offers them for some products
U.S. producers offer quality and variety of products for the food service industry	Lack of awareness of the variety, diversity and service of U.S. products

II. Road Map for Entry Market

A. Entry Strategy

The best way for a U.S. company interested in exporting products to the Spanish HRI market is to find an importer, agent or wholesaler who will take care of all the customs clearances and will advise the exporter how to comply with all the regulations for each product, such as labeling, packaging, import duty, sanitary regulations. On some occasions cash & carries and large HRI chains import directly but mainly from other EU countries. Usually food distributors acquire their imported products through an importer or agent, who are often also distributors with warehouses and transport.

Another way to meet the key players in this sector and to introduce U.S. products to the Spanish HRI sector is by participating in sector or food shows in Spain or in neighboring countries visited by the Spanish food service sector.

B. Market Structure

The Spanish HRI sector is very dispersed. Only the large chains have a central purchasing office. The owners of the small bars, cafeterias and restaurants, which account for the largest number of outlets, purchase fresh products in the local market or wholesale market. Most beverages are bought through distributors, a sector that is well organized. About 76 percent of non perishable goods are also purchased through distributors. Only 42 percent of the perishable products are obtained through distributors (with another 22 percent through wholesale markets and 18 percent through the retail sector). Commercial distributors to the HRI sector are very dynamic, capable of supplying most of the needs of the country's many small, diverse food service providers.

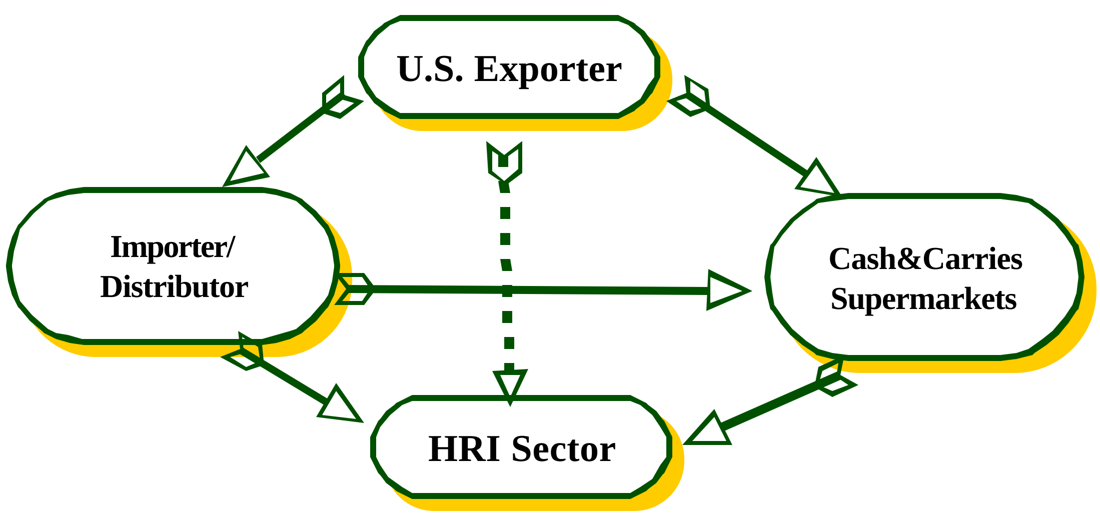
As competition stiffens, the distribution sector is concentrating. A new entry is Grupo Nacional de Distribucion.(GRUNADIS), a merger of six existing central purchasing companies, which plans to supply HRI outlets throughout Spain. A second group which targets the national market is AEDIS (Spanish Association of Distributors) which includes a member in each of Spain's 46 provinces. The group plans to centralize imports for distribution by its members.

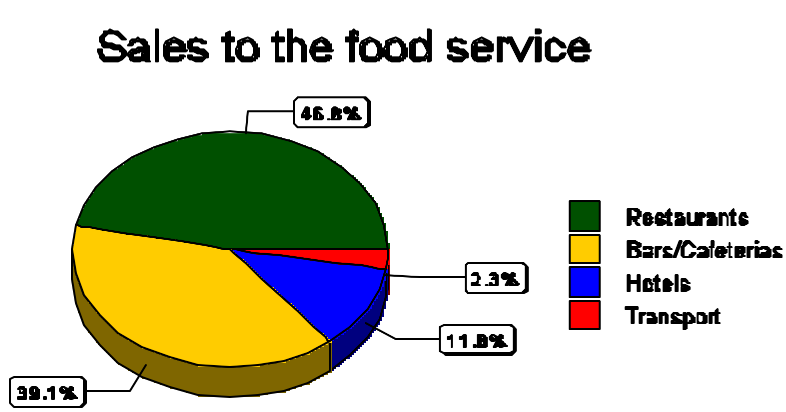
Institutions, hotel chains, food chains (usually fast food) and vending machines have more organized purchasing channels. For instance McLane Espana is the main supplier to fast food and convenience stores

Several companies in the food distribution sector have outlets designed specifically to supply the HRI sector. MAKRO, the largest cash & carry group, has 13 percent of this market, followed by GRUPO UNIGRO, COOP. COVIRAN, H.D. COVALCO, PUNTOCASH, ALIMENTACION PENINSULAR, GRUPO ENACO, and others. Also, some distribution companies in this sector are located in specific areas where tourist demand is higher, such as MERCATEL and DAVIGEL in the Balearic Islands, and GRUP SEHRS in Costa Brava (Northeastern coast). Food companies supplying the HRI sector are diverse and must be able to serve small customers with different needs. Beverage distributors are very specialized, since most consumption takes place in bars, cafeterias and restaurants.

To exploit new technologies, some companies are trying to sell their products through Internet. KATALIX FOODSERVICE, ESKYE SOLUTIONS and ACCUACOM 2000 are new B2B companies servicing the HRI sector.

Spain - HRI Food Sector Distribution Chart





C. Sub-sector Profiles

1. Hotels

Tourism is a very important sector in the Spanish economy. Spain is the world's number two destination for tourists and there is wide variety of hotels to accommodate them, from luxury hotels in major cities to bed & breakfast inns in remote villages. Tourism infrastructure is well-developed throughout the country and is continuously expanding. In 2000, there were a total of 16,287 hotels, hostels and pensions, as well as 450 time-sharing apartment buildings and 1,200 camp grounds.

About eighty percent of hotel rooms are in the one to three star range, while the remaining 20 percent are in four to five star hotels. During the last few years, hotel room capacity has been growing at an annual rate of about four percent. Three and four star hotels have experienced the highest growth rates. About 38 percent of the hotels are less than 10 years old. Thirty-nine percent of the hotels are located in the Mediterranean region including the Balearic and Canary Islands. Another twenty-six percent are in the inland regions, 18 percent in large urban areas, and 17 percent in the northern Atlantic coast.

National and international chains represent 19 percent of the market. Most of them are in the 4 and 5 star range. Ownership of medium-level hotels, with two or three stars, is equally divided between hotel chain and individuals. Small and medium-sized hotels have an average of 40 rooms and 80 beds. Larger hotels have, on average, 85 rooms and 162 beds.

The hotel industry expects to serve about 349 million meals by 2005, accounting for 13 percent of total meals in the commercial food service industry.

Category	Outlet		Beds	
	Number	Percentage	Number	Percentage
HOTELS				
Five Star	86	0.53	29,057	2.21
Four Star	844	5.18	283,327	21.53
Three Star	2,118	13.00	500,918	38.07
Two Star	1,761	10.81	165,901	12.61
One Star	1,406	8.63	82,223	6.25
HOSTELS				
Two and Three Star	3,047	18.71	114,146	8.68
One Star	7,025	43.13	140,125	10.65
TOTAL	**16,287**	**100**	**1,315,697**	**100**

Main Hotel Chains in 1999

Company	No. Hotels	No. Rooms	Sales - M. Euros
Sol Melia, S.A. (Grupo)	258	64,472	658.61 i
RIUSA II, S.A.	88	22,603	540.91 i
NH Hoteles, S.A.	91	10,667	272.89 i
Barcelo Hoteles	87	20,591	224.90 i
Hispano Alemana Mngmt Hotelero	47	16,162	220.78 i
Paradores de Turismo	84	5,158	198.20 i
TRYP, S.A.	56	9,475	135.23 i
Occidental Hoteles Mngmt, S.A.	51	13,580	129.28 i
Grupo Empresas Matutes (Fiesta H.)	39	10,340	120.20 i
Hosteleria Unida, S.A. (HUSA)	54	5,001	120.14 i

2. Restaurants

Trade reports indicate that there were 48,539 restaurants in Spain in 2000. Until 1998, the fast-food sector had been growing at a galloping pace; in 1999, growth "slowed" to only 16.8% as the number of new pizza restaurants seemed to be reaching a saturation point. Total sales in the fast-food sector were 216,900 million pesetas, of which 39 percent was spent in pizza restaurants, 38 percent hamburger outlets and 16 percent in sandwich outlets. Some two thirds of all fast-food restaurants are parts of franchises, and most of these are national or international chains. In 1999, there were about 2,300 outlets. Fast-food home-delivery accounts for 25% of sales of this sector. Pizzas with a market share 41.9 percent, is the most consumed fast-food, followed by hamburgers (36.9%), sandwiches (14.7%) and others (6.5%). Self-service outlets have been decreasing since the mid 90's. Currently there are about 86 outlets, usually located in the shopping centers.

Spain - Leading Fast-Food Chains - 1999

Company Name	Type	Number of outlets	Sales in million i
McDonald's	Hamburgers	230	355.80
Telepizza, S.A.	Pizza	665	319.40
Pans & Company - Bocatta	Sandwiches	371	162.12
Burger King	Hamburgers	200	119.60
Pizza Hut	Pizza	135	72.09

Life-style changes and economic stability led to stagnation in the number of bars and traditional restaurants, while restaurant and fast-food chains are expanding to meet the ever-increasing demand. The chains offer a meal at a good price in a short period of time. In 2000, the chains' share was about 10 percent of total commercial food service. The key factors to their expansion has been strong management, sourcing quality inputs at lower prices, and offering a good quality product. Many of these companies offer traditional Spanish food adapted to today's demand, which is healthier and more "natural."

As indicated above, these companies directly import some products, although most of their inputs are locally produced or purchased from importers/distributors. They also favor inputs with higher value-added that need less preparation, such as pre-cut vegetables and high quality, portion-controlled products.

Spain - Leading Restaurant Groups - 1999

Company Name	Type	Number of outlets	Sales in M.Euros
Areas, S.A.	Restaurants/ Convenience stores	370	185.77 i
Sigla, S.A.	Restaurants	85	174.72 i
El Corte Ingles (Restauracion)	Restaurants & Cafeterias	56	138.23 i
Euronow, S.L. (Paradis)	Restaurants	12	48.08 i
Grupo Moncho's	Restaurants	15	38.77 i

Ethnic restaurants have been growing dramatically in the last few years. Chinese restaurants were the first to enter this market. Restaurants offering "American" or Tex-Mex products (like Tony Roma's, Foster's Hollywood, as well as Mexican restaurants) are currently enjoying higher growth. One of the best ways to introduce new types of food is through the food service sector.

3. Institutional

The number of companies in the Institutional food service sector is uncertain, but reports indicate there are about 800 companies. The first five hold 25 to 30 percent of the total market.

The sector has strong price competition. There is a degree of market concentration -- the five largest companies hold about 25 to 30 percent of the market -- while small companies are often highly specialized on one market niche.

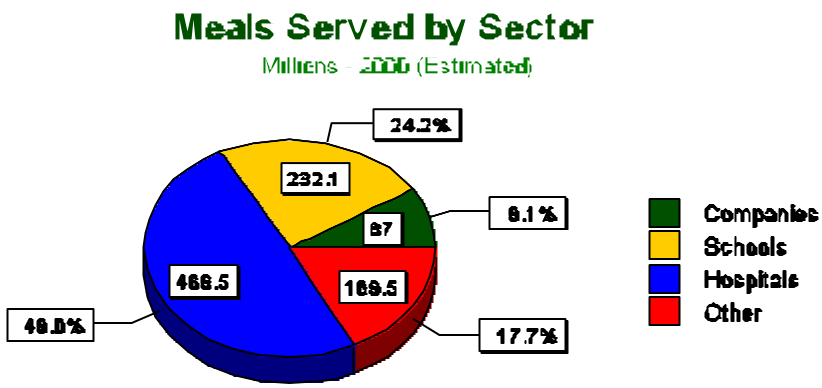
Spain's demographics are also reflected in the institutional sector. While demand from schools is decreasing (due to a drop in the number of births and a change in school schedules), demand from hospitals and retirement homes is expanding (as a consequence of a higher life expectancy and more homes for elderly people.)

Spain - Leading Social Food Service Groups - 1999

Company	Total Meals	Total Sales (million pesetas)	Sector*
Eurest Colectividades, S.A. - Compass Group Holding	33,000,000	19,235	1 - 2 - 3 - 4 - 5
Sodexho España, S.A.	n/a	10,500	1 - 2 - 3 - 4
Aramark Servicios de Catering, S.L.	n/a	8,840	1 - 2 - 3 - 5
Serunion, S.A.	30,000,000	8,200	1 - 2 - 3 - 4 - 5
Grupo Osesa, S.A.	3,430,000	4,646	1 - 2 - 3 - 5
Vanyera, S.A.	13,000,000	4,700	1 - 2 - 3 - 5
Restauracion Colectiva, S.A.	9,000,000	3,400	1 - 2 - 3 - 4 - 5
Carlos Rocha, S.A.	4,500,000	3,450	1 - 2 - 4 - 5
Auzo Lagun, S. Coop.	5,200,000	3,200	1 - 2 - 4 - 5
Mediterranea del Catering	12,000,000	2,879	1 - 2 -3 - 4
Gastronomia Mediterranea	5,136,000	1,903	1 - 2 - 3 - 4 - 5

* **Sectors** : 1 - schools, 2 - hospitals, 3 - company cafeterias, 4 - retirement homes, 5 - others (army,

religious communities, prisons)



Institutional food service managers indicate that about 65 percent of the products used are fresh. Nevertheless, there is a trend towards use of frozen products due to the lower price, more convenient storage, and long shelf life. The sector is also requiring more value-added and pre-cut products to avoid excessive handling.

III. Competition

Domestic and EU suppliers are the main competition for U.S. suppliers. The main advantages are the normalization and standardization of products in all EU countries as well as the lower shipping costs and absence of import duties.

In 2000, Spain imported $16.2 billion of agricultural products, of which only $1.2 billion were imported from the U.S.

Food service companies rely on their suppliers for product selection. Consequently, U.S. exporters/suppliers need to focus their efforts on working with the importers and distributors which supply this sector.

IV. Best Products Prospects

A. Products in the market which have good sales potential

- *Seafood*

Spain is a net importer of seafood products. Since local catches cannot meet demand, about half of the seafood consumed is imported. In 1999, imports amounted to 1,145,516 tons. Total U.S. seafood exports to Spain were $59 million in 1999, and $63.5 in 2000. Spain is a good market for U.S. seafood products, particularly squid (7,953 tons in 1999), fresh fish - mainly hake - (1,370 tons), frozen fish - monk fish, wild salmon, and lobster (1,650 tons)

- *Lobster*

As a result of Spain's strong economy, demand for lobster has grown dramatically in recent years, especially in the food service sector. Growth is expected to continue in the near future. U.S. lobster competes in Spain with local catches, although Spanish production is very limited and imports grow every year to meet increasing demand.

- *Tree Nuts*

Spain is an important market for U.S. nuts, mainly shelled almonds and in-shell walnuts. In 2000, imports of U.S. tree nuts reached $103 million. The U.S. supplied about 90 percent of Spain's almond imports and nearly 88 percent of walnut imports. Peanuts occupy the middle segment of the Spanish snack food market. Almonds, hazelnuts and peanuts are served as snacks in many bars and restaurants.

- *Bourbon*

Bourbon holds about 30 percent share of the whiskey market. U.S. bourbon exports experienced rapid growth in recent years. Reportedly the HRI sector accounts for 62% of all whiskey consumption.

Although tariff barriers to alcoholic beverages have fallen since Spain joined the EU, taxes on them have increased substantially. Nevertheless, there are significant market opportunities for American bourbon whiskeys.

B. Products not present in significant quantities but which have good sales potential are as follows:

- Tex-Mex products
- Surimi
- Processed fruit & vegetables and juices
- Cake mixes
- Snacks

C. Products not present because they face significant barriers

- *Poultry*

U.S. poultry does not enter any EU countries due to the chlorination issue.

- *Red meat*

Due to the hormone issue, only U.S. non-hormone treated beef can be imported into the EU.

V. Post Contact and Further Information

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For further information check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site: http://www.embusa.es or http://www.fas.usda.gov then look under countries - Spain

NOTE: Average exchange rate: 1999: 156.33/$1; 2000: 165.20/$.
Current exchange rate: 190.56 pesetas/$ - **i** 1 - $0.85