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Spain

HRI Food Service Sector

Report

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Report Highlights:

Over 26 percent of total food products in Spain are consumed through the HRI sector. This percentage increases every year. The Spanish HRI sector is very complex. Spain is also one of the leading tourist destinations in the world. While the fast-food sector is declining, there are more coffe-shops every day in Spain. There is also a demand for ethnic and new products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Madrid [SP1], SP

Table of Contents

I. Market Summary	Page 2 of 12
II. Road Map for Entry Market	Page 3 of 12
A. Entry Strategy	Page 3 of 12
B. Market Structure	Page 4 of 12
C. Sub-sector Profiles	Page 6 of 12
1. Hotels	Page 6 of 12
2. Restaurants	Page 7 of 12
3. Catering	Page 9 of 12
III. Competition	Page 10 of 12
IV. Best Products Prospects	Page 11 of 12
A. Products in the market which have good sales potential	Page 11 of 12
B. Products not present in significant quantities but which have good sales potential	Page 12 of 12
C. Products not present because they face significant barriers	Page 12 of 12
V. Post Contact and Further Information	Page 12 of 12

I. Market Summary

According to data released by the Ministry of Agriculture, Fisheries and Food, during 2001, Spanish consumers spent around 61.4 billion Euros on food and beverage purchases. This represents an increase of 1.9 percent over purchases in 2000, although volume decreased slightly. Food production in 2001 was valued at 56.2 billion Euros, an increase of two percent in value, but a decrease of almost two percent in volume as prices increased 5.6 percent. In-home consumption represents 73.6 percent of total food purchases. The HRI sector represents about 26.4 percent of all food consumed in Spain, totaling about 15.6 billion Euros. This sector experienced an increase of 4.6 percent in value from 2000, but only one percent in volume. This sector will continue growing in the near future, although the growth is expected to be lower than in the previous years.

The Spanish HRI sector is very complex and diverse. According to the Spanish Ministry of Agriculture, in 2001, there were 236,375 food service outlets, divided into commercial (with an estimate of about 16,275 hotels and hostels, around 46,500 restaurants, over 133,500 cafeterias and 23,500 discos and bars) and social food service (with about 16,600 institutions, such as company cafeterias, schools, universities, hospitals, prisons and the army). There is an average of one outlet per 173 people.

There are also more than 400,000 vending machines in Spain, with a sales value in 2001 of 1.8 billion Euros. This sub-sector is also expanding rapidly. In 2001, it grew 7.8 percent from a year earlier. About 146,000 vending machines are dedicated to sales of tobacco, 140,000 to hot beverages, 84,000 to cold beverages and the remaining to food products, like snacks and sandwiches. This latter sub-sector of dry products grew by 20.3 percent.

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

- T Smaller household sizes
- T Older population
- T More women in the labor force
- T An increase of the urban population
- T 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 2001, 75.7 million foreign visitors came to Spain, of which 49.5 million were tourists, representing an increase of 3.4 percent from a year earlier. Spain is second in the world after France as a tourist destination. Despite the September 11 disaster, official figures show a further increase during the first six months of 2002.

As is the case in the retail food distribution sector total number of HRI outlets continue to decrease with the greatest losses in bars and cafeterias (the smallest type of outlet) and in institutions, where there are some mergers. Restaurant chains continue to open new outlets.

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
Theme and 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 younger generation	U.S. exporters are not aware of the potential Spain offers for some products
U.S. producers offer quality and a 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

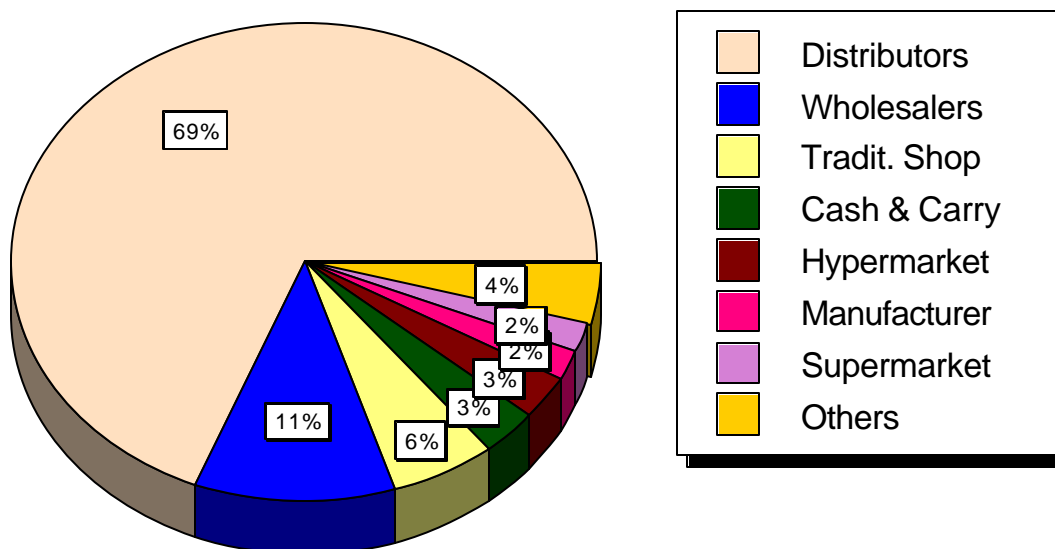
It is advisable that a U.S. company interested in exporting products to the Spanish HRI market finds an importer, agent or wholesaler who has experience with all the customs clearances and will advise the exporter on how to comply with all the regulations for each product, such as labeling, packaging, import duty and 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, such as Portugal and France.

B. Market Structure

The Spanish HRI sector is very disaggregated. Only the large chains have a central purchasing office. 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. Considering food and beverage products as a whole, 69 percent are purchased through distributors, 11 percent through wholesalers, six percent through the small traditional shop, three percent through the cash and carries and hypermarkets, two percent through the small traditional shop, three percent in the cash and carries and hypermarkets, two percent directly from the producer and supermarket.

Distribution Channels

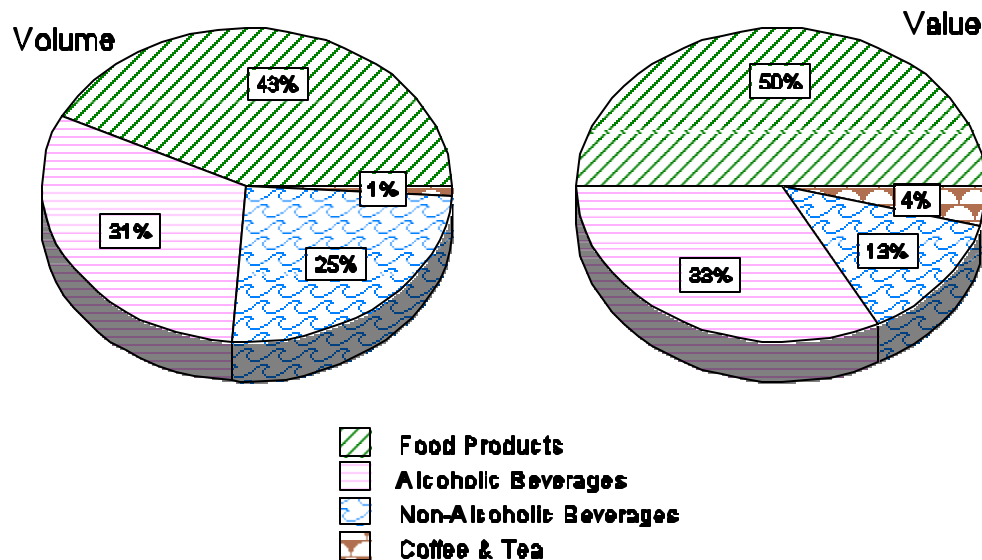


Source: Spanish Ministry of Agriculture

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

Of the total purchases in the HRI sector in 2001, food products represent the highest share with 43 percent of the purchases in volume and 50 percent in value (7.8 billion Euros), followed by alcoholic beverages, 31 percent in volume and 33 percent in value (1.6 billion Euros), non-alcoholic beverages were 25 percent in volume and 13 percent in value, and coffees and teas one percent in volume and four percent in value.

Percentage of Food & Beverages Expenses in HRI - 2001



Source: Spanish Ministry of Agriculture, Fisheries & Food

Bars and cafeterias account for 64 percent of total food and beverage purchases, followed by restaurants with 29 percent and hotels with only seven percent.

As competition stiffens, the distribution sector is concentrating, with small distribution companies merging into larger distribution companies to supply the HRI sector, like Grupo Nacional de Distribucion.(GRUNADIS), or AEDIS (Spanish Association of Distributors). AEDIS, with a member organization in each Spanish province, centrally purchases imports for distribution to 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 EL ARBOL, Hermanos Ayala, COOP. COVIRAN, H.D. COVALCO, Miquel Alimentacio, Ahold, PUNTOCASH, ALIMENTACION PENINSULAR, GRUPO ENACO, and others. Most of these companies are members of large food distributors like IFA and EUROMADI. 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 the 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.

C. Sub-sector Profiles

1. Hotels

Tourism is a very important sector in the Spanish economy. Spain is now the world's number two destination for tourists and there is a wide variety of hotels, from luxury hotels in major cities to bed & breakfast inns in remote villages. The tourism infrastructure is well-developed throughout the country and is continuously expanding. In 2001, there was a total of 16,369 hotels, hostels and pensions. Nevertheless, only 14,184 are open all year; many small hotels and hostels in the Mediterranean coast are open only during the Summer months. There are also 450 time-sharing apartment buildings and about 1,200 camp grounds.

About eighty percent of hotels are in the one to three star range, but account for only 66.5 percent of the room capacity, while the remaining percentages are in four to five star hotels. During the last year, hotel room capacity grew by five percent. Three and four star hotels have experienced the highest growth rates. About 35 percent of hotels are less than ten 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 56.7 percent of the market, the remaining 43.3 percent are independent owners. 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 annually by 2005, accounting for 13 percent of all meals in the commercial food service industry.

Category	Number	Beds Number
Five Star	93	32,690
Four Star	941	310,315
Three Star	2,085	484,656
Two Star	1,633	142,743
One Star	1,085	56,488
Hostels	8,347	212,222
TOTAL	14,184	1,237,115

Main Hotel Chains in 2001 in Spain

Company	No. Hotels	No. Rooms
Sol Melia, S.A. (Grupo)	172	37,051
RIU, S.A.	60	15,024
NH Hoteles, S.A.	92	10,315
Iberostar	27	8,824
Barcelo Hoteles	31	8,713
Fiesta	34	8,369
H10 Hoteles	26	7,755
Globales	31	6,527
Princess	16	6,268
Grupotel S.A.	36	5,496

2. Restaurants

In 2001, official reports indicate that there were 236,375 food service outlets in Spain, of which around 46,500 are restaurants. Until 1998, the fast-food sector had been growing at a galloping pace; in 1999, growth "slowed" to only 16.8 percent as the number of new pizza restaurants seemed to have reached the saturation point.

Trade reports indicate that, on average, Spanish restaurants had a 6.6 percent increase in their sales in 2001. In this group of the so-called "organized restaurants" are included the fast-food restaurants, theme and ethnic restaurants, coffee shops and catering groups. The first ten companies (six of them fast-food restaurants) represent 60 percent of total sales within this sector. In 2001, there were about 5,000 outlets belonging to the various chains; their total sales reached 3.7 billion Euros. The large fast-food companies have experienced lower increases than expected, as in the case of McDonalds, and decreases in the case of Telepizza. The stagnation in the fast-food sector can be explained by a change of consumer habits. There is a decrease in home-delivery and an increase in the consumption in restaurants and a demand for something new and more fresh like the ethnic restaurants, tapas bars or tea and coffee shops.

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.

While the fast-food sector is declining another type of food service is growing very rapidly: coffee-shops. They are small cafeterias offering coffee from various origins, where customers can also buy coffee or tea and the utensils to prepare these beverages. The decoration and the ambiance created is also important. In 2001, this sector experienced growth of 19 percent. Trade sources indicate that in 2002, growth will be only 17 percent. About 45 percent of all the coffee sold in Spain is consumed through HRI sector. Currently there are about 600 coffee-shops in Spain, in three years there could be 800 outlets. Sales during 2002 are expected to reach 153 million Euros, while sales in 2001 were about 130 million Euros in 2001.

The main coffee-shops in Spain are: Café de Jamaica, In Caffè di Roma, Plantaciones de Origen, Café y Tea, Café Caracas, and Illy Café "L'expresso. Most of them are franchises. Jamaica accounts for 23.5 percent of total sales. Starbucks Coffee Company has entered Spain, opening the first two outlets in Madrid at the beginning of 2002, through its Spanish partner Sigla (Grupo VIPS). This groups expects to open five outlets in 2002 and 20 more during 2003.

Spain - Leading Restaurant and Cafeteria Chains - 2001

Company Name	Type	Number of outlets	Sales in million i
McDonald's	Hamburgers	313	454
Telepizza, S.A.	Pizza	867	394
Areas (Grupo)	Road restaurants	462	279
Grupo VIPS (Sigla)	Cafeteria/Restaurant	134	241
Zena Grupo	Pizza/Hamburgers/ Ethnic, cafeterias	372	225
Burger King	Hamburgers	264	176
Pans & Company	Sandwiches	251	106
Grupo Restmon	Ethnic Restaurants	154	91
Pizza Hut	Pizza	127	78
Bocatta	Sandwiches	137	74

Companies in the restaurant or cafeteria sector import some products directly, 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.

3. Catering

The number of companies in the Institutional food service sector is uncertain. There are over 150 companies, of which at least 90 are working in the institutions sector. As in many other areas there is strong concentration, the first five companies hold over 30 percent of the total market. In 2001, total sales in this sector reached 1.7 billion Euros, an increase of nine percent, after a deceleration in the previous year. In 2002, there has been a decrease for the air catering companies as a consequence of September 11. The highest increase took place in the quality sector; catering for wedding and other social events, although this sub-sector represents only nine percent of catering.

Catering service to institutions, like schools, hospitals, canteens in large companies, airports, bus and railway stations represents almost 80 percent of total business. This is mainly managed by large international companies. In Spain the leader is EUREST COLECTIVIDADES, which is an affiliate of COMPASS, a British group. This company has a market share of 9.1 percent, and serves about 175,000 meals daily. COMPASS has been buying small catering companies located in various Spanish cities. RAIL GOURMETS, specialized in the catering in the trains, is also part of COMPASS. EUREST, part of the British group, is the main company in the air catering, segment preparing 84,000 meals daily. Air catering experienced an increase of only 4.2 percent, due to the decrease in the air traffic. The air catering subsector represents 14 percent of the total sector.

There are more institutions every day that contract their meals with catering companies instead of preparing them in their facilities. This includes: hospitals, schools, the army, universities, retirement homes, large companies, train and bus stations. Sales in this sub-sector in 2001, were 1.3 billion Euros.

Spain - Leading Catering Service Groups - 2001

Company	Total Sales in 2000 M. Euros	Total Sales in 2001 M. Euros
Eurest Colectividades, S.A. (Compass Group)	139.08	155.00
Sodexho España, S.A.	105.17	105.00
Eurest, S.A.	82.38	82.23
Aramark Servicios de Catering	64.15	72.12
Iberswiss Catering, S.A.	67.66	68.81
Serunion, S.A.	73.92	62.96
Cia. Int. de Coches-Camas	52.73	56.93
Euronow (Grupo Paradis)	46.87	54.09
Select Service Partner, S.A.	39.72	42.07
Mediterranea del Catering	34.66	36.82

Institutional food service managers indicate 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 harmonization and standardization of products in all EU countries as well as the lower shipping costs and absence of import duties.

In 2001, Spain imported \$17.6 billion of agricultural products, of which only about \$1 billion were imported from the United States.

Food service companies often 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. Spain's total seafood imports in 2001 were 1,322,381 mt, an increase of 10.6 percent from a year earlier. The main suppliers were Argentina, Morocco and France. The United States, with 28,429 mt exported to Spain, had a market share of two percent. In 2001, the United States was the largest exporter of frozen long finned tunas (HS0303.41) to Spain, with 6,096 mt (1,604 mt in 2000). Another seafood product that experienced a high increase was surimi, of which the United States was also the main supplier with 2,961 mt (2,000 mt in 2000), with India a distant second with 461 mt.

- Lobster

As a result of Spain's strong economy, demand for lobster has grown dramatically in recent years, especially in the food service sector. In spite of a 9.79 percent decrease in U.S. lobster exports to Spain, the United States was still the main supplier with 1,475 mt. The United States is expected to continue being the main supplier of lobster. United States 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 2001, imports of U.S. tree nuts reached \$119.6 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. U.S. almonds are used in Spain in the industrial sector.

- Bourbon

Bourbon holds about a 30 percent share of the whiskey market and U.S. bourbon exports have experienced rapid growth in recent years. Reportedly, the HRI sector accounts for 62 percent 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

- 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

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NOTE: Average exchange rate: 2000: 165.20/\$; 2001: 0.89/\$1 - i 1 - 166 pesetas.

Current exchange rate: i 0.98 - \$1.00