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Peru

HRI Food Service Sector

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Report Highlights:
Peru expects to receive more than one million tourists during the present year. The HRI sector has an important market for consumer ready food products not only in Lima but in other major tourist cities like Cuzco. In terms of fast food chains more outlets will be opened in the medium term, as a consequence more demand for food varieties is expected.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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SECTION I. MARKET SUMMARY

In the last four years the Peruvian economy grew by 2.5 percent in1996, 7.2 percent in 1997, 0.3 in 1998 and 3.4 percent during 1999. The service sector representing 59.6 percent of Peru's GDP, about half of which are HRI businesses. In the opinion of experts the HRI is the most important component of the service sector because of its direct relation with tourism. The government plans to devote more efforts on this sector, particularly during the present year and is expected a favorable tendency of growth in the short term. The HRI is still small in terms of sales but has strong growth potential. Sales data for the three most recent years for which it is available are provided below:

HRI Food Service Sales in Peru
(in thousands of dollars)

Sub-Sector	Sales CY96	Sales CY97	Sales CY98
Hotels & resorts (restaurants and catering)	11,044	11,794	11,428
Restaurants (fast food, family style, etc.)	34,910	37,280	36,127
Institutional contracts (airport)	6,059	6,470	6,270
Total	**52,013**	**55,544**	**53,825**

Demographic characteristics: 41 percent of the Peruvian population is between 10 and 29 years old, and important fact for the growing fast food sector.

Growing number of women in the workforce: By 1998, women make at 43 percent of the workforce. This important working sector of women has also spurred demand for ready to eat meals.

Hotels & Resorts: This sector offers interesting opportunities for processed food products. Market demand is satisfied by domestic products basically fresh products. Its growth is closely related with tourists' international arrivals. During 1995-1996, the number of tourists grew by 15.4 percent per year. In 1998, the number of hotel beds grew by 300 percent, while demand grew by 200 percent. In the hotel industry food and beverages including liquors represent 35 percent of total revenue of which imported products represent 5 percent. The sector growth is correlated with the increase of tourists' arrivals. A very important fact is the under control of terrorism, generating an increase by 37 percent per year during the period 1993-1999. It is estimated that this growing trend will continue in the coming years.

Restaurants: This sub-sector counts first class restaurants and fast food chains. Growth in this sector is highly correlated with the increase in the purchasing power of the population:

- In 1997, the average monthly income of the urban population on a country-wide basis was: Management $2,114; white collars $468; blue collars $214. In Lima was: Management $2,353; white collars $500 and blue collars $224.

- In 1998, the average monthly income of the urban population on a country-wide basis was: Management $1,982; white collars $409; blue collars $181. In Lima was: Management $2,206; white collars $439 and blue collars $188.

- It is observed a negative decrease in the occupational levels indicated above both in Lima and country-wide: Management minus 15 percent; white collars minus 12 percent and blue collars minus 6 percent.

- Lima which is the largest market, the average family income in all social economic levels has reported a negative impact in the last five years. In 1995 = $629; 1996 = $640; 1997 = $581; 1998 = $538; 1999 = $307. Though in the period 1995-1999 the family income in Lima has fallen by almost 50 percent, due mainly to the actual economic recession of the majority of the population. Despite the current recession, analysts predict a sub-sector growth of 5 percent in 2000.

Institutional: The institutional sector comprises restaurants and cafeterias located within private or public enterprises, also at hospitals, universities and airports country-wide. It demands large volumes of food, almost dominated by fresh and domestic products. Though it does not constitute a significant prospect market for American exporters. However, it's important to consider the use of vending machines which are very well positioned in this sector, creating an interesting window for imported products such as snacks, candies, chocolates, and beverages. Its' sale structure is based on 30 percent imported varieties and 70 percent domestic products. U.S. exporters should focus on strong promotional activities to boost sale opportunities in conjunction with their local importers/distributors.

Advantages and Challenges of Exporting to HRI Sector in Peru

Advantages	**Challenges**
U.S. fast food and restaurant chains are becoming more and more popular among Peruvian consumers. Though it represents a growing demand for imported food products. These institutions, direct or indirect stimulates demand for U.S. food products and ingredients.	Peruvians typically consume fresh food such as fish and chicken and the traditional local menu "criollo", rendering breaking with cultural traditions a really true challenge for exporters of processed food.
The sharp decline of terrorism in the past decade has spurred renewed the tourism sector.	Domestic producers prefer to buy domestic food products at lower prices rather than imported food products.
The institutional sub-sector consumes more domestic processed products, mainly due to lack of specialized U.S. suppliers. U.S. exporters should develop aggressive marketing efforts on this sub-sector.	The inadequate of facilities for tourists and in some cities the low quality of services, discourage longer stays of international tourists.
The geographic location of Peru in South America and its growing tourism sector favors the entry of major international hotel chains demanding more U.S. food products.	South American neighboring countries like Argentina and Chile have a natural advantage born of proximity.
The increase of vendor machines as point of sales at the institutional sub-sector, offers an excellent window for imported products such as snacks and confectionary.	The spread of thousands of small low price restaurants not handling imported food products.
The popularity of American culture carries over to prefer American food.	Import tariffs ranging from 12 to 25 percent.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

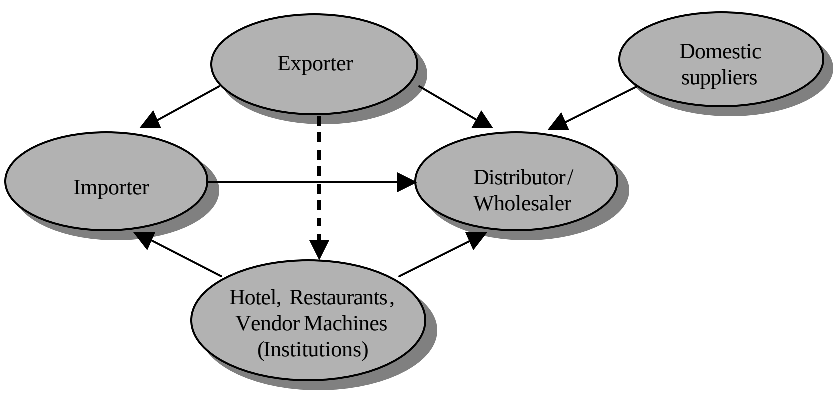
- An American exporter can approach the Peruvian HRI market through a large importer or through a specialized importer/retailer and/or through a large distributor/wholesaler. Exporters should work closely with "chefs" to develop a strategy to incorporate products in traditional and special menus to generate increased demand by local consumers.

- In some cases, international franchises import directly for their own chains due to the lack of specialized retailers to cover demand.

- Probably what is most important in Peru, is the quality of contact. It's highly recommended that the exporter personally visit the importer with whom you have to do business. The market strategy will depend on the exporter, the type of product and the Peruvian partner to develop the brand. The local partner identified should be able to provide market inputs, updated information on market consumer trends and guidance on market opportunities, including all related aspects of trade business in Peru.

- The local importer, specialized retailer or large distributor wholesaler, joint venture partner or franchisee should be well known by the American company before any permanent contractual arrangement is committed.

B. MARKET STRUCTURE



- In terms of sales the HRI sector is dominated by domestic sources because of low prices and the fact that local consumers prefer fresh food products.

C. SUB-SECTOR PROFILES

1. Hotels and Resorts

Hotels in Peru 1998		Location			
Category	**# Outlets**	**Lima**	**%**	**Provinces**	**%**
three-stars	140	37	62	103	91
four-stars	19	13	22	6	5
five-stars	14	10	16	4	4
Total	**173**	**60**	**100**	**113**	**100**

- The vast majority of tourists are from developed countries, particularly from the U.S. (more than 20 percent of market share in the last ten years), and the fact that this trend is growing, a potential market for consumer ready products is expected to occur.

- The niche market for American exporters are four and five-star hotels which specialized in international cuisine using higher proportions of imported food products.

Principal "5 Stars" Hotels in Peru

Company Name	Sales	Number of Outlets	Location	Type of Purchasing Agent(s)
Las Americas	n/a	1	Lima	Distributor, Wholesaler
El Pardo Hotel	n/a	1	Lima	Distributor, Wholesaler
Hotel El Olivar	n/a	1		Distributor, Wholesaler
Swissotel -Lima	n/a	1	Lima	Wholesaler, Distributor
Bruce	n/a	1	Lima	Distributor, Wholesaler
Miraflores Park Plaza	n/a	1	Lima	Distributor, Wholesaler
Los Delfines	n/a	1	Lima	Wholesaler, Distributor
Hoteles Sheraton Peru & Towers	n/a	1	Lima	Distributor, Wholesaler
Country Club de Lima	n/a	1	Lima	Distributor, Wholesaler
Miraflores Cesar´s Hotel	n/a	1	Lima	Wholesaler, Distributor
Hotel Monasterio	n/a	1	Cuzco	Wholesaler, Distributor
Gran Hotel El Golf Trujillo	n/a	1	Trujillo	Wholesaler, Distributor
Libertador Cuzco	n/a	1	Cuzco	Wholesaler, Distributor
Libertador Arequipa	n/a	1	Arequipa	Wholesaler, Distributor

(*) A Marriot Hotel has recently inaugurated on July 2000.

2. Restaurants

Restaurants in Lima	
Category	**# Outlets**
Third-Class	78
Second-Class	19
First-Class	27
Totals	**124**

‘ The market for American exporters is basically composed by first-class restaurants located in Lima City and few others in other main tourist cities like Cuzco.

Ten Top Restaurants in Lima

Company Name	Sales	Number of Outlets	Location	Type of Purchasing Agent(s)
Brujas de Cachiche	n/a	1	Lima	Wholesaler/Distributor/Importer
Costa Verde	n/a	1	Lima	Wholesaler/Distributor/Importer
La Rosa Náutica	n/a	1	Lima	Wholesaler/Distributor/Importer
Villa Nova	n/a	1	Lima	Wholesaler/Distributor/Importer
El Señorio de Sulco	n/a	1	Lima	Wholesaler/Distributor/Importer
El Mono Verde	n/a	1	Lima	Wholesaler/Distributor/Importer
Lung Fung Chifa	n/a	1	Lima	Wholesaler/Distributor/Importer
Royal	n/a	1	Lima	Wholesaler/Distributor/Importer
Bruce Restaurant	n/a	1	Lima	Wholesaler/Distributor/Importer
Costa Linda	n/a	1	Lima	Wholesaler/Distributor/Importer

Source: First class or Luxury, classified by the Ministry of Industry, Tourism, Integration and International Trade -- MITINCI).

3. Fast Food Chains

‘ The sub-sector of restaurants include local and foreign franchise chains, as well as corporate non-franchise chains. The profile of fast food chains is as follows:

Profile of Franchise Chains in Peru

A General View of Franchise Fast Food Market: Main Chains (1998)

	Chicken	Pizza	Burger	Total
Main Chains	5	2	3	10
Number of outlets	87	32	36	155
Share per Number of Outlets	56%	21%	23%	100%
Total annual sales	$ 33,674,000	$ 14,900,000	$ 21,000,000	$ 69,574,000
Share per sales	48%	21%	30%	100%

Company Name	Number of Outlets	Sales ´98 ($Million)	Type	Participation %
Chicken				
KFC	21	14	U.S. franchise	29
Norky´s	25	7	Local chain	15
Roky´s	24	7	Local chain	15
Pardo´s	6	3.4	Local franchise	7
Mediterráneo	11	2.5	Local franchise	5
Supermarkets self-service restaurant	38	14	Local	29
Total	**125**	**47.9**		**100**
Pizza				
Pizza Hut	17	11	U.S. franchise	50
Domino´s Pizza	15	3.9	U.S. franchise	18
Pizza Raúl	80	2.9	Local chain	13
Pasti Pizza	30	1.1	Local franchise	5
La Romana	4	1.2	Local chain	5
Others	n/a	2		9
Total	**146**	**22.1**		**100**
Burger				
Bembos Burger	19	11.3	Local chain	49
Burger King	11	7	US franchise	30
McDonald´s	7	2.7	US franchise	12
Others	n/a	2.2		9
Total	**37**	**23.2**		**100**

Total	308	93.2		

4. Institutional

- This sub-sector includes mainly cafeterias located at public and private companies, hospitals, universities and aiports. Vendor machines are one entry strategy suggested to meet the demand of this sub-sector. Sales through vendor machines are concentrated in Lima in one company at 90 percent. The following table shows the profile of this sub-sector in Lima.

Company Name	Number of Vendor Machines	Location	Type of Purchasing Agent(s)
AGS International Service S.A. (snacks, confectionary and beverages)	700	Lima	Wholesaler/Distributor

Sub-Sector Trends:

Based on a report entitled "Analysis of the Tourism Industry in Peru" (Lima 1999), developed by the center for tourism education CENFOTUR, the University of Ottawa (Canada) and the International Development Reseach Center of Canada, the situation and trends in the HRI sector follows:

- During the last years, there has been a strong increase in hotel infrastructure, mainly in Lima city, of five, four and three-stars category.
- In the period 1994 and the second semester of 1997, the supply of hotel rooms of five and four-stars category has increased by 118 percent.
- Employment generated by restaurants and hotels has increased by 24 percent in comparison with 1987.
- As per actual trends in international tourism and the sustained growth of world tourism, it's a good indicator of potential in this sector.

SECTION III. COMPETITION

- The biggest challange to exporters is the cultural preference for fresh products. Also, the tendency of the HRI sector to use fresh food products at lower prices of direct preparation and not ready to eat meals.
- It is estimated that 90 percent of the food market is currently supplied by domestic sources, largely due to the strong preference for fresh produce plus lower prices, and only 10 percent by importers.

‘ The comparative advantage of imported food products consist principally of the quality, longer shelf life, better packaging, nicer and more user-friendly products, and fewer personnel in the elaboration process.

‘ Regarding U.S. products versus other importer processed food products in the HRI sector, the main competitors are neighboring countries like Argentina (meat and dairy products), Chile (fresh products and wine), and New Zealand (dairy products).

‘ The fast food chains purchase local products such as chicken and processed bread. They import mainly meat, fries and sauces from the U.S., Argentina and Chile.

SECTION IV. BEST PRODUCTS PROSPECTS

A. Products present in the market which have good sales potential:

‘ Snacks: High level of consumption at all market segments. During 1996-1998 Peru imported about $31 million per year. Imports from the U.S. totaled $2 million at 6 percent of market share.

‘ Dairy products (other than cheeses): Products highly demanded by local consumers. In the same period 1996-1998 Peru imported about $117 million per year. Imports from the U.S. totaled $4 million at 3 percent of market share.

‘ Fresh fruits: Mainly apples, pears and grapes, consumed during the whole year. In 1996-1998 Peru imported about $16 million per year. Imports from the U.S. totaled $1.3 million at 8 percent of market share.

‘ Canned Fruits and Vegetables: Products highly demanded by the HRI sector. In 1996-1998 Peru imported about $21 million per year. Imports from the U.S. totaled $1 million at 10 percent of market share.

‘ Red meats, fresh, chilled and frozen: Demand is steady. In 1996-1998 Peru imported about $21 million per year. Imports from the U.S. totaled $6 million at 29 percent of market share.

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

‘ Fresh vegetables: Highly demanded by the sector covered mostly by domestic suppliers. However, an increasing presence of imported products in the Peruvian market is observed. Peru imported in the period 1996-1998 about $3 million per year. Imports from the U.S. with their reputable for quality and reliable suppliers totaled $1 million at 33 percent of market share.

- Cheese: It has an important demand in the HRI sector, and with high demand in the retailer food sector. Peru imported in the period 1996-1998 about $7 million per year. In the same period U.S. imports totaled $1.3 million per year at 19 percent of market share.

- Others: canned foods, sauces, sausages, vegetable oils, french fries, condiments, dressing salads, and confectionary products.

C. Products not present because they face significant barriers:

- There are no special trade barriers to access the Peruvian market, only the estipulated trade tariffs and the sanitary certificates required to accompany imported food products.

SECTION V. POST CONTACT

If you have any question or comments regarding this report or need assistance exporting to Peru, please contact the Foreign Agricultural Service office in Lima at the following address:

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