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Peru

Retail Food Sector

Report

2004

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Report Highlights:

In 2004, Peru's total food retail market is estimated in \$4.4 billion. Supermarket chains, the main destination of imported foods, account for 24 percent of market share in Lima and are expected to double this share in the next five years. Strong sales prospects for U.S. food exporters include cheeses, snacks, fruit and vegetable juices, fresh fruits (especially pears and apples), canned fruits and vegetables, wines and liquors and pet food.

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Section I. Market Summary

Peru's economy is considered one of the most vibrant in Latin America today. In 2003, the country led the hemisphere with 3.1 percent of GDP, driven by investment, domestic demand and exports. GDP reached almost \$40 billion. Inflation was low at 2.5 percent. In 2004 and 2005, GDP's growth is expected to reach 4.3 and 4.5 percent while inflation rate 3.5 and 2.5 percent respectively.

In 2003, total food sales were estimated in \$4.8 billion. Total consumer-oriented food imports reached \$271 million, recovering from a turn down in 2001. The retail sector accounts for approximately 56 percent of food imports.

In 2004, Peru's total food retail market is estimated in \$4.4 billion. Eighty percent of this market is concentrated in Lima (\$3.5 billion). Grocery stores and traditional markets constitute 80 percent of Peru's market share.

Retail Food Sales by Sub-sector (million dollars)

Sub-Sector	2000	2001	2002	2003	2004
Supermarkets / hypermarkets	601	650	800	890	1,000
Convenience Stores / Gas Marts	45	46	48	49	51
Traditional Markets (Grocery Stores)	3,320	3,350	3,375	3,385	3,392
Total	3,966	4,046	4,223	4,324	4,443

Note: Estimated values based on El Comercio and Gestion newspapers.

Lima is the major market for consumer-oriented foods with almost one third of total population and more than 60 percent of the national income. High and middle-income consumers, currently the main market for U.S. food sales, reach around 1.6 million inhabitants and have a monthly family income of \$1,000 on average.

In 2004, supermarket chains will reach almost \$1 billion of food sales, growing 16 percent on average in the last four years. Supermarket chains account for 24 percent of market share in Lima. This percentage is expected to double in the next five years.

Wong and Supermercados Peruanos are the two major supermarket chains in Peru followed by the one-year old Tottus. Between them, E. Wong holds 64 percent of the supermarket market share and Supermercados Peruanos, recently bought by the local bank Interbank, 32 percent.

Five percent of the consumer-ready products sold in supermarkets are imported. Although they are particularly sensitive to economic conditions, there is a growing trend and potential for U.S. food exports in cheeses, snacks, fruit and vegetable juices, fresh fruits (especially pears and apples and very newly, grapes), canned fruits and vegetables, wines and liquors and pet food.

Social factors that affect consumer-ready product demand in Peru include urban expansion, especially in the suburbs of Lima, more participation of women in the workforce (38 percent), high percentage of young population, and exposure to product supply information through media.

Advantages and Challenges Facing U.S. Products in Peru

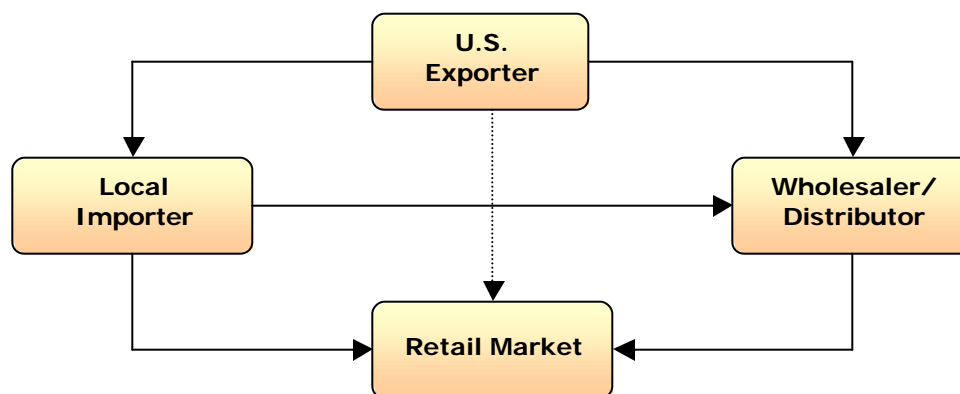
Advantages	Challenges
<ul style="list-style-type: none"> ➤ Upcoming Andean Free Trade Agreement (FTA). ➤ Economic stability. ➤ Appreciation for U.S. food quality and culture. ➤ Supermarkets sales are growing fast (its market share will double in five years), mainly through opening new outlets in the suburbs of Lima. ➤ Growing perception of retail outlets as cleaner, convenient and time saving over traditional markets. ➤ People are becoming aware of diet, light and healthy food products through media. ➤ The pet food market is growing rapidly (30 percent annually). 	<ul style="list-style-type: none"> ➤ Peruvians prefer meals based on fresh products and are used to buying them in traditional markets. ➤ Supermarkets, the main source of imported food products, account for only 24 percent (in Lima) of total retail food sales. ➤ New local food brands appearing in the market at very low prices. ➤ Low purchasing power; 76 percent of the total Peruvian population are low-income consumers. ➤ Lack of brand awareness among consumers. ➤ High tariffs applied to most food imports until FTA is signed and come into force. ➤ A government promoted campaign called "Buy Peruvian".

Section II. Road Map for Market Entry

1. Entry Strategy

- ❑ Supermarket chains constitute the main market for imported goods. Sales through supermarkets facilitate approaching the target market. U.S. exporters should contact a large importer, wholesaler/distributor or supermarkets directly.
- ❑ U.S. exporters can approach Gas Marts sub-sector through the same local supermarket suppliers (wholesalers/distributors).
- ❑ Personal visits are highly recommended. The local partner should be well known by the U.S. company before any permanent contractual arrangement is made.
- ❑ The local partner should be able to provide updated information on market consumer trends to identify niche markets and on current market development (merchandising, point of sale and promotion activities) and trade business practices.

2. Market Structure

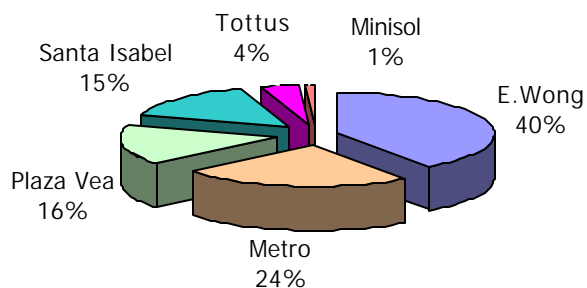


- ❑ Major local importers/distributors import for local retailers and for the HRI sector.
- ❑ Food is imported mainly in mixed containers. However, major supermarket chains' goal is to import directly to save margins.
- ❑ High negotiating power of major supermarkets towards food suppliers.
- ❑ Traditional markets offer limited opportunity for sales of imported food products. Most food products sold in traditional markets (open markets, street vendors and grocery stores) are locally produced or perishables and cheaper, aimed at low-income groups.

3. Supermarkets, Hyper Markets

A. Company Profiles

Supermarkets market share in 2004



Source: Class & Asociados, web site: www.classrating.com.

Profiles of Major Supermarkets Chains in 2004

Retailer Name	Ownership	Sales (\$million)	Market Share (%)	No. of Outlets	Location	Purchasing Agent Type
Corporacion E. Wong (Wong, Metro)	Peru	\$640	64%	27	Lima	Direct Importer Local food processors
Supermercados Peruanos (Santa Isabel, Plaza Vea, Minisol)	Peru	\$320	32%	35	Lima	Direct Importer Local food processors
Tottus	Chile	\$40	4%	3	Lima	Importer Local food processors

Type of Point of Sales by Major Supermarket Chains in 2004

Retailer	Type of outlets	Number of outlets
Corporacion E. Wong	Supermarkets Wong	11
	Supermarkets Metro	7
	Hypermarkets Metro	9
Supermercados Peruanos (previously Supermercados Santa Isabel)	Supermarkets Santa Isabel	18
	Supermarket San Jorge	1
	Hypermarkets Plaza Vea	8
	Discount grocery store Minisol	6
Tottus	Hypermarkets Tottus	3

Direct Food Imports of Major Retailers (\$thousand)

Retailer	2002	2003	2004 *
Corporacion E. Wong	87	318	900
Supermercados Peruanos	2,900	3,433	2,000

*2004 estimated.

Source: Peruvian Custom statistics.

- ❑ Lima, with one third of Peru's population and more than 60 percent of Peru's GDP, is the principal market for consumer-ready food. None of the major supermarket chains have outlets outside Lima. Their immediate plan is to increase presence in the suburbs of Lima.
- ❑ Lima suburbs are populated by middle and low-income families, mostly concerned about price and quite indifferent on brand names. Purchasing habits in supermarkets need to be developed. Peruvian major retailers provide transportation to and from

hypermarkets to give potential customers an opportunity to see the advantages of these outlets. This strategy has proven successful and is now being implemented in Lima proper.

- ❑ In medium-sized cities such as Arequipa, Trujillo or Chiclayo, with less than one million inhabitants, the level of consumption of imported food is low. Major demand comes from high-income families and foreigners. Retailers are supplied by local distributors or major importer/distributors from Lima. Most of the food demanded is canned, packed or ready-to-eat.
- ❑ Peruvian consumers have shown a growing preference to purchase in supermarkets. They offer products of superior quality and variety, presented in a clean, tidy and conveniently located place with good service.
- ❑ Demand for low-fat and sugar-free products is growing especially among high-income consumers, half of which consider these products very important in their consumption habits.
- ❑ In 2002 the tough competition between Wong and Supermercados Peruanos led to a price war that is finally ending.

A.1. Corporacion E. Wong Profile

- ❑ E.Wong own three types of point of sale:
 - ✓ Supermarkets Wong: aimed at the high-end consumers, offer customer oriented service. These outlets offer variety of imported products, according to their location.
 - ✓ Supermarkets Metro: convenient prices and less personal service for the middle-end consumers.
 - ✓ Hypermarkets Metro: for the price sensitive low-income customers and almost self-service format.
- ❑ Direct food import purchases are expected to increase almost three times between 2003 and 2004.
- ❑ Participates in the recently government organized "Buy Peruvian" campaign, but they are still opened to import new products.
- ❑ Plans to open three new Metro outlets in 2005. They estimate investment per supermarket in \$3 million while per hypermarket, \$7 million.
- ❑ E.Wong developed an Internet service that reaches \$250,000 of sales and is growing 20 percent monthly. Customers are mainly Peruvians that live outside the country and purchase for their families in Peru.
- ❑ Private Labels are 98 percent locally produced, accounting for 12 percent of total sales. The goal is to reach 20 percent in the near future.
- ❑ E.Wong is renewing Metro image to counteract competition from Tottus and Plaza Vea hypermarkets.

A.2. Supermercados Peruanos Profile

- ❑ In December 2003, Supermercados Santa Isabel, previously owned by Ahold Group, was sold to Interbank group, one of the largest Peruvian financial groups. In March 2004, the company changed name to Supermercados Peruanos.
- ❑ Supermercados Peruanos strategy is to gradually replace Supermarkets Santa Isabel for Hypermarkets Plaza Vea, a format that has sales twice as much as Supermarkets Santa Isabel sales. Three Hypermarkets Plaza Vea will open in 2005.
- ❑ Supermercados Peruanos divide its points of sales in:
 - ✓ Supermarkets Santa Isabel: aimed at the high and middle-income consumer, offering appropriate customer service.
 - ✓ Hypermarkets Plaza Vea: the target market is the middle-income consumer. It offers variety of products at convenient prices with lower customer services.
 - ✓ Discount grocery stores Minisol: outlets with massively consumed products, low variety and self-service.

A.3. Tottus Hypermarkets Profile

- ❑ Tottus is owned by the Chilean retailer Saga Falabella.
- ❑ For imported products, Tottus is supplied from the same sources (retailer importers, wholesalers or distributors) that supply its competition.
- ❑ Tottus has recently opened its third outlet and plans to open two other outlets in 2005.

B. Local Consumer Profile

- ❑ Local consumers perceive imported products as providing more variety while local products as of source of employment. However, only one third of total consumers care about product origin.
- ❑ Consumers will prefer local products if they are viewed as a quality product at an affordable price.
- ❑ Supermarket clientele in Lima can be divided into two groups:

Characteristics	High and Middle income consumer	Low-income consumer
Population in Lima city	1.6 million	6.3 million
Number of families	0.37 million	1 million
Monthly family income	1,000 dollars	250 dollars
Monthly food expenses	280 dollars	120 dollars
Normal place to buy food	Supermarkets 58.3%	Open markets: 72.7%
Frequency of supermarket attendance	Once a week.	Preferences for daily visits to open markets or small stores. Supermarket visits once a month.

Source: Statistics yearbook "Peru en Numeros 2003" and Semana Economica magazine.

- ❑ Other high and middle income consumer characteristics include: 56 percent of supermarket consumers are under 40 years of age, 70 percent are female, 65 percent own a car, 30 percent have a PC, and 45 percent have a credit card.

4. Convenience Store, Gas Mart

A. Sub-Sector Profile

- ❑ Gas stations in Peru offer beverages, snacks and a wide variety of processed foods in small stores.
- ❑ Sales structure is as follows: liquor (40 percent), soft drinks (15 percent), snacks (15 percent), tobacco (20 percent), other (10 percent).
- ❑ Although purchases of imported products are limited, there is a niche market for U.S. snacks and wines and liquors at Gas Marts, mainly frequented by high and middle-income consumers.

Convenient Stores / Gas Marts (Number of outlets)

Year	Number of Outlets
2000	347
2001	380
2002	399
2003	411
2004	432

Profiles of Gas Marts

Gas Marts	Ownership	Sales 2003 (\$Thousand)	No. Outlets	Location (city)	Purchasing agent type
Selects	U.S.-Peru	275	40	Lima and others	Distributor
Mobil Marts	U.S.-Peru	256	32	Lima and others	Distributor
Centauro Grifos	Peru	130	n/a	Lima	Distributor
Estacion de Servicios El Golf	Peru	124	n/a	Lima	Distributor
YPF	Argentina-Peru	62	15	Lima and others	Distributor
Repsol Comercial	Peru	54	13	Lima and others	Distributor

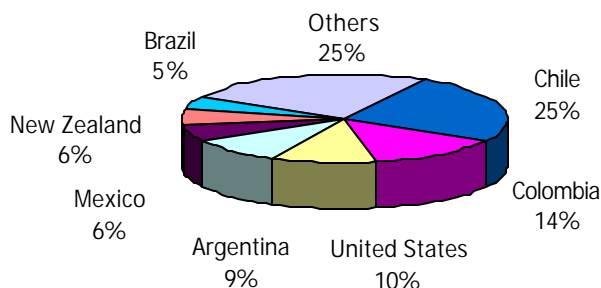
5. Traditional Markets

A. Sub-sector Profile

- ❑ Traditional markets in Peru include 200,000 grocery stores and 2,500 open markets. Lima has 80,000 grocery stores and half of the open markets.
- ❑ In order to face supermarket competition, twenty open markets grouped under a brand called "Networking Market". They will improve infrastructure and customer service as well as join supply sources.

Section III. Competition

Peru's Imports of Consumer-Oriented Products by Country in 2004 (\$Million)



- ❑ Neighboring countries, especially Chile, Colombia and Brazil, are major food exporters to Peru due to low transport costs and preferential tariffs. Argentina is also exporting to Peru with better prices than the U.S. because of the devaluation in 2002 and its proximity.
- ❑ The U.S. is negotiating a bilateral free trade agreement (FTA) with the Andean countries, including Peru. The FTA is expected to be signed in June 2005, allowing low or duty free tariffs for many food and agricultural products that are now being negotiated.
- ❑ Peru allowed tariff preferences to the Andean Community (Bolivia, Colombia, Ecuador and Venezuela), and with Mexico, Paraguay, Argentina, Brazil, Uruguay and Cuba. Peru is an associated country to MERCOSUR and is also looking for bilateral free trade agreements with the European Union and very recently with Chile.
- ❑ In 2003, the U.S. was the third major supplier of consumer-ready products in Peru with \$25 million (9 percent of market share), facing stiff competition from Chile (27 percent) and Colombia (12 percent). For 2004, the U.S. is expected to reach 10 percent of market share.
- ❑ U.S. exports to Peru can be strengthened by providing more information on U.S. product quality and complemented with samples.

Product Category	Major Supply Sources (2004)	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Dairy Net Imports: 2003: \$63.4 million 2004: \$72.3 million	New Zealand: 29.4% Bolivia: 11.3% Chile: 9.9% U.S.: 5.3%	- New Zealand is price competitive and a major supplier of milk powder and butter. - Europe is very well positioned in high quality cheeses.	- Price band applied to all dairy imports. - Two companies are major producers of evaporated milk. - Homemade cheeses are commonly sold.
Fresh Fruits Net imports: 2003: \$17.5 million 2004: \$24 million	Chile: 98.3% U.S.: 1.7%	- Chile is the main supplier because of proximity and price.	- There is an open window from November-February for the U.S.
Fruits & vegetables juices Net imports: 2003: \$10.5 million 2004: \$10.7 million	Colombia: 32% Mexico: 19% U.S.: 15% Austria: 15%	- Advantages of tariffs and proximity for Colombia.	- Local brands are well positioned in the market.
Pet Food Net imports: 2003: \$ 5.7 million 2004: \$ 6.3 million	Argentina: 45% Brazil: 40% U.S. : 13%	- Argentina and Brazil are neighbors to Peru. - U.S. beef ingredients are banned.	- Growing local pet food industry. - Major food processors, with strength in distribution channels.
Snack Foods Net imports: 2003: \$31.9 million 2004: \$32.8 million	Colombia: 32.7% Chile: 15.3% Ecuador: 12% Brazil: 10.4% U.S.: 9.2%	- Tariff preferences applied to some snacks for neighboring countries.	- Local producers are major food processors.
Wine & Beer Net imports: 2003: \$12.3 million 2004: \$11 million	Chile: 38% Argentina: 27% Spain: 16% Netherlands: 4%	- Proximity and recognized quality of Chilean and Argentinean wines.	- Major local breweries belong to Inbev and Bavaria. - It is expected a price war for beers. - Local wine is well positioned and price competitive, but does not satisfy demand.
Processed Fruit & Vegetable Net imports: 2003: \$ 27.7 million 2004: \$ million	Chile: 38% Netherlands: 14% Poland: 11.5% U.S.: 7.3%	- Chile sales with cheaper prices.	- Local processors export and also supply the market.
Poultry Meat Net imports: 2003: \$4.71 million 2004: \$5.16 million	Brazil: 73.5% Chile: 12% Canada: 5.7% Denmark: 2.7% U.S.: 2.6%	- The U.S. poultry ban has recently been lifted. Meanwhile, other countries, specially neighbors, replaced the U.S.	- Local poultry producers are major suppliers with good distribution channels.

Section IV. Best Product Prospects

A. Products Present in the Market Which Have Good Sales Potential:

Product/ Product Category	Market Size 2004 est.	Imports 2004 est.	1999- 2003 Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for the U.S.
Cheese	9,699 tons	2,300 tons (\$6.8 million)	9.8%	25% + Price band	<ul style="list-style-type: none"> - Cheese is subject to a price band. - Main competitors are neighbors: Argentina and Bolivia. - U.S. prices are perceived as too high at HRI and Retail Sectors. 	<ul style="list-style-type: none"> - Used mainly at Food Processed Sector, but with potential in HRI and Retail. - U.S. was the first supplier with 25% followed closely by Argentina in 2003.
Pet food	23,000 tons	10,800 tons (\$6.3 million)	30%	12%	<ul style="list-style-type: none"> - Brazil held 46% and Argentina 36% of imports in 2003. - Argentina is winning U.S. market due to U.S. beef products ban. 	<ul style="list-style-type: none"> - Pet feeding care is growing fast. - The U.S. is the third major supplier with 15%. - Local consumers recognize U.S. pet food quality. - The U.S. is replacing beef meat as an ingredient in pet foods to poultry and pork to overcome the ban.
Wine	11.7 million litres	5.6 million litres (\$9.9 million)	3% (no growth in 2000)	17%	<ul style="list-style-type: none"> - Chile (41%), Argentina (21%) and Spain (19%) are major exporters. - Strong promotions. - Only regular wine consumers recognize U.S. wine quality. 	<ul style="list-style-type: none"> - There is a niche market for quality wines on which the U.S. can be appreciated and price competitive. - Peru's wine consumption is growing. - Post has recently held a Wine & Cheese tasting presenting U.S. wines to major HRI and Retail suppliers.

Product/ Product Category	Market Size 2004 est.	Imports 2004 est.	1999- 2003 Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for the U.S.
Snacks	N/A	7,274 tons (\$32.8 million)	7.2% (-20% in 2000, market is growing again)	25%	- Major suppliers are neighbor countries Colombia, Chile, Ecuador and Brazil)	- Market with potential growth in HRI and Retail. - U.S. quality is appreciated.
Fruits and vegetables processed	N/A	31,277 tons (\$32 million)	1%	25%	- Chile is the major competitor due to low prices and increased market share in 2003.	- Consumer preferences especially for U.S. soups and sauces. - U.S. imports increased in 4 percent in 2003. - Total imports in 2004 are expected to grow at least 20 percent.
Fresh fruits	N/A	21,564 tons (\$24 million)	13% (fluctua- ting market)	25%	- Chilean imports come almost duty free.	- U.S. exports in a window different from Chile, the major competitor. - Pears and recently grapes are appreciated in the high- end market.
Fruit & Vegetable juices	N/A	8,730 tons (\$10.71 million)	39%	25%	- Colombia and Mexico are major suppliers.	- Growing market. - U.S. grew 66% in 2003.

B. Products not Present in Significant Quantities, but Which Have Good Sales Potential:

Pre-cooked bread: Although consumers prefer bakeries to purchase baked goods and a number of local food processors already providing this product, there is a growing tendency to buy this product principally through supermarkets.

Cheese varieties: The most popular cheeses are fresh and edam cheese, but there is little knowledge of several other varieties.

Imported beers: Beer per capita consumption is around 25 litres. The market is dominated by the local brewery Backus (owned by Bavaria, the third brewery in the world) which currently has 88 percent of the market. Ambev Peru (owned by Inbev, the first brewery in the world) will enter the market in January 2005 and promises to reduce in 10% the beer price. Main imported brands include Corona, Heineken and Holsten, which only reach two percent of the market share. Most beer varieties, except dark beers, are welcomed by the high and middle-income consumer.

Ready-to-heat and ready-to-eat meals: Usually consumed by young high-income consumers at parties and the growing sector of working women.

Tex-mex products: No Tex-mex are being imported and there is little awareness about it. Peruvians like spicy foods, specially at parties.

C. Products not Present Because They Face Significant Barriers:

Some products, although present in the market, such as corn, rice, sugar and dairy products (powdered milk, whey, cheeses and butter) are subject to a price band (a variable levy) in addition to a fixed 25 percent tariff. Currently, meat products from the U.S. are banned due to Bovine Spongiform Encephalopathy (BSE).

Section V. Key Contacts and Further Information

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

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For further information, check the FAS web site www.fas.usda.gov or our web site www.usdaperu.org.pe. Please, also refer to our other current food market related reports: Food and Agricultural Import Regulations and Standards (FAIRS), Exported Guide, Food Processing Ingredients Sector and HRI Food Service Sector.