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**Peru**

**Retail Food Sector Report**

**1999**

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**Report Highlights:**

**The Peruvian supermarket industry continues to grow. As the economy recovers from the recent recession, consumer demand for U.S. food products will continue to increase.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Annual Report  
Lima [PE1], PE

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## I. Market Summary

- ❑ The total amount of food sales in Peru is estimated to be \$2.7 billion, 80 percent of which are sold through traditional markets and 20 percent in the supermarket industry.
- ❑ During 1998, Peru's supermarket industry reported sales of \$672 million, of which \$405 million were food sales.
- ❑ Peruvian consumers have shown a growing preference for self-service in supermarkets. Supermarket consumers prefer products of superior quality and variety, presented in a clean, tidy and convenient located with good service.
- ❑ Five percent of the consumer-ready food products in supermarkets are imported.
- ❑ The next development of supermarkets is going to be concentrated around the perimeter of Lima. This is a high density area of fast growth and unsatisfied needs. It is estimated that there will be about 130 self-service outlets in this area. This suggests a strategy of development based on expansion to peripheral areas emphasizing purchase and consumption habits.
- ❑ In the first half of 1999, Santa Isabel Supermarket opened up five more outlets and bought two from Top Market store. Similarly Wong-Metro Supermarket chain added three new outlets in Lima.
- ❑ Peruvian food market analysts predict that the arrival of large foreign supermarket chains, such as Carrefour and Wall Mart in Peru, as well as other mini-market chains, will begin in the year 2001.
- ❑ Lima, with one third of the Peruvian population, and more than 60 percent of national income is the principal market for consumer ready food in Peru. Socioeconomic figures are shown below:

**LIMA 1998: Socioeconomic Characteristics**

CHARACTERISTICS		TOTAL	SOCIOECONOMIC LEVEL			
			A	B	C	D
Population Peru	Millions	25.000	1.100	4.900	8.275	10.725
	%	100	4.4	19.6	33.1	42.9
Population Lima	Thousands	6,856.9	264.5	1,241.1	2,203.4	3,147.9
	%	100	3.8	18.1	32.2	45.9
Estimated number of dwellings in Lima	Thousands	1,420.4	62.1	278.8	470.5	609.0
	%	100	4.4	19.6	33.1	42.9
Members per dwelling in Lima		4.8	4.2	4.4	4.7	5.2
Average family income	US\$	538	3,440	947	379	226

(monthly)						
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**Socioeconomic levels and monthly incomes in Lima**  
**CY 1998**

Groups	Socioeconomic Level	Average Income \$
A	▪ High	5,000
	▪ Middle high	3,200
B	▪ Middle	1,150
	▪ Middle low	750
C	▪ Low- rising	470
	▪ Low	330
D	▪ Poor	240
	▪ Extremely poor	less than 240

- 92 percent of high socio-economic level consumers (A, B) use supermarkets at least once a month. Traditional food markets are frequented by "low" income groups (C, D), where purchase decisions are based more on the price of the product, than brand name or presentation.
- The average income in Lima decreased 17 percent between 1996 and 1998. However, according to "The Central Reserve Bank" (BCR), domestic demand will increase by 5.4 percent in the year 2000 (with growth of GDP forecast to reach 5 percent).
- In 1998, the two major supermarket chains in Peru, E.Wong and Santa Isabel, had 37 outlets. The E. Wong food chain with 18 outlets, saw its sales increased from \$286 million in 1995 to \$459 million during 1998. Santa Isabel with 19 outlets, reported sales of \$213 million during 1998.
- In the first half of 1999, Santa Isabel's supermarket increased their outlets to 24 and Wong-Metro to 21. Neither of them have outlets outside of Lima.
- In cities outside Lima with less than one million inhabitants, the level of consumption of imported food is low. Retailers in main cities outside Lima are supplied by local distributors. The greatest potential of these other cities is as markets for imported canned, packed and ready to eat food products.

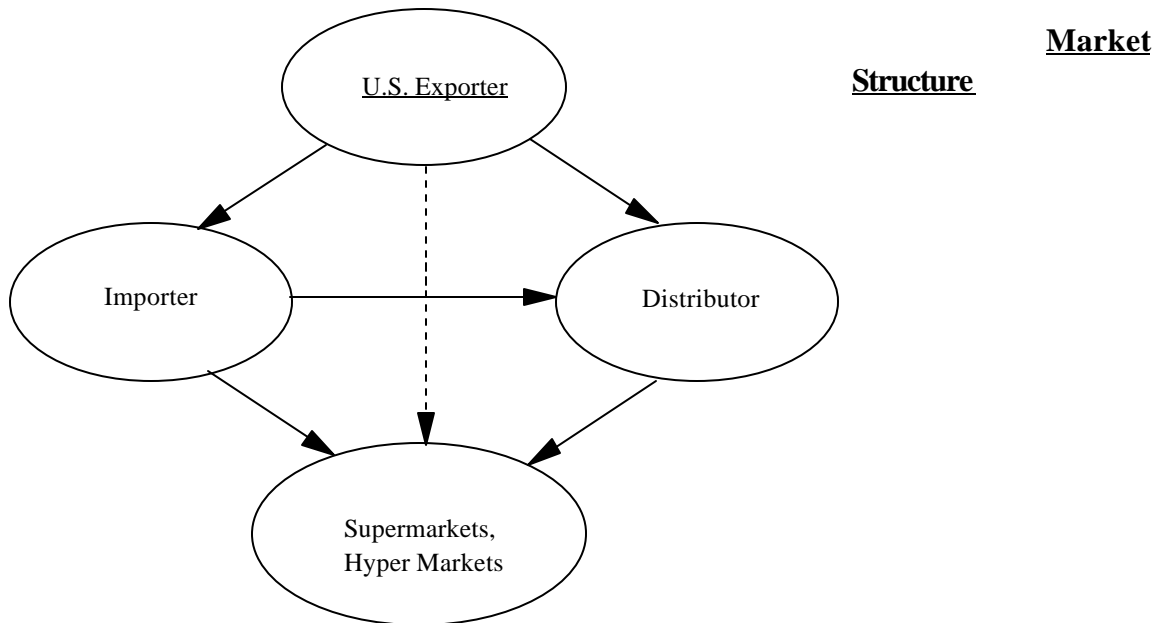
**Advantages and Challenges**

<b>Advantages</b>	<b>Challenges</b>
Peruvians have a positive attitude toward U.S. products, based on consumer surveys and marketing research on attitudes toward foreign products.	Supermarkets, the principal outlet for sales of imported food products, account for only 20 percent of total retail food sales.
Imported products are generally viewed to be of superior quality to local products. Local products invest little in advertising and packaging.	All income groups tend to utilize traditional markets.
Wong-Metro and Santa Isabel chains have expanded and increased competition.	Peruvians prepare meals with fresh produce.
During Christmas, Father and Mother Days, Independence Day and other local holidays, Peruvian consumers' habits increase purchases on average of 50 percent.	Low purchasing power due to economic recession.
Potential growth for supermarkets, particularly in peripheral areas of Lima is high.	Increased pressure by local producers for tariff protection in the last two years.
Economic stability.	High level of unemployment: (7.6 percent) and underemployment (44.1 percent of the urban workforce).
Imported food products are subject to inspection before the products are shipped from the country of origin.	Idiosyncratic Peruvian preferences (taste).
Increasing number of vendor machines for snacks and drinks (mainly in universities and hospitals/clinics).	Street vendors in Lima sell domestic food products.
Importers do not face the requirements of local food producers regarding health authorities regulations "General Office of Environmental Health" (DIGESA).	The number of high or middle income level consumers is still small (groups A and B, represent 24 percent of the population). Designing appropriate marketing and sales strategies for groups C and D, which represent 76 percent of the population is more difficult.

## II. Market Structure and Sub-Sector Profiles

### A. Supermarkets, Hyper Markets

#### 1. Distribution Channels



- Supermarkets and hyper markets typically purchase products through importers and/or distributors. However, the two major supermarket chains import directly few products, i.e., liquors, fast food, other consumer ready products and fresh fruits.
- Success in introducing products in the market depends on selecting the correct importers/distributors. An experienced importers/distributors know very well the structure of the market and the sale infrastructure across the country, particularly in Lima.
- Experienced importers/distributors usually effectively advertise their products in supermarket chains.

- Due to the effect of the current Peruvian economic recession, some importers/distributors are having trouble making timely payments. In 1998, the default index was around 25 percent in food, beverage and tobacco sectors.
- From January to September 1998, food production and trade firms actually experience a 10.8 percent decline in sales over a year ago. However, stock value sector grew by 8 percent.

## 2. Sub-Sector Profile

### Major Supermarket Profile

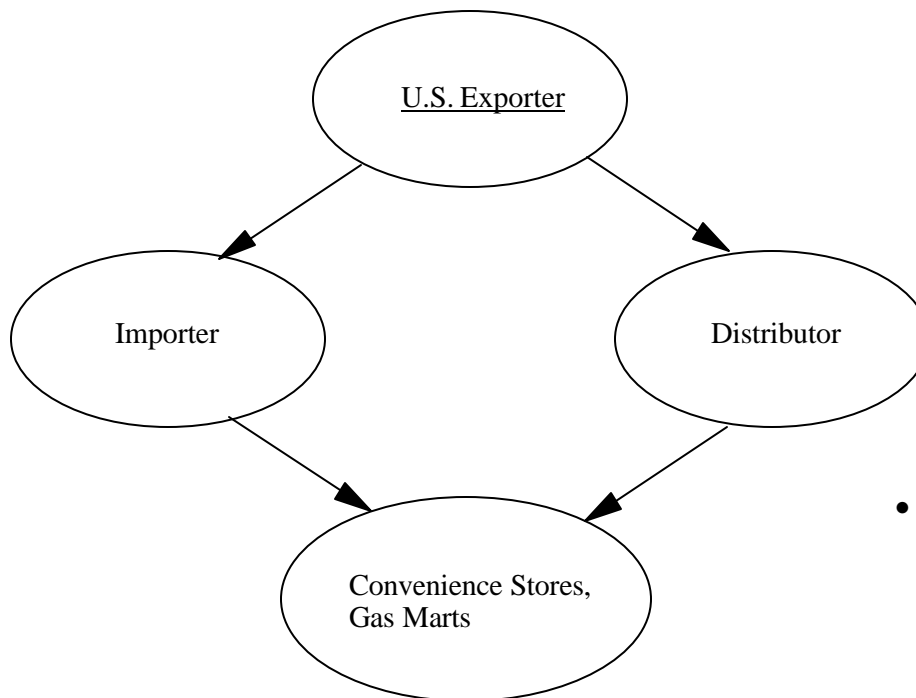
Name of retailer and Type of retail outlet	Ownership	Food Sales, CY 98 \$Million	Share %	Number of Outlets	Location	Type of Purchasing Agent
Wong / Metro	Peruvian	276	68	18	Lima	Importer/Direct
Santa Isabel	Holland	129	32	21	Lima	Importer/Direct
Total		405	100	39	Lima	

### Total Sales in Supermarkets (\$million)

	1997		1998	
	\$	%	\$	%
Food products	192.0	32	215.18	32
Fried chicken	6.0	1	13.45	2
Fresh produce	162.0	27	174.64	26
Others (non foods)	240.0	40	268.98	40
Total	600.0	100	672.25	100

- In spite of the recent recession, supermarkets have grown in number and market presence in the last three years. Total sales increased from \$340 to \$672 millions during the period 1994 to 1998. The supermarket

industry had a loss damage of 40 percent in fresh produce such as fruits and vegetables, and reported 20 percent in sales of processed foods.



- 56 percent of supermarket consumers are under 40 years of age, 70 percent are female, 65 percent own a car, 25 percent have a PC, and 40 percent have a credit card.
- The majority of the population feel that supermarkets offer products of better quality,

consistency and are better advertised than products in traditional market.

## B. Convenience Store, Gas Mart

### 1. Distribution Channels



## 2. Sub-Sector Profile

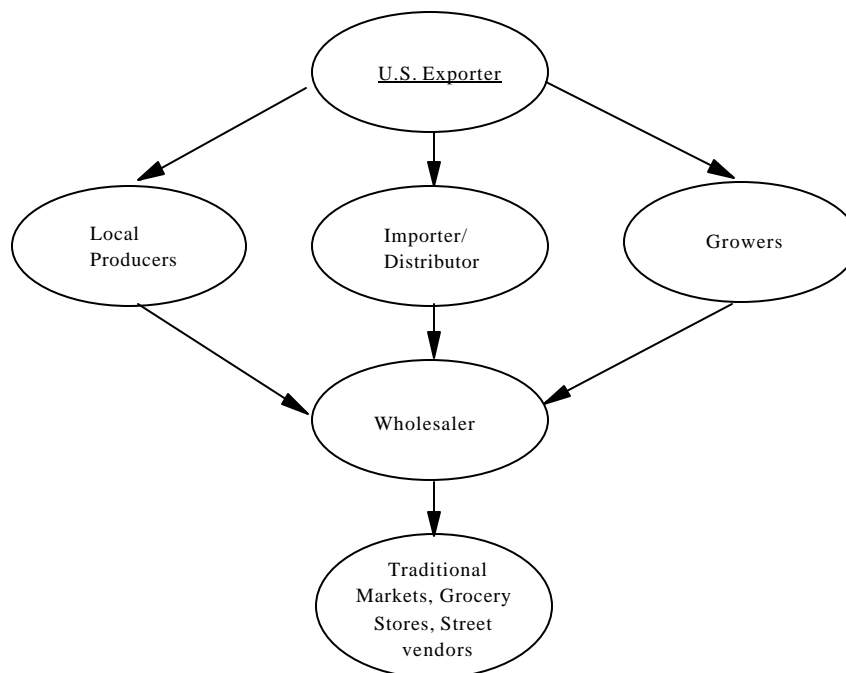
Name of Retailer and Type of Market	Ownership	Market Share	Number of Outlets	Location
Select (convenience store)	Shell	15	35	Shell stations in Lima
Shop (convenience store)	Shell	15	24	Shell stations in Lima
Mobil Mart (convenience store)	Mobil	25	66	Mobil stations in Lima
Repsol (convenience store)	Repsol	15	26	Repsol stations in Lima
FoodMart (convenience store)	Texaco	10	29	Texaco stations in Lima
AM / PM (convenience store)	YPF	10	6	YPF stations in Lima
Others	-----	10	14	Lima

- 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).

## C. Traditional Markets

### 1. Distribution Channels

#### Market Structure



□ The majority of the products which enter traditional markets (municipal market, street market and

traditional stores) are locally produced, perishable and cheaper. Traditional markets receive their products from both retailers and wholesalers, mainly domestic fresh produce and very little of imported goods.

- Traditional markets sell varieties of fresh produce, seafood, meats and groceries aimed at low income groups. These consumers demand mainly fresh produce and domestic food brands.
- Traditional markets offer limited opportunity for sales of imported food products.

**1998: Traditional Markets in Lima**

Grocery Stores	Retailers in Municipal Markets	Retailers in Street Markets	Street Vendors (foods)	Street Vendors (sweetened food)
48,016	9,712	2,245	6,432	7,230

**III. Competition**

- Domestic production demands both local and imported raw materials. During 1998 main imported food products were: bulk agricultural products \$630 million, intermediate agricultural products \$487 million, consumer-oriented agricultural products \$329 million and fish and seafood products \$13 million.
- Peru produces a wide variety of primary and processed food products including: oils, oats, sugar, soft drinks, cocoa derivatives, eggs, instant coffee, beer, canned fish, sausage, canned asparagus, pasta, candy, ice-cream, dairy products, fat, margarine, malt, marmalade, processed wheat, yogurt, also fresh produce and meats, mainly poultry.
- During 1998, total imported consumer-oriented food products reached \$329 million, of which the U.S. share was 13 percent.
- The main competitors to U.S. products in Peru are: Chile with 24 percent; New Zealand, 18 percent; Colombia, 5 percent; Argentina, 4 percent, and Ireland, 4 percent.
- Peru imported \$392 million in agricultural products from the U.S. in 1998, 27 percent of its total food imports. The U.S. share was 30 percent in 1996, and 19 percent in 1997.
- A big challenge for U.S. exporters is the recent economic recession and lower demand for imported goods due to their relative higher prices with respect to domestic food products.

#### **IV. Best Product Prospects**

##### **A. Products in the market which have good sale potential include:**

- Packaged bread

The Peruvian market for packaged bread is about \$30 million. It is projected to reach \$100 million in the next two years. Packaged bread consumption is only 2 percent of total bread consumption. Bimbo (Mexican packaged bread) market share is 50 percent, including biscuits and cakes. The rest of the market is constituted by domestic brands.

- French-fries

The market for this product is growing very fast. Increased demand is correlate closely with growth in the fast food industry. During 1998, Peru imported a total of \$2.3 million of french fries principally from United States, Canada, Holland and Chile.

- Sauces or Salad Dressing

There is a high demand, and local products do not offer varieties. The market is growing in conjunction with the number of supermarket chains as principal channel of distribution.

- Sausages and Cold Cuts

During 1998, 22,186 MT were sold, 14 percent more than in 1997. The production structure is as follows: hot dog, 40 percent; meat casing, 28 percent; and, ham, 14 percent. Lima consumes 85 percent of total production. The market has a potential for growing depending on the level of consumer purchasing power.

- Dairy products

It is estimated that sales will increase during 2000, once the recession is over. New Zealand has the strongest position in Peru for imported dairy products. Australia's presence is also growing. The market potential for U.S. dairy products is strong based on the quality of its products.

- Beer

During the first quarter of 1999, beer production was 198 billion liters. Beer demand is expected to continue growing strongly. Domestic brands dominate the market.

- Red apples and pears

Peru does not produce red apples nor pears. Chile is the major source offering good quality and good prices. U.S. exporters face a stiff challenge for their products but have a reputation for providing a higher quality product.

- Dog and cat food

The population of dogs and cats is estimated at 2 million, equivalent to almost 8.3 percent of the total human population in Peru. The consumption of dog and cat food is estimated to be 438,000 MT per year. Less than one percent are fed processed pet food, the rest are fed with left-overs. Industry specialists report that pet food companies sold approximately 2,500 MT of their products in 1997, valued at \$2.5

million, and 3,500 MT, valued at \$3.5 million, in 1998. It is expected that the market will grow 15 percent in 1999.

**B. Products which are not present in significant quantities but which have a good sale potential include:**

▪ Juices

In 1998 domestic production was reported at 21 million liters, 15 percent more than in 1997. This increase may be explained by the perception from consumers as an alternative for a healthy and good quality product.

▪ Ice-Cream

The total market consumption of ice cream in volumes is 26 million liters, 60 percent of which is consumed in Lima. The per capita consumption is 1.04 liters. The domestic brand dominating the market is D'onofrio/Nestle with 94 percent of market share; "gelaterias", B&J'S, and others with 6 percent of market share. Actually, in Lima there are five "gelaterias", three named "4D", and two other named "Laritza". Ben & Jerry's operates in Lima since 1998.

▪ Spices

The market is still small but with high potential for growth related to the supermarket industry.

▪ Salad Dressing

Varieties are relatively new products in the market with still small space shelf at supermarkets. Domestic products do not have the varieties, which is an advantage for the introduction of U.S. salad dressing in the market.

▪ Snacks

In 1998 the market for snack food was 5,600 MT (\$28 million). In 1999, it is estimated to growth 10 percent. The main domestic producer is Savoy Brands, having its own distribution system of 67,000 points of sales. 98 percent of their production are potato chips, corn chips, peanuts, mostly produced in Lima (2

percent comes from Mexico-Frito Lay). The structure of sales is as follows: supermarkets, 5 percent; wholesalers, 3 percent; street vendors and grocery stores, 90 percent. They import from the U.S. pellets and flavorings.

- Ready to eat food (canned food), i.e., soups, frozen products.

As a share of total food sales, this market is small but strong with potential for growth. It is influenced particularly by the growing participation of women in the labor force and also by the growth of supermarkets.

- Wines

There is a strong, growing presence of low cost imported wines mainly from Chile, Germany and Argentina.

### **C. Products not present because they face significant barriers include:**

- Poultry and frozen fish: local production of chicken satisfies current demand, and Peruvians have a strong preference for fresh fish and seafood.
- Frozen vegetables: there is enough supply of fresh produce during the whole year and it is preferred by the Peruvian consumer.

## **V. Post Contact**

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