



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 11/10/1999

GAIN Report SP9065

Spain

Retail Food Sector

1999

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Report Highlights:

Establishing and maintaining relationships with importers/distributors is key to penetrating Spain's retail food market. While the sector is becoming increasingly concentrated, local grocery stores and fresh markets continue to play an important part in food distribution. Competition from other EU suppliers is stiff, but continuous demand for new products offers possibilities for U.S. products.

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

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I. Market Summary

Driven by changing consumer habits, economic development, and new technology, the organization of Spain's distribution sector has changed dramatically in the last three decades. In general, the sector has become more concentrated and specialized, with greater market power held by fewer companies. In 1975 there were a total of 116,077 grocery outlets, of which 106,010 were traditional outlets. Many of these traditional stores became self-services. In 1999, there are only 44,374 traditional outlets, while the number of supermarkets and hypermarkets has increased as shown in Table 1. The number of medium size supermarkets and discount outlets is increasing, while growth in the number of hypermarkets is slowing. The number of discount outlets is also growing.

As is the trend in the rest of the EU and indeed throughout the world, food marketing is increasingly dominated by a few companies. In 1998, just 10 companies accounted for about half of total food sales, and 20 companies held about two-thirds of the sales. In 1999, a good example of the trend toward fewer and larger companies was the merger between Promodes and Carrefour, which are the Continente and Pryca chains, in Spain. This group will have a market share of 22 percent of total grocery retail sales. In addition, several small supermarkets have been bought by larger groups, and Caprabo, a Spanish company, is expanding in an attempt to compete with the Promodes/Carrefour group. In 1999 alone, the number of Caprabo outlets has grown from 233 to 287. Furthermore, smaller grocery retail chains continue to be taken over by larger companies. Currently, there are only two large groups: Euromadi Iberica and IFA Española.

Food producers are concerned about the increasing power that these groups are gaining, complaining that their market position allows them to exact lower prices from farmers. To allow consumers to know the margins, some farmer organizations have called for a labeling system that would show the purchase price as well as the retail sale price of any fresh product. Meanwhile, the food sector companies report fierce competition, lower prices, and narrower profit margins.

While consumption patterns have changed along with the structure of the retail industry, consumers still prefer to make frequent purchases at neighborhood supermarkets. They generally venture to hypermarkets weekly or monthly to buy non-perishable products. As a result of this practice, the number of medium size supermarkets is growing.

About 3,500 convenience outlets are in operation. Total sales in 1998 were reported to have been around 70,000 M. pesetas. In 1997 El Corte Ingles made an agreement to be present in gas stations owned by Repsol. Some retail grocery outlets have within their premises small areas where they offer selected products, or ready to eat food. The home meal replacement concept is starting to take shape as a high value added product offered by the sector.

Total food production in 1998 was valued at 8.73 trillion pesetas, 2.3 percent above the previous year. Food production represents 20 percent of total industrial production. Total grocery sales in 1998 through food distribution chains or groups was 6.57 trillion pesetas, up 10.1 percent increase from the previous year.

Currently, the Spain's typical consumer can be characterized as more health conscious, demanding more information about products, and placing a premium on quality and services.

Table 1 - Retail Outlets

<i>Type of Outlet/Year</i>	1975	1989	1999
Traditional	106,010	81,885	44,374
Self-Service: > 100 sq. m.	9,627	18,354	13,474
Supermarket: 101/400 & 401/999 sq. m.	432	5,542	7,168
Supermarkets: 1,000/2,500 sq. meter		697	926
Hypermarkets	8	121	335
Discount Stores			1,934

Table II Food Sales by Type of Distribution - 1998

Type of outlet	Percentage
Hypermarkets	31.8%
Large Supermarket 1000/2,500 sq. meter	13.2%
Supermarket 400/999 sq meters	16.2%
Supermarket 101/399 sq meters	29.7%
Traditional	9.1%

SWOT for U.S. grocery products

Strengths	Weaknesses
U.S. food products are appreciated for their novelty	The product has to be labeled in Spanish
Many U.S. products are known as quality products	Not all the products are adapted to the Spanish taste
Attractive packaging	Need to invest to promote new products
	Lack of knowledge of many U.S. brands
Opportunities	Threats
The American way of life is popular among the young generation	Stiff competition with similar food products produced in other EU countries
Many U.S. TV shows and films show U.S. food products	Import duties increase U.S. product final price
Spanish consumers want to try new and quality products	Transportation cost.

II. Road Map for Market Entry

Entry Strategy

As stated above, the retail market is very concentrated. It is very difficult for an individual exporter to establish relations these firms that control most of the business as they prefer to deal with their customary importers/distributors. Furthermore, in general, they do not import the products directly, so it is essential that U.S. exporters wishing to crack this market establish relationships with their distributors. The new to the market exporter should find an importer, agent or wholesaler that will do customs clearances and will advise on compliance with labeling, packaging, and sanitary regulations. Some supermarket chains, however, are directly importing certain products, including walnuts or lentils to be repacked in their warehouses.

An important method for finding an importer, agent or distributor for U.S. products is to exhibit at trade shows. Alimentaria, held every other year in early March in Barcelona, is the leading food show in Iberia, and an excellent venue for introducing a new product and for meeting potential clients and establishing relations.

Distribution Channels

Fresh products, seafood, fruits and vegetables are distributed through the 22 wholesale markets distributed around Spain. The main grocery retail chains have their own stand in the main cities, where they receive and buy from wholesale companies the fresh product that is later sent to their supermarkets. Purchases of grocery products are managed directly by each group. Distribution companies or chains request that the products they purchase be delivered to their platforms or warehouses and then are distributed to each outlet.

Table III - Company Profile - Main Grocery Retail Chains

Name of Outlet	Ownership	Sales	No. of Outlets	Purchasing Type
Euromadi Iberica	Spanish	1,510,000 M. pts	3,154	Importer/Distributor
IFA Española	Spanish	1,213,488 M. pts.	2,746	Importer/Distributor

Table IV - Company Profile - Main Food Distribution Companies

Retailer Name	Ownership	Sales (M Pts)	N° Outlets			Purchasing Agent Type
			Hyper	Super	Disc	
Carrefour - Promodes (PRYCA - Continente)	French	1,503,743	137	153	1,563	Importer/Distributor Direct
Eroski	Spanish	643,663	37	749	0	Importer/Distributor Direct
Auchan (Alcampo)	French	437,305	48	72	0	Importer/Distributor Direct
El Corte Ingles	Spanish	417,033	17	45	0	Importer/Distributor Direct
Mercadona	Spanish	336,195	0	358	0	Importer - Direct Direct
Unigro	Dutch	194,830	2	685	0	Importer/Distributor
Superdiplo	Spanish	174,741	14	180	0	Importer/Distributor
Caprabo	Spanish	158,000	14	233	0	Importer/Distributor
GADISA	Spanish	98,021	0	225	0	Importer/Distributor
Lidl	German	92,500	0	0	202	Importer/Distributor

III. Competition

The food industry is highly industrialized and competitive. Spain is a major food producer, offering an increasing range of processing products. Large distribution chains and supermarkets have their own private label brands. They offer good quality products at lower prices than traditional brands. Besides the domestic sector, neighboring EU countries, the source of most food imports, offer a generous supply of competitive products. Besides price and logistical advantages, food distributors generally source their products from Spanish producers or from other EU markets, which are at an advantage as they are more apt to comply with EU regulations.

U.S. exports of consumer oriented products to Spain were \$170 million in 1998. With sales of \$49.8 and \$111, the overwhelming majority of these sales were seafood and treenuts. Fruits and vegetables, both fresh and processed increased in 1998 and are experiencing a further increase in 1999.

IV Best Products Prospects

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

- Seafood in general, and lobster, whiting, squid, salmon, in particular
- Treenuts: almonds and hazelnuts
- Pet foods
- Tex-Mex products
- Bourbon

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

- Fresh fruit: pink grapefruit, apples
- Surimi
- Processed fruit & vegetables and juices
- Cake mixes
- Snacks
- Beer

C. Products not present because they face significant barriers:

- All poultry and red meat products.

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: 1997: 146.41 pesetas/\$1; 1998: 149.40/\$1 .
Current exchange rate: 159 pesetas/\$