Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Scheduled Report - public distribution

Date: 11/15/1999

GAIN Report #ES9012

El Salvador

Retail Food Sector

1999

Prepared by: **Suzanne E. Heinen**
U.S. Embassy
Drafted by: Miguel Herrera, Agricultural Specialist

Report Highlights:
El Salvador's food retail sector has experienced tremendous growth during the past 5 years. This growth has been fueled by aggressive competition in the supermarket industry. Regional chains have sprung up in the main capital of San Salvador as well as in the major populated areas scattered throughout the country. U.S. products are viewed as of high quality. Price continues to be the main factor in the purchase of consumer- ready- products.

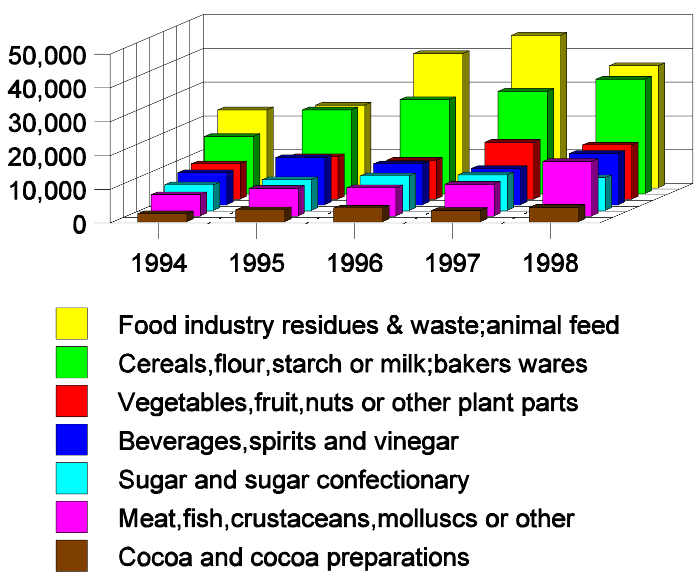
Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
El Salvador[1]ES

Table of Contents

I. MARKET SUMMARY

- El Salvador imported approximately $ 195.3 million in prepared foodstuffs in 1998; the greatest market share belonged to Guatemala (40.8%), the U.S. followed with a market share of 27.3%, Costa Rica´s was 10.2% and Mexico 8.3%. This represents more than 50% of total imports of prepared foodstuffs.
- El Salvador´s supermarket industry reported sales of $ 362.7 million in 1998.
- The 3 convenience store chains reported sales of $35.5 million in 1998.
- In general, the major commercial exporters to El Salvador in 1998 were in order of importance: the U.S., Guatemala, Costa Rica, Honduras, Mexico, Germany and Nicaragua.
- There are 132 supermarkets located nationwide that handle approximately 36% of the food retail market. There are 75 convenience stores located all over the country that are managed by the 3 main gasoline distributors: Shell, Esso(Exxon) and Texaco.
- San Salvador, Santa Ana and San Miguel handle 75% of consumer-ready food imports. This percentage has increased in the rest of the country in the last ten years due to the return of Salvadorans that fled overseas during the war. These consumers have become used to higher quality consumer-ready products. Supermarkets are opening branches in the populated working class areas.
- All consumers have to pay a 13% value added tax (VAT) for food products, exceptions are: milk and basic staples.
- About 65% of products sold in supermarkets are imported, mainly from the U.S. and Central America.
- U.S. exports of consumer-oriented agricultural products have increased substantially from $ 12.5 millions in 1994 to $ 27.5 millions in 1998.

EL SALVADOR´S IMPORTS OF PREPARED FOODSTUFF FROM 1994 TO 1998 IN THOUSAND DOLLARS



Over the five year period 1994-98, imports of prepared foodstuffs have increased approximately 77%. Animal feed and cereals are the two categories that have experienced the highest import increases. Dog and cat food imports have increased approximately 146%. Meat, fish, crustacean, molluscs or other aquatic

invertebrates increased 70% from 1997 to 1998 and a total of 154% over the five year period. Beverages, spirits and vinegar increased 60% over the five year period, mainly due to the increase in wine consumption and an increase in the variety of liquors offered.
Imports of a wide variety of chocolates, mainly from the U.S., Chile and Brazil, increased the cocoa and cocoa preparations category 78% during the period.

Advantages	Challenges
Many Salvadorans have studied, traveled and worked in the United States, thus have developed a taste for U.S. food products.	The U.S. must supply a diversity of products that can compete in quality and price with similar products from other countries, i.e. Mexico, Central America, Chile.
U.S. products in general are considered of higher quality and safer to consume.	Some consumers can pay for U.S. quality, but for the majority, price is the major consideration in purchasing decisions.
In the 3 most populated cities, San Salvador, San Miguel and Santa Ana, the majority of employees and workers eat lunch out, and can take advantage of ready-to-eat products in supermarkets and convenience stores.	In general, the introduction of ready-to-eat products into supermarkets and convenience stores needs to be done through a local distributor.
There is a potential market for U.S. food products.	Products have to be familiar to the consumers; therefore, if it is not a well known U.S. brand, sampling is a must.
Importers and retailers have knowledge and training in purchasing and merchandising U.S. food products.	Access by sea is restricted to the Pacific, roads to Central America are not safe and in bad condition, and air cargo is expensive.
Distributors generally consider U.S. exporters reliable and trustworthy.	Clearing at customs is a slow and inefficient process. Also, corruption is a common practice. The new government is trying to eliminate this problem.
Franchises of ready-to-eat products from the U.S. have expanded over the last decade. Fast foods such as hamburgers, pizza, subs, etc. are very popular.	Salvadoran investors would like to obtain more information about franchising opportunities.
U.S. products such as wine, nuts, liquors, and gourmet products are not locally produced.	Price is a limiting factor.

II. ROAD MAP FOR MARKET ENTRY

A. Supermarkets, Superstores, Hyper Markets, Club and Warehouse Outlets

El Salvador has several supermarkets nationwide, one hyper market in Soyapango, (considered part of the greater area of San Salvador), several smaller hyper markets and one club warehouse outlet in the capital city.

Distribution Channels

- ! Most food products (local and imported) are purchased by supermarkets through local distributors.
- ! Coopefa (Salvadoran Army Cooperative. Supermarket) imports their liquor directly from Panama. Red meat or cattle comes directly from Nicaragua.
- ! Some supermarkets, in addition to retail sales, also sell in large quantities to companies, cooperatives and to small stores (tiendas), mostly those located in rural areas.
- ! Purchasing managers buy U.S. food products mostly from local distributors, although a few products are imported directly, specially liquors and wines.
- ! Fruits and vegetables are purchased from local producers and imported mostly from the Central American region, except grapes and apples which come from the U.S. and Chile.

Entry Strategy:

- ! Although some supermarkets import directly, most food items are purchased from distributors that are appointed by U.S. or other countries´ exporters. According to supermarket purchasing managers, it is more convenient for them to purchase from local distributors and save the storage costs of keeping a large warehouse. There is one supermarket that is negotiating direct imports of their own brand from a large U.S. wholesaler. For a U.S. firm aiming to enter the Salvadoran market is better to appoint a local distributor.
- . To appoint a local distributor a U.S. firm has to:
  - Make sure that the local distributor has a good credit standing (the U.S. Department of Commerce has a service specifically for this purpose).
  - Sign a contract with a local lawyer.
- ! In order to introduce a new product to the Salvadoran market, purchasing managers suggest doing a promotion that includes not only product information, but sampling as well in order to make the product known to the consumers. There have been experiences where even well known U.S. products, with excellent quality, have not sold because customers were unfamiliar with the product and unwilling to purchase an unknown. The same is true for frozen products which are just beginning to appeal to the Salvadoran consumer and viewed by some marketing experts as an area to be developed.
- ! Marketing managers attend U.S. trade shows regularly and like to be contacted about them as a source of new products.

Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Althougha number did provide information, they requested it be kept confidential. Therefore, sales have been categorized as follows:

A: Less than $10 million
B: $10-$25 million
C: $25-$75 million
D: $75- $100 million
E: $100-$150 million
F: More than $150 million

Retailer Name and Outlet Type	**Ownership**	**Sales ($Mil)**	**No. of Outlets**	**Locations** (city/region)	**Purchasing Agent Type**
Europa, supermarkets and one hypermarket	Local	C	4	Capital City, San Salvador	Direct Imports, Local Distributors
La Despensa de Don Juan, supermarkets	Local	E	26	19 in San Salvador, 2 in Santa Ana, 1 in Sonsonate, 3 in San Miguel and 1 in Usulután	Local Distributors
Selectos-La Tapachulteca, supermarkets, hypermarkets[1]	Local	F	54	15 in San Salvador, 39 nation wide	Direct Imports, Local Distributors
Coopefa, supermarket	Local	A	1	Capital City, San Salvador	Direct Imports, Local Distributors
Price Smart, Club Warehouse	Foreign U.S.	Esti-mated B[2]	1	Capital City, San Salvador	Direct Imports, Local Distributors

[1] Selectos purchased El Sol and La Tapachulteca supermarkets in 1999. La Tapachulteca remains with the same name. Information provided includes all 3 supermarket chains.

[2] Began operations in August 1999.

Retailer Name and Outlet Type	**Ownership**	**Sales ($Mil)**	**No. of Outlets**	**Locations** (city/region)	**Purchasing Agent Type**
Todo por Menos (TPM)	Local	A	21	Nationwide	Direct Imports, Local Distributors
Pali	Foreign Mas por Menos Costa Rica	A Esti-mated	5	Soyapango, San Marcos, Santa Ana and 2 in San Salvador	Direct Imports, Local Distributors
Despensas Familiares	Foreign Guatemala (La Fragua Group)	A Esti-mated	19	Near open markets, nation wide	Direct Imports, Local Distributors
Hyper Paiz, hypermarket	Foreign Guatemala (La Fragua Group)	B[3] Esti-mated	1	Soyapango	Direct Imports, Local Distributors

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by the drafters.

- Paiz and Banco Cuscatlán (El Salvador´s second largest bank) have join financially raising assests to a combined total of $320.5 million.
- Price Smart offers the innovations of frozen specialty products that are not available in other supermarkets, it also offers a cafeteria type service that includes all you can drink sodas.

Strong competition is forcing the retail sector to lower consumer prices and offer incentives.

- Two large outlets have been opened this year, one in a high income area and another in a large growing working class neighborhood.
- Two chains, El Sol and Tapachulteca have sold their stores to Selectos.
- One supermarket is negotiating to have more products packed under their own brand.
- There are special sales every week during which various food products are featured. Other attractions such as music and samples are also part of the merchandising strategy to lure new customers.

Ready to eat products.

- There is a growing demand for ready to eat products which are available in 75% of the supermarkets, especially at lunch time and after working hours.

B. CONVENIENCE STORES, GAS MARTS

[3] Began operations in October 1999.

There are 3 chains of convenience stores, Select Market, Tiger Market and Starmarts-Food Marts, which belong to the 3 gas distributors in El Salvador.

Distribution Channels

! Distrib
ution is
mainly through local distributors, direct imports are minimal.

Entry Strategy:

! New products have to be presented to the purchase manager of each chain and a local distributor must be appointed.
! Purchasing managers should be invited to U.S. fairs and food products exhibitions.
! Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling.
! Esso convenience stores belong to the Convenience Store Association, thus, products can be introduced to Esso (Exxon) through this Association.
! Product prices are a key to entry. Due to low consumer purchasing power, lower priced food products fare better in this market.

Sub-Sector Profile:

Retailer Name and Outlet Type	Ownership	Sales ($Mil)	No. Of Outlets	Locations (city/region)	Purchasing Agent Type
Select Market	Shell 40% U.K. 60% Netherlands	A	14	11 in San Salvador, 3 nation wide	Local Distributors
Tiger Market	Esso (Exxon) U.S.	B	37[4]	22 in the Metropolitan Area, 15 nation wide	Local Distributors
Starmarts, Food Marts	Texaco U.S.	B	24	4 in San Salvador, 20 nation wide	Local Distributors

Source: Information provided by gas distributors. Due to requests for confidentiality, sales information is provided according to categories outlined under "Supermarkets".

- Other than the U.S., products come from Canada, Central America, Colombia, Argentina, Chile, Uruguay and Europe.
- 85% of beer sales are domestic product, 5% is from the U.S., 8% is from Mexico and the rest from Europe.
- Major U.S. products sold are chocolates and candies. They comprise 80% of total sales for this category
- 75% of total sales come from locally produced products or from Central America, these are mostly fast foods, cigarettes and soft drinks.
- Most convenience stores located in the metropolitan area have additional services such as bank tellers. Some also have movie rentals, dry cleaning, car wash and tune-up services.
- Store sizes vary, the largest is approximately 1400 square feet, the smallest 430 square feet.

C. TRADITIONAL MARKETS, "MOM AND POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

- Traditionally, the public markets have been the main suppliers of fruits, red meat, vegetables, poultry, eggs, pork and fish.
- There are seven public markets in San Salvador and at least one in each town.
- In the last two decades there has been a tendency to purchase in supermarkets, especially for the upper and middle classes. Lately there has been a substantial increase of supermarket customers from the working class and supermarkets are being opened in lower income areas.
- Few food products made in the U.S. were detected during the survey of these markets. The exception is fresh fruits in the wet markets. The majority of food products sold are locally produced or come from other Central American countries.
- The number of small independent grocery stores in each neighborhood varies from 10 to 700 depending

[4] One more will be opened in December 1999

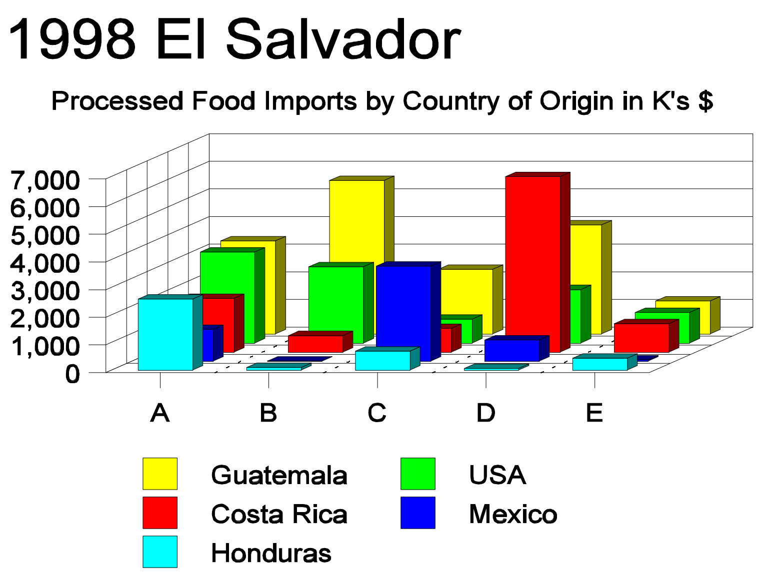
on the size of the neighborhood. These are not designed for the customer to easily see the product and select what they need. Sales are made mostly by product name or category, therefore, it is not recommended to develop a strategy to enter this market. Same applies to the rest of the markets reviewed in this section.

III. COMPETITION, CONSUMER-READY PRODUCTS

! In 1998, the U.S. share of the consumer-ready market was 27.3%. Guatemala had 40.8%, Costa Rica 10.2% and Mexico 8.3%. It is important to note that many countries also have food processing plants locally which may increase their respective market share.

! Powdered milk is mostly imported from New Zealand, The Netherlands and Australia. In addition the New Zealand Dairy Board has built a distribution and packaging facility at a cost of approximately $5.0 million. Fluid milk is locally produced and also imported from Costa Rica and Mexico in UHT-long life presentations. There are also donations of powdered milk for the poor which mainly come from the European Union (EU).

! El Salvador is a signatory to the Agreement on Central American Tariffs and Duties it is also a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. The Central American block is currently negotiating commercial agreements with Mexico and Chile.



! A = Preparations of vegetables, fruit, nuts or other plant parts. Guatemala has the highest share at 21 %, followed by the U.S. with 20.5%.

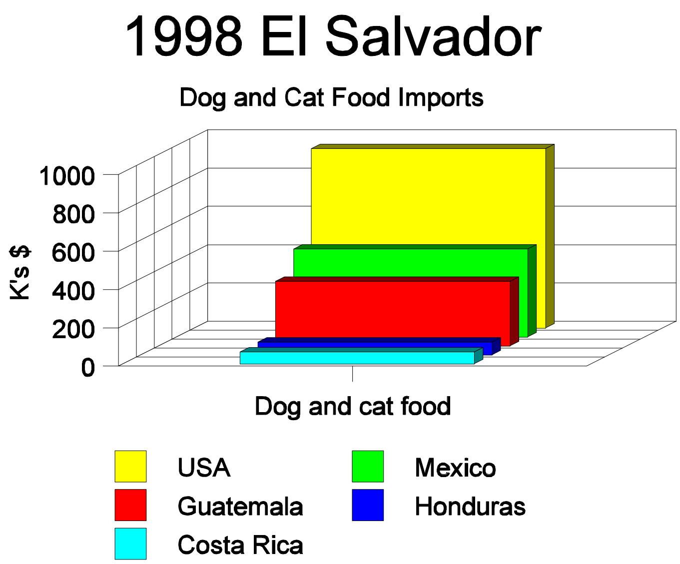
! B = Beverages, spirits and vinegar. The highest is Guatemala at 36.6%, followed by the U.S. at 18.1 %.

! C = Sugar and sugar confectionary. The highest is Mexico at 35.5 %, followed by Guatemala at 24.1 %.

! D = Edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates. The highest share is Costa Rica with 39.4 %, followed by Guatemala wtih18.9 %.

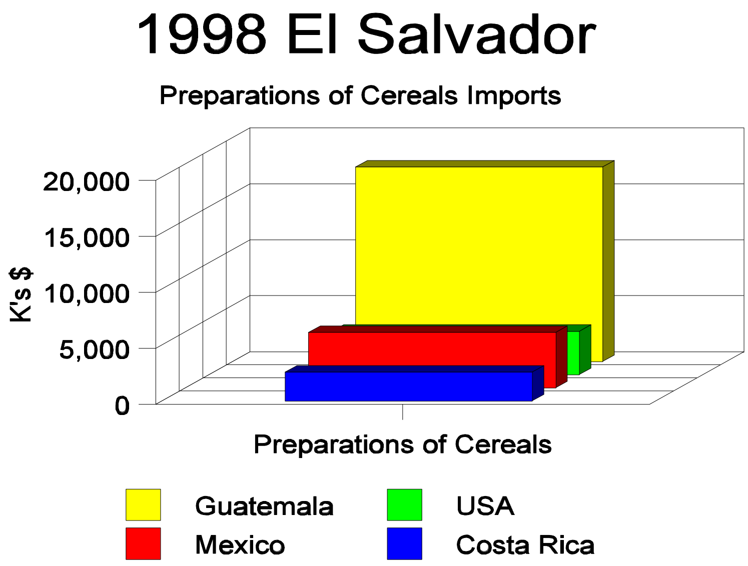
! E= Cocoa and cocoa preparations. Guatemala has 28.0 % of the market, followed by the U.S. with 25.7%.

DOG & CAT FOOD IMPORTS



! Dog and cat food. The U.S. market share is the highest at 47.9%, followed by Mexico at 23.5% and Guatemala at 17.3%. Sales of prepared dog and cat foods have shown a dramatic increase over the five year period mainly due to: 1) the growth of pet shops both in shopping malls and supermarkets; 2) the decline in meal "leftovers" as women join the workforce and reduce in home cooking; 3) family members returning from the U.S. suggest that prepared foods are better for their dogs and cats. In 1994 only the U.S. and Guatemala exported prepared dog and cat food to El Salvador, their respective market shares were 64.3% and 35.7%; in 1998 there were nine countries exporting prepared dog and cat food to this market.

PREPARATIONS OF CEREALS IMPORTS



- Preparations of cereals, flour, starch or milk; bakers wares. Guatemala´s market share is the highest with 51.4 %, followed by Mexico with 14.6 % and the U.S. with 11.5 %.

IV. BEST PRODUCT PROSPECTS

- There are many Salvadorans who have studied and/or worked in the U. S. and who have developed a taste for U.S. products.
- Traditionally U.S. products are considered of a better quality than products produced locally or which come from another country.
- Salvadorans prefer low cost products than to have to pay for high quality products.
- Salvadorans who live in the U.S. bring American food products to their relatives as gifts i.e. candies, chocolates, therefore, developing a taste in the local population. Low price is very important for an imported product to have good sales potential.

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

- Breakfast cereals.
- Apples and grapes all year around.
- Wine.
- Dog and cat food
- Ramen style soups.
- Non-dairy coffee creamers.

- ! Canned fruits and vegetables.
- ! Meat sausages.

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

- ! Frozen foods are growing in demand, and are expected to continue an upward trend.
- ! Low fat, low cholesterol products.
- ! Pork ribs.
- ! Salad dressings.
- ! Stone fruits.
- ! Dairy products.
- ! Fresh potatoes.

C. Products that will not do well or cannot be used in the market:

- ! Beer, is present in low quantities because the only local beer manufacturer has a monopoly.
- ! Tropical fruits, i.e. oranges. They are cheaper in Central American countries.
- ! Exotic fruits, i.e. kiwi.
- ! Beef. While high-end hotels offer an opportunity, beef imports are dominated by Nicaragua which provides good quality and good prices. Currently Australia is trying to enter the market with competitive prices.
- ! Fresh or frozen poultry and poultry products. The government has imposed very strict animal health requirements.
- ! According to some supermarket owners, products that do not sell much are: canned beans and soups, cheese filled crackers and t.v. dinners.

V. POST CONTACT AND FURTHER INFORMATION

! Office of Agricultural Affairs
U.S. Embassy El Salvador
Contact: Miguel F. Herrera
Agricultural Specialist
Phone: (503) 279-0569/278-4444, Ext. 1412/1414; Fax (503) 278-3351
E-Mail: herreramf@embsansal.usinfo.org.sv
Address: Blvd. Santa Elena y Calle Conchagua
Antiguo Cuscatlan, La Libertad; El Salvador

! Supermercados Selectos and La Tapachulteca (Calleja S.A. de C.V.)
Contact: Lic. Ricardo Antonio Landaverde M.
Financial and Administrative Manager
Phone: (503) 267-3630, Fax: (503) 298-1943, E-Mail: rlandaverde@sal.gbm.net
Address: Avenida Olimpica, Prolongación 59 Av. Sur, San Salvador, El Salvador.

! Supermercados Europa

Contact: Lic. Jaime Orlando Saca
Owner
Phone: (503) 298-8000 Fax: (503) 298-8244, E-Mail: europa@quik.elsv.com
Address: Oficinas Hiper Europa, Avenida Manuel Enrique Araujo, entre Calle Nueva 1 y 2, Colonia Escalón, San Salvador, El Salvador.

! Price Smart
Contact: Mr. Francisco Sola
Phone: (503) 247-7409 Ext. 247, Fax: (503) 247-7414, E-Mail:psmtelsalvador@saltel.net
Address: Boulevard Sur, Calle Cortez Blanco, Avenida El Pepeto, Urbanización Madre Selva, Antiguo Cuscatlán, El Salvador.

! Supermercados La Despensa de Don Juan
Contacts: Mr. Alex Canales, Wine Manager
Mr. Walter Mata, Frozen Foods Manager
Ing. Ernesto Murga, Produce Manager
Phone: (503) 263-1700, Fax: (503) 263-3900, E-Mail: despensa@saltel.net
Address: 89 Avenida Norte y 7 Calle Poniente, Colonia Escalón, San Salvador, El Salvador.

! Coopefa
Contact: Lic. Rolando González
Supermarket Manager
Phone: (503) 298-6000, Fax: (503) 298-1684, E-Mail: coopefa@hotmail.com
Address: Colonia General Manuel José Arce, San Salvador, El Salvador.

! Hiper Paiz and Despensas Familiares
Contact: Ing. Luis Alfonso Anleu
General Manager
Phone: (503) 275-7249, Fax: (503) 275-7275, E-Mail: lanleu@lafragua.guate.net
Address: Kilometro 4 1/2 sobre el Boulevard de Ejercito Nacional, Soyapango, El Salvador.

! Todo por Menos
Contact: Mr. Elizandro Rivera
Administrative Manager
Phone: (503) 278-7410, Fax: (503) 278-2822, E-Mail: erivera@latapa.com
Address: Km 9 ½ Carretera al Puerto de La Libertad, Santa Tecla, La Libertad, El Salvador.

! Pali
Contact: Lic. José Luis Orellana
General Manager
Phone: (503) 264-7242 to 48 , Fax: 264-7143, E-Mail: jorellana@csu.co.cr
Address: 9 Calle Poniente #8,169, entre 83 y 85 Av. Norte, Colonia Escalón, San Salvador, El Salvador.

! Esso Standard Oil, Tiger Markets Convenience Stores
Contact: Ing. Gerardo Moreno
Purchasing Specialist

Phone: (503) 278-0477 Ext. 247, Fax: (503) 289-0733,
E-Mail: gerardo.a.moreno@exxon.sprint.com
Address: Kilometro 91/2 Carretera a La Libertad, Santa Tecla, La Libertad, El Salvador.

! Shell, Select Market Convenience Stores
Contact: Lic. Sonia Morales de Revelo
Convenience Stores Supervisor
Phone: (503) 228-0244 Ext. 1311, Fax: (503) 228-5173
Address: Kilometro 11 ½ Carretera a La Libertad, Santa Tecla, La Libertad, El Salvador.

! Texaco, Starmarts, Foodmarts Convenience Stores
Contact: Lic. Andrés Giamattei, Marketing and Purchasing Assistant
Mr. Luis R. Navarrete, Sales Assistant
Phone: (503) 278-8888 Ext. 3125, Fax: (503) 278-3279,
E-Mail: giammja@texaco.com for Lic. Andrés Giammattei
E-Mail: navarlr@texaco.com for Mr. Luis R. Navarrete
Address: Km. 10 1/2, Carretera a La Libertad, Santa Tecla, La Libertad, El Salvador.

! Salvadoran Distributors Association (ADES)
Contact: Lic. Sonia Cecilia Jule
Executive Director
Phone/Fax: (503) 223-6574, 245-3359, E-Mail: ades1@quik.elsv.com
Address: Plaza Suiza, 3a. Planta Local C-5, San Salvador, El Salvador.