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Honduras

Retail Food Sector

1999

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Report Highlights:

Honduras' retail food sector has developed rapidly during the 1990's and the introduction of foreign investment in recent years promises to make the market even more dynamic and competitive in the foreseeable future. Although still recovering from the economic woes resulting from hurricane Mitch, supermarket sales are expected to rebound by an estimated 12 percent in the year 2000. Similarly, importer/distributors predict their imports may rise by as much as 50 percent.

Includes PSD changes: No
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SECTION I. MARKET SUMMARY

- ! The market for imported consumer-ready food products is concentrated in the capital city of Tegucigalpa and in the industrial hub of San Pedro Sula. Together, these two cities are estimated to account for roughly 80 percent of imports in this category. The remainder of the market is found in medium-sized cities such as El Progreso, La Ceiba, and Choluteca and in Honduras' Bay Islands.
- ! Although no official or trade association statistics are available, industry surveys indicate that Honduras' supermarket industry sales for Tegucigalpa and San Pedro Sula were approximately \$142 million in 1998.
- ! The economic downturn following hurricane Mitch resulted in slightly depressed supermarket sales in 1999. However, supermarket sales levels are expected to grow in 2000 by 12% on average, including new outlets.
- ! Basic food products show mixed results with milk and colas down 7.3% on straight average and wheat flour and sugar up 5.3% on straight average.
- ! The outlook for importers/distributors is very optimistic for 2000 a 50% increase in imports over 1999.
- ! Consumers and retailers alike have a strong preference for U.S. products, which are perceived in most cases as being of superior quality when compared local or regional products.
- ! There is strong pressure from supermarkets to have distributors improve their credit terms. Consequently, this has created an incentive for distributors to search for alternative retail outlets, such as 'mom and pop' stores, convenience stores, and traditional markets.
- ! Beverage producers lead the retail diversification trend expanding sales to small stores and direct beverage wholesalers which are open to the public. The net effect is that supermarkets represent less than 3% of their retail sales.
- ! There is a marked tendency for supermarkets to establish private label food brands and to reduce availability of imported canned foods to no more than three brands on average.
- ! Small 'mom & pop' stores (or pulperías as they are known locally) and traditional minimarkets total approximately 5,700 in Tegucigalpa and 3,900 in San Pedro Sula. These two cities represent 55% of the estimated total of small stores in the country.
- ! Small stores represent approximately 50% of food retail sales and over 60% of beverage sales.
- ! The single biggest problem for both direct and indirect food and beverage importers is food safety legislation which requires that all labels be in Spanish and that they display production and expiration dates. Closed or coded data is not acceptable and stick-on labels, while allowed, add to the import cost, reduce product shelf-life due to the time required to affix the labels, and they place imported products at a competitive disadvantage in relation to local or regional products which are labeled in Spanish.
- ! Wholesale clubs have been active in Tegucigalpa and other cities for the past several years and the first

foreign wholesale club, U.S. based PriceSmart, began operations in San Pedro Sula in September of 1999. PriceSmart is expected to open a second store in Tegucigalpa in mid 2000.

- ! Until now, other investors in the retail sector have been limited to other Central American competitors such as La Despensa de Don Juan (El Salvador), Palí (Costa Rica) and Paiz (Guatemala).

Advantages & Challenges

Advantages	Challenges
Direct imports by small warehouse outlets have diversified food imports. The biggest winners: U.S. food products and pet specialties.	Labeling requirements differ from U.S. regulations making it more difficult to import a variety of products to Honduras.
Increased availability of specialized equipment such as walk-in coolers and deep freezers have permitted year-round availability of U.S. produced fruit, such as apples, pears & grapes.	The overall size of the Honduran market is small. This restricts direct imports mostly to local distributors that can handle consolidated cargo and can store foods for prolonged periods of time. The small market size also limits the willingness of foreign suppliers to provide support for new product lines.
Increased interest in semi-prepared fresh products for on-site preparation, particularly in convenience stores. U.S. manufacturers have been capitalizing almost exclusively on this opportunity until now.	Relatively high duties on some products, inconsistent customs valuation practices, and the government's inability to adequately police its borders, encourages contraband imports. This makes for an uneven playing field for many distributors, wholesalers and retailers.

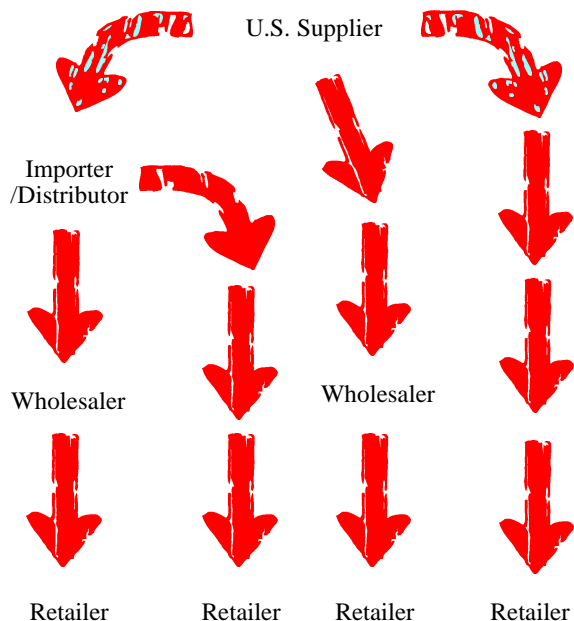
SECTION II. MARKET STRUCTURE AND SUB-SECTOR PROFILES

A. SUPERMARKETS, SUPERSTORES, HYPERMARKETS OR SUPER CENTERS, CLUB AND WAREHOUSE OUTLETS

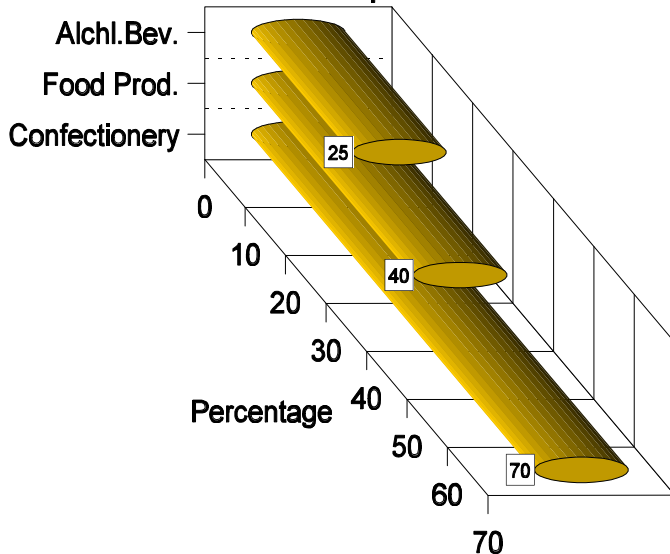
Distribution Channels

- ' The distribution channel is a straightforward food wholesale and distribution mechanism.
- ' The bulk of sales move from U.S. suppliers to importers/distributors and then to retailers. However, U.S. suppliers also sell directly to wholesalers and supermarket chains.
- ' Supermarkets account for approximately 40% of food sales, 25% of beverage sales and 70% of confectionery sales.
- ' There are four wholesalers with capacity to supply Tegucigalpa and San Pedro Sula: Diapa, Codis, Distribuidora Solís and Dimerc.
- ' Some supermarkets import exclusive food lines and use them as private label brands. U.S. suppliers should exercise caution with local exclusive distribution laws and regulations.

Typical Flow of Products in Sub-Sector A



Sales of Selected Prod. thru Spmkts. & Similar Stores



discounting. Most have added higher margin aisles such as cosmetics, selected clothes items, and other imported consumer goods.

- ' Major chains are buying out smaller competitors and adding new stores throughout the major cities and some mid-size cities such as El Progreso and Puerto Cortés.
- ' Retailers are now demanding high-volume pricing regardless of their purchasing volumes.
- ' Retailers are now demanding in-store support personnel for demonstrations and taste testing, stocking and aisle maintenance, and

in-store promotions.

- ' Retailers are now demanding extended credit terms (90 - 180 days) as well as charging for shelf space.
- ' Non-food products are establishing a niche.
- ' Prior to sale of imported pet foods by wholesale clubs and small wholesale type stores, there was little presence of this product category at the retail level.
- ' Dog food has emerged as one of the biggest growth items this past year due to extremely competitive pricing of imported products.
- ' Frozen and refrigerated foods have had mixed results.
- ' High growth for sausages, hams, cheeses and cakes/desserts.
- ' Frozen vegetable have performed poorly and frozen pizza has exhibited a steep decline in 1999.

Entry Strategy

- ' Suppliers should provide labeling/re-labeling, competitive pricing, credit alternatives, catalogs and samples to importers.
- ' Consider co-op advertising for new brands and be willing to provide support to importers in order to develop sales.
- ' Appoint a local distributor in Honduras that can provide good penetration and distribution support & availability of your products.

Company Profiles

Name & Outlet Type	Ownership	Sales (\$ Mill.)*	No. of Outlets	Locations	Purchasing Agent Type
La Despensa de Don Juan supermarket	El Salvador	32	7	Tegucigalpa, San Pedro Sula	Direct, Importer
La Colonia, supermarket	Local	29	5	Tegucigalpa, San Pedro Sula	Direct, Importer
ABC/Sula, supermarket	Local	13	5	North coast	Direct, Importer
Junior, supermarket	Local	12	1	San Pedro Sula	Direct, Importer

Name & Outlet Type	Ownership	Sales (\$ Mill.)*	No. of Outlets	Locations	Purchasing Agent Type
Mas x Menos, supermarket	Local	10	3	Tegucigalpa, Choluteca	Direct, Importer
Sucasa supermarkets	Local	10	2	Tegucigalpa	Direct, Importer
Yip, supermarket	Local	9	1	Tegucigalpa	Direct, Importer
K-Diprova, wholesaler	Local	5	4	Tegucigalpa & San Pedro Sula	Direct, Importer
Mirna, supermarket	Local	5	3	Tegucigalpa	Direct, Importer
Stock, wholesale club	Local	5	1	Tegucigalpa	Direct, Importer
Comisariato Los Andes, supermarket	Local	5	1	San Pedro Sula	Direct, Importer
Palí, supermarket	Costa Rica	4	5	Tegucigalpa and San Pedro Sula	Direct, Importer
El Centro, supermarket	Local	3	2	San Pedro Sula	Direct, Importer
PriceSmart wholesale club	U.S.	n/a	1	San Pedro Sula	Direct (U.S. office), Importer

* Sales figures are estimates

n/a - not available.

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

Distribution Channels

- Convenience stores are the exclusive domain of Gas Stations nationwide. Only a small independent in Roatán, Bay Islands imports products. All other chains buy from wholesalers/distributors (importers).
- Average store size does not exceed 300 square feet and sales are between \$20,000 and \$30,000 per month.

- Convenience stores have started importing to provide their customers with high quality imported fresh products, semi-prepared foods such as pizza & cookie dough and processed meats.
- Pricing varies from traditional high margin chains (40 - 50% above supermarket pricing) to chains that compete with supermarket pricing on basic foods and beverages with high rotation.

Typical Flow of Products in Sub-Sector B

U.S. Supplier



Importer
/Distributor



Retailer

Entry Strategy

- Appoint a local distributor in Honduras that can provide sound penetration and distribution support & availability of your products.
- Although these stores purchase through local suppliers, the majority are subjected to brand and space management policies of the multi-national chain.
- Sellers should be prepared to deal with individual dealer purchases and credit risk for individually operated stores.

Company Profiles

Retailer / Market Type	Ownership	Sales (\$Mill.)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Star Mart	Texaco	8.4	20	Nationwide	Importer
Tiger Market	Exxon	3.4	13	Nationwide	Importer
Select	Shell	2.4	10	Tegucigalpa, San Pedro Sula, La Ceiba	Importer
Super 7	Local	0.7	2	Tegucigalpa	Importer
Petrosun	Local	0.5	2	Roatán, Bay Islands	Importer

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

Penetration to these stores can be achieved by selling to an established local importer (wholesaler/distributor). Access requires direct delivery, credit terms, first position incentives, displays and promotions. A direct marketing strategy aimed at these outlets is not recommended but point of purchase material could and is often used in these outlets by some suppliers.

SECTION III. COMPETITION

- The U.S. market share of imports is estimated at a dominating 70%. European and South American suppliers find it difficult to compete with the U.S.' proximity, high-quality image of its products in the local market, and its long-standing commercial ties with Honduras.
- Mexican imports have been bolstered by the fairly recent entry of Bimbo, Sabritas and Marinela bakery and snack products, which account for almost all of the 8% market share of Mexican imports. These imports include products licensed by U.S. companies such as Frito Lay (Sabritas). Other companies manufacture products locally such as the case for Gruma (Maseca) and Sabritas (Boquitas Fiestas).
- A combination of Central American products account for approximately 10% of imports, led by dairy products from Dos Pinos (Costa Rica), Diana & Bocadeli (snackfoods, El Salvador), Kerns, Royal & Del Monte (canned products and jellies, Guatemala) and Nabisco & Eskimo (biscuits, icecreams, Nicaragua). Some of these products belong to multi-nationals such as Pepsico, Kellogs, Yoplait, Nabisco and Nestlé.
- Relatively high import volumes of mostly powder/instant milk from Holland and New Zealand also make these countries important suppliers of consumer-ready products.
- Argentine and Chilean imports are beginning to enter the market especially in desserts and wine, although their presence is still negligible.
- A Central American Free Trade Agreement allows the vast majority of regional products to enter Honduras duty-free. More products are likely to enjoy this duty-free status in the future as Honduras pursues other free-trade agreements.

SECTION IV. BEST PRODUCT PROSPECTS

A. PRODUCTS THAT ARE PRESENT IN THE MARKET

- ~ Colas and non-alcoholic beverages not currently manufactured in Honduras.
- ~ Processed fruits and vegetables.
- ~ Red meats

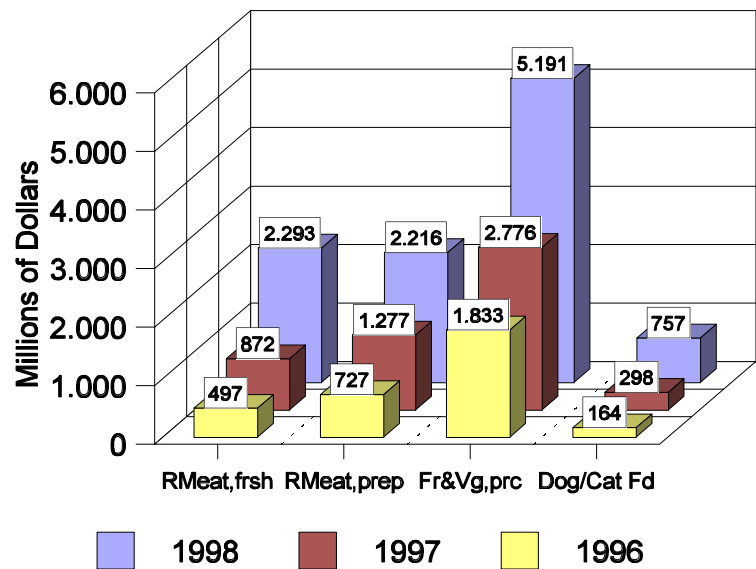
- ~ Cookies and non-perishable desserts.
- ~ Frozen French fries
- ~ Snack Foods

All the aforementioned products are already present in the market but are still limited in the amount of brands or distribution channels that offer them.

B. PRODUCTS NOT PRESENT IN THE MARKET IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

- Salad dressings and vinegars.
- 100% Fruit juices (apple, orange, grape) and fresh fruit (grapes, apples, pears).
- Frozen bread products and desserts (bagels, cakes, confectionery, canapés).
- Breakfast cereals.
- Dog and cat food.
- Beer

U.S. Exports of Selected Products to Honduras



C. PRODUCTS THAT WILL NOT DO WELL OR CANNOT BE USED IN THE MARKET

Given that Honduras is one of the poorest countries in the hemisphere and that annual per capita income is below \$700, highly specialized items which carry a high price tag usually do not fare very well, or at best have a small market niche. Wines and high-value gourmet products would seem to fit in this category. Sanitary, labeling, and/or product registration requirements coupled with strong pressure from certain trade associations also limits import of selected products. Fresh, cut poultry meat is perhaps the best example. However, with inconsistent enforcement of import regulations it is also difficult to ascertain which products will be restricted at any given time.

SECTION V. POST CONTACT

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