Required Report - public distribution

Date: 6/21/2018
GAIN Report Number: CS18007

Costa Rica

Retail Foods

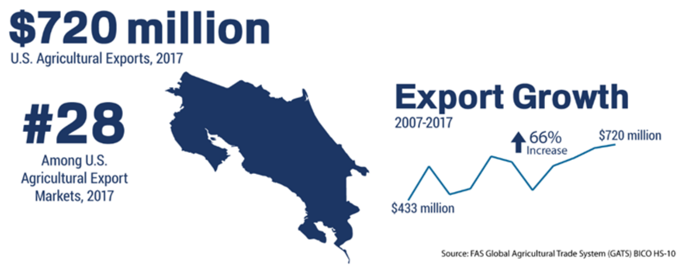
Costa Rica Retail Foods Report 2018

Approved By:
Anita Katial, Agricultural Counselor
Prepared By:
Laura Calzada, Marketing Specialist

Report Highlights:
In 2018, the retail industry continued its planned expansion of its small store segment, as the sector goes through a shift in the type of products that consumers are demanding due to changes in lifestyle, such as increased traffic volumes and dual income households. Retailers are identifying this as a competitive advantage and they are introducing new small store establishments to meet a growing consumer demands of middle to upper income consumers searching for retail options on their way home. Export opportunities exist in this area for high-value consumer oriented products. However, consumers are concerned about new administration’s proposal to increase income and sales taxes across the board, which may influence their buying decisions.

Market prospects for U.S. consumer-oriented products such as beef (meat), pork (chilled/fresh), poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, natural/organic food products, and pet food continue to increase with impressive growth, reaching $278.6 million in exports to Costa Rica in 2017.

Market Fact Sheet: COSTA RICA

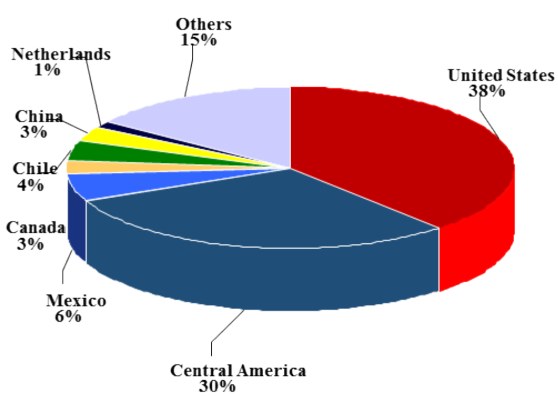


Executive Summary

The United States is Costa Rica's largest trading partner and Costa Rica's largest foreign direct investor. Market prospects for U.S. consumer-oriented products such as beef, pork, poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, and pet food continue to increase with impressive growth, reaching $278.6 million in exports to Costa Rica 2017. Costa Rican consumers trust and enjoy the excellent reputation of U.S. food, beverage and ingredients products, and demand has increased since the implementation of the Dominican Republic - Central America Free Trade Agreement (CAFTA-DR) in 2009. Proximity with the United States is a major advantage for shipping time and for U.S. exporters who wish to visit or communicate with potential customers. In 2017, U.S. agricultural exports to Costa Rica reached a record $731.1 million and Costa Rican agricultural export were valued at US$1.6 million. It is important to note that nearly all Costa Rican agricultural exports are made up of tropical products (bananas, pineapple, cassava, ornamental plants) not produced in the United States.

Costa Rica's Agricultural Imports by Country (percentage share)

2017 Total Bilateral Agricultural Trade
US$ 2.4 billion Volume 3.1. million metric tons



Source: Ministerio de Hacienda de Costa Rica

Food Processing Industry

Most of the food processors in Costa Rica import all of their ingredients directly from exporters and a few rely on importers and distributors. They also have their own distribution channels to wholesalers, distributors and retailers, as well as to hotels, restaurants and institutional industries nationwide. Distribution channels can be different between local and imported products and are constantly changing.

Food Retail Industry

Costa Rica's retail sector is made up of supermarkets, hypermarkets, mini-marts, and *mom-and-pop* shops. Many consumers prefer to buy their groceries in smaller quantities from independent grocers. At the same time many consumers buy bulk products. In addition, consumers are price sensitive.

QUICK FACTS CY 2017

U.S. Food and Beverage Exports to Costa Rica $720 million

List of Top 10 Growth Products in Costa Rica

1) Beef, pork, poultry	6) Ingredients for food/beverage mfg.
2) Wine and beer	8) Dairy
3) Prepared/frozen Foods	9) Juices
4) Pet Food	10) Tree Nuts and Snack products
5) Chocolate and cocoa	11) Processed fruit and vegetable products

Food Industry by Channels in 2017

U.S. Food Exports to Costa Rica	**$ 720 million**
Costa Rican Imports from all sources	**$ 2.4 billion**

Top Costa Rican Retailers:

1. Walmart	**4. Saretto**	**7. PriceSmart**
2. AutoMercado	**5. Mayca**	**8. Muñoz y Nane**
3. Fresh Market	**6. Gessa**	**9. MegaSuper**

GDP/Population*

Population of Costa Rica	**5 million (4 million)**
GDP (billions USD)	**57.5* (preliminary data)**
Per capita GDP	**$11,635**
Exchange rate	**575 colones per 1 US$**

Sources:** *Central Bank of Costa Rica, 2017 BICO data

Opportunities	Challenges
Local processors are slowly increasing their production capacity and level of food quality to export to the United States.	Countries such as Mexico, Argentina and Colombia can offer competitively priced food ingredients.
Costa Rican consumers are becoming sophisticated in their food preferences.	Costa Rica's strategy is to continue negotiating free trade agreements with other countries.
The United States is Costa Rica's main trading partner. U.S. food ingredients are well-known and considered of high quality and reliable.	Business culture in Costa Rica can be slow paced than in the United States and those wishing to do business in the country should be prepared for this possible difference.
Since 2013, Costa Rica initiated a new on-line product registration system, which eventually will reduce registration times for new imported products.	U.S. exporters should also be prepared to be patient with export procedures and processes. Costa Rica has many levels of bureaucracy that can at times slow the importation of food products.

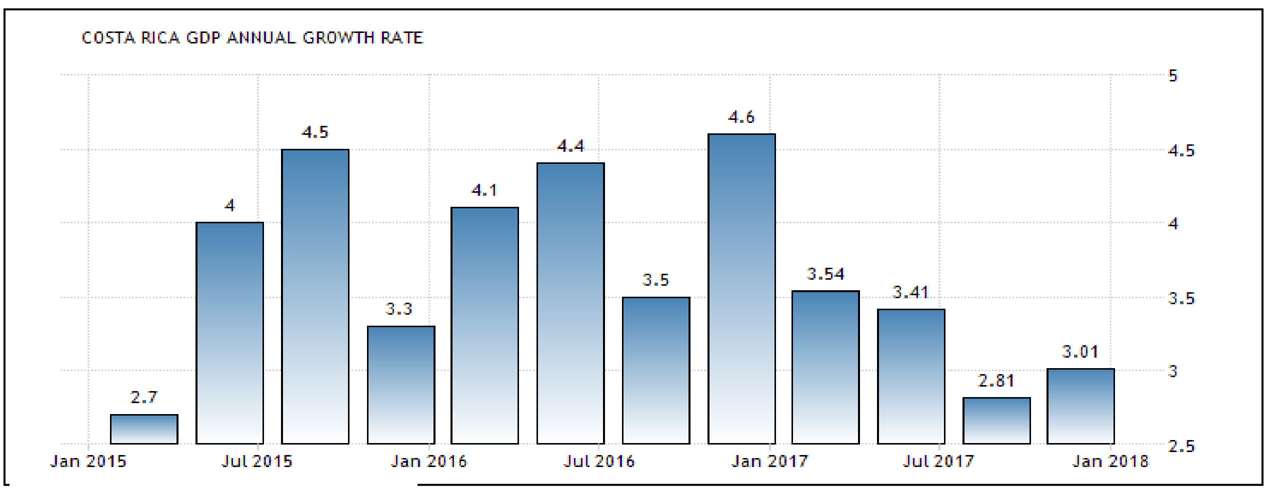
Data and Information sources: **U.S. Department of Agriculture (USDA)**
Foreign Agricultural Service AgSanjose@fas.usda.gov
Website: http://sanjose.usembassy.gov/fas.html

SECTION I. MARKET SUMMARY

The Costa Rican market of 5 million people is dynamic, evolving and uniquely challenging forU.S. exporters. Known for its adventure sites, beaches and mountain resorts, the country hosts nearly three million tourists per year, and is home to thousands of affluent expatriate retirees, which are huge consumer bases for Costa Rica's retail food consumers every year. Given the country's small population, future growth depends upon foreign direct investment (FDI) and access to international markets.

Competition continued to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers in 2018. Pricing strategies, brand loyalty registrations, cash back cards and discounts to shoppers on a regular basis are some strategies that local retailers are implementing to continue growing. Online shopping is expected to become more popular especially among mid-to high income consumers and technology millennials that always search for discounts and best savings online.

Total foreign direct investment in Costa Rica amounted to $3.3 billion in 2016 with the United States accounting for half. The Central Bank expects the economy to record growth of 3.6% in 2018 and 3.9% in 2019.



Source: Central Bank of Costa Rica

The retail sector is one of the most versatile in the Costa Rican economy. During the recent economic crisis, demand for independent grocery stores and small suppliers increased because people preferred to buy small quantities, while in times of recovery and economic boom revenues from large chains increase.

Increasing competition continued to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers in 2017. In particular, several players sought to secure larger economy of scale savings so that they could pursue more competitive pricing strategies and offer discounts to shoppers on a regular basis. The opening of small convenience stores also provides consumers an alternate option to visit small markets during the week near avoiding traffic.

Food prices are always a concern of Costa Rican consumers. Based on the market and consumer behavior it is expected that the demand for imported high-value processed food products will keep increasing in the coming years. Consumers are searching for new trendy product and international flavors.
Imported high value food products are mostly sold in supermarkets located all around the country and due to the increase of tourism and expats retiring in the coastal regions of Costa Rica there is an increase in the number of supermarkets popping up in those areas.

Costa Rica has a range of supermarkets with a variety of items and brands. Sales tax is included in the price of food and beverages at a rate of 13%. Quality and price vary among local supermarkets. Auto Mercado, is a Costa Rican owned store that is well known for being a high-end supermarket with a bigger range of foreign products and a wide selection of trendy gourmet products. Mega Super and Mas X Menos (owned by Walmart) carry some foreign products. Pali, a supermarket chain also owned by Walmart is a very basic market with limited imported goods. Maxi Pali, is the bigger version of Pali.

Costa Ricans increasingly prefer to shop in areas that are convenient to their homes or workplaces are located, especially due to their dual income households and increasing city traffic.

In 2017, total exports of U.S. consumer oriented products to Costa Rica reached a record $279 million. Imports from other countries, such as Mexico, Nicaragua, Chile, Guatemala and China include a large variety of products such as fresh fruit and vegetables, liquor, cereals and beans. Other major suppliers that seek to increase their exports to Costa Rica include El Salvador, Panama, Spain and United Kingdom.

Costa Rican food retailers encourage U.S. food manufacturers and suppliers to:

• Promote private label brands/products,
• Promote novelty food and beverage items (spawned by tourist and expat retirees),
• Become more aggressive (in all sectors: especially canned and fresh fruits and vegetables, processed foods, etc.)
• Demonstrate greater interest in 'tropicalizing' products for the Costa Rican market (tropicalizing refers to characteristics/concepts such as: packaging in smaller volumes & appropriate for the heat of the tropics; incorporating popular local flavors, i.e. fruit, etc.),
• Demonstrate greater interest in providing environmentally friendly packaging, and
• Demonstrate greater interest in Central America's smaller, but viable markets.

Advantages and Challenges for U.S. exporters in Costa Rica

Advantages	Challenges
Of the almost 5 million Costa Ricans, a large percentage of the urban Costa Rican population has a high disposable income.	High level of bureaucracy and regulatory weaknesses negatively affect importers and U.S. exporters.

Strong and steady retail market growth.	Import duties on processed/packed food and agricultural products.
The growing retail industry is interested in carrying more U.S. products, including private label goods.	Lack of importer and retailer knowledge and training in purchasing, handling, and merchandising U.S. products.
Costa Rican importers, distributors and retailers generally like trading with U.S. exporters because of the reliability and quality of service.	Free trade agreements with China and EU may increase competition.
Strong tourism sector (residential and traditional) provides opportunity for the food retail sector. More high-end grocery stores in tourist areas outside San Jose metropolitan area.	Registration of consumer-ready products process is slow and can be challenging.
Economic climate in Costa Rica is improving and the Costa Rican population is beginning to consume higher quantities of frozen and prepared foods.	Some major retailers and importers have their own cattle farms, meat processing plants, bread processing facilities, etc. reducing the need for some imports.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

U.S. products possess an outstanding reputation for quality and price-competitiveness. The lower tariffs on most processed food products as a result of the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) has resulted in higher imports of these products from the United States for the last decade. Imports of these products are expected to continue growing in the near term.

• Supermarket chains are best situated to be the main market for imported food products whose target customers are high and middle-income consumers. U.S. exporters should contact large importers, wholesalers/distributors or supermarkets directly.

• U.S. exporters can approach gas station mini-marts, grocery and convenience stores through major local suppliers (wholesalers/distributors).

• Exporters should be diligent when selecting a partner (an agent or a representative) in Costa Rica. Personal visits/meetings are highly recommended and should conduct a background check of the prospective partner before signing permanent contractual arrangement.

• The local partner should be able to provide updated information on consumer trends to identify niche markets, current market development (merchandising, point of sale and promotion activities), and business practices.

B. Market Structure

The setup and layout of most Costa Rica's new supermarkets are similar to U.S. grocery stores.

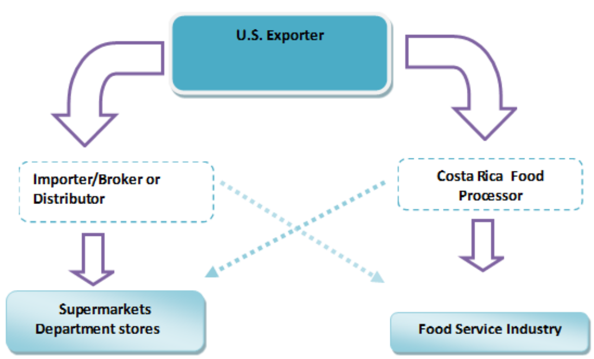
Costa Ricans usually make their major grocery store purchases every two weeks. Going to the large, new, brightly lit stores with aisles upon aisles of food selection and options from all over the world has turned into an experience that can occupy hours of a family's time. Supermarket purchases are supplemented with smaller purchases at the traditional neighborhood store called pulpería or at 'mini-supers.' (See section on Traditional Markets).

As the five mega-retailers try to win new customers, some of these stores compete not only on price and selection but also on providing numerous additional services under the same roof such as ATM/banking services, office services, coffee bars and dry cleaning.

Most large supermarkets also offer a combination of 'loyalty points,' their own credit cards, and a number of other amenities to further entice and win-over customers.

The trend of buying online in the country is increasing. In Latin America, 8 of every 10 consumers seek information about products and services on the internet before buying. Several supermarkets, for example, offer the option to order online and have the products delivered. However, many people are unfamiliar with the technology and, fear to buy online due to the possibility of fraud.

C. Channels of distribution in Costa Rica for major Supermarkets and Wholesale Clubs Flow Chart



• Suppliers to major supermarkets have a wide range of distribution channels ranging from those for fancy foods to those for foods for mass consumption.
• Major food importers/distributors supply all major supermarket chains and provincial retailers.
• Distributors and wholesalers constantly sponsor in-store promotional activities. They have the support of personnel in every store and all distribution channels.

Gaining prominence in recent years, supermarkets have reported sales growth of about 20 percent in the last two years in Costa Rica and this rate is expected to continue as supermarket chains routinely open new stores. While the majority of supermarkets are located in urban areas, they are gaining ground in rural settings as well. As retail supermarkets expand their reach and

consumer base, they present an excellent opportunity for increased exports of agricultural products and processed foods; more that 50 percent of the groceries in these outlets are estimated to be imported, with 32 percent of these imports from the United States. The five major supermarket retailers are : Wal-Mart (United States), Gessa (Costa Rica), AutoMercado (Costa Rica), Price Smart (United States), and Megasuper (Colombia). In November 2015 a new chains of supermarkets from Honduras "La Antorcha" opened one store at the new City Mall located in Alajuela.
The Business Group Supermercados (Gessa) plans to increase its brand with a better marketing image in its Saretto, Perimercados and Super Compro stores. It will invest approximately $8 million.

AMPM, Fresh Market and Vidi stores, similar to 7-Eleven convenience stores, are increasing their presence. Costa Ricans are increasingly warming up to these stores, which are slowly displacing the traditional pulperias that can still, be found in working-class suburban neighborhoods and rural communities.

There are more than 20,000 pulperias and mini-marts in Costa Rica, but many are being displaced by the growth of supermarkets (particularly by Pali and Mas x Menos, owned by Wal-Mart) and the new convenience stores. Older Costa Ricans still remember the joys of being sent to the pulperia on an errand by their parents and walking out with free candy courtesy of the shopkeeper. The pulperias were often lifesavers for families who lived paycheck to paycheck since they could always trust on the shopkeeper to sell them groceries on credit.

The retail sector is rapidly expanding; supermarket and hypermarket chains are expanding into multiple markets in the region. Major retailers offer a wider variety of products with competitive pricing, and convenience stores are still quite popular. Importers may also be wholesalers and have national distribution.

SECTION III. COMPETITION

The United States is Costa Rica's main trading partner and Costa Rican consumers are receptive to imported U.S. products. Locally produced products that present competition to U.S. exporters include: meats (processed), dairy products, coffee, spices and condiments (sauces), vegetable oils, candies and chocolates, pasta, snacks, bakery and pastry products, soups (powder), beverages (beer, bottled water, fruit juices), and, of course, tropical vegetables and fruits
.

TOTAL IMPORTS INTO COSTA RICA AND MAIN COMPETITORS IN 2017

Product Category	Main	Competitors	%	Total US$
Beverage (not alcohol)				
HS Code: 2201, 1302, 2009,2202	1	United States	37%	$ 26.592.090
Imports in 2017 53.848 tons	2	Guatemala	14%	$10.407.062
Total imports **US$ 70.234.786,79**	3	El Salvador	9%	$5.983.719

Product Category	Main	Competitors	%	Total US$
Dairy Products				

HS Code: 0401:0406	1	United States	32%	$ 17.413.192
Imports in 2017 : 21.406 tons	2	Panama	17%	$ 9.331.860
Total imports **US$ 55.027.600,00**	3	Chile	13%	$ 7.700.937

Product Category	Main	Competitors	%	Total US$
Wine & Spirits				
HS Code: 0204, 2205, 2208	1	United Kingdom	20%	$ 11.651.368
Imports in 2017 : 19.385 tons	2	United States	15%	$ 8.487.598
Total imports **US$ 56.052.481**	3	Spain	11%	$ 6.037.952

Product Category	Main	Competitors	%	Total US$
Nuts				
HS Code: 0801, 0802, 0908	1	United States	52%	$ 5.097.927
Imports in 2017 : 1,674 tons	2	Vietman	19%	$ 1.867.738
Total imports **US$ 9.713.807**	3	Guatemala	10%	$980.95

Product Category	Main	Competitors	%	Total US$
Meat fresh or chilled				
HS Code: 0201:0210, 1601:1602	1	United States	49%	$ 68.031.824
Imports in 2017 : 39.507 tons	2	Nicaragua	22%	$ 31.165.308
Total imports **US$ 137.834.539**	3	Chile	18%	$ 25.379.703

Product Category	Main	Competitors	%	Total US$
Snack Foods and Chocolate products				
HS Code: 1704, 1904:1905 & 1806	1	United States	28%	$ 45.935.968
Imports in 2017 : 54.722 tons	2	Mexico	17%	$ 28.911.385
Total imports **US$ 162.327.525**	3	Guatemala	15%	$ 25.650.557

Product Category	Main	Competitors	%	Total US$
Dog and Cat Food				
HS Code: 2308:2309	1	United States	31%	$ 31.317.609
Imports in 2017 : 52.851 tons	2	United Kingdom	25%	$ 24.966.580
Total imports **US$ 98.643.350**	3	Mexico	22%	$ 22.314.159

Product Category	Main	Competitors	%	Total US$
Fish Products				
HS Code: 0302:0304	1	Panama	30%	$ 18.784.312
Imports in 2017 : 25.060 tons	2	China	27%	$ 16.649.212
Total imports **US$ 61.230.020**	3	Vietnam	9%	$ 6.016.806

Source: Treasury Ministry of Costa Rica - Customs Department – Statistics Census INEC

SECTION IV. BEST PRODUCT PROSPECTS

Many promising export opportunities exist for high-value consumer products from the U.S. to Costa Rica. The signing of CAFTA-DR in 2009 cleared the way for U.S. exports to enter Costa Rica, and since then U.S. exports have grown robustly. The economic outlook in Costa Rica is promising as well; economic growth is steady and a solid base of middle to upper-class consumers is expanding in the country. Additionally, U.S. food products and food companies continue to penetrate the market in Costa Rica as the Costa Rican public is both receptive and accustomed to U.S. food products.
American food companies, restaurants, and supermarket chains, have been highly successful in Costa Rica and have a strong presence in the country.

In general, the most favorable prospects continue to be processed products, dairy products, snacks, sausage and condiments, beef, poultry, wine and beer, but the area of high value products continue to offer good market opportunities as well. In recent years, consuming more convenience and healthy foods has been the trend and has resulted in good prospects for U.S. exports of fresh fruit (mainly apples, grapes, peaches and pears), processed fruits and vegetables (especially canned fruits), and snack foods (including chips, cookies and candies). Processed fruits and vegetables, especially mixed fruits, mixed vegetables, yellow and sweet corn, peas, mushrooms, and garbanzo beans generate strong import demand.

Snack foods continue to gain popularity and exhibit positive consumption trends. In particular, bakery and confectionary products are showing impressive levels of growth as are savory chips and snacks. Competition in the snack food market is present from United States, Mexico and Guatemala as well as from domestic production. However, domestic production of snack foods, particularly of confectionary goods, also presents opportunities for U.S. exporters of food ingredients. Domestically produced snack foods are widely distributed throughout the country but are consumed principally by middle to lower-income consumers. Imported snack foods, in contrast, are targeted most directly at higher-income customers, and while they too enjoy wide distribution throughout the country, are found mainly in supermarkets and larger retail outlets.

Demand for healthy and/or gourmet snack items is increasing. Snacks with natural ingredients, dried fruits, whole wheat, and high-quality ingredients are gaining ground with health conscious consumers. This trend for healthy products is not limited to snack foods either; demand for niche food items such as organic shelf products or gluten-free goods is expanding which bodes well for U.S. exporters wishing to capitalize on this trend.
Meat exports to Costa Rica demonstrate new opportunities for U.S. exporters as well. Pork products stand out as having great export potential; bacon, ham, and pork leg (especially during the winter months) are all popular imports. Exports of processed meats, prepared meats, and preserved meats expanded significantly, and consumption of prepared meats continues to grow.

Exports of dairy products, notably yogurts, are growing quickly and present superb export potential. Yogurt especially is gaining favor amongst Costa Rican consumers and imports of

U.S. yogurt are high; room exists in the market for new brands, including specialty varieties such as Greek yogurt.

Other export sectors with impressive levels of growth include breakfast cereals, nuts, pet food and alcoholic beverages. Pet food exports to Costa Rica are expected to continue to grow. Many established U.S. pet food importers are present in Costa Rica and consumers are increasingly willing to spend more on pet food products as income level in the country rises. Costa Rican pet food manufacturers also import a high percentage of their ingredients directly from the United States, representing yet another potential market for U.S. entry. Wine and beer imports have also been making a splash in Costa Rica. The Costa Rican public is particularly receptive to U.S. beers, which though a small percentage of the market, have rapidly been gaining visibility it recent years. Costa Rican beer importers continue to seek high-value high-quality U.S. beers for introduction to the public at large.

Top Consumer-Oriented products imported form the United States

Area/Partners of Destination
And Commodities Exported

January - December
Cumulative To Date Values in Millions of dollars

Partner	Product	2013 Value	2014 Value	2015 Value	2016 Value	2017 Value	Jan - Mar 2017 Value	Jan - Mar 2018 Value	Period/Period % Change (Value)
Costa Rica	Agricultural Products	485	610	650	702	720	170	167	-1
Costa Rica	Bulk Total	185	295	300	332	350	81	64	-21
Costa Rica	Consumer Oriented Total	210	225	250	274	279	66	72	9
Costa Rica	Prepared Food	27	28	29	34	33	8	8	1
Costa Rica	Poultry Meat & Prods. (ex. eggs)	16	15	20	29	31	8	7	-23
Costa Rica	Processed Vegetables	24	26	28	27	25	6	7	14
Costa Rica	Snack Foods NESOI	20	19	19	22	23	6	5	-18
Costa Rica	Dairy Products	13	17	15	20	21	5	7	52
Costa Rica	Dog & Cat Food	14	16	19	20	20	5	5	9
Costa Rica	Fresh Fruit	21	21	25	19	17	3	4	26
Costa Rica	Chocolate & Cocoa Products	10	12	14	16	15	4	3	-28
Costa Rica	Pork & Pork Products	13	14	13	14	15	4	4	19
Costa Rica	Beef & Beef Products	6	7	12	15	14	3	4	41
Costa Rica	Fruit & Vegetable Juices	8	9	7	7	12	2	3	92
Costa Rica	Tree Nuts	8	7	9	9	10	2	2	2
Costa Rica	Non-Alcoholic Bev. (ex. juices)	4	6	6	8	10	2	2	12
Costa Rica	Condiments & Sauces	7	6	7	10	10	2	3	37
Costa Rica	Wine & Beer	4	4	7	8	8	1	1	5
Costa Rica	Processed Fruit	4	4	3	4	5	1	1	-28
Costa Rica	Other Consumer Oriented	5	5	6	4	4	1	1	69
Costa Rica	Breakfast Cereals	3	4	3	3	3	1	1	23
Costa Rica	Meat Products NESOI	1	2	2	1	2	1	1	20
Costa Rica	Eggs & Products	3	4	5	2	2	-	1	343
Costa Rica	Fresh Vegetables	1	1	1	1	1	-	-	-50
Costa Rica	Intermediate Total	91	90	101	95	91	23	32	39
Grand Total		485	610	650	702	720	170	167	-1

Notes:
1. Data Source: U.S. Census Bureau Trade Data
2. Product Group: BICO-HS10

SECTION V. POST CONTACT AND FURTHER INFORMATION

Contact Information for FAS Office in Costa Rica

U.S. Department of Agriculture (USDA)/ Foreign Agricultural Service (FAS)
Email: AgSanjose@fas.usda.gov
Website: http://sanjose.usembassy.gov/fas.html

For further details on exporting please see our 2015-16 FAIRS Report http://fasintranetapps-gain.fas.usda.gov