USDA Foreign Agricultural Service
**GAIN Report**
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 12/15/2006

**GAIN Report Number:** VE6016

# Venezuela

# Retail Food Sector

# The Retail Sector in Venezuela

# 2006

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**Report Highlights:**
Supermarkets in Venezuela continue to provide U.S. exporters with one of the most important point of sale. Both the public and private sectors serve Venezuela's retail food sector. There are 116,082 retail stores in Venezuela selling food and beverages, a figure that includes supermarkets (chain and independents), mom & pops, and government-owned stores. Most of the Venezuelan supermarkets have modern stores to offer quick, high-quality service to customers. Imports of consumer-oriented products from the United States grew from US$34 to US$75 million between 2003 and 2005.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Caracas [VE1]
[VE]

## SECTION I. MARKET SUMMARY

Most of the supermarkets in Venezuela are owned by descendants of Portuguese immigrants who came to Venezuela in the 1950's. Then, the sector was characterized by many disparate, small groups of outlets called "bodegas" or "abastos" that did not have sophisticated import mechanisms or customer service in place. However, the sector has changed significantly since the 1980's, and today most of the supermarkets have modern stores to offer quick, high-quality service to customers.

One of the reasons for this change is that the new generation of supermarket owners have attended international trade shows like the Food Marketing Institute Show (FMI), Fancy Food Show and Produce Marketing Association Show (PMA), where they have learned the latest trends in the sector including technology. And, of course, some have been educated in the U.S. and/or have visited frequently.

Both the public and private sectors serve Venezuela's retail food sector. The public sector is represented by the government. The Government of Venezuela (GOV) has created state-owned food production facilities and a distribution system becoming a strong competitor to traditional supermarkets. Products offered through the government's network of retail stores are sold at lower prices as compared to traditional supermarkets. The private sector is represented by hypermarkets, supermarkets and small outlets. Most of the major supermarket and hypermarket chains in Venezuela belong to the National Supermarket Association (ANSA).

**Venezuela's food retail market is characterized by an exchange control policy and a price control scheme:**

### Exchange Rate Policy

Currency trading was suspended on January 22, 2003 and an exchange control regime has been in place since February 5, 2003. At that time, the exchange rate was set at Bs 1,600/US$. The rate can be adjusted as necessary by an agreement between the Central Bank and the Ministry of Finance. Adjustments occurred in February 2004 and again in 2005. Currently, the exchange rate is set Bs 2,150/US$.

Importers must register with CADIVI (Foreign Exchange Administration Commission) for formal applications for foreign currency transactions. When approved, the transactions are then liquidated through the Central Bank and finally through commercial banks. A complete list of imported agricultural products that can be imported at the official foreign exchange rate can be found at http://www.cadivi.gov.ve. The list should be checked periodically as products are added or removed by CADIVI without previous notice.

### Food Price Controls

With the objective of keeping food products available at reasonable prices, the Government of Venezuela implemented price controls on February 11, 2003. This move was made in conjunction with the imposition of a strict exchange rate policy, and was an attempt by the government to help restrain inflation. There is no indication that the GOV will lift price controls in the short term. Large stores, such as the hypermarkets, supermarket chains, and established butcher shops are required to sell products at the established price.

Products under price controls are: rice, oatmeal, corn flour, wheat flour, bread, pasta, sugar, coffee, salt, beef, pork meat, poultry, eggs, sardines, tuna, corn oil, sunflower oil, vegetable blended oil, powdered milk, milk infant formula, white cheese, margarine, lentils, peas, black beans, mayonnaise, tomato sauce and mortadella (bologna). For additional information refer to GAIN report VE6001.

## A. PUBLIC FOOD RETAIL SECTOR

### MERCAL

Created in April 2003, MERCAL or "Mercado de Alimentos C.A.", markets food products at very low prices. The program is focused on a government- subsided basic basket of products to the poor classes (D & E). Products include: dry milk, precooked corn flour, black beans, rice, vegetable oil, sardines, pasta, sugar, mortadella (bologna), margarine, deviled ham, eggs, mayonnaise and sauces.

MERCAL's food distribution web has expanded to 15,725 points of sales that includes mostly small stores (see table 1). Food purchases are carried out directly by a government entity called CASA, or "Corporacion de Abastecimiento y Servicios Agricolas", which was originally created in August 1989. CASA is in charge of purchasing domestic and imported food and agricultural products. Many of the products sold at MERCAL are under CASA's private label. The prices at MERCAL are 32% on average lower than the controlled-priced products sold by supermarkets (see table 2).

During 2003, imported foods represented 70% of all products offered at MERCAL stores, with the remaining 30% sourced locally. Currently, CASA has stated that it only imports about 40% of its food products, with the remaining products purchased locally.

There are different formats of MERCAL:
**MERCAL type I:** These stores are owned and run by the government (154 square meters and more).
**MERCAL type II**: These stores belong either to the government or the private sector. Prices are the same that in those stores Type I.
**Supermercal**: These are the biggest stores (440 square meters and more), managed either by the government or the private sector.
**Mercalitos:** Small mom & pops. These stores are privately owned (franchised) and can directly purchase CASA's food products.
**Moviles:** Trucks selling MERCAL products to different poor areas.

**Table 1. MERCAL IN NUMBERS**

| FORMATS | NUMBER OF VENUES |
|---|---|
| MERCAL I | 210 |
| MERCAL II | 1,005 |
| SUPERMERCAL | 33 |
| MERCALITO (Mom & pops) | 13,973 |
| MOVILES | 393 |
| DISTRIBUTION CENTERS | 111 |
| **TOTAL** | **15,725** |

Source: Mercal's web page

**Table 2. MERCAL PRICES**
Mercal prices are in average 32.11% lower than government regulated prices.

| Product | Mercal price (Bolivares)* | Regulated price (Bolivares)* | Difference |
|---|---|---|---|
| Beef | 2,700 | 4,500 | -40% |
| Corn Flour | 890 | 1,250 | -29% |
| Soy Milk | 4,200 | 21,850 | -81% |
| Powder Milk | 4,700 | 7,773 | -40% |
| Margarine | 1,300 | 2,040 | -36% |
| Mayonnaise | 4,000 | 5,250 | -24% |
| Mortadela (bologna) | 1,900 | 4,000 | -53% |
| Pasta | 1,100 | 1,740 | -37% |
| Chicken | 1,900 | 3,130 | -39% |
| White Cheese | 5,000 | 5,200 | -4% |
| Salt | 200 | 400 | -50% |
| Ketchup | 900 | 1,200 | -25% |
| Sardines | 420 | 530 | -21% |

Source: Mercal's web page
*US$1 = 2,150 Bolivares

**State-Owned Enterprises**

The Venezuelan Agricultural Corporation (CVA) is a state-holding enterprise created in 2004, with the following processing subsidiaries: CVA Cereals and Oilseeds; CVA Dairy; CVA Sugar and CVA Inputs. The main objective of the CVA's is to supply the demand of the state-owned food distribution chain, MERCAL. According to CVA's regulations published in the official gazette, these industries will not only produce pre-cooked corn flour, pastas, milled rice, powdered milk, refined sugar and various agricultural inputs though the establishing of processing plants, but also are entitle to import and export raw and processed food. These are still not functioning at full capacity.

## B. PRIVATE FOOD RETAIL SECTOR

There are 1,154 retail stores in Venezuela selling food and beverages, a figure that only includes supermarkets (chain and independents). It is estimated that there are 98,353 traditional “abastos” or “bodegas” (mom & pops), that are located on practically every block in Venezuela’s cities and towns, specially in middle-and low-income neighborhoods (see table 3).

**Food imports and distribution:** US exporters normally ship their product to distributors that import, stock and deliver to the retailer’s distribution center or individual stores. Makro, Exito, CADA, and Central Madeirense are all capable of direct purchasing and may deal directly with foreign suppliers. However, even the largest retailers depend heavily on local distributors for imported products.

The smaller supermarkets, local chains and independent supermarkets purchase through distributors and specialized importers.

The major retailers are developing increasingly sophisticated distribution systems. However in the case of frozen foods and perishables, retail stores still depend heavily on local distributors. In general, Venezuelan infrastructure for handling frozen and refrigerated products needs improvement.

### Trends

- Major private retailers are visited by consumers from all socioeconomic levels, although primarily clients tend to be from the middle and upper-income groups. Classes D & E tend to visit more frequently the government-owned stores because of the lower prices.

- Supermarkets and department stores continue to provide US exporters with the best point-of-sales.

- E-commerce is in the early stages and could be a promising area for growth with major supermarkets now allowing consumers to order on-line or by e-mail for home delivery.

- Store hours are beginning to lengthen, with the addition of Sundays, holidays and uninterrupted service from 8:00 a.m. to 9:00 p.m. and in some cases until 10:00 pm.

- The 24-hour-format is not common in most parts of Venezuela for security reasons. Most commercial businesses close before 9:00 p.m. However, major supermarket chains like Excelsior Gama and CADA have some of their stores open 24 hours.

- Hypermarkets, major supermarkets, and some independent supermarkets have created their own brands, which have been well accepted by consumers; they are considering the expansion of these product lines.

- Marketing, through TV commercials, radio, and newspaper inserts is common. Supermarkets and hypermarkets like PLAZA’S, MAKRO, EXITO, EXCELSIOR GAMA and CENTRAL MADEIRENSE have been successful by placing their catalogs in newspapers as weekend-issue inserts.

- A major expansion of convenience stores is anticipated, as gas stations begin to add them to their facilities. But it should be noted that bakeries have traditionally served as convenience stores for Venezuelan consumers. Bakeries continue to be the outlets closest to home, where consumers can buy a range of products for everyday use such as bread, milk and dairy products, coffee, newspapers, soft drinks, and snacks, as well as processed meats. Most of them also make sandwiches and other simple foods, and they sell cakes and other gift products. Venezuelans are not accustomed to shopping at gas stations, except when driving along an intercity highway.

- There is an increasing application of information-recording and processing technology, including price readers, scanners, bar codes, affiliation cards to detect individual consumption habits, etc.

**Trends in Services Offered By Retailers**

- Major supermarket chains are preparing and selling meals for consumption at the store or carry-out (Home Meal Solutions - HMS), as a way of attracting customers.

- Makro, Exito and Koma among others (hypermarkets format) are beginning to add fast food services within the store. In some cases these services are rendered by international franchises.

- Most supermarkets chains are devoting space and assigning equipment to frozen foods.

- Specific shelves are increasingly being devoted to the foods targeted toward ethnic and religious communities. Organics are not common because of the high prices. However, there are a few organic stores opening in the country.

**Table 3. RETAIL OUTLETS IN VENEZUELA (SELF SERVICE)**

| TYPE OF STORE | NUMBER OF STORES |
|---|---|
| Supermarkets (Independent) | 973 |
| Supermarkets (Chain) | 181 |
| Drugstores | 629 |
| Liquor stores | 189 |
| Hypermarket Cash & Carry | 32 |
| Traditionals (not self service) including "Abastos" (Mom & pops) | 98,353 |
| **Total** | **100,357** |

Source: National Supermarkets Association (ANSA), 2004 figures.

**Table 4. MAJOR RETAILERS IN VENEZUELA**

| RETAILER NAME | OUTLET TYPE | NUMBER OF STORES |
|---|---|---|
| CENTRAL MADEIRENSE | SUPERMARKET | 44 |
| CADA | SUPERMARKET | 41 |
| UNICASA | SUPERMARKET | 29 |
| SAN DIEGO | SUPERMARKET | 12 |
| PLAZA'S | SUPERMARKET | 11 |
| COMERCIAL REYES | SUPERMARKET | 10 |
| EXCELSIOR GAMA | SUPERMARKET | 10 |
| FLOR C.A. | SUPERMARKET | 7 |
| VIVERES DE CANDIDO | SUPERMARKET | 6 |
| SUPREMO | SUPERMARKET | 6 |
| EL PATIO | SUPERMARKET | 5 |
| DON SANCHO | SUPERMARKET | 4 |
| LUVEBRAS | SUPERMARKET | 4 |
| FRONTERA | SUPERMARKET | 4 |
| SUPER ENNE | SUPERMARKET | 4 |
| LUZ | SUPERMARKET | 3 |
| SAN TOME | SUPERMARKET | 3 |
| SAGRADA FAMILIA | SUPERMARKET | 3 |
| MERCATRADONA | SUPERMARKET | 3 |
| SU CASA | SUPERMARKET | 3 |
| SIGO | SUPERMARKET | 3 |
| FRANCIS | SUPERMARKET | 2 |
| LICARCH | SUPERMARKET | 2 |
| LOS CAMPITOS | SUPERMARKET | 2 |
| REY DAVID | SUPERMARKET | 2 |
| EL DIAMANTE | SUPERMARKET | 2 |
| LA PAZ | SUPERMARKET | 2 |

| RETAILER NAME | OUTLET TYPE | NUMBER OF STORES |
|---|---|---|
| MAKRO | HYPERMARKET | 22 |
| EXITO | HYPERMARKET | 7 |
| CENTRAL MADEIRENSE | HYPERMARKET | 1 |
| EL NUEVO MERCADO | HYPERMARKET | 1 |
| EUROMERCADO | HYPERMARKET | 1 |
| SAN DIEGO | HYPERMARKET | 1 |
| GARZON | HYPERMARKET | 3 |
| JUMBO MARACAY | HYPERMARKET | 1 |
| TELEMUNDO | HYPERMARKET | 1 |
| KROMI MARKET | HYPERMARKET | 1 |
| LA FRANCO ITALIANA | HYPERMARKET | 1 |
| LHAU | HYPERMARKET | 2 |
| MERKAPARK | HYPERMARKET | 1 |
| PLAN SUAREZ | HYPERMARKET | 2 |
| RATTAN MARGARITA | HYPERMARKET | 2 |
| SANTO TOME | HYPERMARKET | 1 |
| SUPER LIDER CAGUA | HYPERMARKET | 1 |
| VIVERES DE CANDIDO | HYPERMARKET | 2 |

*Supermarkets with only one store are not included

**Private Labels**

Compared to other countries in Latin America, the introduction of private labels in Venezuela has been slow. However, they now account for 5% of total supermarket sales as opposed to 3% in 2003 (this excludes CASA private label sales). Retailers are introducing more private labels because they want to give more options to customers. According to some studies from private research companies, there is more awareness of private labels by the retail sector as well as the consumers. The main reason for buying private labels products in Venezuela is the price. Consumers' opinion of private labels has changed for the better due to improved quality.

**Table 5. Advantages / Challenges for U.S. Exporters targeting Venezuela's Retail Sector**

| Advantages | Challenges |
|---|---|
| ➢ Venezuelan consumers consider U.S. products to be high-quality. | ➢ Government imposed foreign exchange control and price control. |
| ➢ Many Venezuelan make frequent trips to the U.S. and are influenced by its culture. | ➢ Imported products are expensive for most consumers, who are very price-sensitive. |
| ➢ Retail stores are modernizing and adding more freezer space to accommodate frozen foods. | ➢ Venezuelan infrastructure for handling frozen and refrigerated products needs improvement. |
| ➢ Proliferation of malls and accompanying expansion in the retail establishments using U.S. products. | ➢ Mercosur countries have trade agreements with Venezuela giving them preferential duties for some products. |
| ➢ Local retailers see U.S. suppliers as a reliable source in terms of volume, standards and quantity. | ➢ Increased difficulty in obtaining import permits and food registration numbers. |
| ➢ Two thirds of the population is below 30 years of age and are heavily influenced by U.S. culture through media, and are observed to be very open to ready-to-cook, and ready-to-eat imported food products. | ➢ Parallel exchange rate (black market) resulting in U.S. products becoming expensive, can shift buyers' purchases to source cheaper alternatives to keep current market prices in a very price sensitive market. |
| ➢ Rising per capita income. More women in the workforce are driving the demand for imported foods. | |

## SECTION II. ROAD MAP FOR MARKET ENTRY

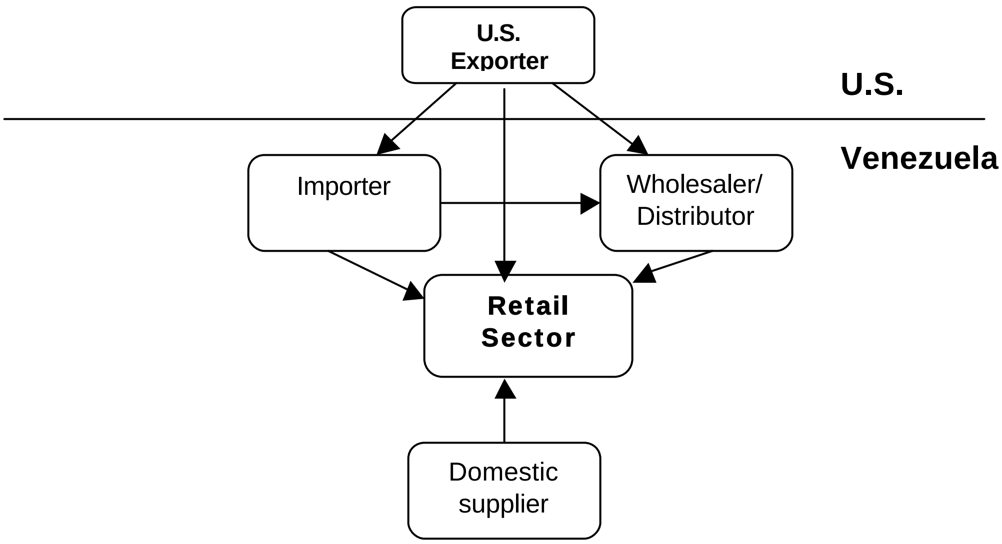
### A. ENTRY STRATEGY

❖ U.S. exporters can approach the Venezuelan retail sector through a large importer, a large wholesaler/distributor or a specialized importer.

❖ Market is highly price-sensitive. While American products are usually highly regarded for their quality and product consistency (which gives them a certain advantage in terms of pricing premium as compared to competing products), Venezuelan consumers are extremely resistant to price increases.

- Regardless of which strategy is chosen, personal visits are highly recommended to get to know your buyer. The local partner should be well-known by the U.S. company before any permanent contractual arrangement is made. That partner should be able to provide updated information on market consumer trends, on current market development and trade business practices.

### B. MARKET STRUCTURE




- Wholesalers/distributors play an important role in this market structure, diversifying their purchases from U.S. exporters and local importers. Some large retailers import directly from U.S. suppliers.

- Negotiations with wholesalers and distributors may include exclusive or semi-exclusive contracts with limitations on geographic areas covered by competitors.

## SECTION III. COMPETITION

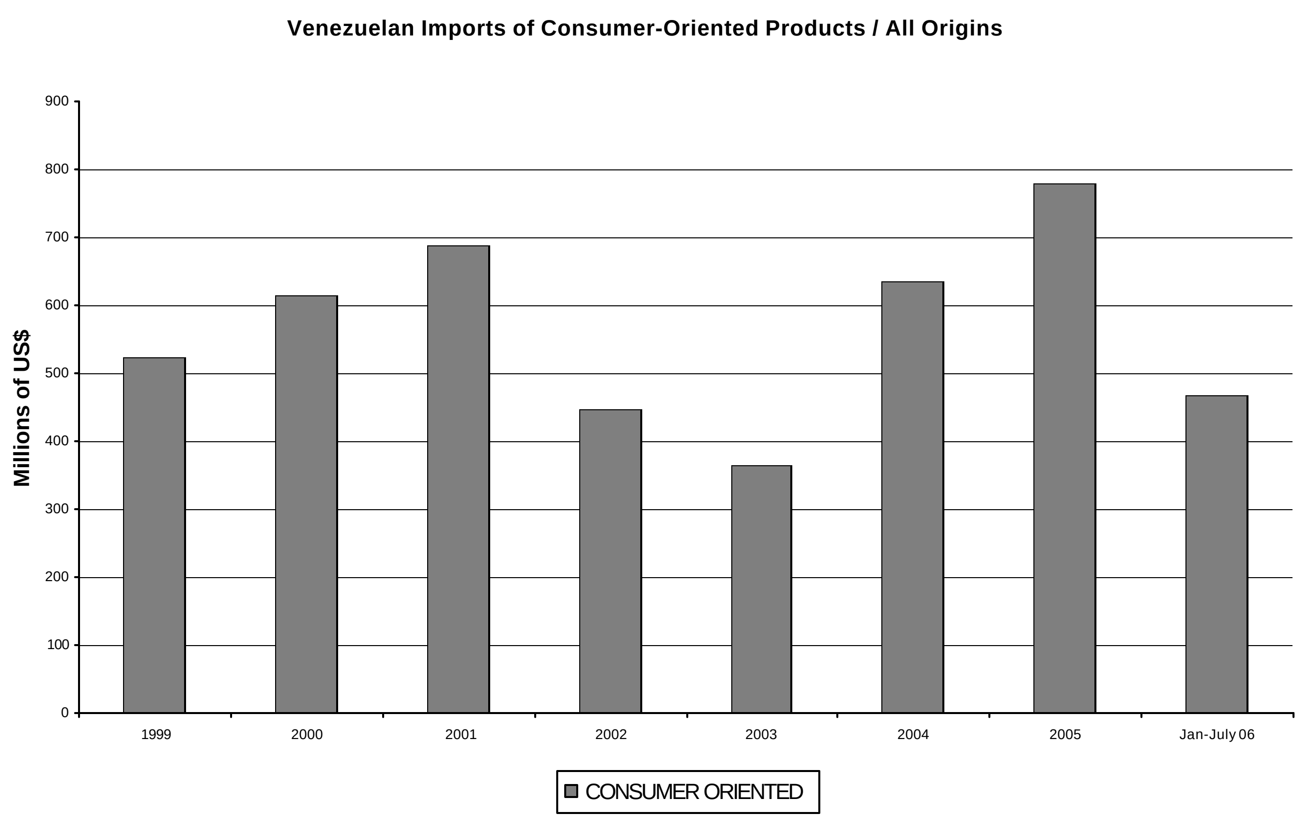
Local producers are the main suppliers of consumer-ready products. Venezuela has a relatively strong food processing industry and leading Venezuelan brands have excellent distribution networks, are well-positioned in the market and enjoy high brand awareness with consumers. Some of these companies include: Empresas Polar (rice, corn flour, beverages, beer, pasta, mayonnaise, vegetable oils, ice cream among others), Alfonzo Rivas & CIA (cereals, condiments, canned foods), Pastas Capri, Pastas Sindoni, Monaca, Mocasa and many others.

There are also several multinational producers/importers in Venezuela, including: Alimentos Heinz, General Mills, Kellogg's, Kraft Foods, Procter & Gamble, Frito Lay-Pepsico, Nestle, Bimbo, Cargill.

For some products the local brands are preferred. For example, pasta is a staple in the Venezuelan diet, and pasta consumption continues to be one of the highest in the world with 13.5 kilos per capita. Venezuelan pasta is produced with a high-quality durum wheat by Italian masters at a low price. U.S. penetration of this market would be nearly impossible. As another example, bread and roll consumption is around 35 kilos per capita per year and sweet goods, cookies and crackers consumption is 5.5 kilos per capita per year indicating a strong market. However, there are a lot of local companies supplying this sector.

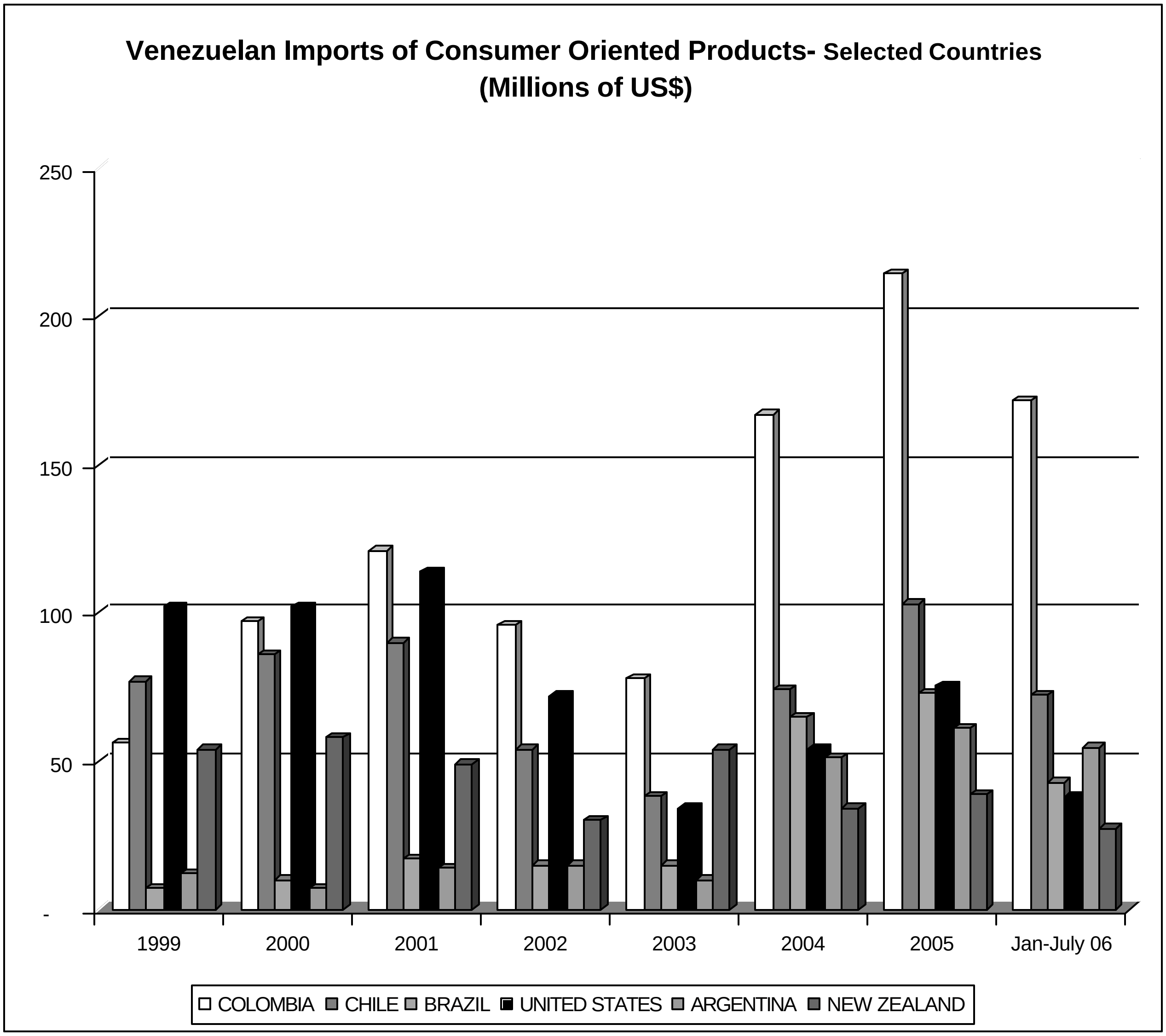
Imports of consumer-oriented products have increased significantly in the last couple of years, from US$365 million in 2003 to US$780 in 2005 (see table 6).

**Table 6.**



Competition among importers depends on the category. Processed-food products are imported mainly from South American countries, primarily Colombia, Chile, Brazil, and Argentina. Imports of consumer-oriented products from the United States grew from US$34 to US$75 million between 2003 and 2005 (see table 7).

**Table 7.**



## SECTION IV. BEST PRODUCT PROSPECTS

**Table 8.** The best products prospects in the Venezuelan retail market are as follows:

**VENEZUELAN IMPORTS OF SELECTED CONSUMER ORIENTED PRODUCTS OF ALL ORIGINS (millions of $)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| SNACK FOODS (EXCL. NUTS) | 77 | 86 | 61 | 45 | 92 | 127 |
| BREAKFAST CEREALS & PANCAKE MIXES | 10 | 15 | 10 | 4 | 5 | 10 |
| POULTRY MEAT | 3 | 1 | - | 5 | 30 | 44 |
| DAIRY PRODUCTS | 191 | 227 | 150 | 156 | 182 | 216 |
| FRESH FRUITS | 63 | 61 | 26 | 10 | 18 | 37 |
| FRESH VEGETABLES | 39 | 17 | 11 | 10 | 13 | 11 |
| PROCESSED FRUIT & VEGETABLES | 82 | 88 | 60 | 49 | 81 | 94 |
| FRUIT & VEGETABLE JUICES | 10 | 15 | 10 | 3 | 4 | 7 |
| TREE NUTS | 9 | 10 | 5 | 5 | 9 | 17 |
| PET FOODS | 23 | 31 | 32 | 13 | 24 | 36 |

*Source: SENIAT as reported to World Trade Atlas*

## SECTION V. POST CONTACT AND FURTHER INFORMATION

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