

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **El Salvador**

### **Retail Foods**

#### **Retail Food Sector**

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**Report Highlights:**

El Salvador's imports of U.S. consumer oriented products reached a record \$77.9 million in 2009. Best prospects for U.S. food products include breakfast cereals, red meats, poultry meat, dairy products, fresh fruit, processed fruit and vegetables. There are 167 supermarkets located nationwide handling approximately 50% of the retail food market.

**Post:**

San Salvador

**Author Defined:**

## SECTION I. MARKET SUMMARY

Country Snapshot

- El Salvador is located in Central America and shares borders with Guatemala and Honduras. With a total area of 8,123 square miles (21,040 km<sup>2</sup>), and a population of approximately six million people, El Salvador has one of the highest population densities in the region. It is the smallest country in Central America, and its capital city is San Salvador.
- With a Gross Domestic Product (GDP) estimated at US\$41.7 billion, El Salvador has the third largest economy in the region behind Guatemala and Costa Rica.
- The U.S. dollar is the official currency. El Salvador enjoys excellent macroeconomic stability, low inflation, and one of the lowest interest rates in Latin America.
- The United States is the most important trading partner of El Salvador: trade with the United States accounts for 50 and 40 percent of Salvadoran imports and exports, respectively.
- Imports from neighboring countries (Guatemala, Mexico, Nicaragua, Honduras, and Costa Rica) include a large variety of products such as fresh fruits and vegetables, meats, cereals, and beans. Other major suppliers that seek to increase their exports to El Salvador include Canada, Chile and Panama.
- The U.S.-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered its 4th year of implementation in El Salvador on March 1, 2010. CAFTA-DR has created a more active, clear and efficient trade procedure in which consumers are expected to receive all the benefits.
- Like the rest of Central America, El Salvador offers an open market for U.S. goods and services. Tariffs were relatively low for U.S. products and were reduced further with the implementation of CAFTA-DR. The value-added tax (VAT) is relatively high at 13 percent. Standards are based on the International Standards Organization (ISO) or Colombian, Mexican, and U.S. standards are used as reference points. Labeling and testing are not major issues.
- El Salvador has a stable economic system; however, it was not excluded from the world economic crisis which forced the country to change import strategies. Retailers joined forces with other supermarket in the region to pool import volumes in order to receive better prices, with a focus on improving their distribution systems as well.
- The Government of El Salvador (GOES) has announced a medium term objective to become a logistics/shipping hub for Central America, something supported by the construction of a deep-water port in the Gulf of Fonseca which was completed in 2009.
- El Salvador's tourism industry has grown dynamically over recent years as the GOES focuses on developing this sector. Last year tourism accounted for 4.6% of gross domestic product (GDP).

Source: CIA World Fact book on-line, USDA-FAS, BICO Reports, and The Heritage Foundation.

### Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
Major retailers have expanded the number of stores and floor space during the last few years. The trend is to continue their geographical expansion.	The shift from essential to high-quality food continues. A good number of consumers are opting to trade down to less expensive options of basic products due to economic difficulties.
Information and technology have become strong tools for food marketing. The uniform product code and scanners at point of sales have been fundamental to collaborative planning, forecasting and replenishment aimed at increasing profitability and stock control.	Market leaders are investing in construction of modern shopping centers in which super/hypermarkets are the cardinal points. Investment also includes state of the art technology, logistics, remodeling and improving service areas.
Exposure to US media as well as language, cultural, and commercial ties with the United States all contribute to consumers having a positive attitude toward U.S. products	High marketing costs (advertising, discounts, sampling, etc) are incurred to promote new market products.
The tourism and restaurant sectors are growing and are dynamic sectors for U.S. export opportunities.	Overall, the Salvadoran economy remains very susceptible to any world event that may disrupt tourism and investment (e.g. the world economic crisis)
The major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain technology and equipment for high value imports.	Security is a concern in El Salvador and the local authorities still need to improve their security programs.
Supermarket chains have gained greater negotiation power with manufacturers, giving them access to continuous price promotions and marketing activities.	Category management practices include charging slotting fees for products, which are absorbed by the supplier.
Most of the products stocked on the shelves of Salvadoran retail stores are imported.	The limited cold storage transportation network is still a limiting factor for the future development of the food sector.

## II. ROAD MAP FOR MARKET ENTRY

### A. SUPERMARKETS, SUPERSTORES, HYPERMARKETS, CLUB AND WAREHOUSE OUTLETS

## **Entry Strategy**

- U.S. exporters can approach Salvadoran buyers through a large importer, a wholesaler/distributor, or through a specialized importer. Regardless of strategy, U.S. exporters need a local partner to educate and update them about changing consumer trends, market development, product registration procedures, and business practices.
- Wholesalers/distributors and importers play an important role with local supermarket retailers. Although supermarkets import through consolidators, the bulk of supplies come from local agents or importers. Large supermarket retailers are more likely to import directly from U.S. suppliers.
- Local importers are a must when selling U.S. food exports to El Salvador's convenience stores or traditional retail outlets.
- Before establishing a relationship with a local distributor, U.S. firms should ensure that the local distributor has a good credit standing (the U.S. Department of Commerce offers a Gold Key service that provides information on local importers), as well as, sign a contract with a local lawyer.
- 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. There have been experiences where even well known U.S. food brands have not sold because customers were unfamiliar with the product. The same is true for frozen products which are just beginning to appeal to the local customer and are viewed by some marketing experts as an area to be developed.
- Attend food trade shows to meet Salvadoran buyers. Salvadoran marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce into this market.
- Point of sale (POS) material is very important to promote food products to this market. In addition, advertising through newspapers, radio, and television is recommended.
- Most large importers/distributors are members of the Salvadoran Distributors Association (ADES) at < <http://www.ad.es.org.sv> >. This association manages the relationship of its members with local retailers, wholesalers and supermarkets and can provide a good starting contact to enter the market.

## **Distribution Channels**

Three distribution trends operate in the Salvadoran market:

1. U.S. Exporter => U.S. Broker => Local Distributor => Supermarket => Customer

2. U.S. Exporter => Local Distributor => Supermarket => Customer
3. U.S. Exporter => Supermarket => Customer

### Supermarket Profile:

Owner Group	Supermarkets, Hypermarkets and Club Outlets	Current Stores	New Stores 2210-2011 (Estimate)
<b>Calleja, S.A.</b>	Selectos	72	2
	Selectos Market	12	4
<b>Wal-Mart Stores</b>	Hiper Paiz	2	0
	Despensa de Don Juan	25	0
	Despensa Familiar 1/	50	2
<b>Saca Group</b>	Hiper Europa	1	0
	Supermercados Europa	4	2
<b>Joint Venture U.S./Salvadoran business</b>	PriceSmart	2	0
<b>TOTAL</b>		168	10

1/ Smaller popular area stores

### **Retail Sector**

The market expectations for retailing remain positive as it continues to be a key area of the Salvadoran economy, supported by low unemployment, financial stability and expansion of consumer credit.

Hypermarkets/supermarkets and, convenience stores, coexist with the traditional corner grocery stores and open-air markets.

There are three dominant supermarket chains in El Salvador: Supermercado Selectos, Wal-Mart El Salvador, and Europa.

**Selectos Supermarket** is owned by the Calleja Group. This local supermarket chain is made up of 84 stores. With its slogan “Nobody knows you better” (“Nadie te conoce tanto”) they maintain a strong level of competition with other retailers. In 2008, Calleja, together with nine Central American and Panamanian companies joined in a strategic alliance and founded Supermercados de Centroamerica y Panama known as SUCAP (Panama and Central American Supermarkets). SUCAP group’s 16 different supermarket chains comprise a total of 281 stores in the region, and annual sales are more than US\$2.2 billion.

SUCAP buys bulk all products that the companies have in common in order to get better prices, pass benefits to the consumer, and continue to be competitive. The members of SUCAP are: El Rey, El Machetazo, Super 99 in Panama; Unisuper (La Torre) in Guatemala; Perimercados, Automercados in Costa Rica; La Colonia in Nicaragua; La Colonia in Honduras and Super Selectos from El Salvador.

**Wal-Mart Mexico and Central America** is the largest retailer in the region with more than 450 stores. Its incursion in Central America was in September 2005, when Wal-Mart Stores, Inc. acquired a 33.3 percent in the Central American Retail Holding Company (CARHCO) from the Dutch retailer Royal Ahold NV. CARHCO had been established in 2001 when Royal Ahold NV joined forces with Central America's two largest retail groups, La Fragua from Guatemala and Corporación de Supermercados Unidos from Costa Rica. Coming into CARHCO, Wal-Mart continued the same brand strategy as its predecessor and maintained the historic names used per format. Thus, when talking about Wal-Mart locations in El Salvador is actually referring to 78 stores that may fall under three different brands: Despensa de Don Juan (a traditional supermarket format, similar to Wal-Mart Neighborhood Stores in the US), Despensa Familiar, (a low-end supermarket format, particular to the local market) and Hiper Paiz (a format similar to a standard Wal-Mart in the US). Wal-Mart matched its growing interest in Central America with a larger stake in CARHCO, and in March 2006 it increased its participation to 51 percent giving way to a name change: Wal-Mart Central America. On December 2009, new developments were announced for Wal-Mart Central America, as internal transactions between Wal-Mart Stores Inc and its subsidiary in Mexico gave way to its absorption into the latter. The transaction was completed in early 2010 and the new structure became Wal-Mart Mexico and Central America.

**Supermercados Europa**, the smallest supermarket chain is also designing strategies to compete with the retail giants. They procure most of their products directly from suppliers in the U.S. and South America to avoid local importers, assuring lower prices and gaining a competitive edge over large supermarkets. They have 6 stores and are planning to open two more stores in 2011.

**PriceSmart El Salvador, S. A. de C. V.** Based in San Diego, California, this operator of membership warehouse clubs has two sites in El Salvador - both of which are located in the capital city of San Salvador. Similar to membership warehouse clubs in the United States, it carries a mixture of groceries, apparel, electronics, household goods, and automotive parts. PriceSmart's first chosen location (1999) was in the upscale Santa Elena area, and it initially focused on two market segments: the growing upper middle class seeking imported goods and restaurants looking for a source of premium ingredients/products alongside known staples and local brands. As PriceSmart's presence became stronger, its offerings appealed to the larger middle class and the second store opened in the Tutunichapa area. Just a few blocks away from the popular Metrocentro shopping mall, it was more accessible than the Santa Elena location and it made American imports available to consumers that were familiar with them via firsthand migration or by proxy through family members in the United States.

## **B. CONVENIENCE STORES, GAS MARTS**

There are three chains of convenience stores: Select Market, Tiger Market, and Starmart-Food Marts, which belong to the gas companies Shell, Esso (Exxon) and Texaco, respectively.

### **Distribution Channels**

- Distribution 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 the U.S. fairs/trade shows and food product 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 through this association.
- Gas mart stores are readjusting their line of products. Besides snack foods, candy, soft drinks, ready-to-heat and ready-to-eat products, dairy products and cereals, they are focusing on fast food sales. The gas marts are potential markets for new products.

**Sub-Sector Profile:**

<b>Retail Name and Outlet Type</b>	<b>Ownership</b>	<b>No. of Outlets</b>	<b>Locations (city/region)</b>
Select Market/Shop	Shell 40% U.	49	Nationwide
Tiger Market/On the Run	Esso (Exxon) U.S.	39	Nationwide
Starmart, Food Marts	Texaco U.S.	36	Nationwide
Puma	Puma	14	Nationwide

- Products also come from Canada, Central America, Colombia, Argentina, Chile, Uruguay and Europe.
- 85% of beer sales are domestic product, 5% from the U.S., 8% from Mexico and the rest from Europe.
- Most convenience stores located in the metropolitan area have additional services and products such as telephone cards, bank tellers, and car wash and tune-up services.
- Store sizes vary; the largest is approximately 1400 square feet and 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.
- Security has become an important issue when determining where Salvadorans make food

purchases, and supermarkets routinely offer a more secure environment for shopping than public markets.

- 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.
- Only a few U.S. foods products are sold in these markets; however, U.S. fruits are very popular.
- 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 100 depending 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, development of a strategy to enter this market is not recommended. The same applies to the rest of the markets reviewed in this section.

### **III. COMPETITION, CONSUMER-READY PRODUCTS**

- The Central America region, Mexico and Chile are the main competitors with the U.S. for the Salvadoran food import market.
- El Salvador is a signatory to the Agreement on Central American Tariff and Duties and a member of the Northern Triangle (commercial agreement with Honduras and Guatemala) and the Central American Common Market. In addition, El Salvador has signed free trade agreements with Mexico, Chile, the Dominican Republic, Canada, the U.S., Panama, and recently signed a Partial Commercial Association with the European Union (EU).
- In 2009, the U.S. share of the consumer-ready market reached 21.7%. Guatemala had 26.7%, Mexico 9.3%, Nicaragua 16%, Honduras 6% and Costa Rica 10.4%
- 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 million. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT long-life packaging. There are also donations of powdered milk for the poor which mainly come from the (EU).
- In February 2009, Mexican juices and nectars company Jumex invested US\$20 million in its processing plant in El Salvador, which has been operating as a distribution center for the region. This plant, which will also manufacture its own packaging, is surrounded by 42,000 square meters of land. Jumex Centroamericana, the regional division of Grupo Jumex, has a portfolio of more than 12 different beverage brands as well as a presence in Central America, Panama, the Dominican Republic and twelve other Caribbean countries.
- CAFTA-DR has also attracted foreign investment to El Salvador including companies such as CALVO tuna processor from Spain.
- Sigma Alimentos, a large Mexican meat and deli company, has invested in a pork processing plant to cover local demand and to export to other Central American countries under the Fud brand. They also purchased local processor Cárnicos de El Salvador and kept their Vitta deli brand.
- Another important industry in this sector is meat processing. There are approximately 10 companies which are members of the Salvadoran Meat Processors Association (ASICARNE).



Imports of U.S. pork meat by this sector have grown tremendously over the last five years, due to the fact that the Salvadoran population is a large consumer of sausage products.

- The Salvadoran market may be significantly larger than portrayed by U.S. export data. A high percentage of El Salvador's imports of consumer-oriented products are actually registered as imported by Guatemala. The main reason is that many containers come through Guatemala's Santo Tomas port, and even though they are in-transit to El Salvador, local customs officials tally them as Guatemalan imports. Particularly close links with the United States are evident by the strong commercial relationship between both countries.

#### IV. BEST PRODUCT PROSPECTS

<b>Top 10 best product prospects imports from the United States (Million of U.S. Dollars)</b>			
<b>Product Description</b>	<b>2008</b>	<b>2009</b>	<b>% Change 2008/09</b>
Red Meats	4,365	5,589	28.3
Breakfast Cereals	2,747	2,755	0.28
Poultry Meat	643	2,366	268.15
Fresh fruit	12,453	14,641	17.57
Fresh Vegetables	828	1,340	61.74
Fruit and Vegetable juices	1,100	2,011	82.81
Rice	33,913	39,176	15.52
Hides & Skins	75	1,000	1240.5
Sugar, Sweeteners, Beverage Bases	1,813	2,111	16.39
Dairy Products	6,551	6,939	5.93

Source: USDA/FAS BICO REPORT

##### **A. 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
- Dairy products
- Beef
- Wine
- Pet foods
- Certain processed foods continue to see strong growth as more people join the work force and eat outside of their homes. Especially promising products are convenience and fast foods, convenience foods (snacks, etc., which are consumed more by lower-income households and young consumers), and health and light foods. Ramen style soups exemplify the latter.

## **V. POST CONTACT AND FURTHER INFORMATION**

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