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Jamaica & Dep

Retail Food Sector

Report

2002

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Report Highlights: This is an update of the post report on the market for consumer-ready food and beverage products in the retail sector in Jamaica.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
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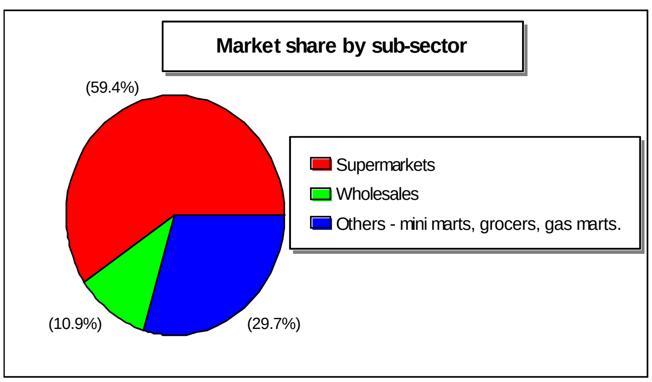
RETAIL FOOD SECTOR REPORT

MARKET OVERVIEW

Businesses within the Jamaican retail food sector are differentiated on the bases of service, quality, price and convenience, giving rise to a retail sector structurally composed of chain and independent supermarkets (both upscale and conventional), wholesalers, independent grocers, small convenience stores (minimarts) and gasmarts. Supermarkets and wholesalers collectively account for approximately 71 percent of total food and beverage sales in the Jamaican retail food sector. Gasmarts, the most recent addition to the Jamaican retail food sector, carry a limited number of snack products, pastries, juices, drinks and dairy products. They account for only a minuscule portion of the total retail food market. Small independent grocers are mostly located in rural towns and less attractive segments of the urban area.

Modest growth in the Jamaican economy during 2000 and 2001, coupled with increases in remittances from Jamaicans living abroad and personal consumption credits, contributed to a 0.5 and 2.83 percent growth in Jamaica's retail food sector during 2000 and 2001, respectively. These factors are expected to continue fueling moderate growth. There are approximately 1,500 retail and 160 wholesale outlets in the Jamaican food and beverage distributive sub-sector, collectively accounting for a total sales of US$1.08 billion during 2001. Sales by wholesalers decreased by a substantial 4.9 percent during 2001, from US$435 million to US$414 million, sharply contrast the 8.3 percent increase in retail sales from US$615 million to 666 million. Aggregate sales in Jamaica's retail food sector are expected to increase by a further 3 percent during 2002 to US$1.1 billion.

Despite modest growth, competition in Jamaica's food retail sector among retailers and between retailers and wholesalers is expected to remain strong. The buoyant performance of retailers vis-a-vis wholesalers is indicative of deliberate strategies by retailers to regain previously eroded market share from wholesalers.



The Jamaican retail food sector has experienced significant structural changes, resulting primarily from domestic competition, macroeconomic constraints, changing consumer lifestyles and adoption of new technologies. The main changes in the sector are:

I. The increasing direct importation by wholesalers and large independent and chain supermarkets.
II. The forming of strategic alliances among local retail food stores and between local and foreign retail chains.
III. Large supermarket chains are differentiating and positioning according to consumer lifestyle and purchasing power.
IV. The adding of complementary strategic business units to core food retail operations.
V. Application of electronic, payment, and inventory monitoring and control devices.

Large- and medium-sized supermarkets and wholesalers have begun aggressive direct importation to avoid distributor's margin and become more price-competitive in the price-sensitive Jamaican consumer market. Brand recognition has become secondary to perceived value (price-quality relationship) in the majority of Jamaican consumers buying decisions. Adherence to international food safety standards is also gaining importance in purchase decisions. To remain competitive, most retail outlets are offering products at wholesale prices to increase volume. To protect market share, wholesalers have retaliated by targeting end (retail) consumers, blurring the distinction between retail and wholesale operations. The planned entry of PriceSmart into the Jamaican retail market with a 50,000 square-foot superstore is interpreted as a signal of increasing price competition.

Faced with heavy competition and increasing economies of scale within the retail market, independent supermarkets are either collaborating to promote, procure and improve management, or are expanding the number and size of stores in order to remain competitive. Supermarkets are expanding into rural towns and previously unserved geographic segments of the corporate and resort areas. Seven of Jamaica's independent supermarkets, with a complement of fourteen stores, have formed a strategic alliance to strengthen their competitive position in the retail food sector -- particularly to compete with the largest supermarket chains, HiLo and SuperPlus Food Stores.

Larger supermarkets are adding independent strategic business units to their core food retail operations to either diversify their business portfolio, retain/increase customer base, or offer improved customer service and convenience. Several supermarkets have or plan to include one or more of the following: haberdasheries and cosmetics sections, gift shops, restaurants, delicatessens, bakeries and pharmacies, as part of their retail operation. Electronic bill payment and money transfer outlets, and automatic banking machines are strategically located adjacent to or inside supermarkets. The recently computerized Jamaican postal service is seeking an alliance with supermarkets to include mailing services, as part of regular supermarket services. Almost all supermarkets and convenience stores in Jamaica offer electronic payment services through the electronic "multi-link" banking network. The major supermarket chains and gas marts are equipped with bar code reading devices to improve inventory management and efficiency. As personal consumption credit continues to be obtained by way of credit cards, supermarkets are expected to increase market share at the expense of smaller independent grocers (mom and pops) and remain the primary means of food distribution to end consumers.

Jamaican supermarket chains are increasingly interested in forming alliances with foreign retail chains. Two of Jamaica's largest retail chains have formed alliances with Lablaws, Canada's largest food retail chain, and Tesco from the United Kingdom, for the exclusive distribution of popular brands such as President's Choice, No Name and Too Good To Be True. PriceSmart will be entering the Jamaican market in partnership with the proprietors of a major U.S. fast food franchise. Other supermarkets are interested in alliance with U.S. food retail stores.

Ongoing liberalization in the domestic economy, the maintenance of a relatively stable exchange rate and domestic supply shocks have encouraged many firms in the food and beverage retail sector to increase the imported content of their aggregate merchandise, including fresh fruits and vegetables, grocery products, meats and processed products.

Value of Imported and Domestic Food Production

Years	Food and Beverage (US$ Million)		
	Imports*	Domestic Production**	Manufactured***
2001	450	795	371
2000	425	774	355
1999	440	803	353
1998	472	835	345
1997	433	843	349

* Excluding Tobacco, live animals for food, sugar and preparations, hides and Skins, and feed stuff for animals
** Excluding export agriculture (sugar cane and other main exports); about 11percent of total production
*** Exclude sugar, molasses and rum, about 8.5 percent of manufactured foods.

Over the last five years, Jamaica's total production of food (excluding primary export crops) declined by 5.7 percent from US$843 million during 1997 to US$795 million during 2001. Simultaneously, consumption increased by an average annual 7.6 percent over the corresponding period. Manufactured (processed) food and beverages have consistently increased their relative contribution to total food production (net of primary export crops), moving from 41 percent during 1997 to 47 percent during 2001. Using the ratio of net imports (imports less re-exports) to domestic food production (excluding primary export crops) as a proxy for the relationship between imported and domestic food consumption, Jamaica continues to fulfill a greater proportion of its consumption demand from imported products. During 2001, imported food and beverage constituted an estimated 56.6 percent of Jamaica's total food and beverage consumption, an increase of 5.2 percentage points from 51.4 percent during 1997. The United States is the primary supplier of food and beverage to Jamaica, accounting for approximately 49 percent of total food and beverage imported into Jamaica. As the policy-driven structural shift in the Jamaican economy from the productive to the service sector continues into the short to medium-term, imported products are expected to continue accounting for an increasing proportion of Jamaica's total food consumption.

Some of the advantages and challenges facing U.S. products in the Jamaican market are summarized below:

Advantages	Challenges
The proliferation of Internet and cable television has increased the impact (in the Jamaican market) of U.S. product advertised through these media.	Eroding consumer disposable income and a relatively stagnant retail sector restrict demand for high-value imported specialty products.
Changing Jamaican consumer lifestyles have created demand for ready-to-eat products that are not readily available from domestic production.	Onerous sanitary/phytosanitary, labeling and other standards, frustrate the importation of food products.
Declining employment of women in the workforce could increase retail sales at the expense of meals-away-from-home.	High import duties and inefficient customs procedures reduce the price competitiveness of imported products.
Increased direct importation by wholesalers and large chain supermarkets creates the opportunity for alliances between U.S. and Jamaican retail chains.	Duty free entry of grocery products from other CARICOM countries and low-priced products from Europe and Canada are eroding U.S. market share.
Jamaica's relatively sophisticated retail system is equipped to effectively handle frozen processed and ready-to-eat products, fruits and vegetable and other highly perishable products.	Strategic alliances between Jamaican outlets and European and Canadian retail firms, bolstered Canada's and Europe's position in the Jamaican retail food market.
Ongoing modernization of Jamaica Customs Department and upgrading of the food regulatory system will increase market access for U.S. high-value products in the medium-term.	

ROAD MAP FOR MARKET ENTRY

A. SUPERMARKETS

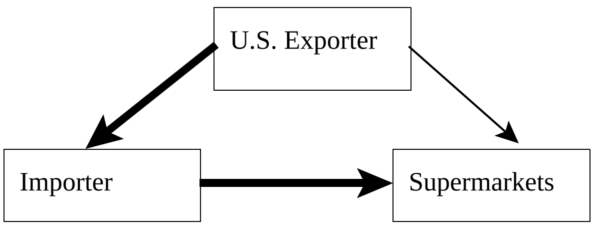
Entry Strategy

Despite increasing direct importation by medium and large supermarket chains, the best way to enter the Jamaican retail market is still through a local distributor. Most supermarkets lack adequate storage facilities to handle high volume purchases and typically purchase lower volumes at more frequent intervals. The relative proportion of direct imports to total imported merchandise in supermarkets is less than five percent. In addition, no single supermarket chain captures more than a 15 percent share of Jamaica's retail food market. To gain maximum penetration of the overall retail market it is best to use a local distributor. Exclusive distributorship arrangements and collaborative product promotion can give U.S. products a distinct advantage in the Jamaican retail food sector. There is also the opportunity for U.S. retail chains with branded products to form alliances with Jamaican supermarkets. Stringent sanitary, phytosanitary and other standards, which frequently frustrate the import process will be reduced by the Government of Jamaica's thrust to modernize and improve efficiency in its food safety and inspection system. This will encourage more supermarkets and wholesalers to engage in direct importation.

Market Structure

The structure of Jamaica's retail food sector is relatively simple. Supermarkets procure majority of merchandise (approximately 97 percent of imports) from local import distributors. Domestic products are sourced from local food processors and farmers. Importers of fresh produce and grocery products also supply local, and private-label products. Supermarkets typically do not procure products from wholesalers.

Market Struture



Company profile: Supermarkets

Retail Name and Outlet Type	Ownership	Sales	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Progressive Grocers	Jamaican	N/A	14	Kingston, Montego Bay, Mandeville	Direct, Importer
HiLo Food Stores	Jamaican	N/A	9	Kingston, Mandeville, Montego Bay	Direct, Importer
Lee's Food Fair	Jamaican	N/A	3	Kingston	Importer
Family Pride	Jamaican	N/A	1	Kingston	Direct, Importer
SuperPlus Food stores	Jamaican	N/A	21	Island wide	Direct Importer

B. CONVENIENCE STORES, GAS MARTS, KIOSKS

In the Jamaican retail sector, gas marts and mini-marts function as convenience stores, retaining their position by virtue of location and time of operation.

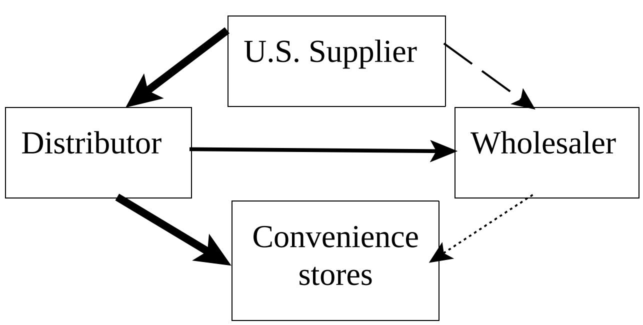
Entry Strategy

The best way to introduce products to convenience stores, including gas marts, is through a local distributor. Logistical procedures and purchase volume preclude convenience stores from engaging in direct importation.

Market Structure

Gas marts are located in Esso, Shell, National and Texaco service stations in corporate and resort areas, rural towns and along highways. They stock an array of snack foods, dairy products, pizza, juices and drinks, and other ready-to-eat products. They operate on a 24-hours basis and are equipped with bar code reading devices and electronic payment systems, consistent with their service differentiation. National gas station, through its alliance with Churches Chicken, has began to offer the franchise’s products at its service stations. Mini-marts are typically located in close proximity to middle income residential neighborhoods. They operate very late hours and on public holidays. They know their customers very well, build individual relationships and offer friendly, personalized service (e.g. telephone orders and home delivery). Mini-marts stock a wide array of products in very small quantities. With the exception of gas marts, convenience stores do not operate as chains. Convenience stores procure products from large distributors, informal commercial importers and, to a lesser extent, large wholesalers. Convenience stores account for an estimated two percent of total retail sales.

Market Structure



Company Profile: Convenience Stores

Name of Retailer	Ownership	Sales	Number of Outlets	Locations	Purchasing Agent
Esso Tiger Markets	Local	N/A	7	Island wide	Distributor
Texaco Star Marts	Local	N/A	15	Island wide	Distributor
Shell Gas Mart	Local	N/A	4	Island wide	Distributor
Vanda's	Local	N/A	1	Kingston	Distributor
Daley Mini-mart	Local	N/A	1	Westmoreland	Distributor / Wholesaler

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

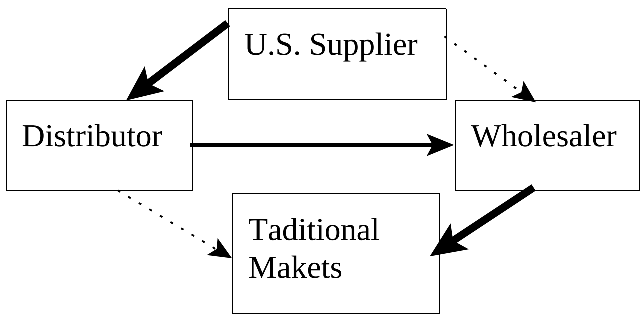
Entry Strategy

As with supermarkets and convenience stores, new products are best introduced to independent grocery stores through a local distributor. While local importing wholesalers and informal commercial importers (ICI's) supply most of the traditional market segment, individual wholesalers and ICI's lack the necessary distribution networks and storage capacity to effectively serve a wide cross section of the market. In addition, wholesalers are not involved in building brand identity and loyalty. Small independent grocers typically make bulk purchases from wholesalers who in turn pull the demand from local distributors and exporters. Conversely, established distributors are inclined to build brand image/loyalty among end consumer and facilitate pulling demand through the retail chain.

Market Structure

The market structure for the traditional markets segment (small independent grocers) is identical to that of convenience stores, except that the proportion of merchandise procured from, and relationship with, wholesalers is much greater. Small independent groceries, which operate mostly in rural areas and socially unstable sections of the corporate area (Kingston, St. Andrew and Spanish Town), have been the hardest hit by changes in the retail sectors. As competition intensifies in the retail food sector, large supermarket chains continue to expand into rural towns and other unserved geographical areas eroding the market share of independent grocers. In addition, as Jamaican consumers continue to demand better service, rely on consumption credits and remittances, small independent groceries, which typically does not have alliance with remittance companies and lack the capacity to use electronic payment systems, will continue to lose market share to supermarkets, becoming less relevant in the retail food sector. The traditional system is expected to be substantially displaced by supermarkets in the medium-term.

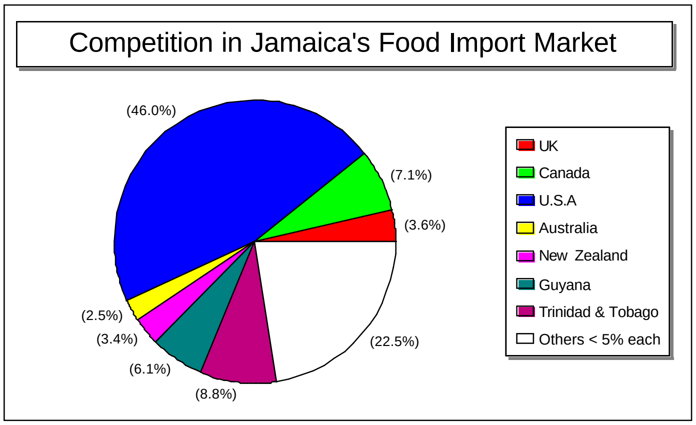
Market Structure



III. COMPETITION

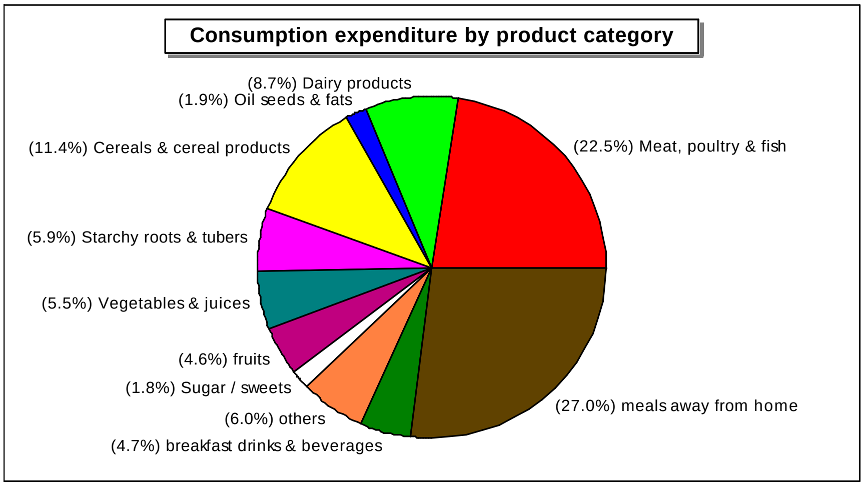
CARICOM countries, particularly Trinidad and Tobago and Guyana, continue to increase their relative share of the Jamaican food retail market. Under the CARICOM Agreement, member states have duty free access to markets in the CARICOM free trade area. Australia and New Zealand are the major competitors to U.S. beef, lamb and dairy products. Chile, France, Italy and Spain are the major competitors for U.S. wines. French fries from the U.S. have lost market share to price competitive products from Canada and the Netherlands. Domestic products are the major competitor for U.S. fruits and vegetables.

Between 1998 and 2000, U.S. share of imported food and beverages slid by two percentage points from 48 to 46 percent. At the same time, as a result of duty free entry, Jamaica's major CARICOM trading partners (Guyana and Trinidad and Tobago) increased their relative contributions of CARICOM export to Jamaica by 26 and 6 percent, respectively. With the market becoming more price sensitive and brand loyalty becoming less relevant to purchase decisions, U.S. suppliers will have to revise their pricing and promotion strategies to compete with products from Canada, Europe and CARICOM.



IV. BEST PRODUCTS PROSPECTS

The Jamaican food retail sector presents good marketing opportunities for U.S. meat products, including mutton and seafood; breakfast cereals and cereal products; juices and drinks; fruits and vegetables; vegetable oils; snack foods, bakery products, frozen products including french fries and other ready-to-eat products such as pizzas, hamburgers and soups, wines, dairy products, health foods (including soy products and nutritional supplements).



During 2001, Jamaica imported US$111 million worth of cereals and cereal preparations, a slight increase from US$109 million during 2000. Imported vegetable oils and fats amounted to US$17 million. Jamaica has a market potential for pastas and bakery products of approximately 850,000 and 1.2 million kilograms per year, respectively. The demand for fruits and vegetable juices and drinks will continue to expand. As the recent national policy initiative to education consumers on various of health and consumption intensifies across Jamaica, consumption of health foods is expected to increase astronomically in the short to medium term. Despite high import duties, fruits and vegetables will continue to have good market potential in Jamaica due to short, uncoordinated local growing periods and a local climate unsuitable for some products, such as apples and grapes.

Products Not Present because they Face Significant Barriers

The presence of Pseudorabies in the U.S. prohibits the entry of U.S. pork products into Jamaica unless they are hermetically sealed. Apart from products that require sanitary/phytosanitary permits, there are no barriers to the Jamaican market. However, high import duties (as high as 260 percent) renders some products uncompetitive in the Jamaican market.

POST CONTACT AND FURTHER INFORMATION

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Other reports on the Jamaican market are located at www.fas.usda.gov, including the “Exporter’s Guide" and the "HRI Food Service Sector Report".

APPENDIX I

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APPENDIX I...Cont.

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