



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/23/2003

GAIN Report #EC3005

Ecuador

Retail Food Sector

Report

2003

Approved by:

Lawrence D. Fuell, Agricultural Attaché

U.S. Embassy

Prepared by:

René A. Alarcón., Marketing Specialist

Report Highlights:

2002 was a good year for Ecuador's Retail Food Sector with approximate annual growth of 3% and sales of nearly \$1.6 billion. U.S. products are still well regarded in this market with total consumer food imports of \$210 million in 2002, and where consumers are tending to shop more in Supermarkets than just a few years ago. Dollarization has also contributed by bringing stability to the economy, thus people are able to spend more money in high-value- added foods.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Lima[PE1], EC

RETAIL FOOD SECTOR REPORT

TABLE OF CONTENTS

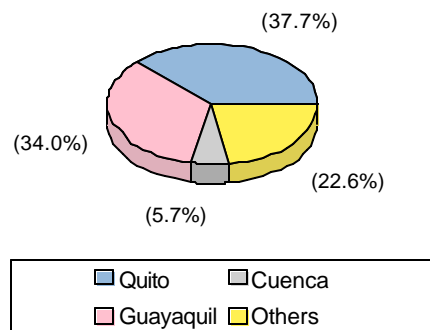
I. Market Summary	2
II. Roadmap for Market Entry	4
A. Supermarkets, Hypermarkets, Commisaries and Convenience	4
B. Grocery Stores, Small Stores and Mini Marts	6
C. Traditional Markets	8
III. Competition	8
IV. Best Product Prospects	9
A. Products Present in the Market with Good Sales Potential	9
B. Products Not Present with Good Sales Potential	10
C. Products Not Present in the Market due to Trade Barriers	10
V. Post Contact and Further Information	11

I. MARKET SUMMARY

Ecuador's retail food sector grew an estimated 3%, with sales of \$1.6 billion in 2002. Until 1998, when a deep economic crisis hit Ecuador's economy, this sector had been growing by an average 2.8% annual rate with approximate sales of \$1.2 billion. In 1999, sharp decreases in consumption and a steep devaluation of the former Ecuadorian currency caused this sector's imports, sales and growth rates to bottom out. In 2000, a Governmental decision implementing dollarization of the economy brought stability to the market, thus imports, sales and growth rates started to recover.

Currently, Ecuador (12.6 million inhabitants) has 96 formal supermarkets and 10 hypermarkets that are gradually becoming the main source of food supply in the country. Most of them are located in three main urban centers: Quito, Guayaquil and Cuenca with a combined population of nearly 5 million inhabitants.

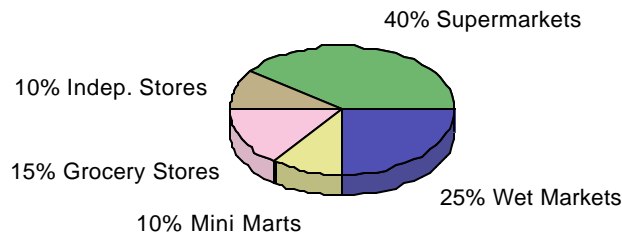
Distribution of Retail Outlets



The retail food market in Ecuador can be divided into five sub-sectors: Supermarkets and Hypermarkets, Grocery Stores, Independent Small Stores, Mini Marts and Traditional Wet Markets. In recent years, the trend towards comfort, hygiene and variety offered by supermarkets has turned them into the fastest-growing sub-sector. Approximately 34% of Ecuadorians - 4.5 million people- or 1 million families- buy food in a supermarket with an average monthly food expense of \$160. The highest percentage of supermarket customers is found in the upper and middle social-economic classes, which combined reach approximately 30% of Ecuador's population. At this level, 68% of families shop only in supermarkets.

Out of total retail sales, supermarkets and hypermarkets hold a 40% share, wet markets 25%, mini marts 10%, independent small stores 10%, and grocery stores 15%.

Retail Outlet Market Share

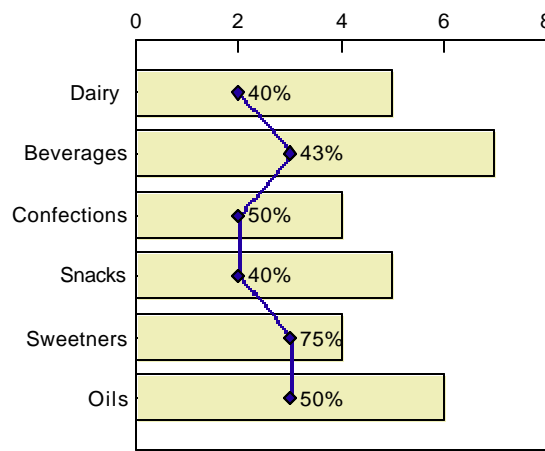


Retail Sales 2002: \$1.6 billion

The majority of Ecuador’s \$29 million consumer-ready imports from the United States are marketed through two main supermarket chains: Supermaxi and Mi Comisariato, which have retail market shares of 38% and 17%, respectively.

An average 18% of shelf space available in supermarkets is dedicated to imported products such as fruit, prepared vegetables & fruit, cereal products, confections, canned food and frozen products. In addition, an interesting tendency towards consumption of light (low fat/dietary) products, has notably increased their imports and sales. Thus, supermarkets are starting to assign separate shelves for these products. An estimated 7% of Ecuadorians are now buying these products, a number of them imported.

Light Products in the Retail



Advantages	Challenges
-------------------	-------------------

Approximately 15% (2.2 million) Ecuadorians can afford and usually buy imported food products.	Higher import tariffs on U.S. products makes them more expensive than direct competitors in this sector: Chile, Colombia and Argentina.
Ecuadorians perceive U.S. products as higher in quality and fun to use.	Importers and consumers are not aware of wide availability of U.S. products, and for most of the population, they are considered a luxury.
There is a growing tendency towards buying food in supermarkets. Today, 34% Ecuadorians shop in supermarkets.	Retailers still face difficulties in imported product registration procedures, such as the food sanitary registration.
Supermarkets offer a good variety of products and their shelf space for imported products is rapidly increasing.	There is a limited infrastructure of cold storage and perishable product handling is not adequate, except in large supermarket chains.
Some retail outlets are strategically located to favor sales of imported products.	Retailers do not invest in promotion. They expect for the local representative to carry out promotions.
A dollarized economy creates a favorable climate for all types of imports, bringing more price stability and higher demand for imported products.	The Government is trying to correct a trade deficit by drastically reducing imports, specially those considered "luxurious" and consumer goods.

II. ROADMAP FOR MARKET ENTRY

A. Supermarkets, Hypermarkets, Commissaries and Convenience

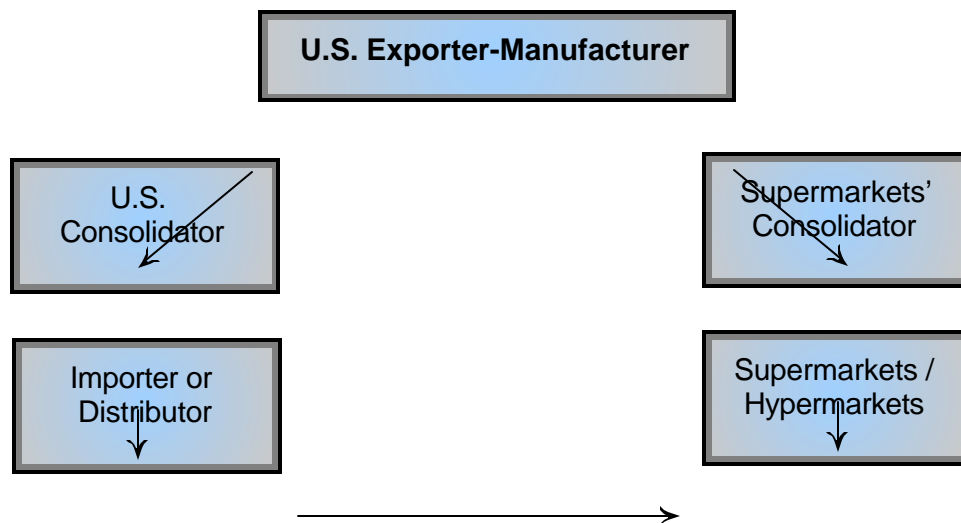
Entry Strategy

There are two basic ways of approaching Ecuadorian supermarkets. A first approach involves the participation of a local importer/distributor who would become the exporter's representative in Ecuador. Supermarkets buy products from these companies and expect from them to invest in promotional activities.

FAS/Quito maintains close contact with companies of this type interested in finding new products and alternative brands for this market.

Larger supermarket chains, however, are interested in dealing directly with the product's manufacturer. Supermarkets do not invest in product promotion, but believe that the only presence of a product on their shelves creates a market. In some cases like with Supermaxi, it does.

Both -importer and supermarket- try to reduce the number of intermediaries involved in the import operation. Although they usually need the participation of a consolidator due to their small import volume, this strategy allows them to reduce costs and ease product registrations.



- T Approximately 18% of all products available in Ecuadorian supermarkets are imported. Most interesting, new products are imported directly by the retailer and are marketed without a significant promotional effort.
- T Hypermarkets and Supermarkets try to deal directly with the manufacturer or its export representative. The two largest retail chains in Ecuador have their own consolidation operation in the United States (Miami).
- T Supermarkets also buy imported products from Ecuadorian food distributors, who are expected to invest in product promotion.
- T Typically, supermarkets demand alternative well-known brands that compete with large companies present in the market, such as Kraft, Nestle and others.

Major Supermarket Profile

Retailer's Name and Type of Outlet	Ownership (Local or Foreign)	Market Share	Number of Outlets	Location	Type of Purchasing Agent
Supermaxi & Megamaxi (Super & Hypermarket)	Ecuadorian	38.8%	59	National	Direct Importer
Mi Comisariato (Super & Hypermarket)	Ecuadorian	16.3%	27	National	Direct Importer
Tía (Super & Convenience)	Ecuadorian	13.4%	20	National	Direct and Agents
Mega Santa Maria (Supermarket)	Ecuadorian	5.3%	7	Quito	Agents and distributors
AKI (Super & Convenience)	Ecuadorian	5.0%	9	National	Agents and Distributors

T Among Ecuador's top-five retailers, only Supermaxi and Mi Comisariato offer a wide variety of imported foods. Santa Maria, a smaller chain located mainly in Quito, AKI and Tia offer a lower quantity of imported products, but are ready to start their own import operation.

T In lower-income portions of the population, supermarkets are perceived as "more expensive places to buy". Nevertheless, they are also recognized as places that offer quality, variety, and hygiene. For example, a middle class family that regularly shops in a wet market, would buy meats, sausages, and vegetables in a supermarket.

B. Grocery Stores, Small Independent Stores and Mini Marts

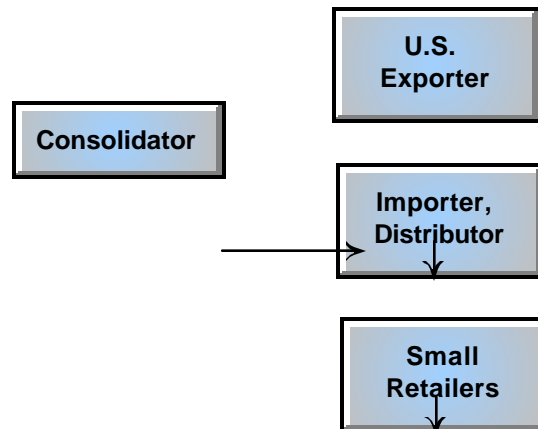
Entry Strategy

Smaller retailers such as grocery stores, mini marts and independent stores are supplied in Ecuador by local importers/distributors. In this scenario, introducing new imported products with success will depend on the quantity and quality of contacts, as well as the promotional effort carried out by the local representative. The representative should be able to provide advice on market intelligence, market approach strategies, product modifications, trade laws, product registrations, import procedures and other related issues.

Larger importers usually consolidate their sea shipments in Miami and use their own local distribution capacity to reach stores even in small cities and towns nationwide.

Other, smaller importers are able to provide market knowledge and imports assistance, but do not have their own distribution system. These companies usually own strategically located warehouses (Bodegas) where retailers can purchase large quantities of products for their stores at "distribution prices". Sometimes these Bodegas sell products (retail) to consumers, but in larger quantities.

Imported foods and beverages represent approximately 20% of Mini Marts' sales, while Independent and Grocery stores carry an average 10% of imported products as regular stock.



- T Grocery Stores (mainly offering fruit and vegetables) and Small Independent Stores (neighborhood stores) have quite low sales turnover. They are dispersed throughout the cities and the value of daily sales varies between \$50 and \$200 in the smaller stores (approximately 90% of them). Stores with greater turnover sell between \$200 and \$400/day (\$150,000 annually at the most). In 1998 there were approximately 19,000 establishments of this type in Ecuador. There is no current official data to show how many of these stores are still in business, but we believe that at least 15% of them have closed in the last five years, mainly due to competition from larger retailers.
- T In the last few years, pharmacy chains have started to offer food products on their shelves. Commonly, drugstores offer snacks, variety of beverages, milk, confectionery products, baby food and certain canned products. Taking the example of a well-known local pharmacy chain, 5% of total sales last year were foods and beverages, 50% of which were imported.
- T Many mini marts are located at gas station chains such as Mobil, Texaco, Shell, Repsol, Puma, P&S, Tripetrol, etc. Modern gas stations started business in 1997 and have been offering variety of food products (mostly snacks and beverages) since then. These chains are supplied by local importers and distributors and are administrated by national owners . There are approximately 200 gas mini marts throughout Ecuador. In these stores, sales of food & beverages represent 80%. The remaining is non-food items.

C. Traditional Markets

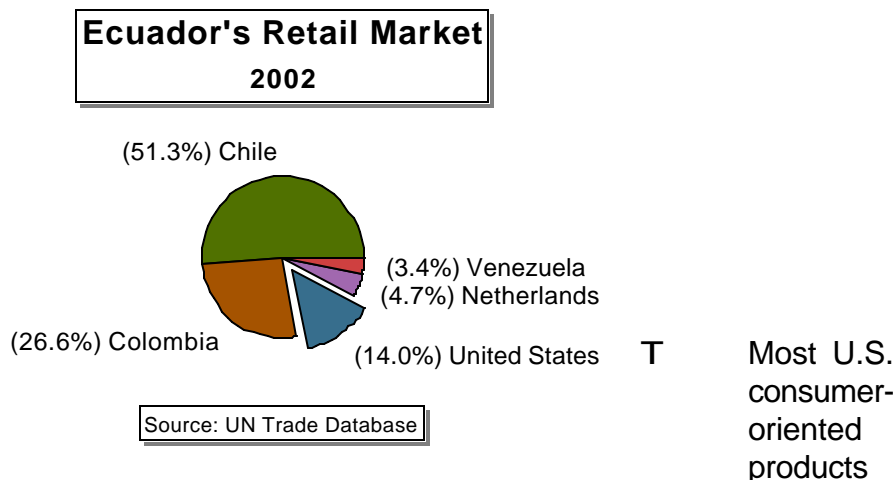
Entry Strategy

Traditional or wet markets in Ecuador are mainly visited by portions of the population with lower income and are characterized by lack of organization, poor cleanliness and poor product presentation. These markets are the main grocery source of supply in smaller cities or towns where supermarkets are not present. In rare occasions one can find imported foods and beverages in wet markets, however, warehouses or "Bodegas" can be found inside traditional markets, and are generally supplied by local distributors.

- T Wet markets offer products directly from the production areas to the consumer, which are usually sold by the same small farmers.
- T Products usually marketed through wet markets are fresh fruits and vegetables, fresh meats, cereals, tubers, fish, and other basic foods.

III. Competition

Ecuador’s consumer-ready food imports reached \$210 million in 2002, a 75% growth compared to the previous year. Top five suppliers are Chile, Colombia, The United States, the Netherlands and Venezuela. Chile, the top supplier, holds 51% of the market.



(except for fresh fruit, vegetables and a few others) are assessed a 20% tariff to enter Ecuador, a fact that makes them more expensive than local and some competitor products. The majority of processed products from Chile and the Andean Community enter the market duty free. Other countries such as Argentina, Paraguay, Mexico, Uruguay and others are members of ALADI and are granted tariff preferences.

- T U.S. products are generally appreciated and considered as higher in quality than local and competitor products. However, they are still regarded as more expensive by consumers and importers. Most import operations in Ecuador base their profit on large volumes and small mark-ups, thus higher volumes of cheaper Colombian or Chilean products represent a better business for importers than U.S. products.
- T Although the price issue remains, U.S. products are not much more expensive anymore. Before 2000, U.S. products were at least 50% more expensive than local products, making them affordable only by small portions of the population. However, as Ecuador dollarized its economy and high inflation rates hit the country in 1999-2001, local products' prices started to catch-up with their imported counterparts. Today, some U.S. products are priced the same as their local competitors.
- T All the same, these price increases in local products did not necessarily benefit U.S. exports as products from external competitors gained more acceptance because of their good quality and lower price, sometimes even lower than local products. U.S. exporters should expect the upcoming FTAA (Free Trade Agreement of the Americas) in 2005, to make trade relations more equal in regard to tariffs, and to offer new opportunities for their products.

IV. Best Product Prospects

A. Products Present in the Market Which have Good Sales Potential

- T Snack foods, fresh and dried fruit, chocolate, confectionery products, breakfast cereals, canned foods and condiments are present and represented in Ecuador by several well-known brands such as Kraft, Nestle, Ralston, Mars, Hunt's, McCormick, Hellman's, etc, some of which are regionally manufactured. Importers and large retailers (specially supermarkets) continue to search for new products to compete with these brands which offer quality, variety and good prices.

B. Products Not Present in Significant Quantities but Which have Good Sales Potential

- T Demand for red meats, including good quality pork has increased as Ecuador's sanitary controls over locally produced meats do not meet international hygiene standards and cannot guarantee safety on their products.
- T Dietary products are becoming more and more important in Ecuadorian daily menus. As this trend is likely to continue, more assortments of dietary and light products will be demanded by supermarket costumers.
- T Baby foods are represented by only one or two brand names from the United States. Although these products are oriented towards segments of the population with higher incomes, more families are opting for these products as daily occupations are changing, and more moms are working out of home.
- T Easy-to-use products have great future potential as more young professionals are living out of their households and look for convenience and ready-to-eat products. In this category, products with interesting future demand include: microwave popcorn, microwave dinners, frozen vegetables, french fries, marmalades, salad dressings, fruit juices, snacks, processed meats, sausages, dips, cookies, wine and beer.

C. Products Not Present Because They Face Significant Barriers

- T The Ecuadorian government is currently worried about a trade deficit in 2002, the first time in many years. Thus, some imports are being stopped and others are strictly controlled by licensing authorities in the Ministries of Agriculture and Health.
- T Another traditional effort to defend the local industry has been a ban on imports of poultry products such as frozen chicken parts, whole turkeys and processed chicken (nuggets, chicken fingers, etc.) for the restaurant and retail industry. Dairy products are also affected by protectionism and one can find in Ecuador only limited quantities and varieties of imported cheese, ice cream and other processed dairy products.

V. Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting to Indonesia, please contact the Foreign Agricultural Service in Quito at the following

address:

Agricultural Affairs Office
US Embassy Quito
Av. Colombia 1573 y Queseras del Medio
Quito, Ecuador

Phone: (5932) 256-4147

FAX: (5932) 250-6283

Agquito@fas.usda.gov

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: www.fas.usda.gov