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Colombia

Retail Food Sector

Report

2000

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Report Highlights:
This report is detailed overview of the retail food sector in Colombia, including supermarkets/hypermarkets, traditional markets, convenience stores, and wet markets.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Bogota [CO1], CO

The Colombian
Retail Food Market

Office of Agricultural Affairs
U.S. Embassy
Bogota, Colombia
June 2000

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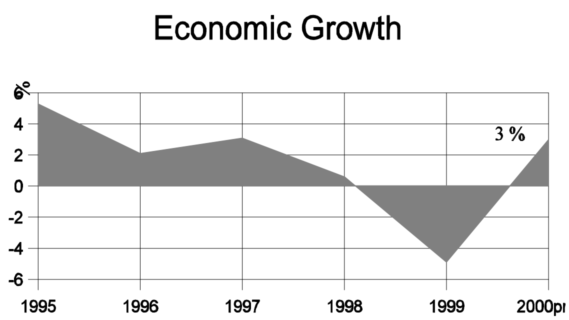
EXECUTIVE SUMMARY

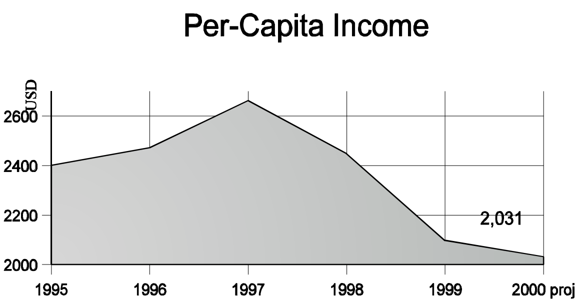
In 1999, total Colombian food and agricultural imports were $1.3 billion. The United States accounted for 42 percent of total imports valued at $541 million, making Colombia our largest export market in Latin America after Mexico. Retail market prospects are bright. Domestic demand and household consumption are projected to increase by 4 and 6 percent, respectively, in 2000 and to continue to rise. The remarkably young population, 70 percent of which lives in urban areas, is quick to adopt new trends and products and should continue to stimulate increasing demand. U.S. products are also well regarded, because their perceived good quality and value.

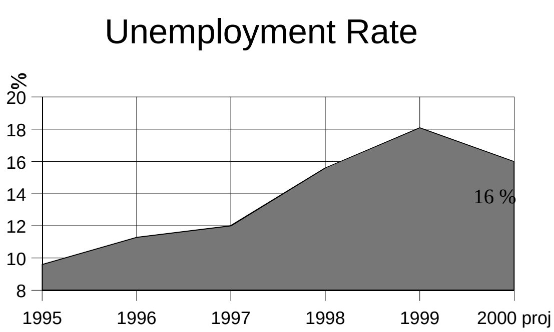
The supermarket sector in Colombia is one of the most modern in Latin America, with sales of $8.5 billion in 1999, of which $5.2 billion was in food products. The sector has undergone massive structural change in recent years, with domestic supermarket chains seeking strategic alliances with international partners in a frantic effort to modernize and capture market share. Economic realities and changes in consumer shopping habits and patterns are driving these changes. World-class hypermarkets, such as Makro and Carrefour, made their first incursions in the country in 1998. And acquisitions, such as 25 percent of Carulla by the U.S.-based New Bridge and the Casino (French) purchase of 25 percent of Exito, who had previous acquired the Cadenalco group, have reshaped the sector. In addition, convenience stores have begun to spread in the form of GasMarts. As a result, supply channels have been streamlined rapidly and direct imports have increased dramatically.

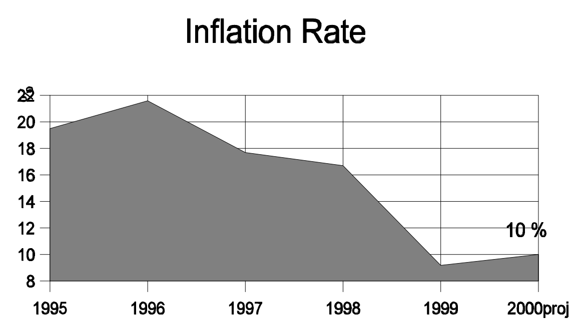
However, it is important to note that the traditional Mom ‘n Pop neighborhood stores are alive and well in Colombian cities. These store have been extremely successful in maintaining market share in the face of massive modernization in the sector. This is because convenience stores, which normally crowd out these stores, are not able to offer services, such as credit, small-quantity sales of bulk products, and the proximity that appeals to the vast number of middle and lower-income consumers.

II Economic Overview

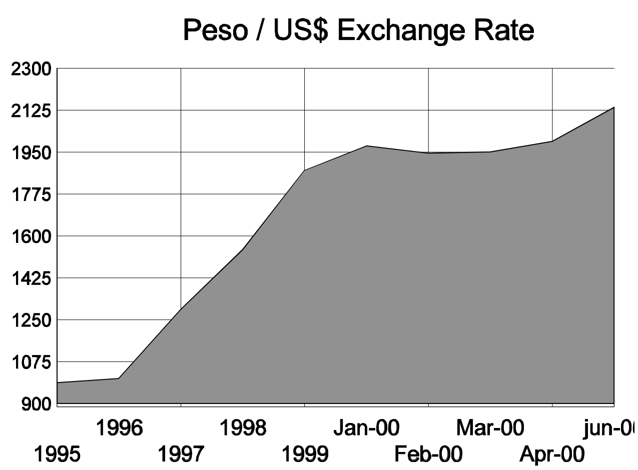








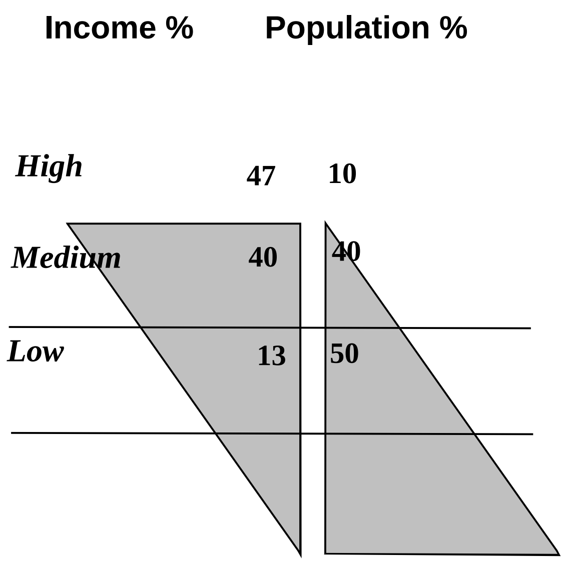
- **T** The Colombian economy suffered a severe recession in 1999, as did most of Latin America.
- **T** The Colombian peso was devalued by 22.2 % in 1999, but has been relatively stable over the past six months.



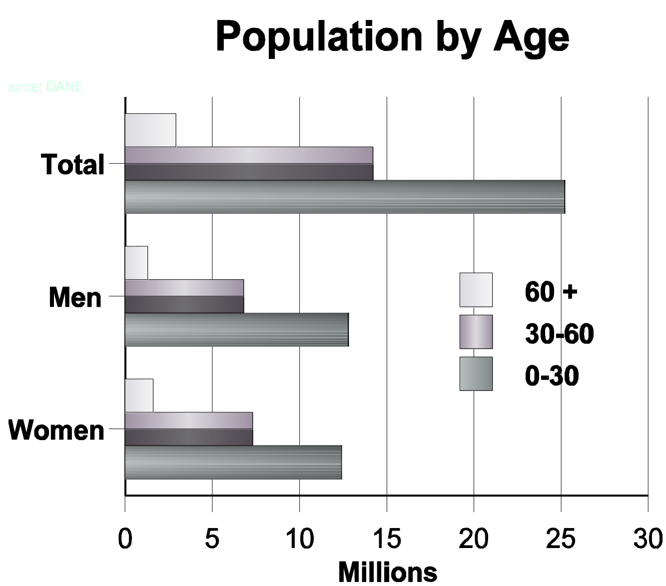
- **T** Year 2000 is showing clear signs of recovery. Domestic demand and household consumption are projected to increase by 4 % and 6 % in 2000.
- **T** Economic statistics for the first quarter of 2000 reinforce these estimates: GDP growth 1 %; inflation 10 %; however, unemployment hit a high of 20 %.
- **T** The main constraint to continued economic recovery is social unrest and insecurity.

III. Marketing Overview

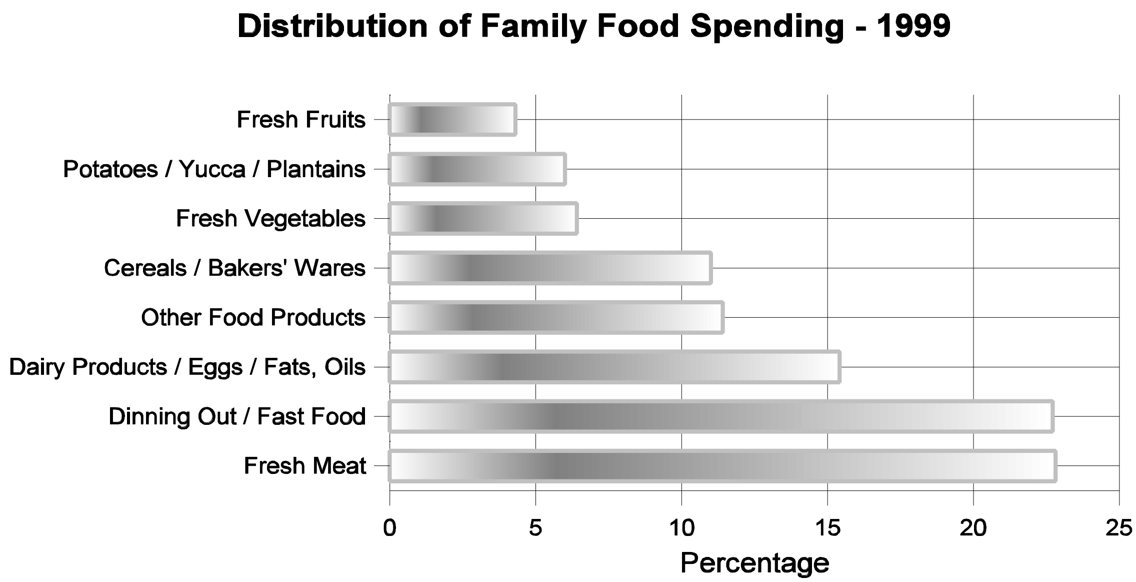
Income Distribution by Socio-Economic Group



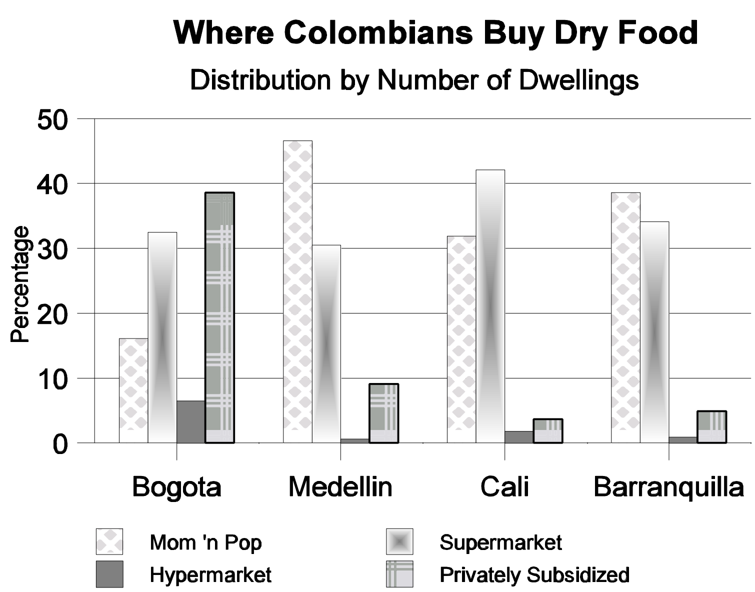
- Colombia is a growing market of 41 million people.
- Monthly food expenditures by income group are:
  High ÷ $300-600
  Middle ÷ $140-300
  Low ÷ less than $120
- Medium to high-income groups are an attractive market for U.S. products.



- The rise in female participation in the labor force (28 %) will continue to stimulate demand for consumer-ready products.
- 75 % of the population is concentrated in 23 large and medium-sized cities, all with modern supermarkets.
- 60 % of the population is younger than 30. Lifestyles are changing rapidly.
- The middle class represents 41% of Bogota's population and the upper class just 5 %.

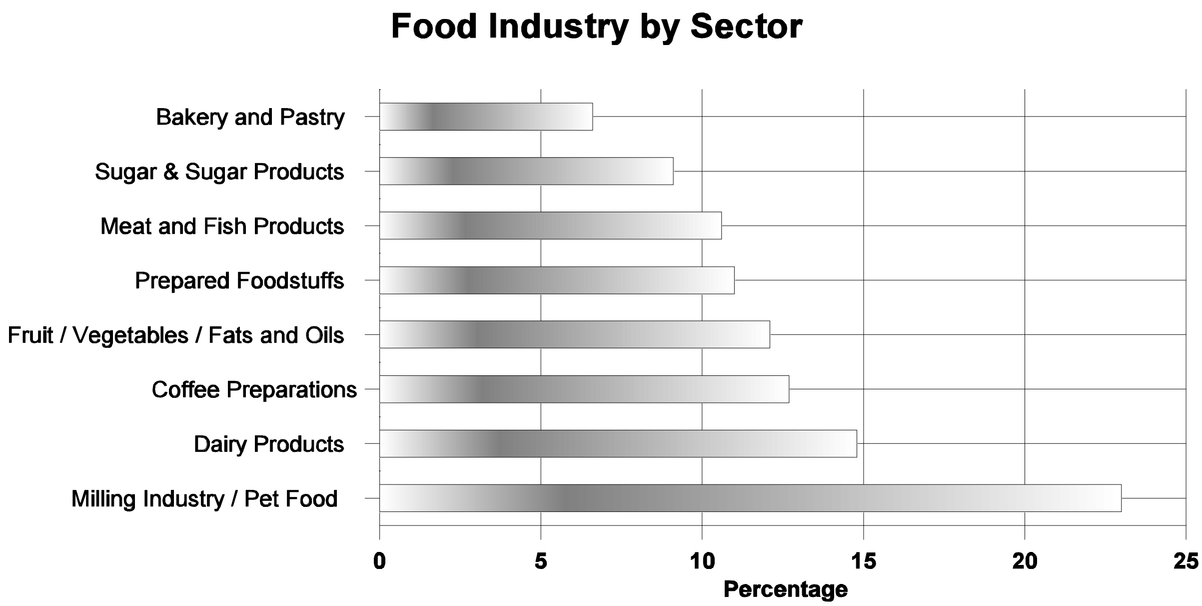


Source: DANE

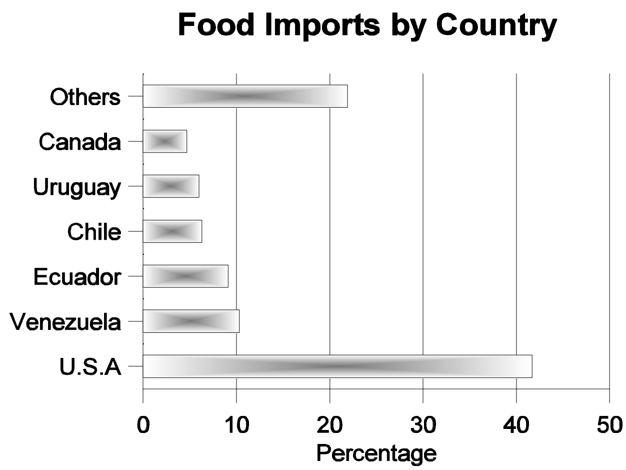


- Colombians spend 30 % of total family income on food.
- Middle-income families are developing a taste for new and more sophisticated products.
- Food safety and value are consumers' new watch words when buying food.
- Demand for food products is highly sensitive to price fluctuations.
- Upscale and middle-income families are dining out at least twice a month. This is increasing rapidly.

Colombian Food Production



- Colombia is a competitive producer of processed food products.
- Foreign food processing affiliates hold a large portion of processed food output. Some of them import their brand products from affiliates abroad.
- The food industry is one of the largest sectors of the economy, accounting for 29 % of industrial production.
- Industrial output fell in 1999, dropping by 14.6 %, due to financial strain and weaker demand.
- Industry has begun to rebound. Expectations are for a 7 % growth rate in 2000.



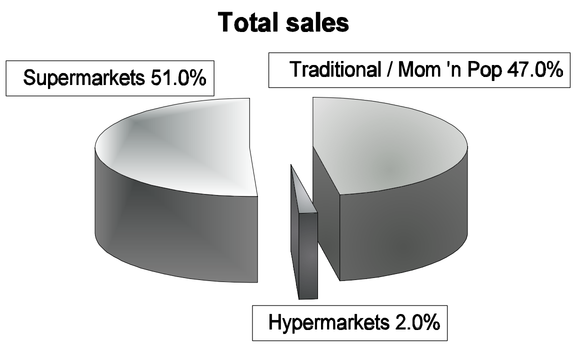
- Colombia is the largest market for U.S. food and agricultural products in Latin America after Mexico.
- In 1999, total food and agricultural imports were valued at $1.3 billion, equivalent to 12.9 % of total imports.
- Colombia imported $541 million in food and agricultural products from the US in 1999, including $86.9 million in consumer-oriented products.
- Total import growth is forecast at 14 %, after the sharp drop in 1999 (-26 %).
- Imports of food products account for 15% of national consumption.

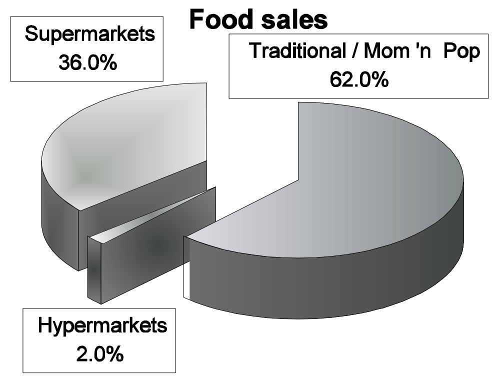
Main U.S. Processed Food Products Imported in 1999

PRODUCTS	$ Million
Frozen Pork	7.9
Miscellaneous Food Preparations (syrups, with vitamins or minerals)	5.7
Margarine	5.6
Processed Chicken Meat	4.9
Bread, Pastry, Cakes, and Biscuits	3.9
Vegetable Saps and Extracts/Hops	3.7
Frozen Juice Concentrates	2.8
Cat and Dog Food	2.5
Apples	2.3
Powdered Milk	1.7
Garlic	1.6
Frozen Beef	1.5
Fresh Pears	1.4
Dry Peas	1.4
Baby Food	1.2
Other Juices of Any Single Fruit or Vegetable	1.1
Breakfast Cereals	1.1
Seafood	0.8
Peaches and Nectarines	0.8
Fresh and Processed Cheese	0.8
Sparkling and Grape Wine	0.5

Source: DIAN

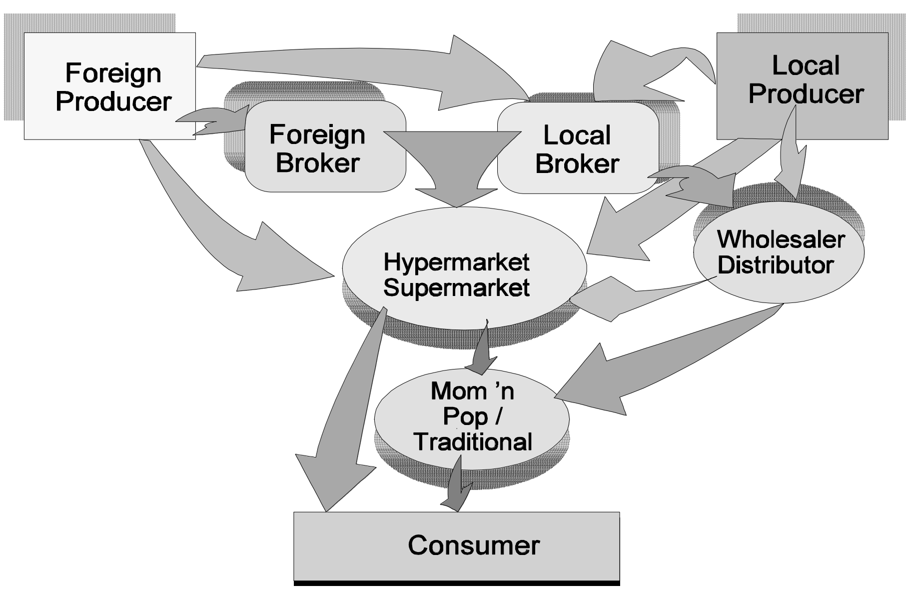
Market Situation for Retail Food Products





- Despite recession, sales increased in 1999 by 8.6 % , 0.6 % below the inflation rate. According to an FAS/Bogota survey, retailers recorded sales of $8.5 billion, of which $5.2 billion were in food products.
- Sales expectations are for a real growth rate of 12-15 % in 2000.
- The Hyper/Supermarket share of the market has not expanded as planned. Strong competition from traditional Mom 'n Pop stores restrained their growth. Mom 'n Pop stores will remain strong competitors for the foreseeable future.
- Marketing strategies have been led by aggressive discount and promotional campaigns. Delivering value is a key factor to attract customers.
- Product presentation and custom-packaged items are responding to consumers' needs.

Distribution Channels



IV. Structural Changes in the Retail Sector

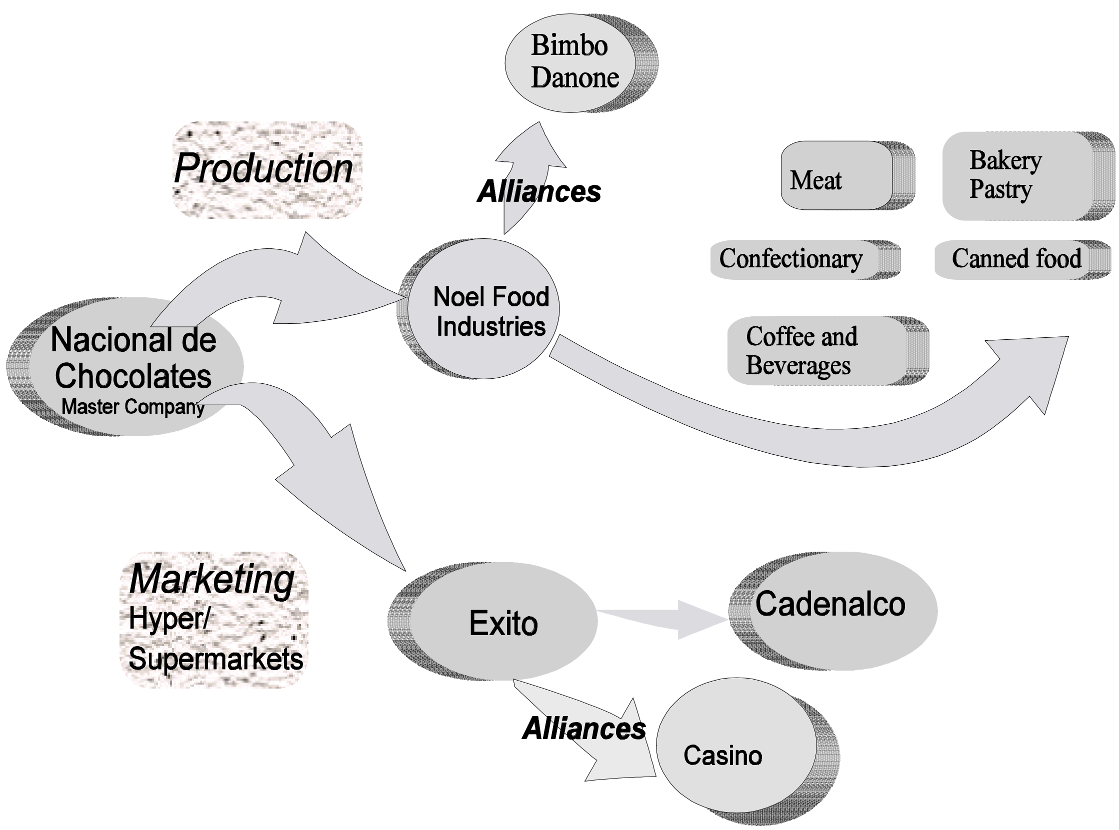
Structural changes occurring rapidly	Arrival of international competitors Alliances, mergers, and acquisitions New business paradigms Changing consumer lifestyle
International competitors have shaken the market	Hypermarkets Makro and Carrefour brought in new formats, forcing the local market to adjust and become more competitive and creative
Foreign alliances are reshaping the market	Alliances such as Carulla-New Bridge, Crunch-Frito Lay, Unilever-Varela, among others, have given new dimensions to major players: know-how, power negotiation, market distribution network and capital leverage
In-house alliances, mergers and acquisitions to become more competitive	Chain stores have strengthened their negotiating and market-position leverage through strong vertical integration
New paradigms for business	Core business, category management and private labels Internet, telemarketing and supermarket home-delivery Direct purchases a must GasMarts making their presence felt in the market
Changing shopping habits and patterns	Better informed and more demanding consumers Consumers now choose hypermarkets for buying pre-cooked, pre-packaged, and frozen products Most consumers shop at supermarkets, while only 4 % at hypermarkets One to three visits per month to the supermarket for a wide variety of high-quality and safe food products at low prices. Supplemented by several trips to Mom 'n Pop and specialty shops for daily products

The Economic Groups in the Food Industry

- As in most Latin American countries, Colombia has a relatively high industrial concentration in a few large conglomerates.
- Conglomerates are redefining their core businesses to strengthen their market positions.
- These key players are powerful, participating in the decision making process for formulating the country's economic policy, preserving their own economic interests.

Antioqueño Holding	**Superior Holding**	**Ardila Lulle Holding**	**Santodomingo Holding**
Food Processing and Retail	Fast Food and Poultry	Soft Drinks, Beer and Juices	Beer, Soft Drinks and Juices

Successful Alliances, Mergers and Acquisitions
The " Antioqueno Conglomerate" Example



Advantages for U.S. Companies and Products

U	The Colombian supermarket industry is one of the most modern and sophisticated in Latin America.
U	From the US, historically Colombia´s number one supplier, total imports account for 42 % ($541 million) of food and agricultural imports.
U	Locally established multinational firms are taking advantage of their brand names to position new imported products.
U	The most popular U.S. products are well regarded by Colombian consumers, because they are perceived as being of high quality and good value. Many Colombians have traveled and studied abroad and have developed a taste for U.S. products.
U	The market share of hyper/supermarkets is near 53 % and is expected to rise close to 63 % in the next few years. They are increasingly offering imported food products.
U	GasMart stores have recently entered the market and are spreading nationwide. They offer imported products, including snack foods, candy, soft drinks, ready-to-heat and ready-to-eat products, as well as dairy products, cereals, bread and fast food. A great market potential for new products.
U	Nearly 60 % of the Colombian population is under 30 years of age and has been exposed to changing lifestyles. The percentage of women working has shown remarkable growth, generating a growing demand for value-added food products and beverages.
U	Upscale and middle-income Colombian families are eating out more frequently, at least twice a month, devoting 24 % of food spending for meals away from home.

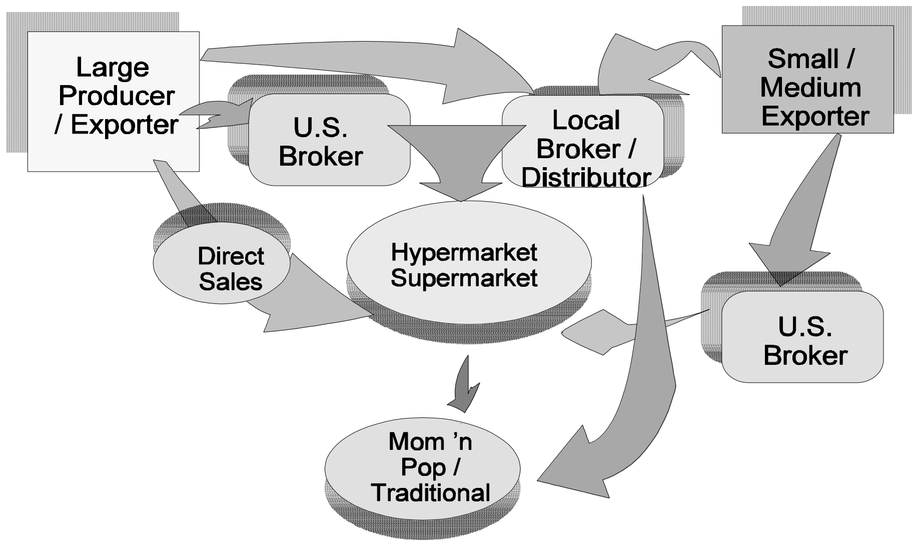
Challenges to U.S. Companies and Products

U	Consumption of processed food is low, according to international standards and highly sensitive to price.
U	U.S. products will have to be of high quality, price and service to meet increasing competition from other foreign products. Category management practices by stores, including charging slotting fees for products, are overhead costs to be expected.
U	Alliances with European stores chains, such as Casino and Danone, have intensified competition. The presence of Makro and Carrefour has brought in a wide selection of high-quality, competitively-priced foreign products to the market.
U	Besides the basic duty, the Andean Community assesses a variable duty on 14 basic commodities groups and related products, or a total of 147 products. This system results in high and varying duties for a number of products, such as pet food, poultry and cheese.
U	Absorption agreements to protect domestic production are another limiting factor for some U.S. products. Chicken, turkey and duck are subject to such restrictive measures.
U	Other non-tariff barriers to imported products are import licensing and sanitary and phytosanitary certification (poultry).
T	Some Colombian Trade Agreements with U.S. competitors make several U.S. products less competitive, such as zero import duties on wine and apples from Chile and wheat from Brazil.
T	Customs clearance is still a cumbersome process, because of bureaucratic procedures.
T	The cold storage transportation network is very underdeveloped.
T	Despite GOC efforts, artificially low-priced contraband products still produce a climate of unfair competition and disrupt sales of legally imported products.

Illustrative Import Duties for Food Products

Product	Basic Duty %	Basic plus Variable %
Chicken Parts, Frozen Turkey Parts / Duck / Goose	20	166
Pet Food	20	58
Powdered Milk / Cheese	20	55
Wine / Beer	20	none
Fruits and Vegetables	15	none
Raw Coffee, Tea and Spices	10	none

Market Entry Strategy



To enhance the competitive sales position of food products in Colombia and to introduce new products, U.S. companies should follow these general suggestions:

- Base competitive position on the equation of high quality, price and service to meet increasing foreign competition. Reinforce activities, such as trade exhibits, product sampling, advertising, and promotional campaigns.
- Establish direct relations with leading companies to develop a low-cost, direct sales approach and to offer products and services.
- Develop a relationship with top executives, i.e., marketing directors, purchasing managers, and expose them to U.S. business practices. Take advantage of domestic food fairs and exhibitions.
- Develop Spanish-language marketing and communication materials that highlight products and services available.

Importers and Distributors

- T Since competition in food retailing has intensified, supply channels have been streamlined.
- T Direct purchases by hyper/supermarkets are increasing substantially, offering very attractive prices to consumers.
- T Only large importers and distributors with a broad knowledge of U.S.-Colombian market practices will remain in the market.
- T Small importers and distributors will find it more difficult to compete, except in products categories that are not attractive to large importers.
- T Import overhead is around 30-40 % of the total product value after duties.

Main Importers and Distributors

Importer	**Products**
International Food Services	Full line of processed food products
Provyser	Processed inputs for fast food
Reprifisa	Sausages, Mexican food
Global Trader	Biscuits, canned fruits, meat, fish, poultry
Pillsbury of Colombia	Frozen pizza/vegetables, ice cream (Hagen Dazen)
Mikele Food Products	Bakery products
Sanchez Forero	Apples, grapes, plums
Colquesos	Full line of U.S. cheeses
Pescaderia Jaramillo	Seafood
DISNACO	Beer (Budweiser), Gatorade
Arflina	Cheese, sweets, ham, sausages, liquor

V. Market Structure and Sub-Sector Profile

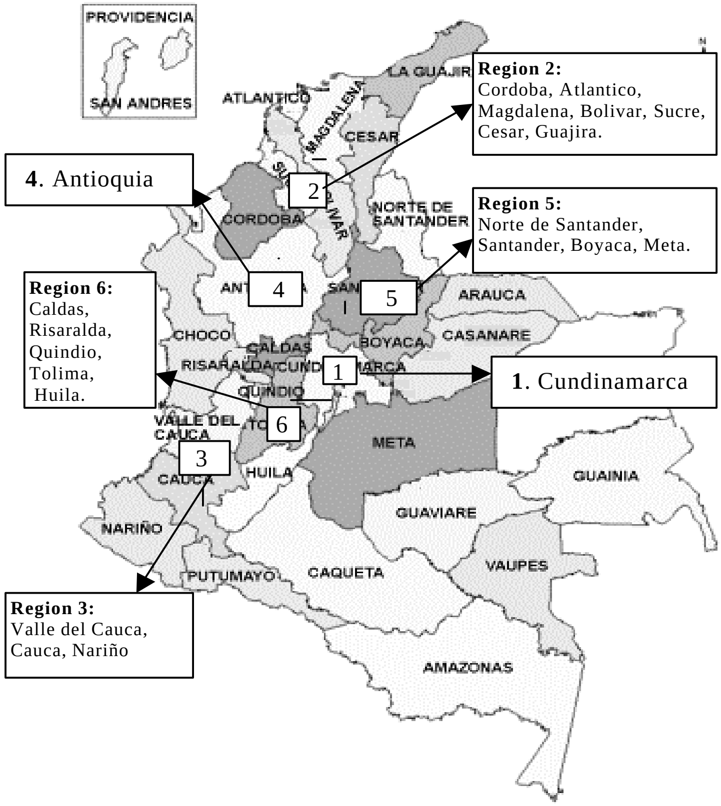
- Hypermarkets are a recent format in Colombia and are in the process of establishing themselves in the market. They are expanding but at slow pace, because of surprisingly strong competition from the Mom 'n Pop / Traditional format.
- Supermarkets are prospering in Colombia. There are 12 main supermarket chains, with a total of around 1,200 stores.
- The Colombian Mom 'n Pop stores, however, are alive and well. There are around 350,000 stores scattered throughout the country. These numbers are not decreasing currently, but should begin to decline slowly in the future.

A. Hypermarkets and Supermarkets

Name of Retailer / Type of Retail Outlet	Ownership	Number of Outlets	Location	Type of Purchasing Agent(s)
Hypermarkets				
Carrefour	65% France	2	Bogota, Cali	Importer/ direct / local
AlKosto	100% Local	5	Bogota, Villavicencio, Pasto, Ipiales	Importer/ direct / local / producers / distributors
Makro of Colombia (Institutional market oriented)	58% Holland	5	Bogota, Medellin Barranquilla	Importer/ direct / local / producers / distributors
Supermarkets				
Almacenes Éxito	25% Casino France 4% JP Morgan	12	Medellin, Bogotá, Cali	Importer/ direct / local
Cadenalco	11% GDR/ADR Giant Fonciere France	34	Main Cities	Importer/ direct / local / producers / distributors
Carulla	25% New Bridge-USA 13% Bank of New York	71	Main Cities	Importer/ direct / local
Olimpica	100% Local	74	Main Cities	Importer/ direct / local / producers / distributors
Cacharreria la 14	100% Local	9	Cali, regional small cities	Importer/ direct / local / producers / distributors
Vivero	100% Local	9	Barranquilla Cartagena, Valledupar	Importer/ direct / local
COMFAMA 1/	100% Local	26	Regional Medellin	Local producers/ distributors
CAFAM 1/	100% Local	40	Regional Bogota	Local producers/ distributors
COLSUBSIDIO 1/	100% Local	17	Regional Bogota	Local producers/ distributors

1/ Privately Subsidized Stores

Hyper/Supermarkets Food Sales and Population by Region



Region	Food Sales % share	Supermarkets Volume Sales % Share	Traditional Volume Sales % Share	Population (1,000)
1. Central Colombia	31.1	34.7	26.9	**8,374**
2. Northern Atlantic Coast	19.3	13.7	25.8	**8,798**
3. Southwestern Coast	18.7	17.8	19.8	**6,941**
4. Northen Antioquia	14.1	17.8	9.9	**5,300**
5. Eastern Region	9.0	7.7	10.4	**5,296**
6. Central Coffee Region	7.8	8.3	7.3	**4,778**

Source: DANE - Nielsen

Hypermarkets

- Hypermarkets account for 2 % of total retail sales and 2 % of total food sales.
- Only 4 % to 5 % of consumers shop there. They attract mainly upscale and middle-income shoppers.
- Offer a wide variety of high-quality imported products at lower prices.
- Shoppers mainly buy pre-cooked, pre-packaged and frozen products, wine and other beverages.

Hyper/Supermarket Sales 1999
$ Millions

Store	Total Sales	Food Sales
Supermarkets		
Cadenalco	652	424
Others	1,099	330
Carulla	296	243
Olimpica	482	241
Exito	733	191
La 14	270	135
Cafam	256	102
Comfama	122	73
Colsubsidio	145	58
Comfandi	56	18
Vivero	47	27
Febor	72	25
Surtimax	59	24
Hypermarkets		
Makro	80	56
Alkosto	51	21
Carrefour	51	20
Total	**4,339**	**1,988**

Note: Main chains

- Supermarkets are prospering in Colombia.
- These stores account for 36 % of total retail food sales.
- They offer customers fresh seafood, prepared salads, pizzas and meat dishes, delicatessen products, wines and beverages, plus a complete line of staples.
- 50 % of all consumers shop at supermarkets.
- Shoppers belong mainly to high and middle income families.
- Consumers choose supermarkets for packaged, frozen and precooked products.
- Supermarkets such as “Pomona”, “Gourmet Carulla” and “La Plaza” offer exclusive gourmet products.
- Specialty shops “Arflina” also offer similar gourmet products.

Supermarkets

B. Mom 'n Pop/Traditional Markets

- The Mom 'n Pop store concept is alive and well in Colombia. These stores are scattered throughout all neighborhoods.
- They are small in size (20 to 200 square meters) but large in number (350,000 in Colombia), offer a limited variety of products and have a small inventory.
- Most products are perishable: milk, eggs, fruits, vegetables, potatoes, some processed foods, and various household and first-aid items.
- The average number of inhabitants in each store area is 150.
- Nevertheless, the future of Mom 'n Pop stores lies in their ability to modernize. Some decline is expected in the sector.

- The Colombian Mom 'n Pop stores have retained over half of the retail market in Colombia.
- Special consumer services, such as short-term credit to lower-income consumers, in addition to proximity, have been the foundation for their success.
- This market is increasingly important to domestic wholesaler/distributors. Producers and distributors are adjusting to Mom 'n Pop market needs with new and customized products. Wholesale/distributor channels must be used to reach these stores.
- Estimates of Mom 'n Pop/Traditional store food sales were around $3.2 billion in 1999.

Where Bogota Residents Do Their Food Shopping

	1992	1992	1998	1998
Market Place	Dry Goods	Fruits / Vegetables	Dry Goods	Fruits / Vegetables
Mom 'n Pop	18.5	22.7	16.1	27.8
Privately Subsidized Stores	35.6	13.4	38.6	15.5
Hyper/Supermarkets	36.5	17.0	39.0	19.8
Wet Markets	7.0	41.7	4.4	30.6
Others	2.4	5.2	1.9	6.3
Total	100.0	100.0	100.0	100.0

C. GasMarts

- U These stores apply the concept of a convenience store/gas station, adapted to the Colombian market, and complement the Mom 'n Pop/Traditional stores. Also, they offer fast foods, hot and cold beverages, and have ATMs.
- U They have had a noticeable impact on the market and have taken positive steps to ensure significant growth in the short term.
- U Shoppers are young professionals, students and single people who either drive or walk to the store.
- U GasMarts are fairly new and are spreading rapidly. There are currently four chains.
- U Sales are not significant yet. Estimated average sales are $10,000 to 20,000 per month.

Typical Product Lines

- U Pre-cooked foods: Cup Ramen soup, noddles (Union Food U.S.). Tacos and dips (Pillsbury U.S.).
- U Fast foods: Hamburgers, hot dogs, sandwiches.
- U Drinks: Hot chocolate (Cadbury´s-England), soft drinks, milk.
- U Snacks and Cereals: Snacks (Pepperidge Farm-U.S.), (Kellogg's)
- U Sweets: Nestle (Switzerland), Chocolates (Cadbury´s-England)
- U Pasta: Spaghetti (Lensi-Italy)
- U Baby Foods
- U Pet Foods
- U Canned Foods: Fruits and vegetables.

Colombian GasMarts

Company	Bogota	Cali	Medellin	Cartagena
Tiger Market - ESSO	9	6	7	1
On the Run - MOBIL	5	1	5	4
Select - SHELL	5			
Star Mart-TEXACO	4			

D. Wet Markets

These are also part of Colombian traditional markets:

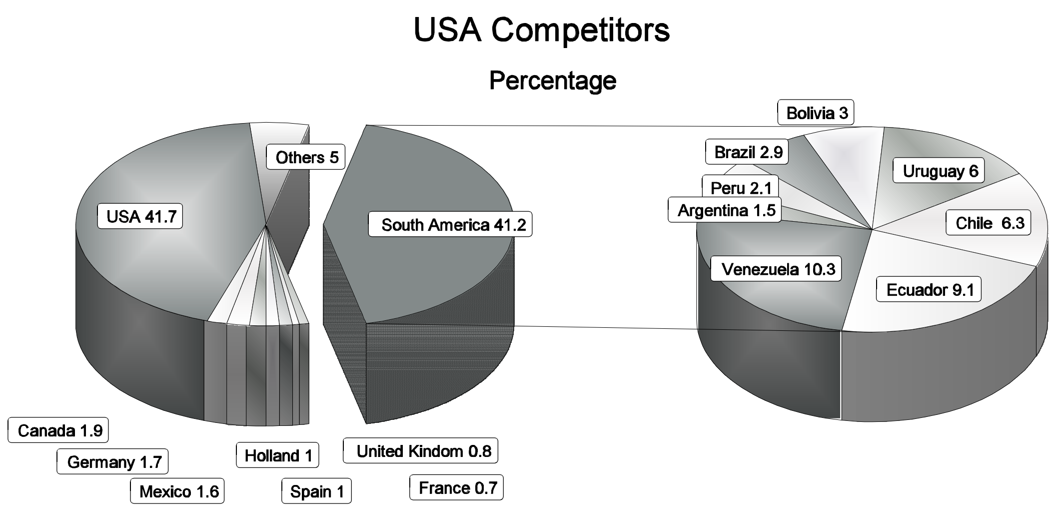
- Each small town possesses its own wet market, supplied by local and regional small-scale production.
- Fresh perishables foods, such as seasonal fruits, potatoes, vegetables, live animals and home-made dairy products are offered at these "once a week market".
- These colorful, low-priced, bargaining markets also provide food products for the town's Mom 'n Pop stores.
- The number of wet markets is estimated at 1,200. Their numbers are declining in larger cities.

VI. Competition, Consumer-Ready Food

Colombia is a strong competitor in the production of:

Product	Company
Dairy products	Alpina, Colanta, Parmalat, Purace
Breakfast cereals	Kellog´s , Nestle, Quaker
Snacks	Frito Lay, Savoy Brands, Margarita, Yupi
Baked foods	Levapan, Bimbo
Confectionary	Colombina, Noel, Warner Lambert
Oils and margarines	Unilever, Lloreda, Acegrasas, Gravetal
Dry mixes for sauces, mayonnaise, ketchup, mustard, jellies, condiments.	Best Foods, California, La Constancia , El Rey.
Poultry feed products and pet food	Purina, Finca, Contegral

- Colombia grants preferential treatment to imports products from fellow members of the Andean Community. Also bilateral agreements provide preferential import duties to countries, such as Chile and Mexico.
- Private labels are becoming very important. Company brands are included in nearly 30% of food product categories sold at the hypermarket and supermarket.
- Be aware that profit margins are being squeezed by the current price war, by realities such of a few large players with strong negotiating and purchasing power, by the reduction in the intermediary supply chain, and to some extent artificially low-priced contraband.



VII. Best Products Prospects

- Colombia is a growing market for value-added food products.
- Surveyed retailers and producers feel there is significant potential for new products in almost all food products categories.
- Healthy and ethnic food categories are especially new and fast growing.

But, there is significant space for new alternatives in ...

Ready-to-Eat *And* Pre-Cooked

Meat
Chicken
Turkey
Fish products

Canned: fruits / vegetables
Off season fresh fruits
Cereals
Pasta
Juices
Bottled water
Bakery
Wine

Healthy food
Dietetic products

Food Products Ranked by Sales

1. Cold meats	11. Cereals	21. Cream of milk
2. Cooking oils	12. Margarine	22. Broths
3. Powdered milk	13. Milk	23. Pet food
4. Biscuits / cookies	14. Nectar and juices	24. Butter
5. Packaged bread	15. Pastry	25. Bubble gum
6. Sugar	16. Cakes	26. Vodka
7. Coffee	17. Scotch	27. Creamed oils
8. Cheese	18. Candies	28. Cake Mixes
9. Snacks	19. Soups	29. Sauce Mixes
10. Beverages	21. Jelly	

VIII. Related Reports

Other Related Reports

Report No.	Report Name	Date
CO0023	Food and Agricultural Import Regulations and Standards	07-13-00
CO0013	Agricultural Trade Policy Monitoring Report	04-13-00
CO0011	Sugar Annual Report	04-10-00
CO0003	Oilseeds and Products Annual Report	02-12-00
CO9027	Dairy Annual Report	10-19-99
CO9021	Poultry Annual Report	08-17-99
CO0018	Coffee Annual Report	05-15-00
CO8028	ALIMENTOS 98 Food Show	09-29-98

For further information, visit the FAS home page at http://www.fas.usda.gov.

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