Three Central American Markets Add Up to Opportunities for U.S. Food Exporters

TR006476

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Known as the northern triad of Central America, Guatemala, El Salvador and Honduras offer important opportunities for U.S. exporters. Although they differ markedly in their degree of economic development and market size, they share many policies and preferences.

Let's begin by assessing each country's market.

The Lay of the Land in . . . Guatemala

Guatemala's economy is the largest in Central America, with gross domestic product (GDP) of about $19 billion in 1999. It already ranks as one of the United States' foremost trading partners in the Caribbean Basin. In 2000, U.S. exports of consumer-oriented products to Guatemala surged to a record $84.3 million.

Over the last decade, Guatemalan economic growth has averaged a respectable 4 percent a year, though it likely dropped to 2.7 percent in 2000. Consumer expenditures have grown an average 10.4 percent a year since 1994.

Of the 11.8 million Guatemalans, 2.3 million can regularly afford imported goods. The nation's growing retail industry, coupled with consumers' increasing demand for new and better products, is creating exceptional opportunities for imports.

Guatemala's retail sector reflects this economic expansion. The supermarket sector has almost quadrupled its sales, from $114 million in 1994 to $411.4 million in 1999. The number of supermarkets has grown from 66 to 128.

Overall, supermarkets account for half of Guatemalan retail food sales, followed by hypermarkets with nearly 28 percent. Although the club or discount warehouse concept is new to Guatemala, it has already garnered 15 percent of the market. Convenience store sales make up almost 5 percent.

. . . El Salvador

El Salvador's retail food sector is also experiencing tremendous growth, fueled mainly by rapid expansion and aggressive competition in the supermarket sector. Nationwide, 136 supermarkets handle approximately 36 percent of the retail food market. Supermarkets continue to open branches in working class areas.

Like Guatemala, El Salvador already ranks as a sizeable market for U.S. consumer-oriented products, importing a record $41.6 million worth last year.

The nation's three most populous cities–San Salvador, Santa Ana and San Miguel–account for 75 percent of consumer food imports. Workers in these cities supply steady demand for consumer-oriented products, since most of them eat lunch out, often buying ready-to-eat items in supermarkets and convenience stores.

. . . and Honduras

In the middle and late 1990s, the Honduran economy grew an average of almost 4 percent per year. In 1999, crippling infrastructure damage and export losses caused by Hurricane Mitch reduced growth to 2 percent. In 2000, the economy regained its upward momentum, and GDP is expected to have grown by 5 percent.

Of Honduras' population of 6.2 million, about 2.9 million are steady consumers of imported food products. Here again, U.S. consumer-oriented export sales set a new record in this market last year: $55.3 million.

For U.S. exporters, the target population is concentrated in the capital city of Tegucigalpa and the industrial hub of San

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Pedro Sula, which together account for 80 percent of food import sales. The Bay Islands and smaller cities like El Progreso, La Ceiba and Choluteca account for the remainder.

Supermarkets' and wholesale clubs' share of retail food sales has increased to about 42 percent, with convenience and other types of small stores and traditional street markets (wet markets) accounting for the remainder.

Market Boosters

The statistics above add up to a picture of growing demand for consumer-oriented products from the United States and other countries.

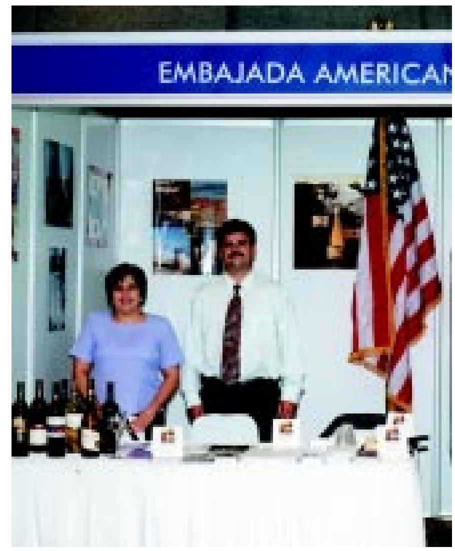
Many Central American distributors and importers like trading with U.S. suppliers because they can rely on their ability to provide quality goods in necessary quantities in a timely, efficient manner. Moreover, the region's growing food processing industry is on the lookout for new imported ingredients.

A sizable proportion of consumers in all three countries have a strong preference for U.S. food products, perceiving them as offering higher quality, greater safety and better nutrition than most national or regional products. In addition, many consumers have studied, traveled and worked in the United States, and so have developed a taste for U.S. foods.

Gas Marts: A New Kind of Convenience

Increasing U.S. investment in these countries' retail food sector is leading to greater brand awareness and more competitive market conditions, on which U.S. firms can capitalize. The growth in gas marts is a prime example of this trend.

Major petroleum firms have established a strong niche in the convenience food segment. The main players are Esso Mart and Tiger Mart, operated by Exxon; Star Mart, operated by Texaco; and Select and Express, operated by Shell.



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Limiting Factors

However, as in many developing countries, affluence in Guatemala, El Salvador and Honduras remains heavily concentrated in the comparatively small middle- and upper-income classes. Price remains an important (if not overriding) concern in most purchasing decisions, so it is essential that U.S. products be competitively priced. And indeed many U.S. food products are actually cheaper than national or regional counterparts.

For long-term success, U.S. exporters must supply products that compare favorably in diversity, quality and price with similar products from competitor countries. Moreover, despite strong trade ties, unfamiliarity with U.S. product lines persists–not only among consumers, but also among distributors and importers.

Imports also face the obstacles imposed by bureaucratic processes and de facto market barriers. Constraints include complicated procedures to clear customs, relatively high tariffs on selected products, quotas and changing phytosanitary restrictions. Inconsistent customs valuation practices create an uneven playing field for many distributors, wholesalers and retailers.

And Competition

The free trade agreement among Central American countries provides opportunity for the brisk exchange of products. Moreover, Mexico has been increasing trade and recently signed a free trade agreement with the northern triad that will likely enable it to improve its market position.

Chile, another major U.S. competitor, has also been gaining ground and is negotiating its own trade agreement with Central America.

Keys to Market Access and Success

But despite practical constraints and stiff competition, the United States is increasing its share of the consumer-oriented foods market. Market analysts think that ample untapped opportunities exist for a panoply of U.S. products, for everything from fresh fruits to snacks to frozen foods. So here are some practical tips for succeeding in this market.

As usual, success depends largely on those three indispensable standbys: personal contact, good local representation and effective product promotion.

Personal contact should be established with a qualified local representative, such as a distributor. Selecting a distributor is the fastest, easiest way to enter the market. The offices cited at the end of this article can provide detailed information on local representation, trade show participation and other avenues for setting up personal contacts.

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For details, see FAS Report Nos. GT0026, ES0010 and HO0008. To find it on the web, start at **www.fas.usda.gov**, select **attache reports** and respond to the dialogue boxes.

The **local representative** or **distributor** should be able to provide market knowledge; guidance in local business practices, trade policies and regulations; and sales contacts. In many cases, the local representative or distributor will also be the importer. U.S. firms should seek formal legal representation to ensure compliance with registration requirements, labeling codes and food safety regulations.

Product promotion, information and sampling are essential, since consumers tend to buy only products with which they are familiar. To improve the odds of successful market entry, U.S. suppliers should provide importers and distributors with: labeling or re-labeling services; competitive pricing; reasonable credit terms; partial defrayment of advertising costs; catalogs and flyers; and samples. ■

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