

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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El Salvador

Retail Foods

Annual Report 2016

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Report Highlights:

U.S. consumer-oriented food imports continue to rise in El Salvador, increasing 8.4 percent between 2014 and 2015. This represents a new record in sales of \$162 million for 2015. Best performing categories, based in total sales and growth percentages, are: food preparations (baking inputs/mixes and protein concentrates), non-alcoholic beverages, processed dairy and processed vegetables and pulses.

Post:

San Salvador

SECTION I. MARKET SUMMARY

Country Snapshot

- El Salvador, located in Central America, shares borders with Guatemala and Honduras. With a total area of 13,074 square miles (21,041 km²), and a population of approximately 6.4 million people, El Salvador has one of the highest population densities in the region. It is the smallest country in Central America. El Salvador is divided into 14 departments and the capital city is San Salvador.
- The U.S. dollar is the official currency. El Salvador is the fourth largest economy in Central America. With the global recession, real GDP contracted in 2009 and economic growth has since remained low, with an estimated 2.5 percent for 2015.
- The United States is the most important trading partner, with 47 percent of exports and 39 percent of imports with El Salvador.
- Total U.S. consumer oriented food product imports in 2015: \$162 million.
- Imports from regional/neighboring countries (Guatemala, Mexico, Nicaragua, Honduras, and Costa Rica) include a large variety of products such as fresh fruit and vegetables, dairy products, meats, cereals and beans. Other major suppliers that seek to increase their exports to El Salvador include China, Canada, South Korea and Brazil.
- The United States-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) has completed 10 years of implementation in El Salvador. CAFTA-DR has strengthened imports of processed foods, making it possible for consumers to have more variety and higher quality food product choices.
- Like the rest of Central America, El Salvador offers an open market for U.S. goods and services. Tariffs are relatively low, and were reduced further with the implementation of CAFTA-DR. The value-added tax (VAT) rate is 13 percent. Standards are based on ISO import standards, and Colombian, Mexican, and U.S. standards are used as reference. Labeling and product testing are not major issues.
- The current economic environment has been stagnant resulting in a negative outlook from rating agencies. Standard & Poor's Global Rating division downgraded El Salvador's economic outlook in mid-October from a B+ to B. This action contributed to limited further economic growth as a result of decreased investors' confidence.

El Salvador's tourism industry has been steadily growing over recent years, as the Salvadoran government focuses on developing this sector. However, over the first half of 2016, tourism income

reached \$554.78 million dollars, nearly unchanged from the same period last year, indicating a slowing down in the rate of growth.

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.	A good number of consumers opt to trade down to less expensive options of basic products due to economic difficulties.
Information and technology have become strong tools for food marketing/selling. Product bar codes and scanners at point of sales are great tools to increase profitability and improve inventory control. In addition, major supermarket chains have launched online stores to reach millennials and the Salvadoran diaspora.	Market leaders are investing in construction of modern shopping centers in which supermarkets are the anchor points. Investment also includes state of the art technology, logistics, remodeling and improving service areas.
A more educated, bilingual (English/Spanish), and younger population is looking for American products/brands/franchises in order to achieve a more “American” lifestyle due to ties with relatives living in the United States.	High marketing costs (advertising, discounts, sampling, etc.) are necessary to promote new products to market.
The hotel and restaurant sectors are growing and dynamic sectors for U.S. exports. Specifically, U.S. business conventions are increasing in popularity and numbers, resulting in travelers looking for U.S. brand names of imported foods they are familiar with.	Overall, the Salvadoran economy remains very susceptible to the world economy and events that may disrupt tourism and investment.
Major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain infrastructure for high value frozen and refrigerated imports.	Security is a major 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.
The private label segment is rapidly growing in supermarkets; therefore there is high potential for U.S. companies that could provide private label for final food products and/or ingredients and intermediate products.	A growing number of customs and non-tariff barriers being implemented by new government employees results in a lack of consistency with customs procedures. In some products, there are problems obtaining a Certificate of Free Sale which makes it difficult to register some U.S. food products.
U.S. food safety is highly regarded. FDA food safety norms are being used by government health authorities in some instances as a reference to create more efficient regulations to safeguard consumers.	
As El Salvador becomes more a service provider economy, new office buildings are under construction,	

thus making these office workers potential consumers for high quality U.S. food products.	
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II. ROAD MAP FOR MARKET ENTRY

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

Entry Strategy

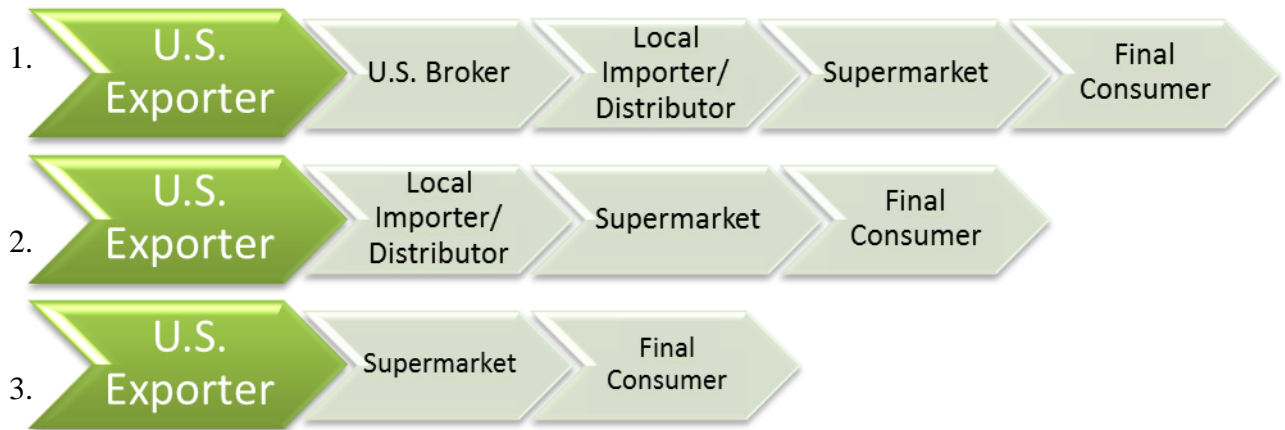
El Salvador has a dynamic importing sector that is open and constantly looking for foreign products. There is a wide array of products that are competitive in both price and quality.

In order to better penetrate this market, these are important suggestions to take into account:

- To reach consumers, there are different approaches: through a direct importer such as a supermarket chain, a wholesaler/distributor, or through a specialized importer.
- Regardless of strategy, U.S. exporters need a local partner to educate and update them about market consumer trends and development, product registration procedures, and business practices.
- To appoint a local distributor/importer, a U.S. firm has to make sure 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 that exporters can use for a fee. Also, exporters should work with a local lawyer to navigate the local bureaucracy.
- Wholesalers/distributors and importers play an important role with Salvadoran supermarket retailers, since the bulk of supplies on the shelves come either from local agents or importers. However, more and more, large supermarket retailers are looking to import more directly from U.S. suppliers.
- Point of Sale (POS) materials and give away items, along with product tastings are very important to promote food items. In addition, advertising through newspapers, radio, and television is recommended even though it can be expensive.
- Attend U.S. food trade shows to meet Salvadoran buyers. Marketing managers attend U.S. trade shows regularly and believe that this is the best way to find new products to introduce to the market.
- To obtain an idea about who are the main importers/distributors in El Salvador, U.S. exporters are highly encouraged to visit the ADES- Salvadoran Distributors Association webpage, (www.ades.org.sv). This association manages the relationship of its members with local retailers, wholesalers, and supermarkets and can provide a good starting point to enter the market.

Distribution Channels

Three distribution trends operate in the Salvadoran market:



Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Therefore, sales have been categorized as follows:

- A: Less than 10 million
- B: \$11 - \$25 million
- C: \$26-\$75 million
- D: \$76 - \$100 million
- E: \$101 - \$150 million
- F: More than \$150 million

Owner Group	Supermarkets, Hypermarkets and Club Outlets	Current No. of Stores	Estimated Annual Sales	Purchasing Agent Type
Calleja, S.A. de C.V.	Super Selectos	83	F	U.S. Broker/Importers/Direct
	Selectos Market 2/	14	B	U.S. Broker/Importers/Direct
Walmart Mexico y Centroamerica	Walmart Supercenter	4	F	U.S. Broker/Importers/Direct
	Despensa de Don Juan	18	E	U.S. Broker/Importers/Direct
	Despensa	61	E	U.S.

	Familiar 1/			Broker/Importers/Direct
	Maxi Despensa	8	C	U.S. Broker/Importers/Direct
Price Smart	Price Smart	2	F	U.S. Broker/Importers/Direct
TOTAL		190		

Source: Information provided by supermarkets. For those who declined to release sales information, an estimate was made by FAS, San Salvador.

1/ Smaller popular area stores

2/ Medium size stores located in middle-lower class areas-In transition to become Super Selectos.

Retail Sector

The market expectations for the retail sector remain positive, as it continues to be a key area of the Salvadoran economy, fueled by growing employment, increasing purchasing power, mainly fueled by remittances, and a steady expansion of consumer credit.

Hypermarkets/supermarkets and convenience stores coexist with the traditional small grocery stores (mom-and-pop) and open-air markets.

There are two dominant supermarket chains in El Salvador: Super Selectos and Walmart Mexico y Centroamerica.

Super Selectos supermarket is owned by the Calleja Group. This local supermarket chain currently has 97 stores, and with its slogan “The Salvadorans’ supermarket” (“El Super de los Salvadoreños”) is a strong competitor for other retailers.

In 2008, Grupo Calleja, along with seven other supermarket chains from the Central American region joined in a strategic alliance named SUCAP (Panama and Central American Supermarkets). SUCAP groups 8 different supermarket chains that make up 330+ stores in the region. SUCAP negotiates and buys in large volume for the region; therefore they get lower prices which can be transferred to the consumer. The members of SUCAP are: La Colonia (Honduras), Super Selectos (El Salvador), La Torre (Guatemala), La Colonia (Nicaragua), Súper 99, El Machetazo (Panama), Gessa and Automercado (Costa Rica).

Although SUCAP is one of the procurement methods for Super Selectos, they also use all other sourcing methods, such as buying from local importers, distributors and importing directly from international suppliers.

Walmart Mexico y Centroamerica is the largest retailer in the region with over 600 stores. In El Salvador, there are 91 stores. In order to reach different consumer segments, Walmart has stores in 4 different formats: Walmart Super Centers, Despensa de Don Juan, Maxi Despensa and Despensa familiar.

Walmart entered the region in 2005 and became Walmart Centroamerica in 2006. In 2009, Walmart Mexico acquired Walmart's operations in Central America from Walmart Stores, Inc. and two minority partners. In 2010, Walmart Mexico became “Walmart de Mexico y Centroamerica”.

Walmart is positioning as the place where “You always find everything and pay less”, promising low prices and deep discounts, as well as offering a wide range of products from food to electronics and more recently a tire shop. In 2015, Walmart invested about \$38 million to open 4 new retail outlets, as well as the revamping of many of their stores in order to provide a better shopping experience and lure new customers to their retail outlets. In this regards, an investment of US\$13 million has been reported for 2016, which was used to remodel 7 stores of La Despensa de Don Juan format, making them more modern, attractive and environmentally friendly by installing energy and water-saving equipment.

PriceSmart El Salvador, S. A. de C. V., is based in San Diego, California and has two stores 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 a few blocks away from the popular Metrocentro shopping mall. It is more accessible than the Santa Elena location and it has made American imports available to consumers that were familiar with them via firsthand migration or by proxy through family members in the United States.

One the latest trends of the two major players of the retail sector, Super Selectos and Walmart, is the development of a wide range of private label products, since a good number of their clients are constantly looking for good quality products at a more competitive (inexpensive) price.

In this regard, Super Selectos currently has 10 private label brands with a total of 2,200 products. As per their Private Label division, it is planning to introduce over 300 new products under this segment, so that they can participate in all of the supermarket categories.

Walmart, on the other hand, currently accounts six private label brands locally, which offer 385 products in total. Although there are no immediate plans to launch new products, their Corporate Relations Manager has stated that they will keep working in more and new product design to respond to their clients' demands and needs.

B. CONVENIENCE STORES, GAS MARTS

Convenience stores at gas stations are becoming more active players in the retail sector. Some of these stores are offering more than light refreshments and ready to eat/heat products. In some cases, food offerings include home-made style meals and specialty coffee drinks available throughout the day, making this trend a good opportunity for higher quality food products and/or ingredients from the United States. Main clients for these stores are truck drivers and other workers who travel across the country on business. In response to these clients' demands, another trend that is developing in these stores is having other services, such as banking transactions, pharmacy, cell phone services and free Wi-Fi connectivity, making these stores convenient for casual business meetings.

For the closing of 2016, the Ministry of Economy records show there are 336 gas stations in El Salvador belonging to four different companies: Chevron El Salvador (Texaco), Grupo Terra (UNO), Puma Energy (Puma) and Alba Petroleos. Each company has its own chain of convenience stores:

- Puma- Super 7
- Texaco-Food Mart
- UNO- Pronto/Flashmart
- Alba Petroleos- El Camino

However, in addition to the above major companies, there are 100 more gas stations that are known as "White Flag", meaning they are independently owned, not carrying a specific foreign oil brand. Most of these independent gas stations have a convenience store as well.

Distribution Channels

- Sourcing and distribution is mainly through local distributors/importers. Direct imports are minimal.

Entry Strategy:

- Convenience stores at gas stations are potential markets for new products.
- New products must be presented to the purchase manager of each chain and a local distributor must be appointed.
- Purchasing managers should be invited to main U.S. food tradeshows and any local U.S. food product exhibitions.
- Customers need to be familiar with products; therefore, new products have to be introduced with a promotional campaign that includes sampling/tasting.

Sub-Sector Profile:

- Store sizes vary; the largest is approximately 1400 square feet and, the smallest 430 square feet.
- Product variety at these stores is significant, as they sell not only food or beverage items but also personal care, toys and cleaning products.
- Beer is very popular at convenience stores. Recent studies show Salvadoran consumer preferences to be: about 81 percent domestic beer brands, 7 percent from the United States, 5 percent from Mexico, and the rest from Europe.

- Most convenience stores located in the metropolitan area also offer car wash and tune-up services.

As in the case with supermarkets, sales have been categorized as follows:

- A: Less than 10 million
- B: \$11 - \$25 million
- C: \$26-\$75 million
- D: \$76 - \$100 million
- E: \$101 - \$150 million
- F: More than \$150 million

Retail Name and Outlet Type	Ownership	No. of Outlets	Locations (city/region)	Estimated Sales (\$Mil)
FlashMart / Pronto (8 stores)	Grupo Terra/Terra Petroleo	90	Nationwide	C
Super 7	Puma Energy	94	Nationwide	C
Food Mart	Chevron El Salvador/Texaco U.S.	97	Nationwide	C
El Camino	Alba Petroleos de El Salvador/PDV Caribe, S.A.	55	Nationwide	B

C. TRADITIONAL MARKETS: “MOM AND POP” SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

- Traditionally, wet markets have been the most popular places to get fresher and less expensive fruits, vegetables, red meat, poultry, eggs, pork, and fish.
- There are nine public markets in San Salvador city, and at least one in each small town or municipality.
- Security has become an important issue when determining where to make food purchases. Supermarkets offer a more secure and comfortable environment for shopping than public/open air markets.
- The trend is 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 dominant supermarket chains are opening in lower income areas.
- 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 “mom and pop”, independent grocery stores in each neighborhood varies depending on the size of the neighborhood, although distributors think that there could be about 70,000 of these across the country, but this is difficult to quantify due to the informal nature in which these stores operate. 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, it is not recommended to develop a strategy to enter this market. The same applies to the rest of the markets reviewed in this section.

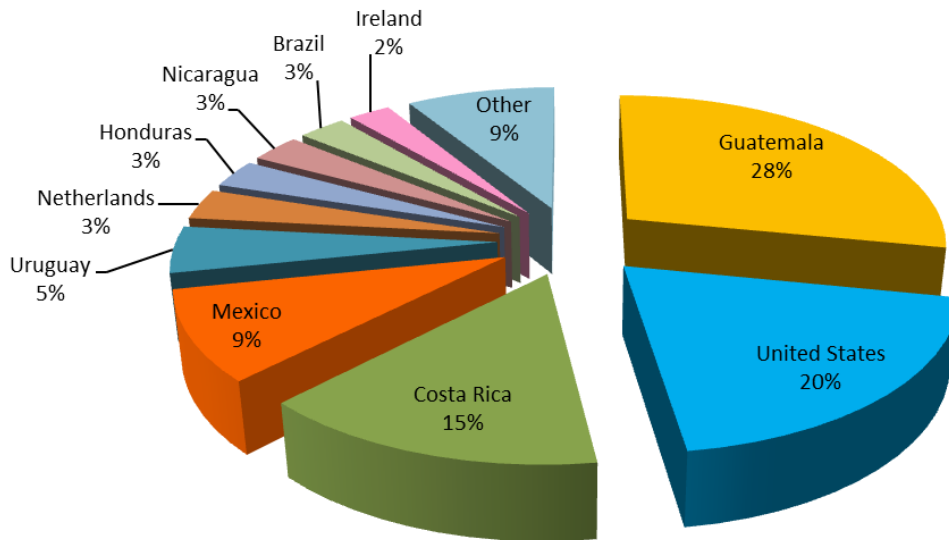
III. COMPETITION, CONSUMER-READY PRODUCTS

- El Salvador is a signatory to 9 Free Trade Agreements with the following regions/countries: Central America, the United States, European Union, México, Colombia, Dominican Republic, Chile, Panama and China-Taiwan. The latest negotiation in this regards has been with South Korea, which is expected to be signed by mid-2017.
- The Central American countries, Mexico, and the Republic of China are the main trade competitors for the United States in El Salvador.
- In 2015, the U.S. share in the consumer-ready market reached 20 percent. Main suppliers for this category continue to be Guatemala with 28 percent, followed by Costa Rica with 15 percent, and Mexico 9 percent.
- Powdered milk is mostly imported from Australia and New Zealand. Fluid milk is locally produced and also imported from Costa Rica, Honduras and Mexico in UHT long-life packaging.
- Grupo Calleja (Super Selector supermarket owner) is implementing a very aggressive expansion plan, translating into an annual investment of approximately US\$30 million, resulting in a steady 4 percent growth every year. This investment is reflected either in the opening of new stores and the remodeling or re-launching of existing ones. Remodeling includes shifting to cost efficient and environmental friendly refrigeration equipment, as well as continue the implementation of their plan to use solar panels at their stores as a way of reducing costs. Plans are to open their store #98 by early February 2017 and building of 3 more to surpass the 100 store-count across the country by 2018.
- Livsmart Americas, one of the strategic business partners of the Central American Bottling Corporation (CBC), was founded in 2009 targeting the healthy drinks segment. Its main production plant is located in El Salvador making about \$160 million in 2015. It leads the juice/healthy beverages market and is currently implementing a \$25 million investment to expand its manufacturing plant, in order to improve their R&D area as well as to increase production and storage capacity for final products.
- Another important industry in this sector is meat processing. There are approximately 10 companies which are members of the Salvadoran Meat Processors Association (ASICARNE). Interesting statistics in this sector is that imports of U.S. beef and beef products have had an

outstanding growth, reaching \$9.2 million in 2015, which is 111 percent increase over previous calendar year. This increase responds to a more educated consumer, who is demanding more U.S. beef cuts at both, the restaurant and supermarket level, as well as including these selections at higher-end restaurant and hotel menus.

- 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 registered as imported by Guatemala. Many imports come through Guatemala’s Santo Tomas de Castilla 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.

**El Salvador Consumer -Ready Food Imports
2015- Market Share per Country**



Source: Global Trade Atlas

IV. BEST PRODUCT PROSPECTS

Top 10 Best Consumer Oriented Prospect Imports from the United States

Category	Calendar Years (In Millions of U.S. dollars)		
	2014	2015	% Change 2014/2015
Food Preparations	39.209	44.062	12.38%

Processed/Prepared Dairy Products	11.595	12.503	7.83%
Processed Vegetables & Pulses	10.388	11.321	8.98%
Non-Alcoholic Beverages	7.086	9.608	35.59%
Fats and Oils	7.641	8.509	11.36%
Condiments and Sauces	7.880	8.308	5.43%
Snack Foods	5.054	5.843	15.61%
Spices	1.048	1.641	56.58%
Processed Fruit	1.020	1.257	23.24%
Pasta & Processed Cereals	0.961	1.102	14.67%

Source: USDA/FAS BICO REPORT

A. Products not present in significant quantities, but which have good sales potential:

Health and nutrition are a main concern for most consumers; therefore, there is a stronger demand and potential for products that are fat free/low fat, low cholesterol, low in sodium, gluten free, and unsweetened or reduced calories beverages.

- Organic foods and beverages.
- Non-lactose drinks: soy milk, almond milk (unflavored and flavored varieties).
- Little processing bread and/or seeds-base products: granola bars, flaxseed products, etc.
- Artisan made and special sauces and condiments.
- Energy boosters: shakes, juices, energy bars, natural juices, both regular and reduced sugar content (targeted to kids).
- Specialty dairy products (herbal butter, European-style cheeses, etc.).
- Sugar free/ gluten free products such as cookies, candy, baking mixes, etc.
- Deli meats.
- Ready-to-eat/heat meals- demand is growing due a larger younger workforce looking for convenience. Examples of these are ramen style soups, sandwiches, canned soups, etc.

V. POST CONTACT AND FURTHER INFORMATION

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