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Market and Trade Data

Colombia Holds Renewed Opportunities and Challenges for U.S. Suppliers

By Alicia de Jacobs

Colombia, long an important customer for U.S. agricultural suppliers, now offers renewed opportunities, due largely to its expanding and developing economy and increasingly open market. In fiscal 2006, Colombia purchased a record \$799.75 million in U.S. agricultural, fish, and forest products, up 37.5 percent from the previous year. Although bulk products, mainly grains, accounted for most of the total, intermediate and consumer-oriented product sales have climbed sharply in recent years.

The market is highly competitive and will become much more open in the near future. Colombia and the United States concluded negotiations of a bilateral FTA (free trade agreement) in February 2006, and it was notified to the U.S. Congress last August. FTA implementation, expected in the second half of 2007 or early 2008, will provide a major boost to the Colombian economy and imports of U.S. products.

Colombia remains the second-largest market for U.S. agricultural products in Latin America, trailing only Mexico.

Colombian gross domestic product grew 5.2 percent in 2005, surpassing the expected 4.5 percent. The increase was due to the country's excellent investment performance, boosted by the expectations of the FTA and improved physical security. The economy is expected to have grown more than 5 percent in 2006.

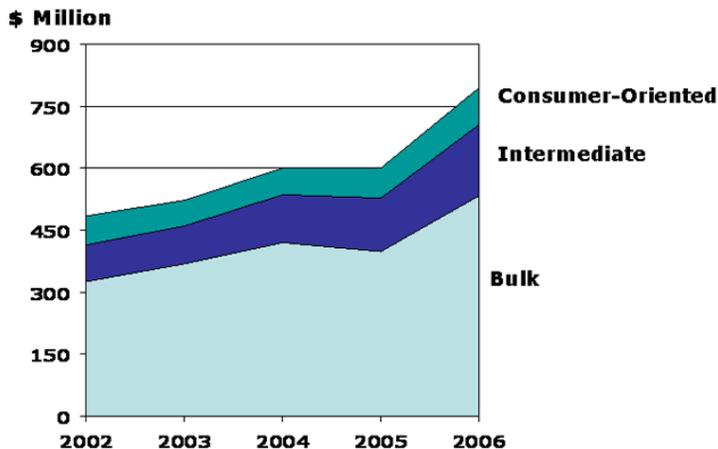
Weighing the Negatives

Nevertheless, several factors still exert a negative impact on the market. As a member of the Andean Community, Colombia imposes a variable import duty system on more than 150 products, resulting in high and unpredictable duties. Colombia currently has relatively high duties (generally around 20 percent) for processed food products imported for the HRI (hotel, restaurant, and institutional) sector and strict registration requirements that cost an average of \$800 per product.

Restrictive import licensing requirements block imports of some U.S. products. Despite efforts of the Colombian government, artificially low-priced contraband items induce unfair competition and disrupt sales of legally imported products.

Internal conflict and political unrest persist, threatening personal security and hindering economic growth. Despite significantly improved physical security, it remains a concern, constraining business and

**In the Last Five Fiscal Years, Colombia's Total Purchases of U.S. Agricultural Products Have Climbed Nearly 64%
All Three Major Categories Have Shown Significant Gains**



investment. Unemployment fell from 15.3 percent in 2004 to 13.4 percent in 2005, but is still significant.

Standard Trends – and Some Surprises – Are Reshaping the Consumer Market

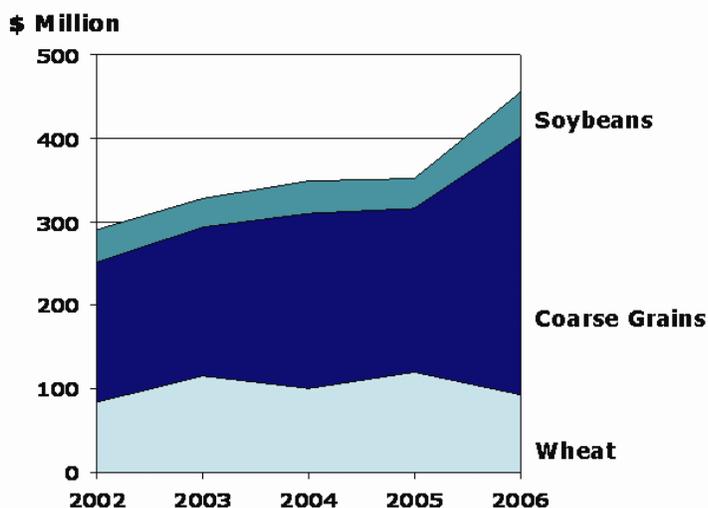
Colombia is a growing market of 42 million people. Its medium- to high-income groups, about 50 percent of the population, constitute an attractive market for U.S. products; the medium-income group in particular is driving demand for value-added products.

Among the more significant factors reshaping the market:

- **Rising female participation** in the labor force (40.3%) will continue to stimulate demand for consumer-ready products.
- **75% of the population** is concentrated in 39 large and medium-sized cities, all with modern supermarkets.
- **57.2% of the population** is less than 30 years old. Lifestyles are changing rapidly.
- **Away-from-home meals** represent nearly 24 percent of food spending.
- **High- and upper-middle-income groups** are interested in foreign cuisine and eat out three or more times per month.
- **Colombia's middle class** represents 36.2 % of total population.

Changes in consumer tastes and consumption patterns and the rise in women in the labor force have demanded new market strategies. The remarkably young population, living mostly in urban areas, has new tastes and preferences and is more health-conscious and selective. Demand for new high-value products is increasing.

The Top Bulk Products With Food Production Implications, Despite Some Ups and Downs, Still Account for Most Major U.S. Sales



Business Climate and Practices

Colombia has a highly sophisticated and developed private sector. Colombian business people have good knowledge of business practices abroad. Many of them have been educated abroad, especially in the United States. They share similar business practice and ethics with U.S. entrepreneurs. Colombians tend to be friendly and straightforward in doing business. Consequently, despite Colombia's political and social problems, knowledgeable U.S. companies have been doing business successfully here for years.

Business visas are valid for up to three years, can be renewed, and can be used for multiple entries into Colombia for stays of up to six months per visit. Although business travelers may enter Colombia on tourist visas, business people traveling on tourist visas should not sign contracts, because they may be considered invalid and/or nonbinding.

In the food market, competition has intensified, and supply channels have been streamlined. There are now a few large players with strong purchasing and negotiating power. Large numbers of end-users (retailers) buy directly from suppliers and/or manufacturers abroad, avoiding local representatives. Colombian businesses are establishing direct contacts abroad to find new products and services.

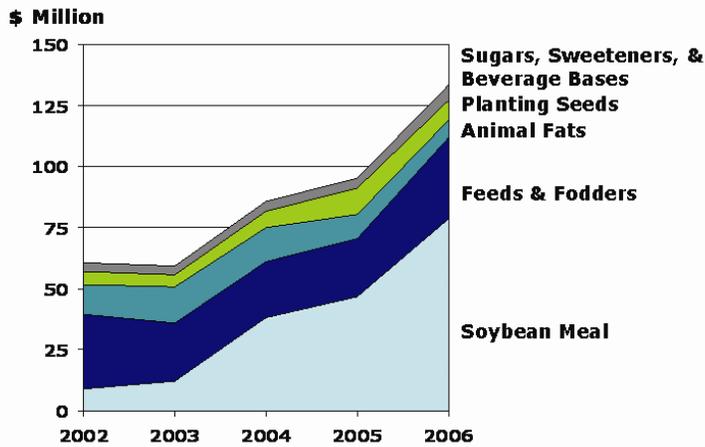
Advice for Exporters

As a general rule, it is advisable for a U.S. supplier to appoint a local agent or sales representative to help with import procedures, sales promotions, and after-sales service, despite the fact that Colombians prefer to deal directly with manufacturers or through their export divisions, rather than through outside representatives or brokers. Most U.S. purchases are made through established local importers, representatives, and distributors. Importers offer a full line of products to meet the domestic demand and expand market possibilities.

Here are some other suggestions on approaching this market:

- **Calculate your level of competitiveness** based on quality, price, and service to meet increasing foreign competition.
- **Consider innovative marketing strategies** when introducing products. Social marketing is a new and

Exports of Most Major U.S. Intermediate Products With Food Production Implications Have Grown Sharply



increasingly popular approach. Leading retail chains are deeply involved in social programs with customers' direct participation and alliances with nongovernment organizations. For example, Carulla customers are encouraged to donate small change for housing and education.

- **Provide a guarantee of consistent product supplies** to large stores and hotel chains.
- **Tailor marketing strategies** to meet the market's specific needs.
- **Take advantage of domestic food fairs and exhibits**, such as Alimentec, a trade show for food products and ingredients held in Bogota every other year.
- **Be aware that hypermarkets and supermarkets base shelf-space** acceptance and allocations on discounts, promotions, and/or additional costs.
- **Establish direct relations with leading companies** to develop a low-cost, direct sales approach and to offer products and services.
- **Cultivate relationships with top executives**, i.e., marketing directors and purchasing managers. Provide after-sales service and customer support, which are decisive factors in securing subsequent sales.
- **Keep in mind that category managers are key people.** They can offer services that are vital for the successful development of a category. For example: the category manager can determine the company that gets priority benefits in the product category. The manager can provide information that is vital to the supplier, such presentation, exhibition, adequate promotion of the products, etc.

- **Prepare promotional material in Spanish** to highlight products and services available. Media have a great impact on Colombian consumers.

Serving Food Service

HRI (hotel, restaurant, and institutional) sector sales of food and beverages were estimated at \$1.8 billion in 2005 and are expected to have grown 6 percent in 2006. The rising value of the Colombian peso relative to the U.S. dollar and strong competition in the restaurant sector have made U.S. food products more attractive to purchasers. Negotiation of the FTA has also increased interest in U.S. food products.

Most hotels and restaurants in Colombia buy food products from importers and retailers specializing in food service. Fruits and vegetables are mostly bought from wholesalers. Dairy products are bought directly from Colombian plants and distributors.

Ethnic restaurants — Italian, French, Mexican, Cajun, Japanese, Chinese — buy essential ingredients from specialized importers. Restaurants that import directly are local ones, like Crepes and Waffles, and upscale outlets. International food chain franchises such as McDonald's and T.G.I. Friday's also import directly.

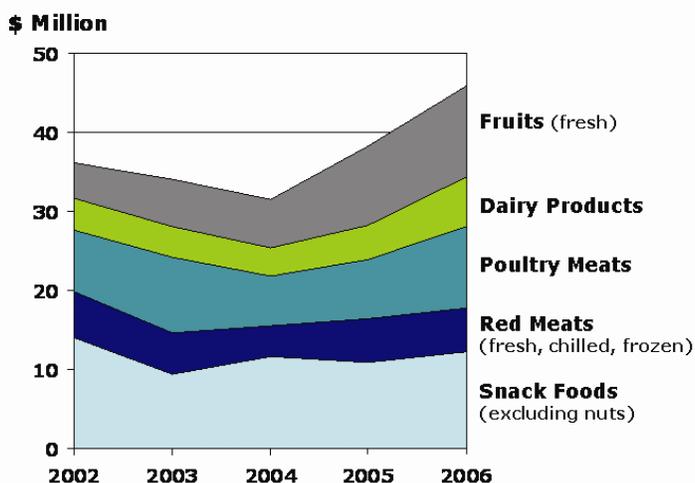
The food service sector has benefited from the arrival of world-class hypermarkets, such as Makro and Carrefour, which are oriented toward serving it. Domestic chains such as Alkosto, Carulla, and Exito have also developed strategies to serve the sector.

Along with its increasing number of hypermarkets, Colombia has a decreasing number of HRI sector importer/distributors. Foreign processed food brokers, the major HRI suppliers, face strong competition from domestic producers of processed foods and beverages.

Quick-service and fast-food restaurants, especially franchises, are expanding rapidly. Most fast-food restaurants are U.S. franchises, but several domestic fast-food restaurants use U.S. techniques and marketing strategies.

The hotel and restaurant sector has potential for growth driven by tourism, though it continues to be affected by persistent internal conflict. The government campaign "live Colombia and travel in it"

Sales of Some Major U.S. Consumer-Oriented Products Have Also Made Overall Gains



has fostered domestic tourism throughout the country. Santa Marta is the only destination with large hotels catering exclusively to tourism. Foreign tourism is still relatively small and generally concentrated in the historic colonial walled city in Cartagena. International business travel is generally confined to Bogota, Medellin, Cali, Cartagena, and Barranquilla.

Food Processing on the Cutting Edge

Colombia is a major producer in many intermediate and consumer-ready categories such as sauces, spices, dairy products, breakfast cereals, confectionery, baked goods, poultry feed, pet food, oils, and margarine.

National and international competition has influenced Colombia's food processing industry, which is characterized by its initiative, efforts to maintain state-of-the-art technology, and innovation in products and retail presentation. The most developed subsectors are those that process dairy, sugar, poultry, edible oils and greases, cacao, chocolate, confectionery, and nonalcoholic beverages.

Product lines have diversified and new products have entered the market: the dairy industry with lactose-free products, the meat industry with lowfat products, the baked goods industry with high-fiber and whole-wheat products, and the oil and fats industry with low-cholesterol oils.

Nevertheless, import opportunities exist in Colombia's food processing sector. Its industry relies heavily on imported inputs, such as thickeners, preservatives, modifiers, flavorings, dry mixes for sauces, and spices.

Rapidly Changing Retail Sector

The Colombian retail sector can be divided into three areas; 1.) formal, which includes hypermarkets and supermarkets; 2.) traditional, which includes small mom-n-pop stores and street

vendors; and 3.) convenience stores. Each of these areas caters to a different Colombian consumer based on levels of disposable income, tastes and preferences.

Hypermarkets are steadily reshaping the retail sector as well as the HRI sector in Colombia. International retail giants Carrefour, Makro and Casino (Exito and Carrulla stores), as well as the sustained strength of domestic players such as Alkosto, Olimpica, Colsubsisio, and Cafam, make up the formal retail food sector in Colombia. The supermarket sector in Latin America is one of the most modern in Latin America, with sales estimated at \$4 billion in 2005. Fierce competition and a price war has characterized Colombia's retail sector since 2004, shrinking profits, but benefiting consumers. The sector is consolidating as a result of a massive structural change due to mergers and alliances that have been taking place during the last five years. For example, Almacenes Exito, the largest supermarket chain in Colombia, purchased 19.8% of Carulla-Vivero, a higher-end supermarket to expand its customer base. In January 2006, the French food retailer Casino, which held 38.7% of Almacenes Exito's shares at that time, purchased an additional 24%, becoming the controlling share holder with 62.7% of total Exito's shares.

Traditional stores continue to be the most important food distribution channel in the country. These small stores provide 60% of Colombia's food needs (down from 67% in 2005), serving low and lower-middle income families. The reason traditional stores remain important is that they provide services that neither hypermarkets nor supermarkets can provide. These services include credit, customized food products, and convenience. These stores are located throughout all neighborhoods and domestic wholesalers and distributors work closely with them to adjust product inventory to meet consumer demands.

Convenience stores are a sales venue fairly new to Colombia, and while they account for a small percentage of food consumption, they are expanding in the form of gas-marts. These stores complement local traditional stores as they serve a specific community, provide a custom selection of products and are opened for extended hours. Gas-marts are also collocating with fast food restaurants to ensure continued growth. Imports represent less than 6 % of

the store's inventory, but there are growing opportunities for exports of snack foods, cereals, beverages and candy.

Colombian importers of ready-to-eat food products are constantly seeking product alternatives to meet the growing demands of Colombian consumers. The changing retail market structure for food in Colombia has forced distributors and suppliers to become more active in importing food products. Supply channels have been rapidly streamlined, and end-users such as retailers, are establishing contacts abroad. Continued economic growth resulting in higher per-capita incomes and reduced import tariffs

will mean significant export opportunities for U.S. exporters willing to enter the market. ■

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