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## Spain

## Retail Food Sector

## Report

## 2003

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**Report Highlights:**

The pace of consolidation of Spain's retail food sector seems to be quickening. Medium-sized supermarkets in center city locations are taking market share from both traditional shops and suburban hypermarkets. The top three retail groups now account for just under half of total sales. This competition, combined with the fall of the dollar against the euro, is creating good conditions for U.S. food exporters. Many supermarket chains are looking for new sources for their private label brands and U.S. products are more price competitive than at any time during the past five years.

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## I Market Summary

The Spanish food distribution sector, like those in other EU countries, has reached maturity and is becoming more concentrated and specialized.

The decline in the number of traditional outlets (which includes neighborhood "Mom and Pop" food shops) seems to be accelerating; by 2005, only half of the traditional outlets currently operating are expected to be in business. Spain's skyrocketing real estate prices are forcing up rental costs in many city-center locations; only shops with substantial sales can survive in this environment. Consequently, traditional outlets, which currently make just under a third of food sales, are likely to see further sharp declines in the next few years. The shops best positioned to survive are those selling fresh products (fruit, vegetables, meat and fish), which currently hold just under half of all sales in this category.

At the other end of the retail sector, hypermarkets are also feeling pressure; their market share of food sales continued to decline in 2002, falling to 17.5 percent of the total. While sales in hypermarkets are growing – reaching €17.32 billion in 2002 – they are not keeping up with the pace of sales in supermarkets. This may reflect the continued expansion of consumer income and employment during the past few years. Many consumers are unwilling to fight traffic to reach suburban hypermarkets, preferring to trade lower prices for the convenience of shopping nearer to home. In addition, hypermarkets face government restrictions on the number of new locations that can be opened.

The supermarkets, which hold the middle of the retail sector, are currently best positioned to gain market share. In 2002, they took a record 42 percent of total food sales; their total sales reached €36.30 billion, up eight percent from the previous year. Within the supermarket categories, the medium-sized stores (those with an area of between 401 and 1,000 square meters) are doing particularly well. They are often located in urban centers, where traditional markets are failing, yet are large enough to offer a substantial variety of products on their shelves. In addition, many of these medium-sized supermarkets are part of integrated, nationwide retail chains that include a range of locations, from large, full service supermarkets to food marts attached to gas stations. As a part of these retail chains, the mid-sized supermarkets enjoy centralized buying that permits them to be very price competitive.

The concentration of market share into fewer hands is having repercussions on the farm. Food producers claim that the increasing buying power of the big retail groups allows them to exact lower prices from farmers and manufacturers. To allow consumers to be aware of sellers' margins, some farmers' organizations have called for a labeling system that would show the farm price as well as the retail sale price of any fresh product. The food retailers reply that they are facing fierce competition, lower prices, and narrower profit margins. Since October 2003, the Spanish Ministry of Agriculture has used its web page to post the price evolution of some basic products: this includes the price paid to farmers, price in the wholesale market and that paid by consumers.

While consumption patterns have changed along with the structure of the retail industry, many consumers still prefer to make frequent purchases at neighborhood supermarkets and traditional fresh product outlets particularly for bread, fruit, seafood or meat products. They generally venture to hypermarkets weekly or monthly to buy non-perishable products. As a result of this purchase pattern, the number of medium-sized supermarkets is growing. Large food distribution groups continue to open more medium size supermarkets.

The hypermarkets are reacting to their loss of market share by offering more "personalized" products and services, including areas offering gourmet foods, snacks, high quality fruits and vegetables and ready-to-eat products. The hypermarkets are also pushing "home meal replacement" of high value-added products to pump up sales.

Total food production by the food processing industry in 2002 was valued at €58.5 billion, an increase of 4.1 percent in value, and a three percent in volume. Spanish consumers spent €66.2 billion on food, an increase of 1.9 in volume and 7.8 in value. (The difference between production and consumption can be explained by the fact that not all fresh fruits and vegetables are processed and that imports and exports of processed foods are also taken into account.) In 2002, total exports of processed food products reached €11.9 billion, (a 2.4 percent increase), while imports totaled €14 billion (four percent higher than a year earlier).

Total grocery sales in 2002 through food distribution chains or groups were €44.8 billion, a 7.9 percent increase from the previous year. Another €16.5 billion, or about 27 percent of total food expenses, took place through the HRI sector, a ten percent jump from 2001.

As noted before, market share is becoming more concentrated each year. In 2001, the ten largest retail groups had a market share of 66.6 percent of the food market; in 2002, their share grew to 68.6 percent. The three largest groups (Carrefour, Mercadona and Eroski) now account for nearly 48 percent of total sales.

There is a Serengeti-like atmosphere in Spanish food retailing: the slow and the weak become tomorrow's meal for the strong and aggressive. During the past year, the Barcelona-based group Caprabo bought the smaller retailer Alcosto, which is based in Central Spain. A more noticeable casualty was Group Ahold, whose Dutch parent company has suffered financial problems during the past year; the Group has just announced its intention to leave the Spanish market. Although Ahold expects to have a firm candidate in a few months, no potential buyer has yet announced its intention to purchase either the whole group or parts of it. The Spanish press has speculated that Alholti's sale would provide a market entrée for the U.K's largest supermarket chain, TESCO or even for the ultimate retail predator, Walmart.

Currently, the typical Spanish consumer can be characterized as more health conscious, demanding more information about products and placing a premium on quality and services. According to the Ministry of Agriculture, in 2002, consumption of fruits, olive oil, seafood, meat, quality wine, and ready-to-eat food increased, while dairy products, pulses, eggs, vegetables and potatoes declined.

### Types of outlets in Spain

**Discount:** These self-service outlets carry a limited range of products compared to supermarkets or hypermarkets, but at lower prices. Products displays are basic compared to other types of outlets. There are about 3,026 hard discount stores in Spain. DIA, owned by Carrefour, is the leader in this market sector; it increased its sales by 6.7 percent in 2002. Other main players in this sector are LIDL and ALDI.

**Hypermarkets:** These are self-service stores with a minimum selling area of 2,500 square meters. They are usually located outside town centers. Like supermarkets, they sell a wide variety of food and non-food items. At the end of 2002 there were 343 hypermarket outlets. This market sector is constrained by laws approved by the Spanish government limiting the number of new hypermarkets. In 2002 total sales in

hypermarkets went up by 7.4 percent, reaching €17.32 billion; of this amount, Carrefour holds about 35 percent of the total. Due to the restrictive laws regarding the opening of new hypermarkets during 2002, only 11 new hypermarkets were opened.

**Supermarkets:** These are self-service stores with a minimum selling area between 400 and 2,499 square meters. They are usually located in city centers and sell a wide variety of foods and non-food items. At the end of 2002 there was total of 13,720 supermarkets – a 17-percent gain over the previous year. Supermarkets are sub-divided into three categories depending the total sales area: small (100 to 400 sq. meters), medium (401 to 1,000 sq. meters) and large (1,001 to 2,499 sq. meters). Medium-sized supermarkets seem to be the fastest growing sector in food retailing. The largest supermarket chain, Mercadona, alone inaugurated 100 new outlets in 2002. The other main players in this sector are Eroski and Caprabo.

Number of supermarkets by size

Size sq meters	1999	2000	2001	2002	Increase 02/01
100 – 400 meters	8,252	8,169	8,032	7,811	- 3 %
401 – 1,000 meters	3,332	3,574	3,801	4,027	+ 6%
1,000 – 2,500 meters	981	1,137	1,342	1,539	+ 15%

**Convenience Stores:** Convenience stores are generally located in the centers of small-to-medium-sized towns. Many are located in small areas in gas stations. Spanish law defines a "convenience store" as the outlet with a maximum area of 500 sq. meters, opened to the public every day during 18 hours, offering a wide variety of products that includes food, books, newspapers, presents and toys. There are about 5,600 of these outlets.

Convenience stores can be divided in two types: those linked to gas stations (where food and beverages account for nearly half of total sales); and those located in urban areas, (where food and beverages make up only about a quarter of the total). The El Corte Ingles group is fueling growth in this sector. Its "Opencor" outlets in urban areas are among the largest convenience stores, stocking up to 6,000 items. In addition, its recent agreement with Grupo Repsol, Spain's largest gasoline distributor, will give El Corte Ingles access to nearly 2,500 gasoline stations. According to the trade press, sales of food and beverages in convenience stores located in gas stations are expected to increase by 4.1 percent annually through 2007. Due to the lower margins for fuels, owners of gas stations are looking to food sales to diversify their sources of income.

**Cash & Carries:** These outlets generally supply the HRI sector, although many smaller retailers can also be found among their customers. There are around 800 outlets, with total sales in 2002 of about €4 billion. While the average size is around 2,000 sq meters, there are 49 "mega" cash & carries with an area of at least 5,000 sq. meters. The largest cash & carry is Makro, followed by Gros Mercat and Punto Cash.

**Traditional outlets:** Traditional outlets include several types of shops, including corner grocery stores, bakeshops, neighborhood butcher shops, fishmongers, open air markets and frozen and gourmet food stores. Although the continuous expansion of mass distribution outlets threatens these traditional outlets, there were about 43,193 stores at the end of 2002, with a market share of about a third of total retail food sales.

**Table I - Number of Retail Outlets**

<i>Type of Outlet/Year</i>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Traditional + Self-Service &gt; 100 sq. meters</b>	54,448	48,849	45,569	43,193
- <b>Supermarket: 100 to 400 sq. meters</b>	8,252	8,169	8,032	7,811
- <b>Supermarket: 400 to 1000 sq. meters</b>	3,332	3,574	3,801	4,027
- <b>Supermarkets: 1000 to 2500 sq. meter</b>	981	1,137	1,342	1,539
<b>Total Supermarkets 100 - 2,500 sq. meters</b>	<b>12,565</b>	<b>12,879</b>	<b>13,175</b>	<b>13,720</b>
<b>Hypermarkets</b>	306	318	332	343
<b>Grand TOTAL</b>	<b>67,319</b>	<b>62,046</b>	<b>59,076</b>	<b>57,256</b>

Source: AC Nielsen

**Table II - Percentage of Total Food Sales by Type of Outlet and Product sold**

Type of outlet	Fresh Products 2002 (2001)	Dry Products 2002 (2001)	Total 2002 (2001)
Hypermarkets	10.9 % (11.4%)	23.9 % (24.8 %)	17.5 % (18.3 %)
Supermarkets	30.1 % (30.3 %)	54.2 % (53.6 %)	42.3 % (42.2 %)
Traditional	47.7 % (48.8 %)	14.5 % (14.8 %)	30.9 % (31.3 %)
Other	11.3 % (9.5 %)	7.4 % (6.8 %)	9.3 % (8.1 %)

Source: Spanish Ministry of Agriculture

**Table III - Market Share of Supermarkets/Hypermarkets, by Product  
(Percent)**

<i>Product/Outlet</i>	<b>Hypermarkets</b>	<b>Supermarkets 1,001-2,500 sq.m</b>	<b>Supermarkets 401-1,000 sq.m</b>	<b>Supermarkets 100-400 sq.m</b>
<b>Food &amp; Beverages</b>	<b>29.5</b>	<b>20.3</b>	<b>28.0</b>	<b>22.2</b>
- Dry Products	27.6	20.3	28.4	23.7
- Beverages	33.4	20.6	26.3	19.7
- Canned Prod.	29.8	21.1	27.6	21.5
- Milk & flavored milks	26.9	19.0	30.1	24.0
<b>Fresh Products</b>	<b>25.0</b>	<b>21.7</b>	<b>28.7</b>	<b>24.6</b>
- Dairy Products	22.7	19.3	30.1	28.0
- Frozen Products	27.2	22.6	26.4	23.9
- Meat & Eggs	18.8	21.2	32.2	27.7
- Cheeses	25.3	20.7	28.7	25.3
- Ready-to-eat Products	27.5	25.8	27.9	18.8
- Cured meats	27.8	25.2	28.2	18.9

<b>SWOT for U.S. grocery products</b>	
<b>Strengths</b>	<b>Weaknesses</b>
U.S. food products are appreciated for their novelty	The product has to be labeled in Spanish
Many U.S. products have a reputation for quality	Not all the products are in line with the Spanish taste
Attractive packaging	Need large investment to promote new products
Many niche markets for some U.S. products	Lack of knowledge of many U.S. brands
<b>Opportunities</b>	<b>Threats</b>
The American life style is popular among the younger generation.	Stiff competition from similar food products produced in other EU countries.
Many TV shows and films show U.S. food products.	Import duties increase U.S. product final price.
Spanish consumers want to try new and quality products.	EU GMO labeling regulations.
Decline of US\$ against the euro	Transportation costs.

## II. Road Map for Market Entry

### Entry Strategy

As stated above, the retail market in Spain is very concentrated. It is very difficult for an individual exporter to establish direct relations with the firms that control most of the business as they prefer to deal with their customary importers/distributors. Furthermore, in general, they do not import the products directly, so it is essential that U.S. exporters wishing to crack this market establish relationships with their distributors. The new-to-market exporter should find an importer, agent or wholesaler that will do customs clearances and will advise on compliance with labeling, packaging, and sanitary regulations. Some supermarket chains, however, are directly importing certain products, such as bulk walnuts or pulses, to be repacked in their warehouses.

An important method for finding an importer, agent or distributor for U.S. products is to exhibit at trade shows. Alimentaria, held every other year in early March in Barcelona (and in Lisbon in the alternating years), is the leading food show in Iberia and an excellent venue for introducing a new product and for meeting potential clients and establishing relationships. The next Alimentaria will be held in Barcelona during March 8 – 12, 2004. As in past years, there will be a U.S. pavilion at the show. For further details, contact the FAS office in Madrid.

A show devoted to organic products, Biocultura, is held every year in Madrid during the first week of November.

### Distribution Channels

Most fresh products, especially seafood, fruits and vegetables, are distributed through 22 public wholesale markets located around Spain. In the larger cities, the big grocery retail chains have their own buyers in these markets, which buy and receive fresh product from wholesale companies for delivery directly to supermarkets.

Purchases of grocery products are managed directly by each group. Distribution companies or chains request that the products they purchase be delivered to their platforms or warehouses and then are distributed to each outlet.

**Table IV - Company Profile - Main Food Distribution Companies - 2002**

Name of Outlet	Ownership	Sales in Billion Euros	Purchasing Type
Euromadi Iberica	Spanish	10.14	Importer/Distributor
IFA Española	Spanish	9.34	Importer/Distributor

**Table V - Company Profile - Main Grocery Retail Chains - 2002**

Retailer Name	Ownership	Sales in Billion Euros	Number of Outlets	Purchasing Agent Type
Grupo Carrefour	French	10.32	1,838	Importer/Distributor - Direct
Mercadona	Spanish	5.38	681	Importer - Direct
Eroski	Spanish	4.68	1,403	Importer/Distributor - Direct
El Corte Ingles (Grupo)	Spanish	3.78	188	Importer/Distributor - Direct
Auchan (Alcampo)	French	3.48	151	Importer/Distributor - Direct
Ahold	Dutch	2.06	588	Importer/Distributor
Caprabo	Spanish	1.84	549	Importer/Distributor - Direct
Lidl	German	1.05	354	Importer/Distributor - Direct
MAKRO	Dutch	1.05	25	Importer/Distributor - Direct
Grupo El Arbol	Spanish	0.79	589	Importer/Distributor - Direct

### III. Competition

The Spanish food industry is highly developed and competitive. Spain is a major food producer, offering an increasing range of processed products. Large distribution chains and supermarkets have their own private label brands and offer good quality products at lower prices than traditional brands. In addition to the domestic sector, neighboring EU countries, the source of most food imports, offer a generous supply of competitive products. In addition to these price and logistical advantages, food distributors generally source their products from Spanish producers or from other EU markets, because they are also familiar with EU regulations.

U.S. exports of consumer-oriented products to Spain totaled \$174.8 million in 2002. Some 80 percent the category consists of one group of products -- tree nuts -- virtually all of which are imported in bulk and further processed. During the period January-October 2003 sales of treenuts to Spain have increased by 38.6 percent. Another category with strong prospects is seafood products. Although sales were off slightly in 2002, reaching only \$68.9 million, sales during the period January-October 2003 have increased by 29.7 percent; sales for the

entire year should be at a record level. The recent increase of U.S. product sales to Spain has been enhanced by the decline of the U.S. dollar against Spain's currency, the euro. In the entire year of 2002, the dollar was worth €1.05. At the end of 2003, the dollar is worth only €0.81. From the perspective of Spanish buyers, U.S. products are now about 25 percent cheaper than they were in 2002. So long as the dollar remains weak against the euro, U.S. exporters have an excellent opportunity to sell into the Spanish market.

#### **- Private Label**

Sales of products under a retail distributor's label have had robust growth recently. In 2001, private label sales reached €4.9 billion, or about a fifth of total grocery sales. Private labels will likely continue to grow as distributors try to capture higher sales margins in a tough competitive environment. On average, private label products are around 36 percent cheaper than branded products.

The focus of private label marketing has also been evolving. When first introduced, private label products were designed to be highly price competitive with established brands. As they gained consumer acceptance, however, retailers began to upgrade quality and packaging. This concept has now evolved the so-called "fourth generation" of private label "premium quality" products that can compete with market leading brands. Distribution chains very often work with small companies that can provide a good product at a competitive price. However, as they upgrade their products, they also work with producers of high quality goods.

There are a couple of reasons private labels offer opportunities for U.S. exporters of grocery products. First, private labels are the fastest growing segment of the Spanish food distribution sector and retailers are looking for new sources for their branded products. Second, it takes a considerable marketing budget to introduce a new brand into this market, which restricts many small-to-medium sized U.S. exporters. By producing for a private label, U.S. exporters avoid marketing costs and distribution problems, which are both handled by the retail chain.

Private labels still have room for growth in Spain, given that their market share is still below that of private labels in other European countries. For example, Grupo Carrefour's private label products represent only 18 percent of its total sales; those of EROSKI, 25 percent; Caprabo, 10 percent; and 35 percent for Mercadona. Private labels have a larger share in the discount distributors, reaching 60 percent at DIA and even higher at Lidl and Tengelmann.

Products with higher sales under private labels include dairy products, vegetable oil, canned seafood, canned vegetables, bread and pastry, breakfast cereal, nougat, fresh products, snacks and nuts.

**Sales of "Private Label" products by type of outlet**

<i>Type of Outlet</i>	<i>Percentage</i>
Supermarket: 100 to 400 sq. meters	29.7
Supermarket: 401 to 1000 sq. meters	28.7
Supermarket: 1,000 to 2,500 sq. meter	29.0
Hypermarket	15.7

**IV Best Products Prospects**

A. U.S. products present in the market that have good sales potential are as follows:

Seafood in general, and lobster, whiting, squid, cod, tuna, salmon, in particular	
Treenuts: almonds and walnuts	Pet foods
Tex-Mex products	Bourbon
Ready-to-eat products	Cake mixes & pancake flour

B. U.S. products not present in significant quantities but which have good sales potential are as follows:

Quality fresh fruit: pink grapefruit, apples	Surimi
Processed fruit & vegetables and juices	Premium beer
Snacks	

C. U.S. products not present because they face significant barriers:

All poultry and red meat products.

**V. Post Contact and Further Information**

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For further information, check the "Agricultural Affairs" home page on the U.S. Embassy Madrid web site: <http://www.embusa.es> or <http://www.fas.usda.gov> then look under countries – Spain

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